

**FREQUENCY EXCHANGE CORP.**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Nine Months Ended September 30, 2024

(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. The Company's independent auditor has not performed a review of this financial report.

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

	Note	September 30, 2024	December 31, 2023
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 263,120	\$ 131,898
Trade and other receivables	4	19,575	14,665
Prepaid expenses and deposits		119,168	5,575
Inventory	5	57,749	87,065
		459,612	239,203
<b>Non-current assets</b>			
Intangible assets	6	103,397	126,879
<b>Total assets</b>		\$ 563,009	\$ 366,082
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	7	\$ 184,494	\$ 232,818
Deferred revenue	8	-	37,063
Amounts due to related party	11	69,761	18,200
Notes payable	9	583,156	552,247
		837,411	840,328
<b>Non-current liabilities</b>			
CEBA loan payable	10	50,499	48,226
<b>Total liabilities</b>		887,910	888,554
<b>Equity (deficit)</b>			
Share capital	12	7,401,382	6,587,203
Share-based payments reserve	13	1,649,191	1,303,619
Deficit		(9,375,474)	(8,413,294)
<b>Total equity (deficit)</b>		(324,901)	(522,472)
<b>Total liabilities and equity</b>		\$ 563,009	\$ 366,082

**Nature of operations and going concern** (Note 1)

**Event after the reporting period** (Note 19)

Approved by the board of directors on November 26, 2024 and signed on its behalf by:

\_\_\_\_\_  
“Stephen Davis” Director                      “Hari Varshney” Director

The accompanying notes are an integral part of these 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, 2024	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
<b>Sales</b>		\$ 221,716	\$ 159,111	\$ 619,809	\$ 569,439
<b>Cost of sales</b>		(72,634)	(44,742)	(196,550)	(198,273)
<b>Gross profit</b>		149,082	114,369	423,259	371,166
<b>Operating expenses</b>					
Accounting and audit		31,539	32,030	119,702	123,930
Advertising and marketing		64,288	123,924	243,867	465,993
Amortization	7, 8	7,827	7,827	23,482	27,321
Investor relations		25,692	-	28,652	2,570
Legal fees		-	12,208	423	12,904
Management fees	14	96,000	95,400	288,000	286,200
Office and general		44,026	34,558	123,034	83,622
Regulatory and transfer agent		2,525	5,559	12,053	15,957
Research and development		1,490	2,596	1,843	64,622
Share-based payments	16	38,661	48,077	350,119	57,140
Wages and benefits		46,971	93,324	135,500	277,413
Travel		16,228	3,364	29,212	7,866
		(375,247)	(458,867)	(1,355,887)	(1,425,538)
<b>Loss from operations</b>		(226,165)	(344,498)	(932,628)	(1,796,704)
Interest income		4,411	1,012	5,652	15,544
Loan interest expense	4	(11,932)	(10,824)	(35,204)	(44,051)
<b>Loss and comprehensive loss for the period</b>		\$ (223,686)	\$ (354,310)	\$ (962,180)	\$ (1,082,879)
<b>Basic and diluted loss per common share</b>	15	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.03)
<b>Weighted average number of common shares outstanding</b>		44,920,223	38,427,612	43,281,359	37,334,943

The accompanying notes are an integral part of these 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, 2023		41,517,724	\$ 6,587,203	\$ 1,303,619	\$ (8,413,294)	\$ (522,472)
Private placement	12	5,087,178	626,718	136,359	-	763,077
Exercise of options	12	731,653	221,592	(148,427)	-	73,165
Share issuance costs	12	-	(34,131)	7,521	-	(26,610)
Share-based payments	13	-	-	350,119	-	350,119
Loss for the period		-	-	-	(962,180)	(962,180)
Balance, September 30, 2024		47,336,555	\$ 7,401,382	\$ 1,649,191	\$ (9,375,474)	\$ (324,901)

	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	12	4,738,171	236,908	236,909	-	473,817
Share issuance costs	12	-	(1,000)	-	-	(1,000)
Share-based payments	13	-	-	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)

The accompanying notes are an integral part of these 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)

