

FREQUENCY EXCHANGE CORP.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Nine Months Ended September 30, 2023 and 2022

(EXPRESSED IN CANADIAN DOLLARS)

MANAGEMENT'S RESPONSIBILITY FOR INTERIM FINANCIAL REPORT

The accompanying unaudited condensed consolidated interim financial report of Frequency Exchange Corp. (the "Company") has been prepared by and is the responsibility of the Company's management.

FREQUENCY EXCHANGE CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited – Prepared by Management)
(EXPRESSED IN CANADIAN DOLLARS)

	Note	September 30, 2023	December 31, 2022
ASSETS			
Current assets			
Cash		\$ 291,009	\$ 958,761
Trade and other receivables	5	12,638	51,112
Prepaid expenses and deposits		9,051	24,401
Inventory	6	139,068	200,507
		451,766	1,234,781
Non-current assets			
Intangible assets	8	134,706	158,187
Right-of-use asset	13	-	3,840
Total assets		\$ 586,472	\$ 1,396,808
LIABILITIES			
Current liabilities			
Trade and other payables	9	\$ 116,245	\$ 181,329
Deferred revenue	10	39,461	135,156
Amounts due to related party	14	47,781	16,553
Notes payable	11	541,869	665,052
CEBA loan payable	12	60,000	60,000
Lease liability – current portion	13	-	4,680
Total liabilities		805,356	1,062,770
Equity (deficit)			
Share capital	15	6,590,164	6,354,256
Share-based payments reserve	16	1,251,570	957,521
Deficit		(8,060,618)	(6,977,739)
Total equity (deficit)		(218,884)	334,038
Total liabilities and equity		\$ 586,472	\$ 1,396,808

Nature of operations and going concern (Note 1)

Approved by the board of directors on November 29, 2023 and signed on its behalf by:

“Stephen Davis” Director “Hari Varshney” Director

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

FREQUENCY EXCHANGE CORP.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Unaudited – Prepared by Management)

(EXPRESSED IN CANADIAN DOLLARS)

	Note	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Sales		\$ 159,111	\$ 123,097	\$ 569,439	\$ 488,254
Cost of sales		(44,742)	(27,874)	(198,273)	(224,076)
Gross profit		114,369	95,223	371,166	264,178
Operating expenses					
Accounting and audit		32,030	21,500	123,930	144,118
Advertising and marketing		123,924	157,802	465,993	305,976
Consulting		-	-	-	3,000
Depreciation and amortization	7, 8	7,827	5,914	27,321	14,739
Interest		10,824	23,309	44,051	71,070
Investor relations		-	-	2,570	-
Legal fees		12,208	-	12,904	208,825
Management fees	14	95,400	127,284	286,200	362,084
Office and general		34,558	16,909	83,622	32,312
Regulatory and transfer agent		5,559	1,717	15,957	57,775
Research and development		2,596	74,875	64,622	146,479
Share-based payments	16	48,077	77,318	57,140	526,164
Wages and benefits		93,324	72,598	277,413	218,637
Travel		3,364	1,380	7,866	2,293
		(469,691)	(580,606)	(1,469,589)	(2,093,472)
Loss from operations		(355,322)	(485,383)	(1,098,423)	(1,829,294)
Interest and other income		1,012	7,228	15,544	11,032
Reversal of provision on trade receivable		-	20,524	-	20,524
Listing expense	4	-	-	-	(2,387,177)
Loss and comprehensive loss for the period		\$ (354,310)	\$ (457,631)	\$ (1,082,879)	\$ (4,184,915)
Basic and diluted loss per common share	15	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.12)

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

FREQUENCY EXCHANGE CORP.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)**

(Unaudited – Prepared by Management)

(EXPRESSED IN CANADIAN DOLLARS)

	Note	Number of Shares	Share capital	Share-based payments reserve	Deficit	Total equity
Balance, December 31, 2022		36,779,553	\$ 6,354,256	\$ 957,521	\$ (6,977,739)	\$ 334,038
Private placement	15	4,738,171	236,908	236,909	-	473,817
Share issuance costs	15	-	(1,000)	-	-	(1,000)
Share-based payments	16	-	-	57,140	-	57,140
Loss for the period		-	-	-	(1,082,879)	(1,082,879)
Balance, September 30, 2023		41,517,724	\$ 6,590,164	\$ 1,251,570	\$ (8,060,618)	\$ (218,884)

