
# FRX Innovations Inc.

## 2023 Audit Findings

Report to the Audit Committee

December 31, 2023

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December 2, 2024

Members of the Audit Committee of FRX Innovations Inc.

Dear Members:

We are pleased to submit to you this report for discussion of our audit of the consolidated financial statements of FRX Innovations Inc. and its subsidiaries (the "Company") as at December 31, 2023 and for the year then ended. In this report we cover those significant matters which, in our opinion, you should be aware of as members of the Audit Committee.

We have substantially completed our audit of the consolidated financial statements of the Company which has been carried out in accordance with Canadian generally accepted auditing standards.

Unless unforeseen complications arise, our Independent Auditor's Report will provide an unmodified opinion to the shareholders of the Company. A draft copy of our proposed Independent Auditor's Report is attached at the end of this report.

This report is intended solely for the information and use of the Audit Committee and management and should not be distributed to or used by any other parties than these specified parties.

The matters raised in this and other reports that will flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks in your business or all control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

We would like to express our appreciation for the excellent cooperation we have received from management and employees with whom we worked.

We appreciate having the opportunity to meet with you and to respond to any questions you may have about our audit, and to discuss any other matters that may be of interest to you.

Sincerely,

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

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Acknowledged:

Signature | Ekaterina Terskin, AC Chair on behalf of the AC

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# Introduction

As auditors, we report to the shareholders on the results of our examination of the consolidated financial statements of FRX Innovations Inc. and its subsidiaries (the "Company") as at and for the year ended December 31, 2023. The purpose of this Audit Findings Report is to assist you, as members of the Audit Committee, in your review of the results of our audit. To facilitate in your understanding of our findings, Appendix A to this report summarizes our audit process.

Our report will discuss the status of our engagement, as well as communicate to you significant audit, accounting and reporting matters arising from our procedures.

We hope that this report is of assistance to you, and we look forward to discussing our findings and answering your questions.

## Engagement Status

We have substantially completed our audit of the consolidated financial statements of the Company and are prepared to sign our Independent Auditor's Report subsequent to completion of the following procedures:

- Receipt of the legal update letters;
- Receipt of the signed management representation letter;
- Discussion of subsequent events with the Audit Committee;
- Finalization of the Engagement quality control review;
- Review of the tax provision and tax note by our Tax team;
- Review of the final draft of the consolidated financial statements; and
- The Audit Committee's and the Board review and approval of the consolidated financial statements.

## Independent Auditor's Report

Our Independent Auditor's Report will provide an unmodified opinion to the shareholders. A draft copy of our proposed Independent Auditor's Report has been provided as additional materials to this report. The matters disclosed in the Independent Auditor's Report are discussed further in the relevant sections of the Report.

# Significant Audit, Accounting and Reporting Matters

## Audit and Reporting Matters

The following significant matters arose during the course of audit that we wish to bring to your attention.

| Area | Comments |
| --- | --- |
| **Changes from Audit Service Plan** | We presented our Audit Service Plan to you on May 16, 2024.<br><br>Over the course of our audit, we were made aware of management's discussions with third party investors (the "Buyer") to sell the Company's main operating subsidiary. A non-binding Term Sheet was signed on July 31, 2024 with the Buyer. There re risks associated with this information related to the assessment and classification of certain assets and liabilities and results of operation as assets and liabilities held for sale and discontinued operation respectively and measurement of assets held for sale, as required by IFRS 5.<br><br>This risk area was not included in the Audit Service Plan.<br><br>The information related to assets and liabilities held for sale and discontinued operation as detailed above, resulted in a change in audit procedures related to the impairment of long-lived assets, which were presented in the Audit Service Plan.<br><br>Please refer to the discussion below for the significant audit risk areas and our audit responses and specific procedures over assets and liabilities held for sale and discontinued operation, not previously communicated in the Audit Service Plan. |
| **Difficulties encountered** | During the course of audit, MNP encountered the following difficulties (refer also to Appendix B for material weakness and significant deficiencies identified):<br><br>• MNP did not received a complete draft of the consolidated financial statements until the late stage of the audit which resulted in the Company not meeting the originally determined timeframe for the completion of the audit.<br><br>• MNP did not receive an appropriate and sufficient information supporting the amounts and disclosures in the consolidated financial statements in a timely manner. |

| Area | Comments |
| --- | --- |
| **Identified or suspected fraud** | Due to the inherent limitations of an audit and the nature of fraud, including attempts at concealment through forgery or collusion, an audit conducted in accordance with Canadian generally accepted auditing standards cannot be relied upon to detect fraud.<br><br>While our audit cannot be relied upon to detect all instances of fraud, no incidents of fraud, or suspected fraud, came to our attention in the course of our audit. |
| **Identified or suspected non-compliance with laws and regulations** | Nothing has come to our attention that would suggest any non-compliance with laws and regulations that would have a material effect on the consolidated financial statements. |
| **Matters arising in connection with related parties** | As part of our audit, we evaluated the Company's identification of, accounting for, and disclosure of the Company's relationships and transactions with related parties as required by professional standards.<br><br>We noted no related parties or related party relationships or transactions that were previously undisclosed to us; significant related party transactions that have not been approved in accordance with the Company's policies or procedures or for which exceptions to the Company's policies or procedures were granted; or significant related party transactions that appeared to lack a business purpose. |
| **Significant deficiencies and material weaknesses in internal control** | Our audit process focuses on understanding the controls utilized in management's reporting systems, including for estimates, to the extent necessary to identify overall and specific financial reporting risks. This risk assessment allows us to concentrate our audit procedures on significant and high-risk areas and, where possible, place reliance on controls within the financial reporting system to reduce the extent of our testing.<br><br>It is important to note that our assessment was not, nor was it intended to be, sufficient to comment or conclude on the sufficiency of internal controls.<br><br>We are required under Canadian generally accepted auditing standards to communicate all significant deficiencies and material weaknesses identified during an audit to the Audit Committee on a timely basis. However, we may not be aware of all significant deficiencies that do, in fact, exist.<br><br>While our review of controls was not sufficient to express an opinion as to their effectiveness or efficiency, we identified material weaknesses and significant deficiencies as detailed in Appendix B. |

| Area | Comments |
| --- | --- |
| **Going Concern** | Working capital deficit and accumulated deficit as at December 31, 2023, inability to generate a sufficient cash flow from operating activities to cover business expenses, uncertainty related to a successful completion of debt/capital financing indicate material uncertainty that may cast significant doubt as to the Company's ability to continue as a going concern and is dependent upon further financing.<br><br>Management has concluded that the going concern assumption is appropriate in the preparation of the consolidated financial statements, however a disclosure as to the material uncertainty is included in the consolidated financial statements as future operations is heavily dependent on financing.<br><br>MNP auditors report will include a going concern discussion and a reference to Note 1 in the consolidated financial statements. |
| **Matters arising from discussions with management** | Per discussion with management, the insurance for the Company's manufacturing facility in Belgium expired during the first quarter of 2024, which there's currently no insurance in place for the manufacturing facility. Insufficient insurance could impact the ability of the Company to continue operations should a large-scale disaster or accident render the assets inoperable.<br><br>We would like to formally acknowledge the cooperation and assistance we received from the management and staff of the Company. |
| **Significant differences** | Adjustments were proposed to management with respect to the December 31, 2023 consolidated financial statements. A summary of significant differences has been included as Appendix C to this report. |
| **Other information** | Pursuant to our responsibilities under Canadian generally accepted auditing standards, we have reviewed Management discussion and analysis ("MD&A"). We review this document for the purpose of ensuring its content does not contradict information derived from our audit procedures. We did not identify any significant inconsistence between the MD&A and the consolidated financial statements. |
| **Final materiality** | Materiality is a concept used to assess the significance of misstatements or omissions that are identified during the audit and is used to determine the level of audit testing that is carried out. The scope of our audit work is tailored to reflect the relative size of operations of the Company, and is affected by our assessment of materiality and audit risk.<br><br>Final materiality used for our audit was $60,000 for December 31, 2023 and $60,000 for December 31, 2022. |

# Auditor’s Views of Significant Accounting Practices

The application of International Financial Reporting Standards allows and requires the Company to make accounting estimates and judgments regarding accounting policies and financial statement disclosures.

As auditors, we are uniquely positioned to provide open and objective feedback regarding your Company’s accounting practices and have noted the following items during the course of our audit that we wish to bring to your attention.

| Area | Comments |
|---|---|
| **Accounting Policies** | The accounting policies used by the Company are appropriate and have been consistently applied. |
| **Accounting Estimates** | The following is a summary of significant management estimates as at and for the year ended December 31, 2023:<br>• Classification of assets and liabilities and results of operation as assets and liabilities held for sale and discontinued operation respectively and measurement of assets held for sale;<br>• Going concern;<br>• Estimated useful lives of plant and equipment and intangible assets;<br>• Inventories;<br>• Share based payments;<br>• Expected credit loss;<br>• Consolidation.<br>The uncertainty of the above significant accounting estimates has been adequately disclosed in the consolidated financial statements. |
| **Financial Statement Disclosures** | The disclosures made in the notes to the consolidated financial statements appear clear, neutral and consistent with our understanding of the Company and the amounts presented in the consolidated financial statements. |
| **Significant Risks, Exposures and Uncertainties** | The consolidated financial statements are affected by the following significant risks:<br>• Valuation of Inventory<br>• Collectability of trade receivable<br>• Impairment of assets held for sale |