	2024	2023
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (962,180)	\$ (1,082,879)
Items not affecting cash:		
Amortization	23,482	27,321
Loan interest	35,204	44,051
Share-based payments	350,119	57,14
Changes in non-cash working capital items:		
Trade and other receivables	(4,910)	38,474
Prepaid expenses and deposits	(113,593)	15,350
Inventory	29,316	61,439
Trade and other payables	(48,324)	(65,084)
Deferred revenue	(37,063)	(95,695)
Amounts due to related parties	51,561	31,228
Net cash used in operating activities	(676,388)	(968,655)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from private placement	763,077	473,817
Share issuance costs	(26,610)	(1,000)
Proceeds from exercise of options	73,165	-
Repayment of note payable	-	(133,201)
Payment of lease liability	-	(4,750)
Interest paid	(2,022)	(33,963)
Net cash provided by financing activities	807,610	300,903
<b>Change in cash during the period</b>	<b>131,222</b>	<b>(667,752)</b>
<b>Cash, beginning of the period</b>	<b>131,898</b>	<b>958,761</b>
<b>Cash, end of the period</b>	<b>\$ 263,120</b>	<b>\$ 291,009</b>

Supplemental cash flow information (Note 14)

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

**FREQUENCY EXCHANGE CORP.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2024

(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 \$9,375,474 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 consolidated 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 IFRS Accounting Standards 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, 2023, 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, 2024

(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 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 may 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:

*CEBA loan*

Management estimates the fair value of the CEBA loan at initial recognition which requires determining the effective interest rate.

*Share-based payments*

The determination of the fair value of stock options and agent's warrants using option 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, 2024

(Unaudited – Prepared by Management)

(EXPRESSED IN CANADIAN DOLLARS)

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

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

*Revenue and deferred 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 consolidated financial statements.

*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.

*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.

**3. SUMMARY OF MATERIAL ACCOUNTING POLICIES**

The accounting policies set out in the Company's audited annual consolidated financial statements for the year ended December 31, 2023 were consistently applied to all the periods presented unless otherwise noted below.

**New accounting standards**

There were no new or amended IFRS pronouncements effective January 1, 2024 that impacted the Company's financial statements.

**FREQUENCY EXCHANGE CORP.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2024

(Unaudited – Prepared by Management)

(EXPRESSED IN CANADIAN DOLLARS)

**4. TRADE AND OTHER RECEIVABLES**

	September 30, 2024	December 31, 2023
Trade receivables, net of allowance	\$ 6,717	\$ 4,156
Goods and services taxes recoverable	12,858	10,509
	<b>\$ 19,575</b>	<b>\$ 14,665</b>

The Company anticipates full recovery of its receivables and therefore no allowance has been recorded against these amounts as at September 30, 2024 (2023 - \$nil).

**5. INVENTORY**

As at September 30, 2024, the Company's inventory consisted of finished goods with a value of \$57,749 (December 31, 2023 - \$87,065). For the nine months ended September 30, 2024, the total amount of inventory recognized as a cost of sales was \$27,444 (2023 - \$41,125) and no provision of inventory obsolescence was recognized (2023 - \$nil).

**6. INTANGIBLE ASSETS**

	License	Trademark	Website	Total
<b>Cost</b>				
Balance at December 31, 2023 and September 30, 2024	\$ 150,000	\$ 11,134	\$ 15,041	\$ 176,175
<b>Accumulated depreciation</b>				
Balance at December 31, 2022	\$ 15,000	\$ 1,286	\$ 1,702	\$ 17,988
Amortization	30,000	556	752	31,308
Balance at December 31, 2023	45,000	1,842	2,454	49,296
Amortization	22,500	418	564	23,482
Balance at September 30, 2024	\$ 67,500	\$ 2,260	\$ 3,018	\$ 64,951
<b>Net amount</b>				
Balance at September 30, 2024	\$ 82,500	\$ 8,874	\$ 12,023	\$ 103,397
Balance at December 31, 2023	\$ 105,000	\$ 9,292	\$ 12,587	\$ 126,879

**FREQUENCY EXCHANGE CORP.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2024

(Unaudited – Prepared by Management)

(EXPRESSED IN CANADIAN DOLLARS)

**7. TRADE AND OTHER PAYABLES**

	September 30, 2024	December 31, 2023
Trade payables	\$ 164,186	\$ 207,754
Other payables	20,308	25,064
	<u>\$ 184,494</u>	<u>\$ 232,818</u>

**8. DEFERRED REVENUE**

	September 30, 2024	December 31, 2023
Balance, beginning of the year	\$ 37,063	\$ 135,156
Deferred revenue recognized	(37,063)	(135,156)
Revenue deferred	-	37,063
	<u>\$ -</u>	<u>\$ 37,063</u>

**9. NOTES PAYABLE**

- a) On November 9, 2021, the Company issued a convertible note of \$133,201 to the director. 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. During the year ended December 31, 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.