	Note	Number of Shares	Share capital	Share-based payments reserve	Deficit	Total equity
Balance, December 31, 2021		18,000,000	\$ 100	\$ 111,994	\$ (2,099,123)	\$ (1,987,029)
Private placement	15	7,212,498	2,524,375	-	-	2,524,375
Reverse takeover transaction	4	7,181,341	2,513,469	-	-	2,513,469
Shares issued for debt settlement	15	4,185,714	1,465,000	-	-	1,465,000
Share issuance costs	15	-	(218,780)	69,341	-	(149,439)
Stock options and warrants issued on RTO	4	-	-	181,433	-	181,433
Exercise of warrants	15	200,000	70,092	(50,092)	-	20,000
Share-based payments	16	-	-	526,164	-	526,164
Loss for the period		-	-	-	(4,184,915)	(4,184,915)
Balance, September 30, 2022		36,779,553	\$ 6,354,256	\$ 838,840	\$ (6,284,038)	\$ 909,058

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

FREQUENCY EXCHANGE CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30
(Unaudited – Prepared by Management)
(EXPRESSED IN CANADIAN DOLLARS)

	Note	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss for the period		\$ (1,082,879)	\$ (4,184,915)
Items not affecting cash:			
Depreciation and amortization		27,321	14,739
Interest		44,051	71,070
Reversal of provision on trade receivable		-	(20,524)
Share-based payments		57,140	526,164
Listing expense		-	2,694,902
Changes in non-cash working capital items:			
Trade and other receivables		38,474	18,811
Prepaid expenses and deposits		15,350	(8,814)
Inventory		61,439	24,181
Trade and other payables		(65,084)	(44,861)
Deferred income		(95,695)	-
Amounts due to related parties		31,228	(76,444)
Net cash used in operating activities		(968,655)	(985,691)
CASH FLOWS FROM INVESTING ACTIVITIES			
Intangible assets		-	(150,000)
Net cash used in investing activities		-	(150,000)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of share capital		473,817	2,544,375
Share issuance costs		(1,000)	(149,439)
Repayment of note payable		(133,201)	-
Interest paid		(33,963)	-
Payment of lease liability		(4,750)	(14,250)
Net cash provided by financing activities		300,903	2,380,686
Change in cash during the period		(667,752)	1,244,995
Cash, beginning of the period		958,761	173,889
Cash, end of the period		\$ 291,009	\$ 1,418,884

Supplemental cash flow information (Note 17)

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

FREQUENCY EXCHANGE CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2023

(Unaudited – Prepared by Management)

(EXPRESSED IN CANADIAN DOLLARS)

1. NATURE OF OPERATIONS AND GOING CONCERN

Frequency Exchange Corp. (the “Company”) was incorporated on August 15, 2019 under the Business Corporations Act (British Columbia). The Company’s head office and principal address is Suite 2050, 1055 West Georgia Street, Vancouver BC, V6E 3P3. The registered and records office is Suite 2501, 550 Burrard Street, Vancouver BC V6C 2B5. The Company is focused on the development and global commercialization of a wearable Frequency Delivery System providing specialized programs designed for health and wellness as well as performance enhancement. The Company’s common shares are listed on the TSX Venture Exchange (TSX-V) under the trading symbol “FREQ”.

Going concern

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company has incurred losses since inception in the amount of \$8,060,618 and has not yet achieved profitable operations. The Company’s ability to continue as a going concern is dependent on its ability to obtain adequate financing on reasonable terms from lenders, shareholders and other investors and/or to commence profitable operations in the future. While the Company has been successful in securing financing to date, there can be no assurances that it will be able to do so in the future. The aforementioned factors indicate the existence of a material uncertainty which may cast significant doubt about the Company’s ability to continue as a going concern.

These consolidated financial statements do not include adjustments that would be required if the going concern assumption is not an appropriate basis for preparation of the financial statements. These adjustments could be material.

2. BASIS OF PREPARATION**Statement of compliance**

These condensed unaudited interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*.

The condensed interim consolidated financial statements do not include all of the disclosures required for a complete set of annual financial statements and should be read in conjunction with the audited annual financial statements for the year ended December 31, 2022, which have been prepared in accordance with IFRS as issued by the IASB.

Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments that are measured at fair values. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

FREQUENCY EXCHANGE CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2023

(Unaudited – Prepared by Management)

(EXPRESSED IN CANADIAN DOLLARS)

2. BASIS OF PREPARATION (cont'd...)**Basis of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, FREmedica. The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. All intercompany transactions, balances, income and expenses are eliminated in full on consolidation.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiary.

Significant estimates and assumptions

In preparing these condensed interim consolidated financial statements, management has made judgments and estimates and used assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results will differ materially from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

Estimates

Critical accounting estimates are those that require management to make assumptions about matters that are highly uncertain at the time the estimate or assumption is made. Critical accounting estimates are also those that could potentially have a material impact on the Company's financial results where a different estimate or assumption is used. The significant areas of estimation uncertainty are:

Leases

Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions. The incremental borrowing rates are based on estimates including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease liabilities, and the resulting interest expense and depreciation expense, may differ due to changes in the market conditions and lease term.