# SIGNIFICANT RISK AREAS AND RESPONSES

| SIGNIFICANT RISK AREA | DESCRIPTION OF POSSIBLE RISK | PROPOSED AUDIT RESPONSE |
|---|---|---|
| Management override of internal controls | This is a presumed fraud risk. | We evaluated the design and implementation of relevant controls to the review and approval of journal entries.<br>We performed the following procedures:<br>• Tested the appropriateness of specific journal entries selected based on data and analytical software tool by reviewing source documentation.<br>• Reviewed accounting estimates for bias.<br>• Evaluated the business rationale of significant transactions.<br>Refer to Appendix B for material weaknesses and significant deficiencies identified. |
| Risk of fraudulent revenue recognition | The risk of fraud in revenue recognition is presumed to be a significant risk under Canadian auditing standards. | We evaluated the design and implementation of relevant controls related to revenue recognition.<br>We gained an understanding of the Company's revenue recognition policy in accordance with IFRS 15 – Revenue Recognition.<br>We performed journal entry testing to identify and investigate unusual revenue transactions posted to the general ledger.<br>We performed the following procedures, at a minimum:<br>• Performed a test of details over revenue and accounts receivable on sample basis, including but not limited to sending confirmations and agreeing to supporting documentation such as signed contract agreement and/or approved purchase order, invoice, proof of delivery and proof of cash receipts; |

| SIGNIFICANT RISK AREA | DESCRIPTION OF POSSIBLE RISK | PROPOSED AUDIT RESPONSE |
|---|---|---|
| Risk of fraudulent revenue recognition<br>(continued) | | • Tested accounts receivables by requesting confirmations from the Company's customers and by reconciling cash payments received after the year end against the accounts receivable balances at the year end; and<br>• Performed sales cut off testing by obtaining supporting documentation, on a sample basis, for sales recorded immediately before and after period end.<br>Refer to Appendix B for material weaknesses and significant deficiencies identified and Appendix C for adjustments. |
| Classification of assets and liabilities and results of operation as assets and liabilities held for sale and discontinued operation respectively and impairment of assets held for sale (Key Audit Matter "KAM") | There is a risk resulting from the degree of management judgment in classification of assets and liabilities and results of operation as assets and liabilities held for sale and discontinued operation respectively and assumptions used in the assessment of impairment of assets held for sale. | We performed the following procedures, at a minimum:<br>• Obtained and analyzed management assessment of classification of assets and liabilities and results of operation as assets and liabilities held for sale and discontinued operation respectively;<br>• Analyzed the signed legal agreements to obtain an understanding of the key terms of the potential sale;<br>• Evaluated management estimate of the fair value less cost to sell; and<br>• Assessed the appropriateness of the disclosures relating to the assets and liabilities held for sale and discontinued operation in the notes to the consolidated financial statements.<br>Refer to Appendix B for material weaknesses and significant deficiencies identified. |

| SIGNIFICANT RISK AREA | DESCRIPTION OF POSSIBLE RISK | PROPOSED AUDIT RESPONSE |
|---|---|---|
| Valuation of inventory | This is considered a significant risk due to the estimates and assumptions used in determining inventory costing and valuation. | We evaluated the design and implementation of relevant controls related to the valuation of inventory.<br>We performed the following procedures, at a minimum:<br>• Tested significant inputs and assumptions used in the management's cost estimation and assessed the reasonableness of the Company's cost allocations and performed testing on allocations methods used;<br>• Evaluated the assumptions in management's assessment of the net realizable value by product line, such as the price, cost to complete and cost to sell;<br>• Evaluated the appropriateness of inventory prices used in the NRV model through reviewing recent transactions and assessing market conditions;<br>• Unrelated to the significant risk noted, MNP also performed inventory count to validate the existence and condition of inventory. Due to inventory count taking place in May 2024, management performed "roll back" procedures to determine the inventory quantity as at December 31, 2023. MNP engaged Mazars Belgium with the presence in Antwerp, Belgium, to help with the inventory count as detailed above; and<br>• Evaluated the reasonability of the expected net selling prices based on actual sales made subsequent to year end.<br><br>Refer to Appendix B for material weaknesses and significant deficiencies identified and Appendix C for adjustments. |

| SIGNIFICANT RISK AREA | DESCRIPTION OF POSSIBLE RISK | PROPOSED AUDIT RESPONSE |
| --- | --- | --- |
| Going concern | Current financial position indicates material uncertainty that may cast significant doubt as to the Company's ability to continue as a going concern. | We evaluated the design and implementation of relevant controls related to management estimate of the going concern assumption.<br>We performed the following procedures, at a minimum:<br>• Obtained a quantitative and qualitative going concern analysis from management, that includes a cash flow forecast covering at least 12-months from the financial reporting date;<br>• Assessed the reasonability of significant inputs and assumptions and the forecast as a whole, verify management's forecast with current year and subsequent operational results; and<br>• Evaluated whether management's going concern forecast is consistent with evidence obtained throughout the audit file.<br>MNP auditors report will include a going concern discussion and a reference to Note 1 in the consolidated financial statements. |

# Other Matters

## Management Representations

We have requested certain written representations from management, which represent a confirmation of certain oral representations given to us during the course of our audit. This letter, provided by management, has been included as additional material to this report.

## Auditor Independence

We confirm to the Audit Committee that we are independent of the Company. Our letter to the Audit Committee discussing our independence is included as part of the additional materials attached to this report.

# Appendix A - MNP Audit Process

Our audit was carried out in accordance with Canadian generally accepted auditing standards, and included a review of all significant accounting and management reporting systems, with each material year end balance, key transaction and other events considered significant to the consolidated financial statements considered separately.

Our audit process focused on understanding the controls utilized in management's reporting systems to the extent necessary to identify overall and specific financial reporting risks. This risk assessment enabled us to concentrate our audit procedures on the areas where differences were most likely to arise. Our assessment was not, nor was it intended to be, sufficient to conclude on the effectiveness or efficiency of internal controls.

During the course of our audit, we have:

- Examined, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessed the accounting principles used and significant estimates made by management;
- Obtained an understanding of the Company and its environment, the applicable financial reporting framework and the Company's system of internal control (regardless of whether we relied on them for the purpose of the audit), sufficient to identify and assess the risks of material misstatement of the consolidated financial statements and to design and perform audit procedures;
- Reviewed and assessed those accounting systems deemed necessary to support our audit opinion;
- Evaluated the overall financial statement presentation;
- Performed a subsequent events review with management;
- Reviewed and assessed the status of contingencies, commitments and guarantees; and
- Reviewed and assessed exposure to environmental liabilities.

We have obtained written representations from management, included as additional materials following this report, in order to confirm oral representations given to us and reduce the possibility of misunderstanding. Specifically, we have obtained written confirmation of significant representations provided on matters that are:

- Directly related to items that are material, either individually or in the aggregate, to the consolidated financial statements;
- Not directly related to items that are material to the consolidated financial statements, but are significant, either individually or in the aggregate, to the engagement; and
- Matters relevant to management judgments or estimates that are material, either individually or in the aggregate, to the consolidated financial statements.

# Appendix B - Significant Deficiencies in Internal Controls

In planning and performing our audit of the consolidated financial statements of the Company as of and for the year ended December 31, 2023, we considered the Company's internal control in order to determine auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the consolidated financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be significant deficiencies or material weaknesses. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the company's financial reporting.

We noted the following deficiencies that we believe to be material weaknesses:

Information required for reporting purposes in the consolidated financial statements and segregation of duties

Deficiencies identified

- We noted that the Company does not consistently have ready the information required for disclosures in the notes to the consolidated financial statements such as consolidated workbook, share capital, financing transactions, to name a few specific areas.

- We noted that the internal accounting team was under-staffed and faced several changes below CFO level. There is lack of segregation of duties with internal accounting control functions which is limited to a relatively few individuals in the accounting department.

  Recommendation

- As the Company evolves and given that they are reporting under IFRS, management should conduct a review of all the disclosure requirements for consolidated financial statements purposes and determine whether it needs to further customize its internal controls or if it needs additional tools to track the required information to ease the disclosure obligation.

- Management was recommended to continue to identify matters of accounting significance, review relevant IFRS and ensure that they have conducted a robust analysis under IFRS or determine if there is a need to bring in external expertise in order to ensure adequate assessment of any accounting interpretations or alternatives.

# Appendix B - Significant Deficiencies in Internal Controls (continued from previous page)

Internal controls over financial reporting

Deficiencies identified

- We noted that management does not have an inventory cost model in place and was not able to identify costs incurred in inventory production. There is the risk that the inventory of finished goods is not presented at the correct cost. We also noted that the standard cost updated in the accounting software is outdated and does not represent current raw material prices. In addition, we noted a material difference between a detailed inventory listing and accounting records for which management had not reconciled or adjusted ahead of providing the inventory valuation report.

- We noted that management did not classify the assets and liabilities and results of operation as assets and liabilities held for sale and discontinued operation respectively and provided a fair value less cost to sell estimate of the assets held for sale which was not supportable. There is a risk that asset, liabilities and results of operation are not classified in accordance with IFRS 5 requirements and that assets held for sale presented at carrying amount which exceeds their fair value less cost to sell.

Recommendation

- Management is recommended to develop and maintain a formal standard costing model which permits tracking of the costs incurred during the inventory production through to final goods, including allocations of inventoriable costs such as overhead. Management is also recommended that the detailed inventory balances be reconciled to the general ledger subsequent to every inventory count and at each period end reporting.
- Management is recommended to develop a formal process of fair value less cost to sell assessment.

We noted the following deficiencies that we believe to be significant deficiencies:

Credit loss policy

Deficiencies identified

- No formal policy exists for determining credit loss related to accounts receivable. This can result in errors in financial reporting, as amounts that cannot reasonably be expected to be collected will be shown as outstanding receivables on the consolidated statements of financial position.

Recommendation

- Management is recommended that a policy for credit loss determination be put in place, including designating a senior staff member to follow up on delinquent accounts and presenting a list of such accounts to senior management or those charged with governance to authorize the credit loss estimate..

