

# **MUSTGROW BIOLOGICS CORP.**

## **Condensed Interim Consolidated Financial Statements**

**Three Months Ended March 31, 2022**

**(Unaudited)**

**Expressed in Canadian Dollars**

**NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM  
CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying unaudited condensed interim consolidated financial statements of MustGrow Biologics Corp. for the three months ended March 31, 2022 and 2021 have been prepared by, and are the responsibility of, management, and have been approved by the Audit Committee and the Board of Directors.

Under National Instrument 51-102, Part 4 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The Company's independent auditor has not performed a review of these financial statements.

MUSTGROW BIOLOGICS CORP.  
Condensed interim consolidated statements of financial position  
Unaudited  
(Expressed in Canadian Dollars)

	March 31 2022	December 31 2021
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 9,331,035	\$ 9,619,971
GST receivable	52,321	64,296
Prepaid expenses and deposits	31,974	17,683
<b>Total assets</b>	<b>\$ 9,415,330</b>	<b>\$ 9,701,950</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 6)	\$ 505,477	\$ 496,085
Current portion of long-term debt (note 4)	377,063	366,997
	<b>882,540</b>	<b>863,082</b>
<b>Non-current liabilities</b>		
Long-term debt (note 4)	382,271	382,271
<b>Total liabilities</b>	<b>1,264,811</b>	<b>1,245,353</b>
<b>EQUITY</b>		
Share capital (note 5)	23,782,182	23,031,182
Contributed surplus (note 5)	2,416,228	2,463,651
Deficit	(18,047,891)	(17,038,236)
	8,150,519	8,456,597
<b>Total liabilities and equity</b>	<b>\$ 9,415,330</b>	<b>\$ 9,701,950</b>

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

MUSTGROW BIOLOGICS CORP.

Condensed interim consolidated statements of loss and comprehensive loss

Unaudited

(Expressed in Canadian Dollars)

	Three months ended March 31,	
	2022	2021
<b>Revenue</b>		
Sales	\$ 1,450	\$ -
<b>Expenses</b>		
Research and development	\$ 93,850	\$ 96,621
Regulatory	15,007	16,147
Corporate communications	32,150	37,310
Transfer agent and exchange fees	83,892	54,272
Office and administration (note 6)	247,077	167,538
Marketing and promotion	180,650	129,571
Patent expenses	63,428	13,979
Professional fees	77,658	24,808
Stock-based compensation (note 5)	207,327	59,807
	\$ 1,001,039	\$ 600,053
Loss before the following	\$ (999,589)	\$ (600,053)
Finance cost (note 4)	(10,066)	(12,209)
<b>Net loss for the period</b>	<b>\$ (1,009,655)</b>	<b>\$ (612,262)</b>
<b>Total comprehensive loss for the period</b>	<b>\$ (1,009,655)</b>	<b>\$ (612,262)</b>
Net loss per share, basic and diluted	\$ (0.02)	\$ (0.01)
Weighted average number of shares outstanding, basic and diluted	47,837,293	42,054,292

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

MUSTGROW BIOLOGICS CORP.  
Condensed interim consolidated statements of changes in equity (deficiency)  
Unaudited  
(Expressed in Canadian Dollars)

	Number of common shares <u>          </u> (note 5)	Share capital <u>          </u>	Contributed surplus <u>          </u>	<u>Deficit</u>	<u>Total</u>
<b>Balance, December 31, 2020</b>	40,492,849	\$ 14,140,922	\$ 2,158,414	\$ (13,974,361)	\$ 2,324,975
Exercise of warrants	2,262,647	1,242,389	(206,065)	-	1,036,324
Stock-based compensation	-	-	59,807	-	59,807
Net loss and comprehensive loss	-	-	-	(612,262)	(612,262)
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<b>Balance, March 31, 2021</b>	42,755,496	\$ 15,383,311	\$ 2,012,156	\$ (14,586,623)	\$ 2,808,844
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<b>Balance, December 31, 2021</b>	47,784,237	\$ 23,031,182	\$ 2,463,651	\$ (17,038,236)	\$ 8,456,597
Exercise of warrants and stock options	1,425,000	751,000	(254,750)	-	496,250
Stock-based compensation	-	-	207,327	-	207,327
Net loss and comprehensive loss	-	-	-	(1,009,655)	(1,009,655)
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<b>Balance, March 31, 2022</b>	49,209,237	\$ 23,782,182	\$ 2,416,228	\$ (18,047,891)	\$ 8,150,519
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The accompanying notes are an integral part of these condensed interim consolidated financial statements