Convertible notes

Management estimates the fair value of the convertible notes which requires determining the most appropriate valuation model and the most appropriate inputs to the valuation model.

Share-based payments

The determination of the fair value of stock options and agent's warrants using stock pricing models, require the input of highly subjective assumptions, including forfeiture rate, expected time to exercise in years, expected dividend yield, and expected price volatility. Changes in the subjective input assumptions could materially affect the fair value estimate.

FREQUENCY EXCHANGE CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2023

(Unaudited – Prepared by Management)

(EXPRESSED IN CANADIAN DOLLARS)

2. BASIS OF PREPARATION (cont'd...)

Significant estimates and assumptions (cont'd...)

Revenue

Revenue is recognized when the goods are delivered and have been activated by the customers. The critical assumptions and estimates used in determining the total revenue to be recognized for each reporting period, is based on an estimate when performance obligation is satisfied over time.

Taxation

The calculations for current and deferred taxes require management's interpretation of tax regulations and legislation in the various tax jurisdictions in which the Company operates, which are subject to change. The measurement of deferred tax assets and liabilities requires estimates of the timing of the reversal of temporary differences identified and management's assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire, which involves estimating future taxable income.

Significant judgments

Judgment is used in situations when there is a choice and/or assessment required by management. The following are critical judgments apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have a significant effect on the amounts recognized in the condensed interim consolidated financial statements.

Going concern

The going concern assessment requires management's judgment on the ability of the Company to achieve positive cash flow from operations and/or obtain necessary equity or other financing.

Impairment considerations

The determination of whether an indication of impairment loss or a reversal of an impairment loss exists for equipment and finite lived intangible assets.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out in the Company's audited annual consolidated financial statements for the year ended December 31, 2022 were consistently applied to all the periods presented unless otherwise noted below.

New or revised accounting standards not yet adopted

New standards and amendments to existing standards have been issued by the IASB, which are mandatory but not yet effective for the nine months ended September 30, 2023. The new standards and amendments have not been applied in preparing these consolidated financial statements.

Accounting Policy Disclosures (Amendments to IAS 1)

The amendments change the requirements with regards to disclosure of accounting policies. The amendments require companies to disclose the material accounting policies rather than the significant accounting policies and also clarify that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed. The amendments apply for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted. The adoption of the amendments is not expected to have a material impact on the Company's consolidated financial statements.

FREQUENCY EXCHANGE CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2023

(Unaudited – Prepared by Management)

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Definition of Accounting Estimates (Amendments to IAS 8)

The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The amendments apply for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted. The Company is currently evaluating the impact of adopting the amendment on the Company's consolidated financial statements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases and decommissioning liabilities. The amendments apply for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted. For leases and decommissioning liabilities, the associated deferred tax asset and liabilities will need to be recognized from the beginning of the earliest comparative period presented, with any cumulative effect recognized as an adjustment to retained earnings. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented. The Company is currently evaluating the impact of adopting the amendment on the Company's consolidated financial statements.

4. ACQUISITION AND REVERSE TAKEOVER TRANSACTIONS

On February 2, 2022, the Company completed a transaction contemplated by a Securities Exchange Agreement with FREmedica and FREmedica's parent company Waveforce (the "Transaction"). Pursuant to the Securities Exchange Agreement, the Company acquired all of the issued and outstanding securities of FREmedica by issuing 18,000,000 common shares of the Company to Waveforce. As a result, control of the Company passed to Waveforce and its shareholders. The Transaction constituted a RTO under applicable securities law. Upon completion of the Transaction, the Company completed a name change from "Israel Capital Canada Corp." to "Frequency Exchange Corp.". The Company will continue the business which was previously conducted by FREmedica.

The Transaction does not constitute a business combination as Israel Capital Canada Corp. ("ICCC") did not meet the definition of a business under *IFRS 3 Business Combinations*. Immediately after the Transaction, shareholders of FREmedica owned 71.5% of the voting rights of the Company. As a result, the Transaction has been accounted for as a capital transaction with FREmedica being identified as the accounting acquirer and the equity consideration being measured at fair value, using the acquisition method of accounting. The Transaction has been accounted for in the consolidated financial statements as a continuation of the financial statements of FREmedica. The results of operations of ICCC are included in the financial statements since the date of acquisition.