# Appendix B - Significant Deficiencies in Internal Controls (continued from previous page)

Inventory count procedures

Deficiencies identified

- There are no formal procedures in place for performing a physical inventory count. This can result in counting errors, double-counting or completely missing inventory items, and has the potential for allowing abuse including fraud and misappropriation of assets to go undetected.

Recommendation

- Management was recommended that formal procedures for inventory counts be drawn up and made available to all staff involved in the inventory count. Procedures should address, but are not limited to:
  - Specific tasks to be performed by those doing the count
  - Specific tasks to be performed by the accounting department
  - Completion of the count tags and control sheets
  - Reconciliation and recounting of inventory
  - Specific procedures on how to address inventory on consignment and obsolete inventory.

Inventory production documentation

Deficiencies identified

- There's no segregation of duty for the preparation and maintenance of inventory production records. The plant manager prepares and maintains inventory production records. He has sole control of the production reports. This can result in misstatements of reported inventory and inaccurate financial reporting. It can also allow for fraud and misappropriation of assets to go undetected.

Recommendation

- We recommend having separate preparer and reviewer for the preparation and maintenance of the inventory production reports.

Inappropriate accounting for sales repurchase.

Deficiencies identified

- We noted that the Company did not correctly follow IFRS 15 to account for the sales of inventory that had been repurchased subsequently. In December 2023, the Company had repurchased sold products from customer Polyvision to fulfill another order from a customer due to insufficient inventory. There was no actual payment to Polyvision. A credit note was issued for the repurchase. Management had reversed the initial sale to Polyvision to account for this repurchase. However, as per IFRS 15, the initial sale to Polyvision would be considered final as control of the product sold had been transferred to the customer along with other IFRS 15 criteria been met, thus the sale should not have been reversed. The correct accounting treatment would be to record a purchase of inventory and setting up the corresponding accounts payable.

# Appendix B - Significant Deficiencies in Internal Controls (continued from previous page)

- This can impact the Company by realizing higher or lower revenues than what should have been generated.

Recommendation

- The accounting standard should be reviewed to establish accounting policies of sale repurchase, and the policy should be communicated to the accounting staff, with training provided on how to account for various transactions in a standardized way. Adequate reviews should be implemented to ensure that accounting policies and internal procedures are being carried out and applied appropriately.

Security over accounting software access

Deficiencies identified

- We noted that the terminated employee was not removed timely from the listing of employees with active access to the Great Plains software. MNP noted the terminated employee, Seyi Ajayi, was still on the employee listing with active access in the Great Plains software.

- This increases the likelihood of loss or theft of records which could impact the entity's ability to continue in the event of fraud or disaster.

Recommendation

- Management should consider regular review the listing of employees with active access to Great Plains, and amend the listing based on any change of employment.

Insufficient documentation: discount approvals

Deficiencies identified

- We noted several instances where invoice prices differed from published price lists due to discounts extended to the customer. Management was unable to provide a support for a documented approval of the discounts extended to a customer and clarified that the discount was verbally approved by a sales manager. There is the risk that unauthorised discounts are being offered to certain customers.

Recommendation

- A policy should be implemented to ensure that there is written approval for all discounts offered to customers. Salespeople should maintain these approval documents on file to be available when needed.

# Appendix C - Summary of Significant Differences

## Significant Unadjusted Differences

See attached

**FRX Innovations Inc.**
**Year End: December 31, 2023**
**Unadjusted Journal Entries - judgemental**
**Date: 01/01/2023 To 31/12/2023**

| Number | Date | Name | Account No | Reference | Annotation | Debit | Credit | Recurrence | Misstatement |
|---|---|---|---|---|---|---|---|---|---|
| SUD-1 | 31/12/2023 | Accrued Expenses | 03-100-000-21000 NV | GP.4.1 | | | 3,515.50 | | |
| SUD-1 | 31/12/2023 | Legal Expense | 03-100-000-60300 NV | GP.4.1 | | 3,515.50 | | | |
| | | (In USD) To additional legal fees confirmed by Strelia through legal confirmation. | | | | | | | |
| SUD-2 | 31/12/2023 | Accrued Expenses | 01-100-000-21000 INC | GP.4.1 | | | 3,800.19 | | |
| SUD-2 | 31/12/2023 | Legal Expense | 01-100-000-60300 INC | GP.4.1 | | 3,800.19 | | | |
| | | (In USD) To record additional legal expense as at December 31, 2023 confirmed through legal confirmation by Aird and Berlis | | | | | | | |
| SUD-3 | 31/12/2023 | Accounts Receivable | 03-100-000-11000 NV | 20.2.1 | | 11,127.00 | | | |
| SUD-3 | 31/12/2023 | Revenue Homopolymer | 03-100-000-41122 NV | 20.2.1 | | | 11,127.00 | | |
| | | (In USD) To adjust for the projected understatement of revenues based on differences noted per confirmations. | | | | | | | |
| SUD-4 | 31/12/2023 | Accrued Expenses | 03-100-000-21000 NV | BB.5, TAB 2, S | | | 4,333.00 | | |
| SUD-4 | 31/12/2023 | Utilities | 03-300-000-65052 NV | BB.5, TAB 2, S | | 4,333.00 | | | |
| | | (In USD) To write up utilities accrual for Covestro 2023 December utilities provision to agree with invoice #8984320005. | | | | | | | |
| SUD-5 | 31/12/2023 | Retained Earnings | 03-100-000-39999 NV | 40. 4 | | 6,436.00 | | | |
| SUD-5 | 31/12/2023 | Consulting Expense | 03-100-000-60200 NV | 40. 4 | | | 6,436.00 | | |
| | | (In USD) To book adjustment relating to cut-off error for sample #4 as services rendered per invoice relate to 2022. | | | | | | | |
| SUD-6 | 31/12/2023 | Prepaid Expenses | 03-100-000-13400 NV | 40. 4 | | 9,039.00 | | | |
| SUD-6 | 31/12/2023 | Maintenance & Supplies | 03-300-000-65054 NV | 40. 4 | | | 9,039.00 | | |
| | | (In USD) To adjust expense account for portion of invoice relating to prepaid expense for sample #15. | | | | | | | |
| SUD-7 | 31/12/2023 | Allowance for Doubtful Accounts | 03-100-000-11050 NV | C. 2 | | | 8,598.00 | | |
| SUD-7 | 31/12/2023 | Bad Debt Expense | 03-100-000-61200 NV | C. 2 | | 8,598.00 | | | |
| | | (In USD) To provide for uncollected outstanding AR balance related to Performance Polymers & Additives | | | | | | | |
| SUD-8 | 31/12/2023 | Prepaid Expenses | 01-100-000-13400 INC | F. 2 | | 5,651.68 | | | |
| SUD-8 | 31/12/2023 | Pty (IPO) Expenses | 01-100-000-62020 INC | F. 2 | | | 5,651.68 | | |
| | | (In USD) To reverse the negative ending balance of prepaid IPO cost to $nil | | | | | | | |
| SUD-9 | 31/12/2023 | Inventory Raw | 03-100-000-12003 NV | E.10.5 | | | 20,228.00 | | |
| SUD-9 | 31/12/2023 | CoGS - Material Homo | 03-100-000-50604 NV | E.10.5 | | 20,228.00 | | | |
| | | (In USD) To adjust inventory for inventory count results. | | | | | | | |
| SUD-10 | 31/12/2023 | Cash | MNP-5 INC | A. 2 | | | 9,140.23 | | |
| SUD-10 | 31/12/2023 | Miscellaneous Expense | 01-100-000-60105 INC | A. 2 | | 9,140.23 | | | |
| | | (In USD) To record difference in cash balances per tb and bank confirmation | | | | | | | |
| SUD-11 | 31/12/2023 | Accumulated Amortization Right to Use Asset | 03-100-000-18201 NV | ROU. 9 | | | 2,175.83 | | |
| SUD-11 | 31/12/2023 | Accumulated amortization ROU - Equipment | 03-100-000-18203 NV | ROU. 9 | | | 4,336.82 | | |
| SUD-11 | 31/12/2023 | Lease Liability | 03-100-000-29100 NV | ROU. 9 | | | | | |
| SUD-11 | 31/12/2023 | Lease liability - equipment | 03-100-000-29101 NV | ROU. 9 | | | | | |
| SUD-11 | 31/12/2023 | Right to Use Asset Depreciation | 03-100-000-61014 NV | ROU. 9 | | 6,512.65 | | | |
| SUD-11 | 31/12/2023 | Interest Expense | 03-100-000-80105 NV | ROU. 9 | | | | | |
| | | (In USD) To record ROU | | | | | | | |