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. 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. The promissory notes had a maturity of August 2, 2023, which were subsequently extended to October 31, 2024. As at September 30, 2024, the Company accrued interest of \$34,237 on the notes (December 31, 2023 - \$18,782).

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

NINE MONTHS ENDED SEPTEMBER 30, 2024

(Unaudited – Prepared by Management)

(EXPRESSED IN CANADIAN DOLLARS)

**9. 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.

On February 2, 2023, the Company rolled over the convertible note of \$200,000 together with accrued interest of \$57,341 to a new 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, which were subsequently extended to August 15, 2024, and bore interest at a rate of 8% per annum, payable on maturity. The convertible note 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, 2024, the Company accrued interest of \$34,237 on the notes (December 31, 2023 - \$18,782).

**10. CEBA 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 until December 31, 2023. The Company did not repay the loan on December 31, 2023 and as a result, the loan is converted to a 3 year term loan at an interest rate of 5% per annum. The Company initially measured the loan at a fair value of \$48,226, using a discount rate of 12%, resulting in a loan benefit of \$11,774 recognized in net loss as other income.

	September 30, 2024	December 31, 2023
Balance, beginning of the year	\$ 48,226	\$ 60,000
Interest free benefit	-	(11,774)
Interest expense	2,273	-
	<u>\$ 50,499</u>	<u>\$ 48,226</u>

**11. 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:

	2024	2023
Management fees	\$ 288,000	\$ 286,200
Share-based payments	168,659	19,663
Total	<u>\$ 456,659</u>	<u>\$ 305,863</u>

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

NINE MONTHS ENDED SEPTEMBER 30, 2024

(Unaudited – Prepared by Management)

(EXPRESSED IN CANADIAN DOLLARS)

**11. RELATED PARTY TRANSACTIONS (cont'd...)**

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

The Company has entered into an agreement with Varshney Capital Corp. (“VCC”), a company with a director in common, for administrative services for a monthly fee of \$7,500 plus taxes. During the nine months ended September 30, 2024, the Company paid \$67,500 (2023 - \$67,500) for administrative fees to VCC.

Amounts due to related parties of \$69,761 as at September 30, 2024 (December 31, 2023 - \$18,200) are trade payables which are unsecured, non-interest bearing and have contractual maturities of 30 days.

FREmedica has an agreement with Waveforce, a company with common directors of the Company, whereby FREmedica licenses the technology from Waveforce, which entitles a 10% royalty. During the nine months ended September 30, 2024, the Company incurred royalty expense of \$37,842 (2023 - \$34,298).

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, 2024, the Company incurred royalty expense of \$20,675 (2023 - \$10,099).

**12. 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**

At September 30, 2024, the Company had 47,336,555 common shares and nil preferred shares outstanding (December 31, 2023 - 41,517,724 common shares and nil preferred shares).

**Share issuance**

During the nine months ended September 30, 2024, the Company:

- a) Completed a private placement of 5,087,178 units at a price of \$0.15 per unit for gross proceeds of \$763,077. 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 equal to \$0.25 per share. \$136,359 of proceeds was allocated to the warrants based on the residual method. The Company paid a cash commission of \$9,000, issued 60,000 agent’s warrants, and incurred legal and other expenses of \$17,610 in connection with the private placement. The agent’s warrants were valued at \$7,521 using the Black-Scholes option pricing model (assuming a risk-free interest rate of 2.93%, an expected life of 2 year, annualized volatility of 246.57% and a dividend rate of 0%).

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

NINE MONTHS ENDED SEPTEMBER 30, 2024

(Unaudited – Prepared by Management)

(EXPRESSED IN CANADIAN DOLLARS)

**12. SHARE CAPITAL (cont'd...)**

- b) Issued 731,653 common shares at \$0.10 per share from the exercise of options for gross proceeds of \$73,165. Accordingly, \$148,427 was transferred from share-based payments reserve to share capital.

During the year ended December 31, 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 \$3,961 in connection with the private placement.

**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, 2024, 600,000 common shares remained in escrow (December 31, 2023 - 1,800,000).

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, 2024, 2,427,858 common shares remained in escrow (December 31, 2023 - 7,283,572).

