

**FRX POLYMERS INC.**

**Management Discussion and Analysis**

**For the year ended December 31, 2021**

## Contents

<b>Introduction</b> .....	2
<b>Forward-Looking Statements</b> .....	2
<b>Business Overview</b> .....	4
<b>Channel Partner Strategy</b> .....	4
<b>Distribution Strategy</b> .....	6
<b>Application Development Strategy</b> .....	6
<b>Key Success Factors</b> .....	7
<b>Team:</b> .....	8
<b>Non-Financial Metrics (reported quarterly)</b> .....	8
<b>Operating summary</b> .....	8
<b>Financial Summary</b> .....	8
<b>Operating results for the 3 months ended December 31, 2021</b> .....	8
<b>Operating results for the 12 months ended December 31, 2021</b> .....	9
<b>Liquidity and Capital Resources</b> .....	10
<b>Cash flow from operations</b> .....	10
<b>Cash flow from investing activities</b> .....	11
<b>Cash flow from financing activities</b> .....	11
<b>Selected Annual Information</b> .....	11
<b>Commitments and obligations</b> .....	11
<b>Off-Balance Sheet Arrangements</b> .....	11
<b>Transactions Between Related Parties</b> .....	12
<b>Changes in Accounting Policies including Initial Adoption</b> .....	12
<b>Financial Instruments and Other Instruments</b> .....	13
<b>Events after the period end</b> .....	14
<b>Details of the Business Combination</b> .....	14
<b>Private Placement Financings</b> .....	15

## **FRX POLYMERS, INC.**

### **Introduction**

FRX Polymers Inc. ("FRX", "Company"), was formed as FRX Polymers Inc under Delaware Corporate Law on December 27, 2006. The Company manufactures polyphosphate polymers that are inherently flame retardant and sold under its Nofia® trade name. These polymers are intended to be used as additives by manufacturers that make products that have desirability or legal requirement for flame retardancy. In addition, the Company's product line offers a number of desirable secondary properties in defined end use applications, which give the customer the opportunity to produce differentiated flame retardant plastic products. The Company has a total of 64 patent applications globally which cover 25 separate patent families. Of the 64 patents referred to, 40 patents have been granted and 24 published. The remaining patent applications are in process of writing, filing applications and pursuing protection with the patent office. The Company operates a fully operational manufacturing plant located on the Port of Antwerp, which is the largest chemical manufacturing cluster in Europe and second in the world. This management's discussion and analysis ("MD&A") should be read in conjunction with FRX Polymers' audited financial statements and related footnotes as of December 31, 2021, and for the year ended December 31, 2021 is prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board ("IFRS").

FRX Polymers presents its financial statements in United States dollars. In this MD&A, all references to "\$" or "dollars" are to United States dollars unless otherwise indicated. Due to rounding, certain totals and subtotals may not foot and certain percentages may not reconcile.

Information contained in this MD&A is based on information available to management as of May 18, 2022.

### **Forward-Looking Statements**

This MD&A contains forward-looking statements that relate to management's current expectations and views of future events. In some cases, these forward-looking statements can be identified by words or phrases such as "forecast", "target", "goal", "may", "might", "will", "expect", "anticipate", "estimate", "intend", "plan", "indicate", "seek", "believe", "predict", or "likely", or the negative of these terms, or other similar expressions intended to identify forward-looking statements. Management has based these forward-looking statements on its current expectations and projections about future events and financial trends that it believes might affect the FRX Polymers' financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, among other things, statements relating to the FRX Polymers' financial position, business strategy, growth strategies, addressable markets, budgets, operations, financial results, taxes, plans and objectives. Particularly, information regarding the FRX Polymers' expectations of future results, performance, achievements, prospects or opportunities or the markets in which we operate is forward-looking information.

Forward-looking statements are based on certain assumptions and analyses made in light of management's experience and perception of historical trends, current conditions and expected future developments and other factors management believes are appropriate. Although management believes that the assumptions underlying these statements are reasonable, they may prove to be incorrect and there can be no assurance that actual results will be consistent with these forward-looking statements. Given these risks, uncertainties and assumptions, readers should not place undue reliance on these forward-looking statements. Whether actual results, performance or achievements will conform to the FRX Polymers' expectations and predictions is subject to a number of known and unknown risks, uncertainties, assumptions and other factors, including those listed under "PART IV - Risk Factors" in the Filing Statement, which factors should not be considered exhaustive and should be read together with the other cautionary statements in this MD&A.