| Number | Date | Name | Account No | Reference | Annotation | Debit | Credit | Recurrence | Misstatement |
|---|---|---|---|---|---|---|---|---|---|
| | | depreciation exp for<br>Q4. | | | | | | | |
| SUD-12 | 31/12/2023 | Trust Account - BLG | MNP-6 INC | | | 3,515.50 | | | |
| SUD-12 | 31/12/2023 | Legal Expense | 01-100-000-60300 INC | | | | 3,515.50 | | |
| | | (In USD) To record Trust Account<br>balance<br>held with BLG as of December 31, 2023 per confirmation from legal counsel. | | | | | | | |
| SUD-13 | 31/12/2023 | Other Assets | 11001 CAN | LS H | | | 8,967.87 | | |
| SUD-13 | 31/12/2023 | Share-based compensation | 55800 CAN | LS H | | 8,967.87 | | | |
| | | (In USD) To write off amount<br>receivable<br>from Ross re: amounts for unit placement in 2022. | | | | | | | |
| SUD-14 | 31/12/2023 | Interest Payable Bayer Note | 01-100-000-23002 INC | NN. 2 | | | 3,916.00 | | |
| SUD-14 | 31/12/2023 | Currency Gain/Loss | 01-100-000-90000 INC | NN. 2 | | 3,916.00 | | | |
| | | (In USD) To adjust FX on accrued<br>interest<br>on Bayer loan at year end as per confirmation received | | | | | | | |
| SUD-15 | 31/12/2023 | Interest Expense UIF Loan | 03-100-000-80110 NV | NN. 2 | | 4,812.00 | | | |
| SUD-15 | 31/12/2023 | Currency Gain/Loss | 03-100-000-90000 NV | NN. 2 | | | 4,812.00 | | |
| | | (In USD) To reflected difference<br>in<br>interest expense in FX gain/loss for the year. | | | | | | | |
| SUD-16 | 31/12/2023 | Accounts Payable | 03-100-000-20000 NV | BB.5, TAB 2, S | | | 19,235.81 | | |
| SUD-16 | 31/12/2023 | Insurance | 03-300-000-65060 NV | BB.5, TAB 2, S | | 19,235.81 | | | |
| | | (In USD) To accrue for Marsh Civil<br>Liability premium invoice 5713856/8299016 for the period from Jan 1, 2023 to Dec<br>31, 2023. | | | | | | | |
| SUD-17 | 31/12/2023 | Construction | 03-100-000-16003 NV | P. 2 | | 12,297.00 | | | |
| SUD-17 | 31/12/2023 | Depreciation Expense | 03-100-000-61000 NV | P. 2 | | | 12,297.00 | | |
| | | (In USD) To record for the<br>difference in<br>the NV Transalated accumulated depreciation. | | | | | | | |
| SUD-19 | 31/12/2023 | Revenue Homopolymer | 03-100-000-41122 NV | 20.2.1 | | | 16,663.00 | | |
| SUD-19 | 31/12/2023 | Revenue Homopolymer | 03-100-000-41122 NV | 20.2.1 | | | 4,484.00 | | |
| SUD-19 | 31/12/2023 | Currency Gain/Loss | 03-100-000-90000 NV | 20.2.1 | | 16,663.00 | | | |
| SUD-19 | 31/12/2023 | Currency Gain/Loss | 03-100-000-90000 NV | 20.2.1 | | 4,484.00 | | | |
| | | (In USD) To adjust for<br>extrapolated FX<br>errors noted with revenue vouching | | | | | | | |
| SUD-20 | 31/12/2023 | Inventory Raw Materials | 03-100-000-12101 NV | E. 3 | | 5,127.90 | | | |
| SUD-20 | 31/12/2023 | Inventory Adjustments Raw | 03-100-000-50004 NV | E. 3 | | | 5,127.90 | | |
| | | (In USD) To adjust for<br>extrapolated error in weighted average unit cost<br>identified for raw materials costing. | | | | | | | |
| SUD-21 | 31/12/2023 | Advances to suppliers - NV | MNP-2 NV | BB.2.1 | | 6,745.78 | | | |
| SUD-21 | 31/12/2023 | KBC NV USD | 03-100-000-10007 NV | BB.2.1 | | | 6,745.78 | | |
| | | (In USD) To reclassify debit<br>balances -<br>Advances to suplpliers identified on the AP aging schedule as at Dec 31, 2023 | | | | | | | |
| SUD-22 | 31/12/2023 | RBC USD 407-491-0 | 10150 CAN | BB. 8 | | | 5,071.20 | | |
| SUD-22 | 31/12/2023 | Advances to suppliers - CAN | MNP-4 CAN | BB. 8 | | 5,071.20 | | | |
| | | (In USD) To reclassify debit<br>balances -<br>advances to suppliers | | | | | | | |
| SUD-23 | 31/12/2023 | Accounts Payable | 20001 CAN | BB. 8 | | 5,342.30 | | | |

**FRX Innovations Inc.**
**Year End: December 31, 2023**
**Unadjusted Journal Entries - judgemental**
**Date: 01/01/2023 To 31/12/2023**

| Number | Date | Name | Account No | Reference | Annotation | Debit | Credit | Recurrence | Misstatement |
|---|---|---|---|---|---|---|---|---|---|
| SUD-23 | 31/12/2023 | CAN Accounts Payable - Suspense account | MNP-3 CAN | BB. 8 | | | 5,342.30 | | |
| | | (In USD) To adjust for the differences between the AP aging schedule and the book balance - CAN | | | | | | | |
| SUD-24 | 31/12/2023 | Accrued Expenses | 03-100-000-21000 NV | DD. 2 | | 4,646.00 | | | |
| SUD-24 | 31/12/2023 | Other | 03-300-000-65057 NV | DD. 2 | | | 4,646.00 | | |
| | | (In USD) To adjust for the overstatement of accrued expense in TB. | | | | | | | |
| SUD-25 | 31/12/2023 | Accrued Vacation | 01-100-000-24050 INC | DD.3, TAB 2.2 | | 10,795.00 | | | |
| SUD-25 | 31/12/2023 | Vacation Expense | 01-100-000-66004 INC | DD.3, TAB 2.2 | | | 10,795.00 | | |
| | | (In USD) To adjust the vacation accrual balance to reflect 80 hours carryover limit per employee handbook clause, and to correct for CEO's hourly rate. | | | | | | | |
| SUD-26 | 31/12/2023 | Other Income | MNP6 NV | LS 20, MAP 2( | | | 13,737.60 | | |
| SUD-26 | 31/12/2023 | Revenue - Other | 03-100-000-41100 NV | LS 20, MAP 2( | | 13,737.60 | | | |
| | | (In USD) To reclassify legal consulting fee reimbursement from Evonik to other income from revenues. | | | | | | | |
| SUD-27 | 31/12/2023 | Accumulated Amortization Patents | 01-100-000-18001 INC | Q. 2 | | 3,302.00 | | | |
| SUD-27 | 31/12/2023 | Patent Amortization | 01-100-000-61010 INC | Q. 2 | | | 3,302.00 | | |
| | | (In USD) To reverse the amortization of intangibles after Oct 13, 2023 held for sale reclassification. | | | | | | | |
| SUD-28 | 31/12/2023 | Accounts Payable | 01-100-000-20000 INC | 40. 9 | | 12,942.00 | | | |
| SUD-28 | 31/12/2023 | Employer 401K PLAN CONTRIBUTION | 01-100-000-66017 INC | 40. 9 | | | 12,942.00 | | |
| | | (In USD) To adjust for the 2023 payroll expense per ADP report. | | | | | | | |
| SUD-29 | 31/12/2023 | Forex gain or loss | FXMNP NV | ROU. 9 | | | 11,625.00 | | |
| SUD-29 | 31/12/2023 | Lease Liability | 03-100-000-29100 NV | ROU. 9 | | 3,554.00 | | | |
| SUD-29 | 31/12/2023 | Interest Expense | 03-100-000-80105 NV | ROU. 9 | | 8,071.00 | | | |
| | | (In USD) To adjust for the facility (land) year end lease laibility balance and to record 2023 Q4 interest accrual of this lease. | | | | | | | |
| SUD-30 | 31/12/2023 | Prepaid Expenses | 03-100-000-13400 NV | F. 3 | | | 3,961.82 | | |
| SUD-30 | 31/12/2023 | Accounts Payable | 03-100-000-20000 NV | F. 3 | | 3,961.82 | | | |
| | | (In USD) To reverse the unpaid portion of KBC 2024 Q1 guarantee fee. | | | | | | | |
| SUD-31 | 31/12/2023 | Due from FRX USA Inc | 15000 CAN | JJ.2, TAB 1 | | 9,139.00 | | | |
| SUD-31 | 31/12/2023 | Accounts Payable | 20001 CAN | JJ.2, TAB 1 | | | | | |
| SUD-31 | 31/12/2023 | Accrued liabilities | 21000 CAN | JJ.2, TAB 1 | | | 9,139.00 | | |
| | | (In USD) To agree AP and accruals to Lotz CPA with confirmed payable balance of C$30,054 as of Dec 31, 2023. | | | | | | | |
| SUD-33 | 31/12/2023 | Accounts Payable | 01-100-000-20000 INC | BB. 6 | | | 9,063.73 | | |
| SUD-33 | 31/12/2023 | Miscellaneous Expense | 01-100-000-60105 INC | BB. 6 | | 9,063.73 | | | |
| | | (In USD) To accrue for Allstar invoice #1001 of building maintenance and cleaning charges paid subsequently. | | | | | | | |
| SUD-34 | 31/12/2023 | CoGS - Material Homo | 03-100-000-50604 NV | E. 5 | | 3,397.00 | | | |
| SUD-34 | 31/12/2023 | NV G&A - TE - MISCELLANEOUS | 03-100-000-60814 NV | E. 5 | | | 3,397.00 | | |
| | | To adjust for difference noted with production quantity analytic reconciliation | | | | | | | |
| SUD-35 | 31/12/2023 | Suspense account | 03-100-000-20001 NV | 20.2.1 | | | 5,578.03 | | |
| SUD-35 | 31/12/2023 | Revenue - Other | 03-100-000-41100 NV | 20.2.1 | | 5,578.03 | | | |
| | | To adjust for early payment | | | | | | | |

| Number | Date | Name | Account No | Reference | Annotation | Debit | Credit | Recurrence | Misstatement |
|---|---|---|---|---|---|---|---|---|---|
| | | discount based on history and sales o/s as at year end | | | | | | | |
| SUD-36 | 31/12/2023 | Corporate finance fees | 85000 CAN | WP TT.2, TAB | | 10,898.00 | | | |
| SUD-36 | 31/12/2023 | Share issuance costs | 33500-1 CAN | WP TT.2, TAB | | | 10,898.00 | | |
| | | To translate share issuance cost (cash and warrants) to broker from CAD to USD. | | | | | | | |
| PY-SUD2( | 31/12/2023 | Retained Earnings | 03-100-000-39999 NV | AE1. 2 | | | 3,781.00 | | |
| PY-SUD2( | 31/12/2023 | Other | 03-300-000-65057 NV | AE1. 2 | | 3,781.00 | | | |
| | | (In USD) 2022 SUD roll forward | | | | | | | |
| | | | | | | **287,425.79** | **287,425.79** | | |