FREmedica is deemed to have acquired the Company as part of the Transaction. The Transaction was accounted for using the acquisition method of accounting whereby the assets acquired, and liabilities assumed were recorded at their estimated fair value at the acquisition date. The acquisition did not meet the criteria for a business combination and is therefore treated as a recapitalization under the scope of *IFRS 2 Share Based Payments*. The consideration consisted entirely of shares of the Company which were measured at the estimated fair value on the date of acquisition. The fair value of the common shares issued to the former shareholders of ICCC was determined to be \$2,513,469 based on the fair value of the shares issued (7,181,341 shares at \$0.35 per share). The fair value of the Company's stock options was determined to be \$131,341 using the Black Scholes Option Pricing Model based on the following assumptions: Stock price volatility - 96.3%; Risk-free interest rate - 1.44%; Stock price of \$0.35 and an expected life of 3 years. The fair value of the Company's warrants was determined to be \$50,092 using the Black Scholes Option Pricing Model based on the following assumptions: Stock price volatility - 96.3%; Risk-free interest rate - 1.35%; Stock price of \$0.35 and an expected life of 0.25 year.

FREQUENCY EXCHANGE CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2023

(Unaudited – Prepared by Management)

(EXPRESSED IN CANADIAN DOLLARS)

4. ACQUISITION AND REVERSE TAKEOVER TRANSACTIONS (cont'd...)

Details of the allocation of the estimated fair value of identifiable assets acquired and purchase consideration are as follows:

Total consideration		
7,181,341 common shares measured at a fair value of \$0.35 per share	\$	2,513,469
460,000 stock options		131,341
200,000 warrants		50,092
	\$	2,694,902
Net identifiable assets acquired (liabilities assumed)		
Cash	\$	58,107
Other assets		294,329
Accounts payable		(44,711)
	\$	307,725
Listing expense	\$	2,387,177

5. TRADE AND OTHER RECEIVABLES

	September 30, 2023	December 31, 2022
Trade receivables	\$ 3,518	\$ -
Goods and services taxes recoverable	9,120	51,112
	\$ 12,638	\$ 51,112

The Company anticipates full recovery of its receivables and therefore no allowance has been recorded against these amounts as at September 30, 2023 (December 31, 2022 - \$nil).

6. INVENTORY

As at September 30, 2023, the Company's inventory consisted of finished goods with a value of \$139,068 (December 31, 2022 - \$200,507). For the nine months ended September 30, 2023, the total amount of inventory recognized as a cost of sales was \$47,117 (2022 - \$26,258) and no provision of inventory obsolescence was recognized (2022 - \$nil).

FREQUENCY EXCHANGE CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2023

(Unaudited – Prepared by Management)

(EXPRESSED IN CANADIAN DOLLARS)

7. EQUIPMENT

	Computer
Cost	
Balance at December 31, 2021 and 2022 and September 30, 2023	\$ 11,390
Accumulated depreciation	
Balance at December 31, 2021	\$ 8,209
Depreciation	3,181
Balance at December 31, 2022 and September 30, 2023	\$ 11,390
Net amount	
Balance at December 31, 2022 and September 30, 2023	\$ -

8. INTANGIBLE ASSETS

	License	Trademark	Website	Total
Cost				
Balance at December 31, 2021	\$ -	\$ 11,134	\$ 15,041	\$ 26,175
Additions	150,000	-	-	150,000
Balance at December 31, 2022 and September 30, 2023	150,000	11,134	15,041	176,175
Accumulated depreciation				
Balance at December 31, 2021	\$ -	\$ 729	\$ 950	\$ 1,679
Amortization	15,000	557	752	16,309
Balance at December 31, 2022	15,000	1,286	1,702	17,988
Amortization	22,500	417	564	23,481
Balance at September 30, 2023	\$ 37,500	\$ 1,703	\$ 2,266	\$ 41,469
Net amount				
Balance at September 30, 2023	\$ 112,500	\$ 9,431	\$ 12,775	\$ 134,706
Balance at December 31, 2022	\$ 135,000	\$ 9,848	\$ 13,339	\$ 158,187

FREQUENCY EXCHANGE CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2023

(Unaudited – Prepared by Management)

(EXPRESSED IN CANADIAN DOLLARS)

9. TRADE AND OTHER PAYABLES

	September 30, 2023	December 31, 2022
Trade payables	\$ 99,978	\$ 163,153
Other payables	16,267	18,176
	<u>\$ 116,245</u>	<u>\$ 181,329</u>

10. DEFERRED REVENUE

	September 30, 2023	December 31, 2022
Balance, beginning of the year	\$ 135,156	\$ 109,462
Deferred revenue recognized	(135,156)	(104,021)
Revenue deferred	39,461	135,156
Other	-	(5,441)
	<u>\$ 39,461</u>	<u>\$ 135,156</u>

11. NOTES PAYABLE

- a) On November 9, 2021, the Company issued a new convertible note of \$133,201 to the director for the outstanding principal balance, the bonus payment and accrued interest due to the director from the original loan. The convertible note was secured by the inventory of the Company, had a maturity date of February 2, 2023, and bore interest at a rate of 15% per annum, payable on maturity. The debentures were convertible at any time following the maturity date at the holder's option into common shares of the Company at \$0.195 per share. As at December 31, 2022, the Company accrued interest of \$22,881 on the note.