If any of these risks or uncertainties materialize, or if assumptions underlying the forward-looking statements prove incorrect, actual results might vary materially from those anticipated in those forward-looking statements.

Although management bases these forward-looking statements on assumptions that it believes are reasonable when made, FRX Polymers cautions readers that forward-looking statements are not guarantees of future performance and that its actual results of operations, financial condition and liquidity and the development of the industry in which it operates may differ materially from those made in or suggested by the forward-looking statements contained in this MD&A. In addition, even if the FRX Polymers' results of operations, financial condition and liquidity and the development of the industry in which it operates are consistent with the forward-looking statements contained in this MD&A, those results or developments may not be indicative of results or developments in subsequent periods.

Given these risks and uncertainties, investors are cautioned not to place undue reliance on these forward-looking statements. Any forward-looking statement that is made in this MD&A speaks only as of the date of such statement, and FRX Polymers undertakes no obligation to update any forward-looking statements or to publicly announce the results of any revisions to any of those statements to reflect future events or developments, except as required by applicable securities laws. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless specifically expressed as such, and should only be viewed as historical data.

## Business Overview

FRX is an emerging player in the \$9bn<sup>1</sup> global flame retardants business, with an established, unique, product line well placed to grow as regulatory and related pressures re-shape the nature of this business. \$4.0bn<sup>2</sup> of the potential market are halogenated flame retardants together with their synergist which have long been the target of Green NGO's and government regulation. Approximately \$1.5bn<sup>3</sup> of that is expected to be substituted in the coming 2 to 3 years, and in applications suitable for FRX's Nofia® flame retardants.

Nofia® flame retardants are already the second most commonly used flame retardant family in inherently flame resistance polyester fibers. Recent customer successes in other application areas confirm the potential growth in other flame retardant consuming industries.

Total demand for flame retardant substrates is expected to continue to grow faster than GDP rates globally, based on lifestyle changes and increasing consumer demand for electrical and electronic equipment. It is also driven by the necessity to insulate more, with the most efficient insulation materials requiring flame retardants. Growth also comes from the need for safe operation of new technologies such as electric vehicles, 5G communications and the Internet of Everything.

## Channel Partner Strategy

FRX has sought, and successfully partnered with major players in several important flame retardant consuming industries. Technical successes with those companies give confidence to the future growth of FRX, both through the expansion of sales by those companies, but also by other companies choosing to develop similar products, also based on Nofia products.

### FR Textiles - \$150M market opportunity<sup>3</sup>

The largest concentration of existing customers of FRX Polymers manufacture inherently flame-retardant polyester. Our customers include three of the world's top 7 polyester producers. One of these produces post consumer recycled polyester fibers. Another, along with its customers, launched harder wearing fabrics suitable for applications such as furniture - a world first. These products commercialized in 2021 and are wholly dependent on FRX technology.

One customer is a major supplier of non-halogenated synthetic hair for wigs that is expected to gain share as a result of pressure to remove halogens from articles which are frequently touched.

In December 2021 FRX Nofia flame retardants, through its sales partnerships, was approved in polyamide for a major new military combat uniform application. First sales were made in December 2021, and scale up continues, with full production for this project scheduled to begin

---

<sup>1</sup> Multiple published market surveys

<sup>2</sup> Multiple published market surveys

<sup>3</sup> FRX estimates

in Q4 of 2022. The FRX customer is now promoting their compound into other textile applications.

### Printed Circuit Boards - \$1.1Bn Market Opportunity<sup>3</sup>

FRX has selected four companies to collaborate with in this area. They represent the largest and or most technically proficient participants in the printed circuit board laminate industry. FRX products are approved in product offerings of three of these companies. Each is now marketing customers for their products. The largest class of flame retardants used in printed circuit boards are brominated. While this application is not currently under regulatory threat, these legacy products are not suitable for higher performance boards, nor for certain more economic products. These two sub segments offer growth potential for FRX polymers. Moreover, certain major brand electronic companies have themselves decided to phase out brominated flame retardants which also provides area of growth.

