

MUSTGROW BIOLOGICS CORP.

Condensed Interim Consolidated Financial Statements

Three and Nine Months Ended September 30, 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 and nine months ended September 30, 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)

	September 30 2022	December 31 2021
ASSETS		
Current assets		
Cash and cash equivalents	\$ 7,943,750	\$ 9,619,971
GST and other receivables	114,724	64,296
Prepaid expenses and deposits	32,486	17,683
Total assets	\$ 8,090,960	\$ 9,701,950
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	\$ 383,779	\$ 496,085
Current portion of long-term debt (note 4)	398,920	366,997
	782,699	863,082
Non-current liabilities		
Long-term debt (note 4)	360,414	382,271
Deferred revenue (note 7)	913,700	-
Total liabilities	2,056,813	1,245,353
EQUITY		
Share capital (note 5)	24,025,182	23,031,182
Contributed surplus (note 5)	3,611,322	2,463,651
Deficit	(21,602,357)	(17,038,236)
	6,034,147	8,456,597
Total liabilities and equity	\$ 8,090,960	\$ 9,701,950

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 September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Revenue				
Sales	\$ 1,308	\$ 12,869	\$ 6,479	\$ 12,869
Expenses				
Research and development	\$ 199,765	\$ 57,376	\$ 382,705	\$ 278,741
Regulatory	23,037	18,353	85,683	43,335
Corporate communications	47,029	33,815	125,599	105,825
Transfer agent, filing and exchange	56,647	48,582	241,553	139,879
Office and administration (note 6)	265,949	176,119	822,547	520,909
Marketing and promotion	152,956	120,046	487,556	394,302
Patent expenses	82,285	62,197	280,052	125,065
Professional fees	238,408	66,508	693,891	119,474
Stock-based compensation (note 5)	1,106,947	112,469	1,487,921	214,447
	\$ 2,173,023	\$ 695,465	\$ 4,607,507	\$ 1,941,977
Loss before the following	\$ (2,171,715)	\$ (682,596)	\$ (4,601,028)	\$ (1,929,108)
Interest income	38,760	-	46,973	-
Finance cost (note 4)	-	(13,519)	(10,066)	(39,247)
Net loss for the period	\$ (2,132,955)	\$ (696,115)	\$ (4,564,121)	\$ (1,968,355)
Total comprehensive loss for the period	\$ (2,132,955)	\$ (696,115)	\$ (4,564,121)	\$ (1,968,355)
Net loss per share, basic and diluted	\$ (0.04)	\$ (0.02)	\$ (0.09)	\$ (0.05)
Weighted average number of shares outstanding, basic and diluted	49,311,954	43,139,631	48,791,563	42,661,112

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

	Number of common shares (note 5)	Share capital	Contributed surplus	Deficit	Total
Balance, December 31, 2020	40,492,849	\$ 14,140,922	\$ 2,158,414	\$ (13,974,361)	\$ 2,324,975
Exercise of warrants	2,994,717	1,730,431	(303,072)	-	1,427,359
Stock-based compensation	-	-	214,447	-	214,447
Net loss and comprehensive loss	-	-	-	(1,968,355)	(1,968,355)
Balance, September 30, 2021	43,487,566	\$ 15,871,353	\$ 2,069,789	\$ (15,942,716)	\$ 1,998,426
Balance, December 31, 2021	47,784,237	\$ 23,031,182	\$ 2,463,651	\$ (17,038,236)	\$ 8,456,597
Exercise of warrants and stock options	1,875,000	994,000	(340,250)	-	653,750
Stock-based compensation	-	-	1,487,921	-	1,487,921
Net loss and comprehensive loss	-	-	-	(4,564,121)	(4,564,121)
Balance, September 30, 2022	49,659,237	\$ 24,025,182	\$ 3,611,322	\$ (21,602,357)	\$ 6,034,147

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)

	Nine months ended September 30,	
	2022	2021
Operating Activities		
Net loss	\$ (4,564,121)	\$ (1,968,355)
Items not affecting cash		
Finance cost on debt (note 4)	10,066	39,247
Stock-based compensation	1,487,921	214,447
Deferred revenue	913,700	-
Net changes in non-cash working capital items:		
GST and other receivables	(50,428)	15,652
Prepaid expenses and deposits	(14,803)	7,345
Accounts payable and accrued liabilities	(112,306)	18,984
Cash used in operating activities	(2,329,971)	(1,672,680)
Financing Activities		
Exercise of warrants and stock options	653,750	1,427,359
Cash provided by financing activities	653,750	1,427,359
Net decrease in cash during the year	(1,676,221)	(245,321)
Cash, beginning of period	9,619,971	3,312,797
Cash, end of period	\$ 7,943,750	\$ 3,067,476

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MUSTGROW BIOLOGICS CORP.