The convertible note of \$133,201 matured on February 2, 2023. During the nine months ended September 30, 2023, the Company repaid the note principal amount of \$133,201 together with accrued interest of \$32,964.

- b) On November 9, 2021, the Company issued a convertible note of \$200,000 to a company controlled by a director of the Company. The convertible note was secured by the inventory of the Company, had a maturity date of February 2, 2023, and bore interest at a rate of 15% per annum, payable on maturity. The debentures were convertible at any time following the maturity date at the holder's option into common shares of the Company at \$0.195 per share. As at December 31, 2022, the Company accrued interest of \$54,485 on the note.

On February 2, 2023, the Company rolled over the convertible note of \$200,000 together with accrued interest of \$57,341 to two promissory notes totaling \$257,341. The promissory notes of \$200,000 has a maturity of August 2, 2023. Both promissory notes bore interest at 8% per annum, payable on maturity, and are secured by 200 units of the product inventory of the Company. On August 2, 2023, the maturity dates of the notes were extended to September 30, 2023. As at September 30, 2023, the Company accrued interest of \$13,593 on the notes. Subsequent to September 30, 2023, the maturity dates of the notes were further extended to the earlier of January 31, 2024 or \$50,000 on the closing date of the first private placement financing and the balance on the closing date of the second private placement financing.

FREQUENCY EXCHANGE CORP.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

NINE MONTHS ENDED SEPTEMBER 30, 2023

(Unaudited – Prepared by Management)

(EXPRESSED IN CANADIAN DOLLARS)

11. NOTES PAYABLE (cont'd...)

- c) On November 9, 2021, the Company issued a convertible note of \$200,000 to a third party. The convertible note was secured by the inventory of the Company, had a maturity date of February 2, 2023, and bore interest at a rate of 15% per annum, payable on maturity. The debentures were convertible at any time following the maturity date at the holder's option into common shares of the Company at \$0.195 per share. As at December 31, 2022, the Company accrued interest of \$54,485 on the note.

On February 2, 2023, the Company rolled over the convertible note of \$200,000 together with accrued interest of \$57,341 to a convertible promissory note of \$257,341. The convertible note is secured with 200 units of the product inventory of the Company, had a maturity date of earlier of August 2, 2023, and bore interest at a rate of 8% per annum, payable on maturity. The debenture is convertible at any time following the maturity date at the holder's option into common shares of the Company at \$0.10 per share. As at September 30, 2023, the Company accrued interest of \$13,593 on the note. Subsequent to September 30, 2023, the maturity date of the note was further extended to the earlier of January 31, 2024 or \$50,000 on the closing date of the first private placement financing and the balance on the closing date of the second private placement financing.

12. LOAN PAYABLE

During the year ended December 31, 2021, the Company opened a Canada Emergency Business Account ("CEBA") and received loans totaling \$60,000 funded by the Government of Canada. The loan is interest-free and may be repaid any time before December 31, 2023, at which time, if unpaid, the remaining balance will convert to a 3 year term loan at an interest rate of 5% per annum. If the Company repays the loan prior to December 31, 2023, there will be loan forgiveness of 25% of the loan, up to \$19,800. The Company initially measured the loan at a fair value of \$46,200, using a discount rate of 10%, resulting in a loan benefit of \$13,800 recognized in net loss as other income.

	September 30, 2023	December 31, 2022
Balance, beginning of the year	\$ 60,000	\$ 51,976
Interest expense	-	8,024
	\$ 60,000	\$ 60,000

13. LEASE LIABILITY AND RIGHT-OF-USE ASSET

The Company has entered into an office lease agreement for its office premises for a term ending in March 2023. The Company has a cost-sharing agreement for its corporate office whereby certain related parties share the leased premises with the Company and reimburse the Company. Accordingly, the Company has recognized a right-of-use asset and liability pertaining to its share of the lease costs. The Company has no further lease payments due on this lease.

	September 30, 2023			December 31, 2022		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Right of use asset	\$ 36,198	\$ 36,198	\$ -	\$ 36,198	\$ 32,358	\$ 3,840

Depreciation expense was \$3,840 (2022 - \$9,871) for the nine months ended September 30, 2023.