### Electronic / Electrical Housings - \$1.5 bn Market Opportunity<sup>3</sup>

FRX channel partners in this segment include one of the largest resin producers in the world for electrical goods, a major European compounder, and a specialty compounder in North America. We are in the final stages of laboratory approval with three additional partners, a major Chinese resin producer a major Chinese compounder and a major chemical company attached to one of the world's largest electronic companies. To-date, large and mid-sized OEM's have specified products containing FRX products, in products such as medical equipment and lithium-ion battery cases. We expect that this will accelerate with the approach of the December 2024 deadlines in North America for replacing halogenated flame retardants. On April 6, 2022, Google and Apple announced their intent to work with their suppliers to use a third-party verification company, ChemFORWARD, to recommend safer alternatives to halogenated flame retardants. Nofia flame retardants were already approved when this was announced and are therefore well positioned to capture share of this new business. This is an area where non-halogenated flame retardants are already common, but cheaper products cannot meet all necessary requirements

Nofia flame retardants offer unique physical property benefits over the standard non-halogenated product, including passing required flame retardancy tests in thinner profiles, able to withstand higher operating temperatures, which ultimately saves costs.

Yet another channel partner produces unique flame retardant polyester molded products, currently in use in medical electronic equipment. They have launched a flame retardant offering based on post consumer polyester (soda bottles). This new product is being promoted to major consumer electronics companies. This represents a further advancement of the trend to treat polyester as a more sustainable plastic and consequently the demand for flame retardant recycled polyester is expected to increase substantially.

### Foams and Films - \$120M Market opportunity<sup>3</sup>

FRX has partnered with the two global leaders, of polyester films and polyester foams. Nofia® flame retardants are in existing commercial products. The flame retardant polyester foam

market is expected to grow as these products in transportation applications replace older technology based on halogenated flame retardants. Potential new applications for flame retardant polyester film include use in newer designs of lithium-ion batteries.

A global leader in polyurethane chemicals worked with Nofia flame retardants in 2021 and has completed lab approval for use in "Under hood" foams in China. Details of that commercialization are being worked out now. Separately, work done in 2021 led to the May 2022 first use of Nofia flame retardants for interior foam applications for a well known global luxury brand vehicle, produced in China.

### Coatings - \$50M Market Opportunity<sup>3</sup>

FRX's channel partner in this segment, a global leader in waterborne polyurethane dispersions (PUDs), developing new flame retarded products based on our Nofia technology. Separately, one of the world's largest producers of flame retardant dispersions for both textile coatings and adhesives is developing dispersion products containing Nofia flame retardants to supply textile and adhesives end users. One of the key benefits of Nofia flame retardants is that they can be used as part of a transparent coating. This is currently unique in the industry, as no other flame retardant offers transparency and flame retardancy simultaneously. Halogenated Flame retardants used in textile coatings are under threat, one such example is the British furniture standard where NGOs and large retailers would like to move to halogen-free furniture. The most vulnerable halogenated flame retardant applications use approximately \$50M<sup>4</sup> of flame retardant products per year.

### **Distribution Strategy**

FRX works closely with its distribution partners around the world. It is proud to treat its distributors as part of the FRX sales team. Commencing this quarter, FRX set about adding to its global capability and has recently added additional distribution capability in Italy, Eastern Europe, and Turkey.

### **Application Development Strategy**

FRX is committed to the development of new applications for our products. We do this through a combination of our in-house lab team, our Channel Partners and with other customers who present us ideas and needs. Where necessary, we engage external consultants to help with new developments.

---

<sup>4</sup> FRX estimate

## Key Success Factors

**Unique Environmentally Friendly Product Line:** Nofia flame retardants are the only commercially available polymeric non-halogen flame retardants suitable for all of its applications. There are three types of Nofia flame retardants:

- i. Homopolymers - our standard products for use in most applications, notably polyesters,
- ii. Co-polymers - especially developed for use with polycarbonate and its blends (the most important plastics for everyday electronics),
- iii. Oligomers - which are used in polyurethane, Printed Circuit Boards and as dispersions in coatings.

**Strong Patent Portfolio:** The technology to produce and use Nofia flame retardants is covered by 64 patents and patent applications covering 22 inventions. The production of our key raw material is also covered by patent. Management believes that FRX has developed robust protection for its business.

**Dedicated State of the Art Plant:** The FRX Polymers production plant in Antwerp was constructed in 2013 with completion in 2014. It is highly efficient, requiring only two technical operators per shift. It operates to the highest quality standards and is ISO 9001 certified. It forms part of a major chemical park in Antwerp, Belgium.

**Global Tier 1 Customer Base:** FRX Polymers chosen Channel Partners, and other customers are leading players in their respective parts of the global plastics industry.