Notes to the condensed interim consolidated financial statements

Unaudited

(Expressed in Canadian Dollars)

Three and Nine Months Ended September 30, 2022 and 2021

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 30, 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 1st 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.

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 November 29, 2022.

3. Significant accounting policies

Revenue recognition

The Company recognizes revenue when the amount of revenue can be reliably measured and when both parties to the transaction have discharged their obligations and rights under the transaction. Until such obligations or rights have been discharged, the Company records amounts received as deferred revenue.

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 September 30, 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.

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Notes to the condensed interim consolidated financial statements

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4. Debt

	September 30 <u>2022</u>	December 31 <u>2021</u>
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	398,920	366,997
	<u>360,414</u>	<u>382,271</u>

Under the terms of the Ag-West Bio Inc. loan, the Company will pay Ag-West Bio Inc. 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 Bio Inc. 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 Bio Inc. has retained a general security interest in all of the Company's assets. Cumulative deferred revenue and sales revenue received as of September 30, 2022 exceeds \$500,000. Accordingly, \$21,857 of the Ag-West Bio Inc. loan has been classified as current.

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 and, accordingly, no interest has been accrued.

Interest accretion on the Saskatchewan Minister of Agriculture loan was recorded at an effective rate of 17% from February 1, 2020. For the three and nine months ended September 30, 2022, non-cash interest expense of nil and \$10,066 was recorded (2021 – \$13,519 and \$25,728).

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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
Balance, December 31, 2020	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
Balance, December 31, 2021	47,784,237	\$ 23,031,182
Exercise of warrants and options	1,875,000	994,000
Balance, September 30, 2022	<u>49,659,237</u>	<u>\$ 24,025,182</u>

Omnibus Plan

The Company established an Omnibus Plan on June 29, 2022 (the “Omnibus Plan”) for directors, officers and consultants of the Company. The Omnibus Plan replaces the Legacy Option Plan described below. The Omnibus Plan provides for the grant of stock options, performance share units (“PSU’s”), restricted share units (“RSU’s”), deferred share units (“DSU’s”) (RSU’s and DSU’s are collectively referred to as “Share Units”). The Board of Directors has full authority to administer the Omnibus Plan, including authority to determine the eligibility of individuals to participate in the Omnibus plan, the term, vesting period, vesting conditions, exercise price, and make any other determinations that the Board deems necessary or desirable for the administration of the Omnibus Plan, subject to compliance with regulatory requirements.

The maximum number of common shares reserved for issuance under the Omnibus Plan shall not exceed 10% of the Company’s issued and outstanding common shares from time to time on a non-diluted basis.

On August 30, 2022, the Company issued 360,183 DSU’s and 95,553 RSU’s to directors, officers and consultants of the Company. Upon redemption of Share Units, holders will receive, at the discretion of the Company: i) common shares equal to the number of Share Units granted; ii) a cash payment equal to the number of Share Units multiplied by the fair market value of a common share on the redemption date; or iii) a combination of common shares and cash.

The Company does not have a history of settling Share Units in cash and has sole discretion on the form of settlement. Accordingly, the Share Units are accounted for as equity settled share-based payments valued using the share price of the common shares on the grant date.

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A summary of the changes and status of Share Units follows.

	<u>RSU's</u>	<u>DSU's</u>
Balance, December 31, 2021 and 2020	-	-
Issuance	95,553	360,183
Balance, September 30, 2022	<u>95,553</u>	<u>360,183</u>
Vesting date:		
2022-08-30		360,183
2022-12-08	37,036	
2023-06-08	58,517	
	<u>95,553</u>	<u>360,183</u>
Vested at September 30, 2022	<u>-</u>	<u>360,183</u>

The value of Share Units granted was based on the fair value of the Company's common shares on the date of grant, August 30, 2022. Accordingly, the fair value was \$2.70 per Share Unit for a total value of \$1,230,500 and is recorded as stock based compensation as the Share Units vest.

Stock based compensation related to Share Units of \$1,020,872 was recorded for the three and nine months ended September 30, 2022 (2021 – nil).

Legacy Option Plan

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

Each stock option converts into one common share of the Company on exercise. No amounts were 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 Legacy Option Plan provided 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 under the Legacy Option Plan since January 1, 2020. 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>
2022-03-14	250,000	\$ 3.40	3-5 years	1.90%	98%
2021-01-14	50,000	2.10	3-5 years	0.37%	110%
2020-12-14	250,000	1.05	3-5 years	0.39%	110%
2020-05-01	1,050,000	0.34	3-5 years	0.34%	116%

Stock based compensation related to stock options of \$86,075 and \$348,049 was recorded for the three and nine months ended September 30, 2022 (2021 – \$110,569 and \$184,981).