MUSTGROW BIOLOGICS CORP.  
Condensed interim consolidated statements of cash flows  
Unaudited  
(Expressed in Canadian Dollars)

	Three months ended March 31,	
	2022	2021
<b>Operating Activities</b>		
Net loss	\$ (1,009,655)	\$ (612,262)
Items not affecting cash		
Finance cost on debt (note 4)	10,066	12,209
Stock-based compensation	207,327	59,807
Net changes in non-cash working capital items:		
GST receivable	11,975	17,384
Prepaid expenses and deposits	(14,291)	(58,720)
Accounts payable and accrued liabilities	9,392	6,150
<b>Cash used in operating activities</b>	<b>(785,186)</b>	<b>(575,432)</b>
<b>Financing Activities</b>		
Exercise of warrants and stock options	496,250	1,036,324
<b>Cash provided by financing activities</b>	<b>496,250</b>	<b>1,036,324</b>
<b>Net increase (decrease) in cash during the year</b>	<b>(288,936)</b>	<b>460,892</b>
Cash, beginning of period	9,619,971	3,312,797
<b>Cash, end of period</b>	<b>\$ 9,331,035</b>	<b>\$ 3,773,689</b>

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

**1. Nature and continuance of operations**

MustGrow Biologics Corp. (the “Company”) was incorporated on December 2, 2014 as 1020673 BC Ltd. under the laws of the province of British Columbia, Canada.

On May 7, 2020, the Company formed a wholly owned subsidiary, MustGrow Biologics Columbia S.A.S. This subsidiary was wound up on March 31, 2022.

The Company is a technology development company developing new, novel, natural biopesticide products from mustard seed.

The head office, principal address, records office and registered address of the Company are located at 1005 – 201 1<sup>st</sup> Ave. S., Saskatoon, Saskatchewan, S7K 1J5, Canada.

**2. Basis of preparation**

The financial statements of the Company are prepared on a consolidated basis and include the operations and financial position of the Company and its wholly owned subsidiary MustGrow Biologics Colombia S.A.S.

***Uncertainties surrounding COVID-19***

The outbreak of the COVID-19 Coronavirus (“COVID-19”) pandemic has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. The duration and impact of the COVID-19 pandemic is not known at this time, nor is the efficacy of the government and central bank monetary and fiscal interventions designed to stabilize economic conditions. As a result, it is not possible to reliably estimate the length and severity of these developments or the impact on the financial position and financial results of the Company in future periods.

***Statement of compliance***

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board, using accounting policies consistent with those used in the Company’s annual financial statements for the year ended and as of December 31, 2021. They do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company’s annual financial statements.

The financial statements were authorized for issuance by the Company’s board of directors on May 26, 2022.

**3. Significant accounting policies**

***New accounting standards adopted***

*Amendments to IFRS 9*

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The adoption of this amendment does not have a material impact on the consolidated financial statements.

***Accounting standards issued but not effective***

The following accounting standards have been issued but not yet adopted by the Company at March 31, 2022:

*Amendments to IAS 1 in January 2020, IAS issued Classification of Liabilities as "Current" or "Non-current".*

The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of its recognition. The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the right to defer settlement by at least 12 months. That classification is unaffected by the likelihood that an entity will exercise its deferral right. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. The Company is still assessing the impact of adopting these amendments on its consolidated financial statements.

*Amendments to IAS 8 In February 2021, IASB issued Definition of Accounting Estimates.*

The amendment replaces the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty." The amendment provides clarification to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company is still assessing the impact of adopting these amendments on its consolidated financial statements.



MUSTGROW BIOLOGICS CORP.

Notes to the condensed interim consolidated financial statements

Unaudited

(Expressed in Canadian Dollars)

Three Months Ended March 31, 2022 and 2021

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**4. Debt**

	<b>March 31</b> <b><u>2022</u></b>	<b>December 31</b> <b><u>2021</u></b>
Ag-West Bio Inc. loan	382,271	382,271
Saskatchewan Minister of Agriculture loan	377,063	366,997
	<u>759,334</u>	<u>749,268</u>
Less current portion	377,063	366,997
	<u>382,271</u>	<u>382,271</u>

Under the terms of the Ag-West Bio Inc. loan, the Company will pay Ag-West a royalty of 5.00% of all gross revenues received by the Company or an affiliate commencing on the date the Company or its affiliates have attained \$500,000 in cumulative revenues beginning May 5, 2017. Gross revenue received is defined to include all sources of revenue, including product sales, licensing revenue, sub-licensing revenue, and royalty revenue received, as well as proceeds derived from the sale of the assets or sales of the Company or an affiliate as part of a divestiture of the business or that would result in a change of control. The maximum amount Ag-West may receive under this agreement is \$750,000, with the first \$382,271 payments to be applied to pay down the principal outstanding. Ag-West has retained its general security interest in all of the Company's assets.