**Net Income (Loss)** **-8,441,123.43**

# Appendix C - Summary of Significant Differences (continued from previous page)

## Adjusted Differences

See attached

**FRX Innovations Inc.**

**Year End: December 31, 2023**

**Adjusting Journal Entries**

**Date: 01/01/2023 To 31/12/2023**

| Number | Date | Name | Account No | Reference | Annotation | Debit | Credit | Recurrence |
|---|---|---|---|---|---|---|---|---|
| ELIM | 31/12/2023 | Forex gain or loss | FXMNP INC | PBC | | | | |
| ELIM | 31/12/2023 | AOCI | MNP-12 INC | PBC | | | -178,301.78 | |
| ELIM | 31/12/2023 | Intercompany Payable PTY | 01-100-000-20092 INC | PBC | | 178,301.78 | | |
| | | (In USD) To record elimination entry of related party balance. | | | | | | |
| AJE-1 | 31/12/2023 | Accounts Payable | 01-100-000-20000 INC | BB. 4 | | | -10,783.00 | |
| AJE-1 | 31/12/2023 | Other Expense | 01-100-000-80000 INC | BB. 4 | | 10,783.00 | | |
| AJE-1 | 31/12/2023 | R&D Health Insurance | 01-200-000-66008 INC | BB. 4 | | | | |
| | | (In USD) Adjustment entry for the difference noted in the Sub ledger to TB comparison as the AP TB balance was understated as per balance total of the INC Subledger. | | | | | | |
| AJE-2 | 31/12/2023 | Due from FRX USA Inc | 15000 CAN | TT.18 | | | -75,509.16 | |
| AJE-2 | 31/12/2023 | Common Stock | 33500 CAN | TT.18 | | 75,509.16 | | |
| AJE-2 | 31/12/2023 | Due from FRX Canada | MNP-14 INC | TT.18 | | 56,561.17 | | |
| AJE-2 | 31/12/2023 | Gain on financial liability settlement | MNP-15 INC | TT.18 | | | -56,561.17 | |
| | | To record adjustment to the BLG settlement. | | | | | | |
| AJE-3 | 31/12/2023 | Accretion Expense | MNP4 CAN | JJ. 3 | | 42,465.00 | | |
| AJE-3 | 31/12/2023 | Contributed Surplus (Intercompany Loan below mkt) | MNP5 CAN | JJ. 3 | | | -58,348.00 | |
| AJE-3 | 31/12/2023 | Accounts Payable - USD | 20000 CAN | JJ. 3 | | | -217,345.00 | |
| AJE-3 | 31/12/2023 | Due to Triton Systems | 24502 CAN | JJ. 3 | | 179,376.00 | | |
| AJE-3 | 31/12/2023 | Due to CITIC | 24503 CAN | JJ. 3 | | 53,852.00 | | |
| AJE-3 | 31/12/2023 | Due to CITIC | 24503 CAN | JJ. 3 | | | | |
| AJE-3 | 31/12/2023 | Accumulated other comprehensive | 32050-1 CAN | JJ. 3 | | | | |
| | | (In CAD) To adjust for the fair value of the Citic and Triton loans (US$100k and US$330k) to be reflected as present values, to reclassify 2023 unpaid amounts to AP, and to recognize the capital contirbution from related parties for the below market rate loans. | | | | | | |
| AJE-4 | 31/12/2023 | Inventory - Machine Fixed Overheads Homo | 03-100-000-12107 NV | E. 2 | | | -602,704.00 | |
| AJE-4 | 31/12/2023 | Retained Earnings | 03-100-000-39999 NV | E. 2 | | | | |
| AJE-4 | 31/12/2023 | CoGS - Material Homo | 03-100-000-50604 NV | E. 2 | | 602,704.00 | | |
| | | (In EUR) To agree the inventory balance to the Dec 31, 2023 listing | | | | | | |
| AJE-5 | 31/12/2023 | Accounts Receivable | 03-100-000-11000 NV | C.12 | | 165,003.97 | | |
| AJE-5 | 31/12/2023 | Accounts Payable | 03-100-000-20000 NV | C.12 | | | -165,003.97 | |
| AJE-5 | 31/12/2023 | Sales Returns Homo | 03-100-000-41124 NV | C.12 | | | -165,003.97 | |
| AJE-5 | 31/12/2023 | CoGS - Material Homo | 03-100-000-50604 NV | C.12 | | 165,003.97 | | |
| | | (In EUR) To adjust sales return to PPA | | | | | | |
| AJE-6 | 31/12/2023 | NV UIF Loan | MNP-12 NV | NN. 2 | | | -95,568.00 | |
| AJE-6 | 31/12/2023 | UIF Loan | 03-100-000-26210 NV | NN. 2 | | 95,568.00 | | |
| | | (In EUR) To reflect current portion of the UIF Loan for which fixed repayments will commence April 2024. | | | | | | |
| AJE-7 | 31/12/2023 | Due from FRX USA Inc | 15000 CAN | TT. 2 | | 696,958.00 | | |
| AJE-7 | 31/12/2023 | Common Stock | 33500 CAN | TT. 2 | | | -624,898.00 | |
| AJE-7 | 31/12/2023 | Warrants | 34000 CAN | TT. 2 | | 449,670.00 | | |
| AJE-7 | 31/12/2023 | Currency Translation Adjustment | MNP-1 CAN | TT. 2 | | | -521,730.00 | |
| | | (In CAD) To adjust equity accounts to match continuity schedule based on evidence supporting transactions during the year. | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| AJE-8 | 31/12/2023 | KBC Loan Interest | 03-100-000-26401 NV | NN.2, TAB 6 | | -406,055.38 |
| AJE-8 | 31/12/2023 | KBC Credit Line & Committment Fees | 03-100-000-26410 NV | NN.2, TAB 6 | | -1,836.56 |
| AJE-8 | 31/12/2023 | Bank Service Charges | 03-100-000-60030 NV | NN.2, TAB 6 | 1,836.56 | |
| AJE-8 | 31/12/2023 | Interest Expense | 03-100-000-80100 NV | NN.2, TAB 6 | 406,055.38 | |
| | | (In EUR) To reclass to interest expense account, amounts paid during the year in cash that was recorded as receivable by management. | | | | |
| AJE-9 | 31/12/2023 | Accrued liabilities | 21000 CAN | DD. 4 | 175,762.00 | |
| AJE-9 | 31/12/2023 | Additional Paid In Capital | MNP-7 CAN | DD. 4 | | -175,762.00 |
| | | (In CAD) To reclassify liability of stock compensation to Paradox from accrued liability to equity. | | | | |
| PBC-1 | 31/12/2023 | Accumulated Amortization Patents | 01-100-000-18001 INC | Q. 2 | | -9,259.25 |
| PBC-1 | 31/12/2023 | Accumulated Amortization | 01-100-000-18101 INC | Q. 2 | | -1,104.00 |
| PBC-1 | 31/12/2023 | Patent Amortization | 01-100-000-61010 INC | Q. 2 | 9,259.25 | |
| PBC-1 | 31/12/2023 | Patent Amortization | 01-100-000-61010 INC | Q. 2 | 1,104.00 | |
| | | (In USD) To record amortization on Patents and Intangible Assets | | | | |
| PBC-2 | 31/12/2023 | Accrued Expenses | 01-100-000-21000 INC | DD. 3 | | -79,650.00 |
| PBC-2 | 31/12/2023 | Accounting Expense | 01-100-000-60000 INC | DD. 3 | 79,650.00 | |
| | | (In USD) To accrue April - Dec Audit fee | | | | |
| PBC-5 | 31/12/2023 | Intercompany Account-NV | 01-100-000-20098 INC | NN. 2 | | -107,334.00 |
| PBC-5 | 31/12/2023 | Bayer Note | 01-100-000-26200 INC | NN. 2 | 107,334.00 | |
| | | (In USD) To record Bayer Note principle repayments done by NV on behalf of Inc. | | | | |
| PBC-6 | 31/12/2023 | Bayer Note | 01-100-000-26200 INC | NN. 2 | 22,836.50 | |
| PBC-6 | 31/12/2023 | Bayer Note | 01-100-000-26200 INC | NN. 2 | | -146,111.29 |
| PBC-6 | 31/12/2023 | Currency Gain/Loss | 01-100-000-90000 INC | NN. 2 | 146,111.29 | |
| PBC-6 | 31/12/2023 | Currency Gain/Loss | 01-100-000-90000 INC | NN. 2 | | -22,836.50 |
| | | (In USD) To reverse currency gain/loss adjustments on Bayer Note balance. | | | | |
| PBC-7 | 31/12/2023 | Interest Payable Bayer Note | 01-100-000-23002 INC | NN. 2 | 57,752.98 | |
| PBC-7 | 31/12/2023 | Currency Gain/Loss | 01-100-000-90000 INC | NN. 2 | | -57,752.98 |
| | | (In USD) To reverse currency gain/loss adjustments on Interest payable balance. | | | | |
| PBC-8 | 31/12/2023 | Interest Payable Bayer Note | 01-100-000-23002 INC | NN. 2 | | -23,018.18 |
| PBC-8 | 31/12/2023 | Interest Expense on Bayer Note | 01-100-000-80105 INC | NN. 2 | 23,018.18 | |
| | | (In USD) To reverse interest expense entry. | | | | |
| PBC-9 | 31/12/2023 | Interest Payable Bayer Note | 01-100-000-23002 INC | NN. 2 | | -10,065.41 |
| PBC-9 | 31/12/2023 | Interest Expense on Bayer Note | 01-100-000-80105 INC | NN. 2 | 10,065.41 | |
| | | (In USD) To record additional interest expense accrual on Bayer Note payable for Oct - Dec 2023. | | | | |
| AJE-11 | 31/12/2023 | Bayer Note | 01-100-000-26200 INC | NN. 2 | 35,914.00 | |
| AJE-11 | 31/12/2023 | Bayer Note - Current Portion | 01-100-000-26202 INC | NN. 2 | | -60,340.00 |
| AJE-11 | 31/12/2023 | Currency Gain/Loss | 01-100-000-90000 INC | NN. 2 | 24,426.00 | |
| | | (In USD) To adjust short-term component of Bayer loan based on scheduled repayment, with unreconciled differenced adjusted through FX. | | | | |
| AJE-14 | 31/12/2023 | Inventory Reserve-Raw Material | 03-100-000-12053 NV | E. 4 | | -20,692.00 |