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

	<u>Stock options</u>	<u>Weighted average exercise price</u>
Balance, December 31, 2021 and 2020	3,725,000	\$ 0.36
Issuance	250,000	3.40
Exercised	(25,000)	0.25
Balance, September 30, 2022	<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	2027-03-14	4.45	62,500
2.10	50,000	2026-01-14	3.29	25,000
1.05	250,000	2025-12-14	3.21	125,000
0.34	1,050,000	2025-05-01	2.59	787,500
0.32	250,000	2024-07-17	1.80	187,500
0.25	2,100,000	2023-12-17	1.21	2,100,000

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Notes to the condensed interim consolidated financial statements

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Three and Nine Months Ended September 30, 2022 and 2021

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
Balance, December 31, 2020	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
Balance, December 31, 2021	3,240,304	\$ 1.91
Issuance	100,000	3.71
Exercised	(1,850,000)	0.35
Balance, September 30, 2022	<u>1,490,304</u>	<u>\$ 3.97</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 estimated value	Stock-based compensation	Assumptions			
					Expected annualized volatility	Risk free rate	Expected life	Dividend yield
2022-02-25	100,000	\$3.71	\$1.19	\$ 119,000	82%	1.26%	1 year	0%
2020-12-01	100,000	0.78	0.32	32,000	110%	0.20%	1 year	0%
2020-09-11	650,000	0.35	0.19	123,500	110%	0.25%	1-2 years	0%

Stock based compensation of nil and \$119,000 was recorded for these warrants for the three and nine months ended September 30, 2022 (2021 – \$1,900 and \$29,466).

During the nine months ended September 30, 2022, 1,850,000 Share Warrants were exercised, resulting in the issuance of 1,850,000 common shares.

MUSTGROW BIOLOGICS CORP.

Notes to the condensed interim consolidated financial statements

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(Expressed in Canadian Dollars)

Three and Nine Months Ended September 30, 2022 and 2021

The following table summarize the Share Warrants that remain outstanding at September 30, 2022.

<u>Share Warrants</u>	<u>Exercise price</u>	<u>Expiry</u>
1,363,304	\$ 4.00	October 2023
27,000	\$ 3.65	November 2023
100,000	\$ 3.71	February 2024
<u>1,490,304</u>		

6. Related parties

During the three and nine months ended September 30, 2022, the Company incurred consulting fees and office rent of \$230,291 and \$699,384 (2021 – \$161,116 and \$461,738) to companies controlled by directors and officers of the Company.

During the three and nine months ended September 30, 2022, stock-based compensation related to stock options and Share Units issued to directors and officers of the Company totaled \$1,060,175 and \$1,311,504 (2021 – \$87,830 and \$137,218).

At September 30, 2022 there was \$50,740 accrued and payable to companies controlled by directors and officers of the Company (December 31, 2021 – \$268,922).

7. Deferred revenue

In August 2022, the Company and Sumitomo Corporation extended their Exclusive Evaluation and Option Agreement. Under the original agreement, the Company granted to Sumitomo Corporation the exclusive right to test the Company's technologies for preplant soil fumigation, bioherbicide and postharvest food preservation for potatoes and bananas in North, Central and South America. Pursuant to the extension agreement, MustGrow received USD 500,000 (\$641,200) which was recorded as deferred revenue.

In April, 2022, the Company entered into an exclusive evaluation and option agreement with Janssen PMP, a division of Janssen Pharmaceutica NV, one of the Janssen Pharmaceutical companies of Johnson and Johnson. Pursuant to the agreement, the Company granted Janssen PMP the exclusive right to test the Company's technologies for postharvest storage preservation of fruits and vegetables globally, excluding grains, potatoes, bananas and shipping container fumigation (the "Field"). The Company also granted to Janssen an option to obtain an exclusive license to commercialize technology in the Field. Pursuant to the agreement, MustGrow received EUR 200,000 (\$272,500) which was recorded as deferred revenue.

8. 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 September 30, 2022, the Company held U.S. dollar cash of \$501,672 (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.

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 September 30, 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.

9. Subsequent event

On November 9, 2022, the Company announced that the TSX Venture Exchange ("TSXV") approved the Company's application to list its common shares on the TSXV. The Company's common shares commenced trading on the TSXV on November 11, 2022. The Company also voluntarily delisted its common shares from the Canadian Securities Exchange at the close of the market on November 10, 2022.