**Highly Favorable Regulatory Environment:** In 2019 the Eco-Design regulation banned the whole class of halogenated flame retardants from the enclosures and stands of TVs and monitors. This is the first action of its type to affect a whole class of a chemical family. On March 16, 2022 that decision was confirmed in a European court. Similarly, the state of New York signed into law essentially identical legislation right at the end of 2021, which will affect the entire US supply chain. Washington State will deliberate in June 2022 on draft regulation which could extend that ban to a much wider range of electrical products - "high touch" items such as laptops, mobile phones, kitchen appliances, washing machines, irons, coffee makers, vacuum cleaners, hair dryers, and power tools. Later in 2022 the European Union will deliberate on the confirmation of a Category 1B Carcinogen label on the largest brominated flame retardant TBBPA. A confirmation would result in TBBPA becoming a "Substance of Very High Concern" which would mean that many uses would be effectively phased out, a process that OEMs are already initiating. Canada will confirm or modify in the same time-frame, restrictions on the largest non-reactive brominated flame retardant "Deca Ethane", and the US NTP will issue its report on the carcinogenic potential of the largest chlorinated flame retardant. Nofia flame retardants are independently assessed by the following organizations to have the best sustainability ratings of any similar product: GreenScreen

Benchmark 3, ChemFORWARD SAFER Class B, TCO listing, ChemSec Marketplace Alternative and Oeko-Tex for textiles applications.

## Team

FRX Polymers has a highly skilled team of engineers, polymer scientists, chemists as well as a highly qualified customer service team and experts in commercial, marketing and selling. We have employees of 10 different nationalities. Where necessary we supplement these skills with experienced consultants.

## Non-Financial Metrics (reported quarterly)

- i. New customer gains – we track new direct customers, as well as significant new Distributor accounts.
- ii. New Applications – we monitor new applications for our technology as best we can.
- iii. Total probability adjusted value of our Sales pipeline.

## Operating summary

- During the year, the plant operated safely and zero time lost to accidents and with minimum disruptions to essential operations as a result of well publicized supply chain disruptions caused by the novel coronavirus (“COVID-19”) pandemic.
  - Polymer production totaled 631,100 Kg compared to 417,000 Kg in the comparable period in 2020.
  - Quality yield averaged 97% compared to 93% in the comparable period in 2020.
  - Averaged fastest reaction time in 2021 was 753 min compared to 720 min in 2020. Average batch size was 7,200 Kg in 2021 compared to 7,125 in 2020.
- The plant availability was 93 % in 2021 and 93% in 2020.

## Financial Summary

### Operating results for the 3 months ended December 31, 2021

At December 2021, the Company had cash and equivalent of \$453,359 (2020 - \$547,409). While the Company raised a net of approximately \$3,009,000 from the issuance of convertible debentures and a further \$1,000,000 in convertible notes the debt repayment, service costs and results of operations consumed cash of \$3,378,854 and \$42,689 respectively (2020 - \$2,910,889)

Accounts receivable were \$2,270,015 at the end of the quarter (2020 - \$2,662,809). The increase was notwithstanding a substantial increase in sales during quarter as the Company made significant efforts to reduce working capital requirements. Inventory increased by \$259,659 as necessary raw materials were procured to minimize supply chain delays that are currently challenging many businesses.

The Company continued to focus on optimization at the plant resulting in improved utilization of production resources.

Revenue for the quarter was \$2,141,747 (2020 -\$1,298,497). The increase of \$843,250 was driven by the general economic recovery following the initial opening up of businesses post the height of the pandemic and the start of new customer wins during the quarter. Management expects the recent legislative changes mandating the elimination of competing brominated flame retardants particularly electronic enclosure and high touch surfaces polymer market to drive improved utilization of the plant. This would translate to improved margins.

### **Operating results for the 12 months ended December 31, 2021**

Revenues for the 12 months ended December 31, 2021 of \$6,120,089 (2020 - \$5,276,839) an increase of \$843,250 (16%) primarily as a result of the significant increase concentration of its sales in the FR textiles sector (83.6%). Sales of flame retarded textile-based goods were significantly impacted by Covid-19 because the applications for FR textiles are where people gather (commercial buildings, hotels, convention halls, mass transportation, etc.). The Company has begun to shift its focus to other sectors in 2021 and expects its reliance on the Textile market to reduce to 75% in 2021 and lower in 2022 and beyond.

Cost of goods sold increased by \$510,685 or 8% as the price of raw material increased. In Q4 of 2021, long term contracts for a secondary source were in place, resulting in an improvement to the inputs pricing. In addition to raw materials pricing, the Company took an impairment charge of \$248,249 for inventory obsolescence resulting in a proportionate increase in cost of goods sold and the decline in the gross margin.