FREQUENCY EXCHANGE CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2023

(Unaudited – Prepared by Management)

(EXPRESSED IN CANADIAN DOLLARS)

13. LEASE LIABILITY AND RIGHT-OF-USE ASSET (cont'd...)

A continuity of the Company's lease liability is as follows:

	September 30, 2023	December 31, 2022
Balance, beginning of the period	\$ 4,680	\$ 22,072
Interest expense	70	1,608
Lease payments	(4,750)	(19,000)
Balance, end of the period	\$ -	\$ 4,680
Current liability	\$ -	\$ 4,680
Long-term liability	\$ -	-

14. RELATED PARTY TRANSACTIONS

Related parties include key management personnel, the Board of Directors, close family members and entities that are controlled by these individuals as well as certain persons performing similar functions.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, and consist of directors and officers of the Company. The compensation paid or payable to key management personnel during the nine month periods ended September 30 is as follows:

	2023	2022
Management fees	\$ 286,200	\$ 362,084
Share-based payments	19,663	154,746
Total	\$ 305,863	\$ 516,830

The Company has entered into two management consulting agreements with the CEO and the President of the Company with a monthly fee of \$10,000 and \$10,800, respectively.

On February 2, 2022, the Company engaged Varshney Capital Corp. ("VCC"), a company with a director in common, for administrative services for a monthly fee of \$5,000 plus taxes for a six-month term with a renewal option for an additional six months at a monthly fee of \$7,500 plus taxes and thereafter on an annual basis until otherwise terminated. During the nine months ended September 30, 2023, the Company paid \$67,500 (2022 - \$45,000) for administrative fees to VCC.

Amounts due to related parties of \$47,781 as at September 30, 2023 (December 31, 2022 - \$16,553) are trade payables which are unsecured, non-interest bearing and have contractual maturities of 30 days.

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14. RELATED PARTY TRANSACTIONS (cont'd...)

FREmedica has an agreement with Waveforce, a company with common directors of the Company, whereby FREmedica purchases its products for resale from Waveforce, which entitles a 30% royalty. The royalty was reduced to 10% effective February 2, 2022 upon completion of the RTO Transaction. During the nine months ended September 30, 2023, the Company incurred royalty expense of \$34,298 (2022 - \$73,604).

During the year ended December 31, 2022, the Company issued 4,185,714 common shares to settle \$1,465,000 of debt due to Waveforce.

On July 6, 2022, FREmedica entered into an agreement with Frequency Warehouse Inc. (“Warehouse”) whereby FREmedica acquired an exclusive, royalty-bearing, non-transferable license from Warehouse to build a membership subscription program (including finished products, modules, and components) which delivers frequency packages through a wearable frequency emitter. In consideration for the license granted, FREmedica paid Warehouse a one-time license fee of \$150,000 and agreed to pay a royalty equal to 10% of annual gross revenue pertaining to the sale of the membership and any fees collected for additional frequency services being offered through the membership. Warehouse is controlled by Waveforce, which has directors and officers in common with the Company. The transaction, therefore, is considered a non-arm’s length transaction. During the nine months ended September 30, 2023, the Company incurred royalty expense of \$10,099 (2022 - \$nil).

15. SHARE CAPITAL**Authorized share capital**

The Company is authorized to issue an unlimited number of common shares and preferred shares with no par value.

Issued share capital

Prior to the Transaction, the Company had 10,000,000 shares of common shares issued and outstanding. In connection with the RTO Transaction, the Company reorganized its share capital and completed a share split on a basis of one (1) pre-split common share, stock options and warrants for 1.8 post-split common share, stock options and warrants. All information relating to basic and diluted loss per share and issued and outstanding common shares in these consolidated financial statements have been adjusted retrospectively to reflect the share split.

At September 30, 2023, the Company had 41,517,724 common shares and nil preferred shares outstanding (December 31, 2022 - 36,779,553 common shares and nil preferred shares).

Escrowed shares

Upon completion of the Company’s Initial Public Offering (“IPO”) in 2020 and pursuant to an escrow agreement dated March 6, 2020, 4,000,000 common shares issued to directors and officers of the Company prior to the IPO were placed into escrow. Under the escrow agreement, 10% of the escrowed common shares will be released from escrow on the date of the issuance of the final Exchange bulletin (the “Initial Release”) upon completion of a Qualifying Transaction, and an additional 15% will be released every six months following the Initial Release over a period of thirty-six months. As at September 30, 2023, 1,800,000 common shares remained in escrow.

In addition, 16,965,582 common shares held by the former shareholder of FREmedica, directors and promoters are also subject to escrow in which 10% of escrowed securities was released on February 2, 2022 and 15% every 6 months thereafter. As at September 30, 2023, 7,283,572 common shares remained in escrow.