| | | | | | | |
|---|---|---|---|---|---|---|
| AJE-14 | 31/12/2023 | Variance - Material Homo | 03-100-000-50601 NV | E. 4 | 20,692.00 | |
| | | (In Euro) To record additional | | | | |
| | | provision for | | | | |
| | | variances noted with costing model at year end compared to recent selling prices. | | | | |
| AJE-15 | 31/12/2023 | Inventory Finished Goods Homopolymer | 03-100-000-12103 NV | E. 3 | | -274,023.45 |
| AJE-15 | 31/12/2023 | Inventory Finished Goods Homopolymer | 03-100-000-12103 NV | E. 3 | | |
| AJE-15 | 31/12/2023 | CoGS - Material Homo | 03-100-000-50604 NV | E. 3 | 274,023.45 | |
| AJE-15 | 31/12/2023 | CoGS - Material Homo | 03-100-000-50604 NV | E. 3 | | |
| | | (In Euro) To adjust for the 2023 | | | | |
| | | inventory | | | | |
| | | overstatement based on review of bill of materials. | | | | |
| AJE-16 | 31/12/2023 | Inventory Raw Materials | 03-100-000-12101 NV | E. 5 | 5,644.00 | |
| AJE-16 | 31/12/2023 | Inventory Finished Goods Homopolymer | 03-100-000-12103 NV | E. 5 | 4,215.00 | |
| AJE-16 | 31/12/2023 | Inventory PPV Raw | 03-100-000-50500 NV | E. 5 | | -9,859.00 |
| | | (In Euro) To reclass PPV to | | | | |
| | | inventory on | | | | |
| | | hand at year end, and COGS sold in FY2023. | | | | |
| AJE-17 | 31/12/2023 | Inventory Finished Goods Homopolymer | 03-100-000-12103 NV | E. 5 | 278,642.00 | |
| AJE-17 | 31/12/2023 | CoGS - Material Homo | 03-100-000-50604 NV | E. 5 | 556,401.00 | |
| AJE-17 | 31/12/2023 | NV G&A - TE - MISCELLANEOUS | 03-100-000-60814 NV | E. 5 | | -835,043.00 |
| | | (In Euro) To reclassify overhead | | | | |
| | | costs from | | | | |
| | | G&A to inventory on hand at year end and COGS sold during the year FY2023. | | | | |
| AJE-18 | 31/12/2023 | Accounts Payable | 03-100-000-20000 NV | NN.2, TAB 6 | | -28,269.00 |
| AJE-18 | 31/12/2023 | Interest Expense | 03-100-000-80100 NV | NN.2, TAB 6 | 28,269.00 | |
| | | (In Euro) To record additional | | | | |
| | | interest on | | | | |
| | | KBC loan due to unexplained difference between recalculation and amount paid by | | | | |
| | | Company during the year. | | | | |
| AJE-19 | 31/12/2023 | Accrued liabilities | 21000 CAN | VV.2A | | -18,954.59 |
| AJE-19 | 31/12/2023 | Share-based compensation | 55800 CAN | VV.2A | 18,954.59 | |
| | | (In CAD) To record SBC expense for | | | | |
| | | Paradox | | | | |
| | | options in Q4 of 2023 | | | | |
| AJE-20 | 31/12/2023 | NV - Due to FRX Polymers (Shangahi) Consulting CO. | MNP-3 NV | BB.2.1 | | -18,727.07 |
| AJE-20 | 31/12/2023 | Accounts Payable | 03-100-000-20000 NV | BB.2.1 | 18,727.07 | |
| | | (In Euro) To reclassify | | | | |
| | | intercompany | | | | |
| | | balances to Related party schedule as Due from Related party | | | | |
| AJE-21 | 31/12/2023 | Accrued Vacation | 01-100-000-24050 INC | DD. 3 | 69,187.64 | |
| AJE-21 | 31/12/2023 | Vacation Expense | 01-100-000-66004 INC | DD. 3 | | -69,187.64 |
| | | (In USD) To adjust for the | | | | |
| | | overstatement of the INC accrued vacation liability (carryover limit at 80 hours). | | | | |
| AJE-22 | 31/12/2023 | Accrued Expenses | 01-100-000-21000 INC | DD. 3 | 195,400.00 | |
| AJE-22 | 31/12/2023 | Accounting Expense | 01-100-000-60000 INC | DD. 3 | | -195,400.00 |
| | | (In USD) To adjust for the | | | | |
| | | overstated audit fees accrual. Audit fees are already accrue under the CAN entity. | | | | |
| AJE-23 | 31/12/2023 | Prepaid Expenses | 01-100-000-13400 INC | F.2, TAB 2 | | -19,199.25 |
| AJE-23 | 31/12/2023 | Computer and Internet Expenses | 01-100-000-60045 INC | F.2, TAB 2 | 8,895.83 | |
| AJE-23 | 31/12/2023 | Insurance General Liability | 01-100-000-60082 INC | F.2, TAB 2 | 10,303.42 | |
| | | (In USD) To expense the recognized | | | | |
| | | prepaid assets that were not paid as of Dec 31, 2023. (PC Connection invoice | | | | |
| | | #73903286 and Marsh & McLennan 2023 Renewal) | | | | |
| AJE-24 | 31/12/2023 | Accounts Payable | 01-100-000-20000 INC | 40. 3 | 24,000.00 | |
| AJE-24 | 31/12/2023 | Accounting Expense | 01-100-000-60000 INC | 40. 3 | | -24,000.00 |
| | | (In USD) To reverse the | | | | |

invoice#1109268 AAFCPAs service expense for 2024 recorded in 2023.

| | | | | | |
|---|---|---|---|---|---|
| AJE-25 | 31/12/2023 Asset Impairment | MNP-16 INC | W. 1 | 56,302.00 | |
| AJE-25 | 31/12/2023 Accumulated Amortization Patents | 01-100-000-18001 INC | W. 1 | | -24,609.00 |
| AJE-25 | 31/12/2023 Internally Developed Assets | 01-100-000-18100 INC | W. 1 | | -31,693.00 |
| | (In USD) To record impairment against non-current assets based on sale arrangement subsequent to year end. | | | | |
| AJE-26 | 31/12/2023 Asset Impairment | MNP-16 NV | W. 1 | 35,695.00 | |
| AJE-26 | 31/12/2023 Asset Impairment | MNP-16 NV | W. 1 | 1,278,890.00 | |
| AJE-26 | 31/12/2023 Asset Impairment - PPE | MNP-17 NV | W. 1 | | -1,278,890.00 |
| AJE-26 | 31/12/2023 Asset Impairment - ROU | MNP-18 NV | W. 1 | | -35,695.00 |
| AJE-26 | 31/12/2023 INC-ROU - Office Lease | 01-100-000-17550 INC | W. 1 | | |
| | (In EUR) To record impairment against non-current assets based on sale arrangement subsequent to year end. | | | | |
| AJE-27 | 31/12/2023 Asset Impairment | MNP-16 INC | W. 1 | 29,415.00 | |
| AJE-27 | 31/12/2023 Machinery & Equipmt Stella | 01-100-000-15200 INC | W. 1 | | -1,670.00 |
| AJE-27 | 31/12/2023 INC-ROU - Office Lease | 01-100-000-17550 INC | W. 1 | | -27,745.00 |
| | (In USD) To record INC portion of impairments for PPE and ROU. | | | | |
| AJE-28 | 31/12/2023 Accretion Expense | MNP4 CAN | FS101 | | -42,465.00 |
| AJE-28 | 31/12/2023 Due to/from FRX Europe NV | 15010 CAN | FS101 | 53,527.71 | |
| AJE-28 | 31/12/2023 Interest expense | 80000 CAN | FS101 | | -11,062.71 |
| AJE-28 | 31/12/2023 Intercompany Payable Canada | 01-100-000-20094 INC | FS101 | | -39,666.71 |
| AJE-28 | 31/12/2023 INC--Lease finance costs | 01-100-000-80200 INC | FS101 | 39,666.71 | |
| | To reclass interest expense to intercompany accounts due to loans sitting with disc ops | | | | |
| PBC-10 | 31/12/2023 Prepaid Expenses | 01-100-000-13400 INC | ROU.9, TAB 2, NOTE 2 | 24,000.00 | |
| PBC-10 | 31/12/2023 INC- Office--Lease Liability | 01-100-000-26301 INC | ROU.9, TAB 2, NOTE 2 | | -24,000.00 |
| | (In USD) To record overpayment in office lease liability during the year | | | | |
| PBC-11 | 31/12/2023 Retained Earnings | 03-100-000-39999 NV | AE7 | | -1,956,037.00 |
| PBC-11 | 31/12/2023 BS Adjustment | 03-999-999-99999 NV | AE7 | 1,956,037.00 | |
| | (In Euro) Per management consolidation workbook of NV 2023 year end balance, to record adjustment of US$2,163,768 for the opening retained earning balance. | | | | |
| PBC-12 | 31/12/2023 Debt Discount | 03-100-000-26212 NV | NN. 2 | | -226,066.00 |
| PBC-12 | 31/12/2023 Interest Expense UIF Loan | 03-100-000-80110 NV | NN. 2 | 226,066.00 | |
| | (In Euro) To adjust UIF debt discount to reflect current year accretion calculations. | | | | |
| | | | | **9,085,836.02** | **-9,085,836.02** |