Operating expenses of \$3,800,558 (2020 - \$3,033,258) represent a 25% increase annually and but only a 5% increase when measured against revenue. The key components are:

- i. Administrative expenses of \$2,416,290 (2020 - \$1,734,594) represent an increase of \$684,610 largely due to staffing increases as operations expanded and the Company prepared for the listing of its shares on the TSX-Venture Exchange.
- ii. Research expenses of \$763,280 (2020 - \$840,811) a decline of \$77,531 due to cost savings measures.
- iii. Sales and marketing of \$620,988 (2020 - \$457,853) a increase of \$163,135 as the Company hired a Chief Commercial Officer and embarked on a sales and marketing program to accelerate adoption of its Nofia products into a broader range of end uses building from our own technical work, new insights gained from customer adoptions, and to coincide with favourable regulatory changes then anticipated, which have subsequently occurred.
- iv. Included in operating expenses are non cash amounts for share-based compensation as follows: \$409,145 in restricted stock and \$134,020 in incentive stock options.

In addition to the factors sited above, the Cares Act and in particular the Paycheck Protection Program (PPP), provided the Company with a forgivable loan of \$320,000 (2020 - \$313,100).

The funds were used to pay qualifying payroll costs, including benefits, as well as rent and utilities during the covered period as defined in the CARES Act. Subsequent to the period, all of the amounts were assessed as eligible for forgiveness and were forgiven.

The Company conducts most of its sales in Euro but reports in USD. During the period the exchange rate of the Euro depreciated from USD\$1.218 to USD\$1.1325 (-8.55%) the average rate during the period was USD\$1.1832 and represents a 4.2% increase over 2020. The net effect of these changes are that assets and liabilities denominated in Euro as translated are 8.55% lower, and income statement items relating to the Belgian operations translated at the average for the period were 4.2% higher.

The net result of foreign currency fluctuation was a \$816,741 loss (2020 - \$1,328,027 gain) which was partially offset by a translation adjustment gain of \$165,923(2020 -\$406,177 loss).

Interest Expense was \$1,417,326 (2020 - \$1,177,398) an increase of \$239,928 or 20% was attributable to the increase in notes payable, debenture as described above as well as quarterly payments to lenders under the terms of the principal repayment waiver. Amounts of \$33,600 were repaid during 2021.

Detachable Common stock warrants issued in connection with the Company's 2021 Convertible Note financing and exercisable for a variable number of common shares, were fair valued under Black Scholes pricing model resulted in a charge of \$1,526,312 – a non cash expense.

Net Comprehensive loss was \$8,565,614 (2020 - \$6,593,178) increase of 30%

### **Liquidity and Capital Resources**

Working capital of \$346,719 (2020 – \$1,942,416) a decline of \$1,595,697 or 82% is largely driven by a \$1,313,405 increase in current liabilities and a \$392,794 decline in accounts receivable and a \$94,050 decline in cash as explained below. Subsequent to the period end, there was a substantial change to the capital structure of the Company. The 2020 and 2019 convertible notes of \$9,021,104 were converted to common shares as were the 2021 convertible debentures of \$3,048,597 and \$54,633. The common stock warrant liability of \$3,427,236 was eliminated on their exercise as part of the business combination.

Finally in conjunction with the business combination the Company closed a brokered private placement for aggregate subscription proceeds of CAD\$5,899,000, a non-brokered sale of subscription receipts for \$115,000 and \$482,029 of non-interest-bearing convertible debentures. The details of these transactions as explained below.

### **Cash flow from operations**

Net cash used in operations was \$3,378,854 (2020 – \$2,910,889), in adjusting net income for non cash items the significant values were the \$1,526,312 (2020 - \$1,990,335) charge related to the fair valuation of common stock warrants, unrealized currency translation adjustments of (\$1,216,315) loss (2020 - \$1,358,748 gain). Further an increase of inventories by \$615,667 consumed cashflow but was partially offset by an increase of accounts payable of \$542,637

## Cash flow from investing activities

Capital expenditures in patents and related intangible assets \$105,489 (2020 - \$89,442) while expenditure on property plant and equipment decreased to \$16,611 (2020 - \$55,126).