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15. SHARE CAPITAL (cont'd...)**Share issuances**

During the nine months ended September 30, 2023, the Company completed a non-brokered private placement of 4,738,171 units at a price of \$0.10 per unit for gross proceeds of \$473,817. Each unit consists of one common share and one common share purchase warrant; each warrant allows the holder to acquire one additional common share for a period of 24 months at an exercise price of \$0.15. \$236,909 of the proceeds was allocated to the warrants based on the residual method. The Company incurred filing expenses of \$1,000 in connection with the private placement.

During the year ended December 31, 2022, the Company:

- a) Completed a non-brokered private placement of 7,212,498 units at a price of \$0.35 per unit for gross proceeds of \$2,524,375. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant allows the holder to acquire one additional common share for a period of 24 months at an exercise price equal to \$0.70 per share. The Company paid \$145,642 and issued 416,119 finder's warrants as a finders' fee. The finder's warrants have an exercise price of \$0.35 for a period of one year. The finder's warrants were valued at \$69,341 using the Black-Scholes Option Pricing Model (assuming a risk-free interest rate of 1.35%, an expected life of 1 year, annualized volatility of 96.3% and a dividend rate of 0%). The Company also incurred filing and other expenses of \$3,797 in connection with the private placement.
- b) Issued 200,000 common shares at \$0.10 per share from the exercise of agent's warrants for gross proceeds of \$20,000. Accordingly, \$50,092 was transferred from share-based payments reserve to share capital.
- c) Issued 4,185,714 common shares to settle \$1,465,000 of debt due to Waveforce.
- d) Issued 7,181,341 common shares of the Company with a fair value of \$2,513,469 pursuant to the RTO Transaction (Note 4).

Basic and diluted loss per share

The calculation of basic and diluted loss per share for the nine month period ended September 30, 2023 was based on the loss attributable to shareholders of \$1,082,879 (2022 - \$4,184,915) and a weighted average number of shares outstanding of 37,334,943 (2022 - 34,786,283).

At September 30, 2023, 3,520,000 stock options (2022 - 3,085,000) and 8,344,418 warrants (2022 - 5,450,234) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

16. SHARE-BASED PAYMENTS**Stock options**

The Company has adopted a rolling stock option plan under which it is authorized to grant options to executive officers, directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant. The options can be granted for a maximum term of 5 years and vest as determined by the board of directors.

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16. SHARE-BASED PAYMENTS (cont'd...)

Stock option transactions are summarized as follows:

	Number of options	Weighted Average Exercise Price
Balance, December 31, 2021	-	\$ -
Stock options granted	3,085,000	0.36
Forfeited	(350,000)	0.40
Balance, December 31, 2022	2,735,000	\$ 0.35
Stock options granted	1,735,000	0.10
Forfeited	(950,000)	0.26
Balance, September 30, 2023	3,520,000	\$ 0.10
Exercisable at September 30, 2023	2,853,333	\$ 0.10
Weighted average fair value of options granted during the period	\$	0.047 (2022 - \$0.22)

The options outstanding and exercisable at September 30, 2023 have exercise price of \$0.10 and a weighted average remaining contractual life of 1.15 years.

The fair value calculated for stock options granted during the nine months ended September 30, 2023 was \$81,385 (2022 - \$686,343) using the Black-Scholes Option Pricing Model. For the nine months ended September 30, 2023, the Company recognized share-based payment expense of \$57,140 (2022 - \$526,164) based on the vesting provisions of stock options granted.

The following weighted average assumptions were used for the Black-Scholes Option Pricing Model valuation of stock options granted:

	2023	2022
Risk-free interest rate	4.66%	1.38%
Expected life of options	2 years	2.31 years
Annualized volatility	167.45%	113.27%
Share prices	0.07	\$0.39
Forfeiture rate	Nil	Nil
Dividend rate	Nil	Nil

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16. SHARE-BASED PAYMENTS (cont'd...)

During the nine months ended September 30, 2023, the Company reduced the exercise price of 1,450,000 stock options from \$0.40 per share to \$0.10 per share. The Company recognized share-based payment expense of \$24,515 based on the incremental fair value of the modified stock options at the date of the modification.

Warrants

Warrants are issued as private placement incentives and measured using the residual method. Agents' warrants and bonus warrants are measured at fair value on the date of the grant as determined using the Black-Scholes Option Pricing Model.