**Net Income (Loss)** **-8,405,705.80**

| | | |
|---|---|---|
| **02/12/2024** | **Preparer** | **Detailed** |
| **11:12 AM** | DW 20/08/2024 | RB 19/09/2024 |
| | **Quality** | **Specified** |

# Draft Independent Auditor’s Report

(See Attached)

# Independent Auditor's Report

To the Shareholders of FRX Innovations Inc. (formerly Good2GoRTO Corp.):

## Opinion

We have audited the consolidated financial statements of FRX Innovations Inc. (formerly Good2GoRTO Corp.) and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2023 and 2022, the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficit) and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of material accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2023 and 2022 and the results of its consolidated operations and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

## Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a comprehensive loss during the year ended December 31, 2023 and had an accumulated deficit as of December 31, 2023. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1 indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.



## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matter described below to be the key audit matter to be communicated in our report.

### *Assets held for sale and discontinued operation*

*Key Audit Matter Description*
As described in Note 4, the Company classified substantially all its assets and liabilities as assets and liabilities held for sale and substantially all results of its operation as discontinued operations. To determine whether the assets and liabilities and the results of operation meet the definition of assets and liabilities held for sale and discontinued operations respectively, the Company analyzed the criteria of IFRS 5 and measured the assets held for sale at the lower of their carrying amount and fair value less cost to sell. To determine whether the carrying value of assets held for sale is impaired, the Company estimated the fair value less cost to sell. As a result of the impairment analysis, the Company determined that the carrying value of assets held for sale exceeds their fair value less cost to sell, therefore, the impairment in the amount of $1,531,779 has been recognized.

Evaluating the Company's classification of assets and liabilities and results of operation as assets and liabilities held for sale and discontinued operations respectively, and evaluating the Company's determination of the fair value less cost to sell required a high degree of auditor judgment. Specifically, the key assumptions in the assessment of the fair value, contingent consideration and cost to sell which involve a high degree of subjectivity and effort in performing procedures and evaluating audit evidence relating to management's estimates. Accordingly, we identified the classification of assets and liabilities and results of operation as assets and liabilities held for sale and discontinued operations, respectively and measurement of assets held for sale as a key audit matter.

*Audit Response*

We responded to this matter by performing procedures over the assets and liabilities held for sale and discontinued operations. Our audit work in relation to this included, but was not restricted to, the following:

- Obtained and analyzed management assessment of classification of assets and liabilities and results of operation as assets and liabilities held for sale and discontinued operations respectively;
- Analyzed the signed legal agreements to obtain an understanding of the key terms of the potential sale;
- Evaluated management estimate of the fair value less cost to sell; and
- Assessed the appropriateness of the disclosures relating to the assets and liabilities held for sale and discontinued operations in the notes to the consolidated financial statements.

## Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Eduard Shvekher.

Toronto, Ontario
December 2, 2024

Chartered Professional Accountants
Licensed Public Accountants

# Management Representations

(See Attached)

December 2, 2024

MNP LLP
1 Adelaide St E
Suite 1900
Toronto, Ontario M5C 2V9

To Whom It May Concern:

In connection with your audits of the financial statements of FRX Innovations Inc. (formerly Good2GoRTO Corp.) and its subsidiaries (the "Company") as at December 31, 2023 and December 31, 2022 and for the years then ended, we hereby confirm to the best of our knowledge and belief, the following representations made to you during the course of your audits.

We understand that your audits were made in accordance with Canadian generally accepted auditing standards. Accordingly, the audits included an examination of the accounting system, controls and related data, and tests of the accounting records and such other auditing procedures as you considered necessary in the circumstances, for the purpose of expressing an opinion on the financial statements. We also understand that such an audit is not designed to identify, nor can it necessarily be expected to disclose, misstatements, non-compliance with laws and regulations, fraud or other irregularities, should there be any.

Certain representations in this letter are described as being limited to matters that are material. An item is considered material, regardless of its monetary value, if it is probable that its omission from or misstatement in the financial statements would influence the decision of a reasonable person relying on the financial statements.

**Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated March 14, 2024, for the preparation and fair presentation of the Company's consolidated financial statements and comparatives in accordance with International Financial Reporting Standards. We believe these consolidated financial statements and comparatives are complete and present fairly, in all material respects, the financial position of the Company as at December 31, 2023 and December 31, 2022, and the results of its operations and its cash flows, in accordance with International Financial Reporting Standards.

2. All transactions have been recorded in the accounting records and are reflected in the consolidated financial statements, and are reported in the appropriate period.

3. We acknowledge that we are responsible for the accounting policies followed in the preparation of the Company's consolidated financial statements. Significant accounting policies, and any related changes to significant accounting policies, are disclosed in the financial statements. The selection of accounting policies is appropriate in accordance with the requirements of International Financial Reporting Standards, and are applied consistently throughout the consolidated financial statements.

4. All significant judgments made in making the accounting estimates have taken into account all relevant information of which we are aware.

5. The selection and application of the methods, assumptions and data used in making the accounting estimates are consistent and appropriate.

6. The assumptions relevant to accounting estimates and disclosures appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Company.

7. Disclosures related to accounting estimates, including disclosures describing estimation uncertainty, are complete and are reasonable in the context of International Financial Reporting Standards.

8. Appropriate specialized skills or expertise have been applied in making the accounting estimates.

9. No subsequent event requires adjustment to the accounting estimates and related disclosures included in the consolidated financial statements.

10. We are aware of and concur with the contents and results of the attached journal entries prepared by you, and accept responsibility for the consolidated financial statement effects of the entries.

11. We believe the effects of those uncorrected financial statement differences aggregated by you during the audit are immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole. A summary of these differences has been attached as Appendix A to this written representation.

12. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

13. All events or transactions that have occurred subsequent to the statement of financial position and for which International Financial Reporting Standards require adjustment or disclosure have been adjusted or disclosed appropriately in the consolidated financial statements.

14. All plans or intentions that may affect the carrying value or classification of assets and liabilities are appropriately reflected in the financial statements in accordance with International Financial Reporting Standards.

15. All liabilities, both known and contingent, requiring recognition or disclosure in the consolidated financial statements in accordance with the requirements of International Financial Reporting Standards have been adjusted or disclosed as appropriate.

16. All outstanding and possible claims, whether or not they have been discussed with legal counsel, have been disclosed to you and are appropriately reflected in the consolidated financial statements.

17. All assets, wherever located, to which the Company had satisfactory title at the year-end, have been fairly stated and recorded in the consolidated financial statements. The assets are free from hypothecation, liens and encumbrances, except as noted in the consolidated financial statements. We have disclosed the nature and carrying amounts of any assets pledged as collateral.

18. All aspects of laws, regulations or contractual agreements, including non-compliance, are appropriately reflected in the consolidated financial statements.

19. All cash accounts have been appropriately recorded in the financial statements and all terms and associated conditions have been disclosed to you in full. We have provided you with the most current banking agreements.

20. The cash account held in Shanghai China, represents a valid cash account owned by the Company. There are no Company loans or other obligations tied to the bank accounts held in China.

21. Accounts receivables are correctly described in the records and represent valid claims as at December 31, 2023. An appropriate allowance has been made for expected losses from uncollectible accounts and for costs or expenses that may be incurred with respect to sales made or services rendered.

22. Inventory is correctly recorded in the consolidated financial statements in accordance with the requirements of International Financial Reporting Standards. All required provisions for slow-moving, obsolete, and unsaleable stock have been recorded. Inventory does not include any goods on consignment from others or goods invoiced to customers.

23. All charges to plant and equipment and additions under leases represent capital expenditures. No expenditures of a capital nature were charged to operations of the Company. Depreciation of property, plant and equipment and equipment under leases has been recorded according to our best estimates of their useful lives. All events or circumstances giving rise to impairments are appropriately reflected in the consolidated financial statements.

24. All intangible assets have been appropriately recorded in the consolidated financial statements in accordance with the requirements of International Financial Reporting Standards. All events or circumstances giving rise to impairments are appropriately reflected in the consolidated financial statements. Where intangible assets are subject to amortization, they are amortized at appropriate rates based on our best estimates of their useful lives.

25. Current and deferred taxes have been calculated in accordance with the laws and regulations of the Income Tax Act of Canada, tax regulation in Belgium and the US Internal Revenue Code.

26. All long-term debt and lease liabilities has been appropriately recorded in the consolidated financial statements. All payments and accrued interest have been accounted for. The current portion of long-term debt and lease liabilities is appropriately classified. All terms and conditions have been fully disclosed in the consolidated financial statements. We have provided you with the most current debt and financing agreements.

    There were no new lease agreements entered into during the year ended December 31, 2023.

27. We have identified all financial instruments, including derivatives, and hedging relationships. These have been appropriately recorded and disclosed in the consolidated financial statements in accordance with the requirements of International Financial Reporting Standards.