## Cash flow from financing activities

The Company raised \$4,141,561 (2020 - \$1,000,000) and incurred of issuances costs \$131,683 (2020 - \$59,250) the increase in financing activity was attributed to a convertible debenture completed in advance of its reverse takeover transaction. Lease liability repayments of \$42,689 (2020 - \$34,700) were made. Stand-still agreements were implemented with FRX Polymers institutional lenders KBC and UIF on September 30, 2019 these arrangements expire on June 30, 2022 and thereafter the Company will be required to make repayments as described under commitments below. Government assistance of \$320,000.00 was received during the period, and subsequently forgiven.

To date, the Company has funded its development on external financing, share issuances and where possible, government assistance to establish its technology in the market place. Management believes that with the strong regulatory tail winds in its favor, such as bans of toxic flame retardants, combined with actual activities by target customers, these future financial milestones of self-sustaining operations are attainable.

## Selected Annual Information

	<b>2021</b>	<b>2020</b>	<b>2019</b>
Total Revenue	6,120,089	5,276,839	5,627,208
Loss from continuing operations	4,789,558	4,354,823	4,763,847
Loss per share Basic and diluted	\$ 0.34	\$ 0.28	n/a <sup>5</sup>
Total Assets	25,467,159	27,878,733	29,102,331
Total Non-Current Financial Liabilities	29,551,383	25,253,913	20,051,387

## Commitments and obligations

### Off-Balance Sheet Arrangements

The company is party to a claim by the Flemish government with respect to monies received pursuant to a 2014 strategic transformation grant. On November 19, 2020 the responsible

<sup>5</sup> During 2019 there was a complete re-organization of the share capital of the Company, negative the usefulness of comparative earnings per share data.

government agency reversed its earlier grant decision, set aside its previous inspection conclusions and requested the return of EUR 960,000.

The Company submitted legal briefs on December 15, 2020 and second legal briefs were due on April 15, 2022 and have been submitted. The Flemish region's second briefs are due to be submitted on May 15, 2022 and a first trial date was set for May 23, 2022.

On May 9 the Company received formal confirmation of a stay in the case until June 30, 2023.

In the Company's view, based on the advice of legal council that the retro-active amendment of the grant terms and conditions will ultimately prove to be unsuccessful and accordingly the Company has not made any monetary provisions for a contingent liability. The anticipated legal fees associated with this matter are not viewed as material.

### **Transactions Between Related Parties**

The Company has an administrative services agreement for human resource, IT and other administrative services with a company whose principal owner is the chairman of the Board of the Company. Fees are based on actual services performed and are billed monthly. The Company is responsible for the reasonable and necessary expenses associated with the services provided. Through this arrangement the Company is able to access tailored specialist services on better economic terms than would otherwise be the case.

For the twelve months ended December 31, 2021, administrative expenses incurred under this agreement totaled approximately \$27,000 and are recorded in operating expenses.

The Company had a service agreement with the previous Chairman of the Board (a stockholder of the Company). For the twelve months ended December 30, 2021, expenses incurred under this agreement for services totaled approximately \$18,000. ( 2020 - \$36,000 ) Approximately \$7,500 of these expenses remain unpaid as of the period end.

### **Changes in Accounting Policies including Initial Adoption**

Historically the company had reported under US GAAP as a result of the specific requirements under the Canadian reporting related to the transaction, the financial statements were prepared in accordance with IFRS. The primary impact of this are as follows:

- i. The recognition of right of use assets.
- ii. The capitalization of research and development costs that would otherwise have been expensed.
- iii. The fair market valuation of former obligations under a royalty payable to UIF. Which has now been converted to a fixed repayment obligation subject to revenue thresholds.

Whilst these do not represent changes in accounting policy that the change in accounting framework does have a material impact on the presentation of the financial statements. Readers are referred to the audited financial statements for the period ended December 31, 2021 with

comparative figures for 2020 along with a reconciliation of the changes on the adoption of IFRS, effective January 1, 2020.

## **Financial Instruments and Other Instruments**

The Company's financial instruments consist of cash and cash equivalent, trade receivable, trade payables, accrued expenses, notes payable and convertible notes payables and are classified as measured at amortized cost. The carrying amounts of these instruments at December 31, 2021 and December 31, 2020 approximate fair value.

### **Risk Management**

The Company is exposed to risks of varying degrees of significance from its use of financial instruments which could affect its ability to achieve its strategic objectives for growth and stakeholder returns. Management has identified the principal risks to which the Company is exposed to in ongoing operations described below along with the actions taken to manage them.