	Number of Warrants		Weighted Average Exercise Price
Balance, December 31, 2021	1,427,868	\$	0.19
Warrants granted	3,606,247		0.70
Finder's warrants granted	416,119		0.35
Agent's warrants granted	200,000		0.10
Agent's warrants exercised	(200,000)		0.10
Balance, December 31, 2022	5,450,234	\$	0.54
Warrants granted	4,738,171		0.10
Warrants expired	(1,843,987)		0.23
Balance, September 30, 2023	8,344,418	\$	0.39

The warrants outstanding at September 30, 2023 have exercise prices in the range of \$0.10 to \$0.70 and a weighted average remaining contractual life of 1.22 year.

17. SUPPLEMENTAL CASH FLOW INFORMATION

There are no significant non-cash transactions during the nine months ended September 30, 2023.

Significant non-cash transactions during the nine months ended September 30, 2022 included:

- Issued 416,119 finder's warrants with a value of \$69,341 in connection with private placement financings.
- Issued 7,181,341 common shares of the Company with a fair value of \$2,513,469 pursuant to the RTO Transaction.
- Issued 4,185,714 common shares to settle \$1,465,000 of debt due to Waveforce.

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18. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, trade receivables, deposits, trade and other payables, amounts due to related party, notes payable, and CEBA loan payable. The carrying amount of cash, trade and other receivables, trade and other payables, amounts due to related parties, convertible notes payable, and loans payable, carried at amortized cost is a reasonable approximation of fair value due to the relatively short period to maturity of these financial instruments and/or the rate of interest being charged.

Financial risk management

The Company's financial risks arising from its financial instruments are credit risk, liquidity risk, foreign currency exchange risk, and interest rate risk. The Company's exposures to these risks and the policies on how to mitigate these risks are set out below. Management monitors and manages these exposures to ensure appropriate measures are implemented on a timely basis and in an effective manner.

Credit risk

Credit risk arises when one party to a financial instrument will cause a financial loss for the other party by failing to discharge its obligation. Financial instruments that subject the Company to credit risk consist primarily of cash and trade and other receivables. The credit risk relating to cash balances is limited because the Company holds its cash in Canadian rated financial institutions and will only consider investment of excess cash in highly rated government and corporate debt securities or guaranteed certificates from Canadian chartered banks. The amounts reported for trade receivables in the consolidated statements of financial position are net of allowances for credit losses and bad debts and the net carrying value represents the Company's maximum exposure to credit risk. Trade receivables credit exposure is minimized by entering into transactions with creditworthy counterparties and monitoring the age and balances outstanding on an ongoing basis. Payment terms with customers are generally 30 days from invoice date.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. To the extent that the Company does not believe it has sufficient liquidity to meet its current obligations, the Board of Directors considers securing additional funds through issuances of equity and debt or partnering transactions. The Board of Directors approves any material transactions outside the ordinary course of business. Management regularly reviews the Company's operating and capital budgets and maintains short-term cash flow forecasts. The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing trade and other accounts payable. The Company's trade payables which have contractual maturities of 30 days or are due on demand. Amounts due to related party, notes payable, and CEBA loan payable are due within the next 12 months.

Currency risk

The Company operates primarily in Canadian dollars and as such is not significantly affected by the fluctuations of the Canadian dollar with other currencies. The Company is, however, subject to currency risk due to its online sales to customers in foreign jurisdictions.

Interest rate risk

The Company is exposed to interest rate risk arising from cash held in Canadian financial institutions. The interest rate risk on cash is not considered significant due to its short-term nature and maturity. The Company's convertible notes bear interest at fixed rates. The exposure to interest rates for the Company is considered minimal. The Company has not used any financial instrument to hedge potential fluctuations in interest rates.

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19. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data or other means. Level 3 inputs are unobservable (supported by little or no market activity). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

As at September 30, 2023, the Company has no financial assets or liabilities recorded at FVTPL or FVOCI.

20. SEGMENTED INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The board of directors which have been identified as the chief operating decision maker assesses the financial performance and position of the Company and makes strategic decision. The Company has one reportable operating segment, the sale of wearable devices. All of the Company's non-current assets are based in Canada. The Company's revenue and operations by geographical regions are outlined below.

	Canada	United States	International	Total
	\$	\$	\$	\$
Nine months ended September 30, 2023				
Revenue	113,465	453,313	2,661	569,439
Nine months ended September 30, 2022				
Revenue	38,678	449,576	-	488,254

21. CAPITAL MANAGEMENT

The Company's capital structure consists of shareholders' equity and convertible notes. The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its businesses and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through advances from related parties. Future financings are dependent on the willingness of the related parties to advance funds to the Company and market conditions and there can be no assurance the Company will be able to raise funds in the future. The Company is not subject to externally imposed capital requirements. The Company may raise additional debt or equity financing in the near future to meet its obligations. There was no change in the Company's approach to capital management from the prior year.