28. All share options, warrants or similar instruments granted by the Company during the year have been disclosed to you and appropriately reflected in the consolidated financial statements. All shares issued during the year by virtue of the exercise of options, warrants or similar instruments have been disclosed to you and appropriately reflected in the consolidated financial statements. There are no share-based payments that have not been disclosed to you and there is no documentation relating to share-based payments that has been withheld.

29. We acknowledge that you have communicated to us the background information on and potential implications of the tax on split income ("TOSI") rules. We have not engaged you to perform a detailed analysis on whether these rules apply to direct or indirect distributions of income from our business.

30. During the period from January 1, 2023 until the date of this letter, we have not received any correspondence, letters or requests from regulatory authorities in jurisdictions where the Company conducts its business.

31. Revenue from contracts with customers has been recognized when (or as) the Company satisfies a performance obligation by transferring control of a promised good or service to a customer in accordance with the requirements of International Financial Reporting Standards. Revenues do not include any amounts arising from consignment sales or from arrangements for which the Company is not entitled to the consideration.

32. The Company assessed the requirements to destroy, dismantle and remove the manufacturing facility in accordance with the provision of Right to Build Contract entered into in 2012 between FRX Polymers (Europe) NV and Bayer Antwerpen NV and concluded that the demolition cost will be nominal.

33. To the best of our knowledge, the Company is in compliance with all legal requirements to maintain their various environmental licenses and is not aware of any violations as at December 31, 2023 and the date of this letter that could have an effect on the licenses.

34. The repurchase arrangement made with Performance Polymers and Additives ("PPA") is not part of the Company's normal operating policies when dealing with PPA or any other customer. This arrangement was one off and was required to meet the need of another customer for inventory which PPA had excess quantities of at the time of the arrangement. All sales to customers are normally on a final sale term with no repurchase options.

35. We have not as yet received regulatory approval to grants stock options to Paradox Public Relations Inc. as of the date of this representation letter.

36. There has been no activity in FRX International Pty Ltd. since the prior year. To the best of management's knowledge, this entity is non-operational.

37. Maggie Baumann is the president of Performance Polymers and Additives, and also acts as a sales representative for the Company. There is not related party relationship as defined by IAS 24 between the Company and Performance Polymers and Additives.

38. There have been no updates to the Bill of Materials since the prior year as the manufacturing process for the Company's products remain relatively unchanged.

39. For inventory on hand at year end for which there were no recent sales activity, management still expects to sell the inventory in the future and also confirm that there is no expiry date for any of the inventory on hand.

40. Total units of finished goods produced during the year ended December 31, 2023, was 198,720 kilograms.

41. The manufacturing facility located on the Port of Antwerp Belgium is solely dedicated to the manufacturer of the Company's polymer product. The space used for the administrative office represents an insignificant component of the building space.

42. There was no inventory kept at the Antwerpsebaan 710 location as at December 31, 2023.

43. Management anticipates that the Term Sheet dated July 31, 2024, with the Purchaser, Mr. Bartosz Kurkowski, represents a valid share purchase offer for the Company's subsidiary, FRX Polymers Inc. and its subsidiaries. Mr. Kurkowski is not related to the Company in anyway as per criteria listed in IAS 24 *Related Party Disclosure*. As at December 31, 2023 and the date of this letter, the Company did not sign a definitive sale agreement with potential buyers to sell its operating subsidiaries and the Term Sheet detailed in the preceding paragraph is the only legal document the Company currently has in this regard.

44. Management believes the likelihood of the Deferred Contingent Consideration being settled in the future is remote, and as such have concluded that the value of these Deferred Contingent Consideration would be $nil at year end.

45. Management confirms that the only amendment to the KBC Bank loan impacting the repayment terms during the year is the Standstill Agreement entered into on October 27, 2023, with an effective date of October 31, 2023. The only amendment to the agreement allows for the deferral of the September 2023 and December 2023 to March 15, 2024. The fees associated with the amendment were not paid by the Company and are also not due to any parties at the date of the agreement.

46. Management have not had any discussions or communication with the Lender, Uhde Inventa-Fischer GmbH ("UIF"), during the year regarding the repayment of the loan or amendment to agreement.

47. The loan entered into with Sylvia Lai on December 18, 2023 was superseded by a regular debt agreement, with no special repayment terms attached. Sylvia Lai is not a related party to the Company, and as such, the interest rate on the loan represents a fair market rate interest to the Company.

    Management agreed with Sylvia Lai, that the above debt would be transferred to FRX Polymers NV (Europe), following the maturity date, if not paid.

48. Management believes that the discount rate of 12.5% placed on the common shares issued to Borden Ladner Gervais LLP due to the regulatory 4-month hold period is reasonable.

49. All amounts due to the Brokers as part of the February and March 2023 private placements were disclosed to you and have been fully settled.

50. There have been no changes to the non-control interest in FRX Pty Ltd during the year.

51. Management confirms that the early payment discounts were offered to certain customers in order to receive cash on inventory sales made in 2023 so that the Company could receive the cash on a priority basis to allow for continuation of business. It was offered to a hand full of customers, and does not form part of the standard sale term policy offered to customers.

**Information Provided**

1. We have responded fully to all inquiries made to us and have made available to you:

    - A complete record of all financial records that are relevant to the preparation and presentation of the consolidated financial statements, and related data and minutes of the meetings of shareholders and directors held throughout the year to the present date as well as summaries of recent meetings for which minutes have not yet been prepared;
    - Additional information that you have requested from us for the purpose of your audit;
    - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. We acknowledge management's responsibility for the design, implementation and operation of controls that have been designed to prevent and detect fraud.

3. We have assessed the risk that the consolidated financial statements may be materially misstated as a result of fraud, and have determined such risk to be low.

4. Where the impact of any frauds or suspected frauds, and non-compliance or possible non-compliance with laws and regulations, has a material effect on the consolidated financial statements, we have disclosed to you all known significant facts relating thereto, including circumstances involving management, employees having significant roles over controls, and others. We have made known to you any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators and others. The effects of such events, if any, are properly presented in the consolidated financial statements.

5. We have disclosed to you all deficiencies in the design or operation of internal controls over financial reporting of which we are aware.

6. We have disclosed to you all aspects of laws, regulations or contractual agreements that may affect the consolidated financial statements, including non-compliance.

7. We have disclosed to you the identities of all related parties to the Company and all related party relationships and transactions of which we are aware.

8. The use of the going concern basis of accounting is appropriate and the Company will be able to realize the carrying value of its assets and discharge its liabilities in the normal course of business. We have provided you with appropriate and complete information about identified events or conditions that may cast significant doubt on the Company's ability to continue as a going concern, our plans for future action and the feasibility of these plans.

9. We have no knowledge of side agreements (contractual or otherwise) with any parties that have not been disclosed to you.

10. The previous year's representation letter dated July 7, 2023 is still applicable to the prior year's financial statements and comparatives, and no matters have arisen that require restatement of those consolidated financial statements and comparatives.

11. There are no discussions with your firm's personnel regarding employment with the Company.

12. All outstanding and possible claims, whether or not they have been discussed with legal counsel, have been disclosed to you and are appropriately reflected in the consolidated financial statements.

13. There have been no regulatory or compliance inspections findings that have had an impact on the Company's financial results or that required a write down of inventory and other assets.

**Other Information**

1. We have informed you of all the documents containing other information that comprise our annual report. Further, the consolidated financial statements and the other information provided to you prior to the date of your audit report are consistent with one another, and the other information does not contain any material misstatements.

2. We have informed you of all the documents containing other information that comprise our annual report. The final versions of Management Discussion and Analysis will be provided to you when they are available, prior to their issuance, with sufficient time to complete the necessary procedures to satisfy your responsibilities in relation to other information.

**Professional Services**

1. We acknowledge the engagement letter dated March 14, 2024, which states the terms of reference regarding your professional services.

2. We are not aware of any reason why MNP LLP would not be considered independent for purposes of the Company's audits.

Sincerely,

FRX Innovations Inc.

| | |
|---|---|
| Signature | Marc Lebel - CEO |
| Signature | Mark Lotz, CFO |

# Independence Communication

(See Attached)

December 2, 2024

Board of Directors
FRX Innovations Inc.
1040 West Georgia St
Vancouver, BC V6E 4H1

Dear Sirs/Mesdames:

We have been engaged to audit the consolidated financial statements of FRX Innovations Inc. (the "Company") as at December 31, 2023 and for the year then ended.

CAS 260 *Communication with Those Charged With Governance* requires that we communicate with you matters that are significant to our engagement. One such matter is relationships between the Company and its related entities or persons in financial reporting oversight roles at the Company and MNP LLP and any affiliates ("MNP") that, in our professional judgment, may reasonably be thought to bear on our independence. In determining which relationships to report, the Standard requires us to consider relevant rules and related interpretations prescribed by the appropriate professional accounting body and applicable legislation, covering such matters as:

(a) Holding a financial interest, either directly or indirectly, in a client;
(b) Holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client or a related entity;
(c) Personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client or a related entity;
(d) Economic dependence on a client; and
(e) Provision of non-assurance services in addition to the audit engagement.

The Standard requires that we confirm our independence at least annually.

We are not aware of any relationship between the Company and MNP that, in our professional judgment, may reasonably be thought to bear on our independence, which have occurred from January 1, 2023 to the date of this letter.

We hereby confirm that MNP is independent with respect to the Company within the meaning of the Code of Professional Conduct of the Chartered Professional Accountants of Ontario as of the date of this letter.

This report is intended solely for the use of Board of Directors, management and others within the Company and should not be used for any other purposes.

The audit fees in the amount of $290,000 were charged for 2023 audit as of today.

We look forward to discussing with you the matters addressed in this letter as well as other matters that may be of interest to you. We will be prepared to answer any questions you may have regarding our independence as well as other matters.

Sincerely,

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

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