**Credit Risk** - arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from customers. In order to reduce its credit risk, the Company reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information. Seven customers represented approximately 77% of the outstanding accounts receivable balance as of December 31, 2021. Approximately 95% of sales were to 20 customers for the twelve months ended December 31, 2021.

An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information. As at December 31, 2021, allowance was established for one customer (2020 - one customer) out of the trade account receivable.

**Currency risk** - the risk to the Company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. For each 1.00% change in the Euro exchange rate, based on the monetary assets and liabilities held at year end, the Company's net earnings would be impacted by approximately \$40,417 (2020 - \$10,711).

**Interest Rate risk** - the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. The Company is exposed to interest rate cash flow risk primarily through its floating interest credit facility as the required cash flow to service the debt will fluctuate interest rates change, and in particular the Euribor rate which is used by its European bankers. Fixed-interest instruments are subject to fair

value risk. The Company's credit facilities bear variable rate interest. For each 0.25% change in rate, the Company's net earnings would be impacted by \$26,090 (2020 - \$28,699).

Other price risk - the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Liquidity risk - the risk that the Company may not have cash to meet financial liabilities as they come due. The Company has sufficient credit facilities to meet its current and long-term financial needs. The Company's liquidity requirements are met through the cash generated from operations and capital raises. Management monitors and manages its liquidity risk through regular monitoring of its financial liabilities against the constraints of its available financial assets.

### Events after the period end

**May 16, 2022** – the Company completed the previously announced business combination transaction and changed its name to FRX Innovations Inc. (“FRXI”). Pursuant to the business combination, FRX Polymer (Canada) Inc. (“**Finco**”), a wholly owned Canadian subsidiary of FRX and 13448061 Canada Inc. (“**Pubco Sub**”), a wholly owned subsidiary of Good2Go RTO Corp, completed a three-cornered amalgamation and FRXI, FRX and G2G Merger Sub, Inc. (“**Merger Sub**”) completed a reverse triangular merger. Subject to receiving final Exchange acceptance, the common shares of the Resulting Issuer (the “**Resulting Issuer Shares**”) are expected to resume trading on the Exchange on May 24, 2022 under the new name “FRX Innovations Inc.”, on a post-Consolidation (as defined below) basis and under the new trading symbol “FRXI”. In addition, it is anticipated that warrants of the Resulting Issuer (the “**Resulting Issuer Warrants**”) will also commence trading on the Exchange under the symbol “FRXI.WT” on May 24, 2022, subject to the Exchange providing final approval of the listing of the Resulting Issuer Warrants.

### Details of the Business Combination

Pursuant to the terms of a business combination agreement among FRX, Finco, Pubco Sub, the Resulting Issuer and Merger Sub dated November 2, 2021, as amended February 1, 2022 and April 29, 2022 (the “**Business Combination Agreement**”): (a) Finco and Pubco Sub completed a three-cornered amalgamation under the *Canada Business Corporations Act* to form “**Amalco**”; and (b) the Resulting Issuer, FRX and Merger Sub completed a reverse triangular merger under the laws of the State of Delaware (“**MergeCo**”). MergeCo will carry on the business previously carried on by FRX as a subsidiary of the Resulting Issuer.

Prior to the completion of the Business Combination, the Resulting Issuer completed: (i) a name change from “Good2GoRTO Corp.” to “FRX Innovations Inc.”, and (ii) a share consolidation of its issued and outstanding capital on the basis of one post-consolidation Resulting Issuer Share for each 3.5 pre-consolidation Resulting Issuer Shares (the “**Consolidation**”).

Following completion of the Consolidation and pursuant to the Business Combination (with each Resulting Issuer Share being issued on a post-Consolidated basis):

- i. the holders of common shares of Finco ("**Finco Shares**"), including persons receiving Finco Shares upon conversion of the Subscription Receipts (as defined below) and the Convertible Debentures (as defined below), other than FRX, received one Resulting Issuer Share for each Finco Share held in exchange for the issuance to the Resulting Issuer of one common share of Amalco for each Finco Share so exchanged;
- ii. the holders of shares of FRX ("**FRX Shares**") received either 1.0767 Resulting Issuer Shares or an amount of cash equal to CAD\$1.0767 for each FRX Share held in exchange for the issuance to the Resulting Issuer of 1.0767 common shares of MergeCo for each FRX Share so exchanged;
- iii. all of the options to purchase FRX Shares ("**FRX Options**") were replaced with options to purchase one Resulting Issuer Share for each FRX Share issuable on exercise of the FRX Options; and
- iv. all of the warrants to purchase Finco Shares ("**FRX Warrants**") were replaced with warrants to purchase one Resulting Issuer Share for each Finco Share issuable on exercise of the FRX Warrants.