**Basic and diluted loss per share**

The calculation of basic and diluted loss per share for the nine month period ended September 30, 2024 was based on the loss attributable to shareholders of \$728,494 (2023 - \$1,082,879) and a weighted average number of shares outstanding of 43,281,359 (2023 - 37,334,943).

At September 30, 2024, 4,288,347 stock options (2023 - 3,645,000) and 9,885,349 warrants (2023 - 3,606,247) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

**13. 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.

**FREQUENCY EXCHANGE CORP.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2024

(Unaudited – Prepared by Management)

(EXPRESSED IN CANADIAN DOLLARS)

**13. SHARE-BASED PAYMENTS (cont'd...)****Stock options (cont'd...)**

Stock option transactions are summarized as follows:

	Number of options	Weighted Average Exercise Price
Balance, December 31, 2022	2,735,000	\$ 0.35
Stock options granted	1,935,000	0.11
Cancelled	(800,000)	0.29
Forfeited	(325,000)	0.05
Balance, December 31, 2023	3,545,000	\$ 0.10
Stock options granted	2,200,000	0.20
Exercised	(731,653)	0.10
Forfeited	(100,000)	0.15
Expired	(625,000)	0.10
Balance, September 30, 2024	4,288,347	\$ 0.15
Exercisable at September 30, 2024	3,688,347	\$ 0.14
Weighted average fair value of options granted during the period	\$ 0.17	(2023 - \$0.05)

The options outstanding and exercisable at September 30, 2024 have exercise prices ranging from \$0.10 to \$0.20 and a weighted average remaining contractual life of 2.64 years.

The fair value calculated for stock options granted during the nine months ended September 30, 2024 was \$371,236 (2023 - \$81,385) using the Black-Scholes Option Pricing Model. For the nine months ended September 30, 2024, the Company recognized share-based payment expense of \$350,119 (2023 - \$57,140) 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:

	2024	2023
Risk-free interest rate	3.88%	4.66%
Expected life of options	2.95 years	2 years
Annualized volatility	193.98%	167.45%
Share prices	0.19	0.07
Forfeiture rate	Nil	Nil
Dividend rate	Nil	Nil

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

NINE MONTHS ENDED SEPTEMBER 30, 2024

(Unaudited – Prepared by Management)

(EXPRESSED IN CANADIAN DOLLARS)

**13. SHARE-BASED PAYMENTS (cont'd...)****Stock options (cont'd...)**

During the year ended December 31, 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, 2022	5,450,234	\$ 0.54
Warrants granted	4,738,171	0.15
Warrants expired	(1,843,987)	0.23
Balance, December 31, 2023	8,344,418	\$ 0.39
Warrants granted	5,087,178	0.25
Agent's warrants granted	60,000	0.25
Warrants expired	(3,606,247)	0.70
Balance, September 30, 2024	9,885,349	\$ 0.20

The warrants outstanding at September 30, 2024 have exercise prices ranging from \$0.15 to \$0.25 and a weighted average remaining contractual life of 1.40 years.

**14. SUPPLEMENTAL CASH FLOW INFORMATION**

Significant non-cash transactions during the nine months ended September 30, 2024 included:

- Issued 60,000 agent's warrants with a value of \$7,521 in connection with private placement financings.

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

**FREQUENCY EXCHANGE CORP.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2024

(Unaudited – Prepared by Management)

(EXPRESSED IN CANADIAN DOLLARS)

**15. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, trade receivables, trade and other payables, amounts due to related party, notes payable, and CEBA loan payable. The carrying amount of cash, trade receivables, trade and other payables, amounts due to related parties, notes payable, and CEBA 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 parties and notes payable are past due. The Company is actively negotiating revised payment terms with the respective parties. The CEBA loan payable has a maturity date on December 31, 2026.

*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.

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

NINE MONTHS ENDED SEPTEMBER 30, 2024

(Unaudited – Prepared by Management)

(EXPRESSED IN CANADIAN DOLLARS)

**16. 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, 2024 and December 31, 2023, the Company has no financial assets or liabilities recorded at FVTPL or FVOCI.

**17. 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 decisions. The Company has one operating and reportable 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, 2024				
Revenue	125,153	481,839	12,817	619,809
Year ended December 31, 2023				
Revenue	190,831	630,572	8,297	829,700

**18. 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.

**19. EVENT AFTER THE REPORTING PERIOD**

Subsequent to September 30, 2024, the Company granted options to the consultants to purchase 400,000 common shares at an exercise price of \$0.20 per share for a period of 5 years.