

# **MUSTGROW BIOLOGICS CORP.**

**Condensed Interim Financial Statements**  
**Three and nine Months Ended September 30, 2024 and 2023**  
**(Unaudited)**  
**Expressed in Canadian Dollars**

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

The accompanying unaudited condensed interim financial statements of MustGrow Biologics Corp. for the three and nine months ended September 30, 2024 and 2023 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 statements of financial position  
Unaudited  
(Expressed in Canadian Dollars)

	September 30, 2024	December 31, 2023
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 3,572,741	\$ 6,817,169
GST and other receivables	151,005	94,810
Inventory (note 4)	408,316	-
Prepaid expenses and deposits	180,884	25,884
<b>Total assets</b>	<b>\$ 4,312,946</b>	<b>\$ 6,937,863</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 7)	\$ 425,023	\$ 321,753
Deferred revenue (note 8)	-	272,500
Current portion of long-term debt (note 5)	377,063	618,406
	<b>802,086</b>	<b>1,212,659</b>
<b>Non-current liabilities</b>		
Long-term debt (note 5)	140,928	140,928
<b>Total liabilities</b>	<b>943,014</b>	<b>1,353,587</b>
<b>EQUITY</b>		
Share capital (note 6)	25,333,011	25,060,377
Contributed surplus (note 6)	4,993,618	3,804,916
Deficit	(26,956,697)	(23,281,017)
	3,369,932	5,584,276
<b>Total liabilities and equity</b>	<b>\$ 4,312,946</b>	<b>\$ 6,937,863</b>

The accompanying notes are an integral part of these financial statements

MUSTGROW BIOLOGICS CORP.  
Condensed interim statements of loss and comprehensive loss  
Unaudited  
(Expressed in Canadian Dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
<b>Revenue</b>				
License revenue (note 8)	\$ 272,500	\$ -	\$ 272,500	\$ -
Sales	6,682	-	6,682	-
Cost of Sales	(3,741)	-	(3,741)	-
	\$ 275,441	\$ -	\$ 275,441	\$ -
<b>Expenses</b>				
Research and development	\$ 93,533	\$ 97,298	\$ 523,013	\$ 670,860
Regulatory	45,570	124,967	246,823	225,970
Corporate communications	44,360	68,486	173,905	177,730
Transfer agent, filing and exchange	41,913	64,242	185,564	214,290
Office and administration (note 7)	252,421	232,549	790,405	742,624
Marketing and promotion	85,340	114,508	350,034	412,351
Patent expenses	83,301	72,676	157,617	290,358
Professional fees	48,846	118,003	258,367	321,307
Stock-based compensation (note 6)	1,304,505	1,018,732	1,461,336	1,217,019
	\$ 1,999,789	\$ 1,911,461	\$ 4,147,064	\$ 4,272,509
Loss before the following	\$ (1,724,348)	\$ (1,911,461)	\$ (3,871,623)	\$ (4,272,509)
Interest income	46,230	48,781	177,381	167,880
Foreign exchange gain (loss)	(2,827)	2,814	18,562	(2,962)
<b>Net loss for the period</b>	<b>\$ (1,680,945)</b>	<b>\$ (1,859,866)</b>	<b>\$ (3,675,680)</b>	<b>\$ (4,107,591)</b>
<b>Total comprehensive loss for the period</b>	<b>\$ (1,680,945)</b>	<b>\$ (1,859,866)</b>	<b>\$ (3,675,680)</b>	<b>\$ (4,107,591)</b>
Net loss per share, basic and diluted	\$ (0.03)	\$ (0.04)	\$ (0.07)	\$ (0.08)
Weighted average number of shares outstanding, basic and diluted	51,640,610	49,881,766	51,581,168	49,752,124

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MUSTGROW BIOLOGICS CORP.  
Condensed interim 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, 2022</b>	49,659,237	\$ 24,025,182	\$ 3,817,941	\$ (22,604,077)	\$ 5,239,046
Exercise of share units	417,034	473,119	(377,369)	-	95,750
Stock-based compensation	-	-	1,217,019	-	1,217,019
Net loss and comprehensive loss	-	-	-	(4,107,591)	(4,107,591)
	<hr/>				
<b>Balance, September 30, 2023</b>	<u>50,076,271</u>	<u>\$ 24,498,301</u>	<u>\$ 4,657,591</u>	<u>\$ (26,711,668)</u>	<u>\$ 2,444,224</u>
	<hr/>				
<b>Balance, December 31, 2023</b>	51,463,575	\$ 25,060,377	\$ 3,804,916	\$ (23,281,017)	\$ 5,584,276
Exercise of share units and stock options	177,035	272,634	(272,634)	-	-
Stock-based compensation	-	-	1,461,336	-	1,461,336
Net loss and comprehensive loss	-	-	-	(3,675,680)	(3,675,680)
	<hr/>				
<b>Balance, September 30, 2024</b>	<u>51,640,610</u>	<u>\$ 25,333,011</u>	<u>\$ 4,993,618</u>	<u>\$ (26,956,697)</u>	<u>\$ 3,369,932</u>