Upon completion of the Business Combination, there were 80,003,312 Resulting Issuer Shares and 3,436,513 Resulting Issuer Warrants issued and outstanding. An aggregate 35,200,157 Resulting Issuer Shares, 314,337 options to purchase Resulting Issuer Shares and 159,195 warrants to purchase Resulting Issuer Shares, issued to the former holders of FRX Shares were placed in escrow pursuant to a value security escrow agreement pursuant to the policies of the Exchange and will be released in accordance with the terms thereof.

### **Private Placement Financings**

Prior to the closing of the Business Combination, Finco completed a non-brokered unsecured 8% convertible debenture ("**Finco Convertible Debentures**") financing in multiple tranches between August 30, 2021 and October 5, 2021, for aggregate gross proceeds of CAD\$3,953,000 (the "**Finco Convertible Debenture Financing**"). Immediately prior to closing of the Business Combination, the principal amount plus accrued interest of the Finco Convertible Debentures were converted at a price of CAD \$0.80 per Finco Share, for a total issuance of 5,209,069 Finco Shares. Immediately prior to closing of the Business Combination, each Finco Convertible Debenture was deemed to be exercised without payment of any additional consideration and without further action on the part of the holders thereof, into one Finco Share. Finco paid agent fees in connection with the Convertible Debenture Financing and in addition granted 168,630 warrants to purchase an equivalent number of Finco Shares ("**Finco Convertible Debenture Warrants**") exercisable at a price of CAD\$1.00 per Finco Share until May 16, 2024. Upon closing of the Business Combination, all Finco Convertible Debenture Warrants were exchanged for warrants of the Resulting Issuer with identical terms to the Finco Convertible Debenture Warrants.

On February 3, 2022, Finco completed a brokered private placement (the "**Private Placement**") of an aggregate of 5,899,000 Subscription Receipts at a subscription price of CAD\$1.00 per Subscription Receipt for aggregate gross proceeds of \$5,899,000. Finco also completed the non-brokered sale of: (i) 115,000 Subscription Receipts, at a subscription price of CAD\$1.00 per

Subscription Receipt for aggregate gross proceeds of \$115,000, and (ii) \$482,029 principal amount of unsecured non-interest bearing convertible debentures (the “**Finco New Convertible Debentures**”, and collectively with the Finco Convertible Debentures, the “**Convertible Debentures**”).

On April 18, 2022, Finco completed an additional private placement offering of CAD\$377,000 Finco New Convertible Debentures. Immediately prior to closing of the Business Combination, each Subscription Receipt and Finco New Convertible Debenture was deemed to be exercised or converted at CAD\$1.00 without payment of any additional consideration and without further action on the part of the holders thereof, into one unit of Finco, comprised of one Finco Share and one-half of one Finco Share purchase warrant.

Pursuant to an agency agreement dated February 3, 2022, between FRX, Finco, and its agents in the financing (the “**Agents**”) in connection with the Private Placement, the Agents received (A) a cash commission equal to: (i) 7.0% of the aggregate gross proceeds of the Private Placement excluding proceeds from subscribers on a president's list (the “**President's List**”) plus (ii) 3% of the gross proceeds of the Private Placement from subscribers on a President's List, and (B) such number warrants to purchase Finco Shares (“**Agents Warrants**”) as is equal to: (i) 7.0% of the aggregate number of Subscription Receipts issued under the Private Placement excluding Subscription Receipts issued to President's List subscribers and (ii) 3.0% of the aggregate number of Subscription Receipts issued under the Private Placement to President's List subscribers. Each Agent Warrant is exercisable into one Finco Share at an exercise price equal to the \$1.00 per share for a period of 24 months following closing of the Business Combination. In addition, Finco paid Echelon a corporate finance fee by way of a cash payment of CAD\$17,500 (plus tax) and the issuance of 17,500 Agent Warrants. In addition, Finco paid an arm's length finder a finder's fee consisting of a cash fee of CAD\$9,040 and warrants to purchase 9,040 Finco Shares (“**Finco Finder Warrants**”). Upon closing of the Business Combination, all Agents Warrants and Finco Finder Warrants were exchanged for warrants of the Resulting Issuer with identical terms to the Agents Warrants and Finco Finder Warrants.