Under the terms of the Saskatchewan Minister of Agriculture loan, the principal amount of \$377,063 was due on March 1, 2022. Interest accrues at prime rate plus 2% commencing on the day on which the Company earns cumulative revenue in excess of \$250,000 from the commercial sale of the products, provided such date is prior to March 1, 2022. Interest at a rate 10% per annum will accrue and be payable on demand on any principal and interest in arrears. The Company is currently in discussions with the Saskatchewan Minister of Agriculture regarding settlement or extension of the loan.

Interest accretion on the Saskatchewan Minister of Agriculture loan was recorded at an effective rate of 17% from February 1, 2020 to March 1, 2022. For the three months ended March 31, 2022, non-cash interest expense of \$10,066 was recorded (2021 – \$12,209).

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**5. Share capital**

***Authorized share capital***

Unlimited number of common shares without par value.

***Issued share capital***

	Number of common shares	Share capital
<b>Balance, December 31, 2020</b>	40,492,849	\$ 14,140,922
Issuance of units	2,726,611	6,050,138
Issuance of shares	56,366	205,734
Exercise of warrants	4,508,411	2,634,388
<b>Balance, December 31, 2021</b>	47,784,237	\$ 23,031,182
Exercise of warrants and options	1,425,000	751,000
<b>Balance, March 31, 2022</b>	<u>49,209,237</u>	<u>\$ 23,782,182</u>

***Stock options***

The Company has established a stock option plan (the "Option Plan") for directors, officers and consultants of the Company. The Company's Board of Directors determines, among other things, the eligibility of individuals to participate in the Option Plan and the term, vesting period, and the exercise price of options granted to individuals under the Option Plan.

Each stock option converts into one common share of the Company on exercise. No amounts are paid or payable by the individual on receipt of the option. Options may be exercised at any time from the date of vesting to the date of their expiry.

The Company's Option Plan provides that the number of common shares reserved for issuance may not exceed 10% of the aggregate number of common shares that are outstanding.

The following table presents the details of issuances of options. Such options have a contractual life of five years and were vested 25% immediately and 25% on each of the next three anniversaries of issuance. The fair value of these options at the date of issuance was estimated using the Black-Scholes option pricing model using the following assumptions.

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<u>Issuance date</u>	<u>Number of options</u>	<u>Exercise price</u>	<u>Estimated life</u>	<u>Risk-free rate</u>	<u>Volatility</u>
3/14/2022	250,000	\$ 3.40	3-5 years	1.90%	98%
1/14/2021	50,000	2.10	3-5 years	0.37%	110%
12/14/2020	250,000	1.05	3-5 years	0.39%	110%
5/1/2020	1,050,000	0.34	3-5 years	0.34%	116%

Stock based compensation related to stock options of \$88,327 was recorded for the three months ended March 31, 2022 (2021 – \$36,219).

Stock option issuances and exercises over the past two years follows.

	<u>Stock options</u>	<u>Weighted average exercise price</u>
<b>Balance, December 31, 2021 and 2020</b>	3,725,000	\$ 0.36
Issuance	250,000	3.40
Exercised	(25,000)	0.25
<b>Balance, March 31, 2022</b>	<u>3,950,000</u>	<u>\$ 0.55</u>

A summary of the status of the stock options outstanding follows.

<u>Exercise price</u>	<u>Options outstanding</u>	<u>Expiry date</u>	<u>Weighted average remaining contractual life (years)</u>	<u>Options exercisable</u>
\$3.40	250,000	3/14/2027	4.96	62,500
2.10	50,000	1/14/2026	3.79	25,000
1.05	250,000	12/14/2025	3.71	125,000
0.34	1,050,000	5/1/2025	3.09	525,000
0.32	250,000	7/17/2024	2.30	187,500
0.25	2,100,000	12/17/2023	1.72	2,100,000

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Notes to the condensed interim consolidated financial statements

Unaudited

(Expressed in Canadian Dollars)

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**Warrants**

The Company issued share warrants entitling the holder to acquire additional common shares of the Company at a fixed ratio of one for one (the "Share Warrants").

A summary of the status of the Share Warrants follows.

	Share Warrants	Weighted average exercise price
<b>Balance, December 31, 2020</b>	6,358,411	\$ 0.44
Issuance	27,000	3.65
Issuance	1,363,304	4.00
Exercised	(100,000)	0.28
Exercised	(350,000)	0.30
Exercised	(214,390)	0.35
Exercised	(250,000)	0.40
Exercised	(3,494,021)	0.50
Exercised	(100,000)	0.78
<b>Balance, December 31, 2021</b>	3,240,304	\$ 1.91
Issuance	100,000	3.71
Exercised	(1,400,000)	0.35
<b>Balance, March 31, 2022</b>	<u>1,940,304</u>	<u>\$ 3.13</u>

The following table summarizes warrants issued to consultants of the Company as compensation for services. The fair value of these warrants was estimated using the Black-Scholes option pricing model.

Issue date	Number of warrants	Exercise price	Black Scholes		Assumptions			
			estimated value	Stock-based compensation	Expected annualized volatility	Risk free rate	Expected life	Dividend yield
2/25/2022	100,000	\$3.71	\$1.19	\$ 119,000	82%	1.26%	1 year	0%
1/20/2020	550,000	\$0.40	\$0.23	126,500	88%	1.68%	1-2 years	0%
5/1/2020	1,400,000	0.35	\$0.18	252,000	116%	0.31%	1-2 years	0%
6/16/2020	100,000	0.28	\$0.16	16,000	112%	0.28%	1-2 years	0%
9/11/2020	650,000	0.35	\$0.19	123,500	110%	0.25%	1-2 years	0%
12/1/2020	100,000	0.78	\$0.32	32,000	110%	0.20%	1 year	0%

Stock based compensation of \$119,000 was recorded for these warrants for the three months ended March 31, 2022 (2021 – \$23,588).

During the three months ended March 31, 2022, 1,400,000 Share Warrants were exercised, resulting in the issuance of 1,400,000 common shares.

The following table summarize the Share Warrants that remain outstanding at March 31, 2022:

<u>Share Warrants</u>	<u>Exercise price</u>	<u>Expiry</u>
450,000	\$ 0.35	September 2022
1,363,304	\$ 4.00	October 2023
27,000	\$ 3.65	November 2023
<u>100,000</u>	\$ 3.71	February 2024
<u>1,940,304</u>		

## 6. Related parties

During the three months ended March 31, 2022, the Company incurred consulting fees and office rent of \$223,824 (2021 – \$149,657) to companies controlled by directors and officers of the Company.

During the three months ended March 31, 2022, stock-based compensation related to stock options issued to directors and officers of the Company totaled \$82,734 (2021 – \$24,694).

At March 31, 2022 there was \$328,037 accrued and payable to companies controlled by directors and officers of the Company (December 31, 2021 – \$268,922).

## 7. Financial instruments

### *Interest rate risk*

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's is not currently exposed to interest rate risk as there is no interest paid on debt outstanding.

### *Foreign currency risk*

The Company conducts certain of its operations in United States dollars and is limited to a small number of purchases in U.S. dollars which are recorded at the spot rate at the date of the transaction. As of March 31, 2022, the Company held U.S. dollar cash of \$86,492 (December 31, 2021 – \$14,800).

### *Liquidity risk*

Liquidity risk arises from the possibility the Company will not be able to meet its financial obligations as they become due or obtain financing as needed to pursue expansionary projects. Actual and forecasted cash flows are continuously monitored to reduce this liquidity risk. Management judges the future cash flows of the Company are adequate to make payments as they become contractually due and existing banking arrangements are able to support the growth goals of the company.

### *Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's maximum exposure to credit risk is the carrying amount of the accounts receivable, which is minimal.

MUSTGROW BIOLOGICS CORP.

Notes to the condensed interim consolidated financial statements

Unaudited

(Expressed in Canadian Dollars)

Three Months Ended March 31, 2022 and 2021

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***Financial instrument carrying values and fair values***

For all current financial assets and financial liabilities, carrying amounts are assumed to approximate fair value due to the short-term maturities of these items and are in level 3, except for cash which is in level 1.

The long-term debt consists of the Ag-West Bio Inc. and Saskatchewan Minister of Agriculture loans valued using a discounted cash flow test taking into consideration the current market interest rate of interest with similar term to maturity and the Company's current credit quality. At March 31, 2022, the fair value of the long-term debt is \$759,334 (December 31, 2021 - \$749,268) and is classified as level 3 in the fair value hierarchy.