The accompanying notes are an integral part of these financial statements

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

	Nine months ended September 30,	
	2024	2023
<b>Operating Activities</b>		
Net loss	\$ (3,675,680)	\$ (4,107,591)
Items not affecting cash		
Stock-based compensation	1,461,336	1,217,019
Deferred revenue	(272,500)	-
Net changes in non-cash working capital items:		
GST and other receivables	(56,195)	(10,921)
Inventory	(408,316)	-
Prepaid expenses and deposits	(155,000)	(41,687)
Accounts payable and accrued liabilities	103,270	(2,015)
<b>Cash used in operating activities</b>	<b>(3,003,085)</b>	<b>(2,945,195)</b>
<b>Financing Activities</b>		
Repayment of long-term debt	(241,343)	-
Exercise of stock options	-	95,750
<b>Cash provided by financing activities</b>	<b>(241,343)</b>	<b>95,750</b>
<b>Net (decrease) increase in cash during the period</b>	<b>(3,244,428)</b>	<b>(2,849,445)</b>
Cash, beginning of the year	6,817,169	7,016,183
<b>Cash, end of the period</b>	<b>\$ 3,572,741</b>	<b>\$ 4,166,738</b>

The accompanying notes are an integral part of these 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.

The Company is an agricultural biotechnology company focused on the development and commercialization of natural biological technologies and products from mustard seed for sustainable agriculture markets.

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**

***Statement of compliance***

These condensed interim 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, 2023. 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 26, 2024.

**3. Material accounting policy information**

**Accounting standards and amendments adopted**

In October 2022, the IASB issued amendments to IAS 1 which specify the requirements for classifying liabilities as current or non-current. The amendments clarify if an entity is required to comply with covenants before the end of the reporting period in scenarios where covenants are measured at a reporting date, but assessed for compliance subsequent to the reporting period. Such arrangements also require a disclosure in the notes to the financial statements. The amendments had no impact on the Company’s interim condensed financial statements.

**Inventory**

Inventories are valued at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- Raw materials: purchase cost on a first-in/first-out basis
- Finished goods and work in progress: cost of direct materials and toll manufacturing fees

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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**4. Inventory**

	<b>September 30, <u>2024</u></b>	<b>December 31, <u>2023</u></b>
Raw material	\$ 234,988	-
Finished goods	173,328	-
	<u>\$ 408,316</u>	<u>-</u>

**5. Debt**

	<b>September 30, <u>2024</u></b>	<b>December 31, <u>2023</u></b>
Ag-West Bio Inc. loan	\$ 140,928	\$ 382,271
Saskatchewan Minister of Agriculture loan	377,063	377,063
	<u>\$ 517,991</u>	<u>\$ 759,334</u>
Less current portion	377,063	618,406
	<u>\$ 140,928</u>	<u>\$ 140,928</u>

Under the terms of the Ag-West Bio Inc. ("Ag-West") loan, the Company will pay Ag-West a royalty of 5% 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 sale 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. As at September 30, 2024, none of the Ag-West loan is classified as current (December 31, 2023 - \$241,342).

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 terms of the Saskatchewan Minister of Agriculture loan were amended as of March 1, 2020, at which time a gain on extinguishment was recorded based on a fair value interest rate of 17%. Under the new terms, from February 1, 2020 onward, interest accretion was recorded at an effective rate of 17% until the maturity date of March 1, 2022, and no interest has been accrued subsequent to this date. 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.

**6. 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, 2022</b>	49,659,237	\$ 24,025,182
Exercise of Share Units	117,034	315,994
Exercise of Stock Options	1,687,304	719,201
<b>Balance, December 31, 2023</b>	51,463,575	\$ 25,060,377
Exercise of Share Units	177,035	272,634
<b>Balance, September 30, 2024</b>	<u>51,640,610</u>	<u>\$ 25,333,011</u>

***Omnibus Incentive Plan***

The Company established an Omnibus Incentive 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 Company’s 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 of Directors 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 September 3, 2024, the Company issued 1,575,398 DSU’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.

On August 31, 2023, the Company issued 612,757 DSU’s and 177,035 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.

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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 and are amortized over the vesting period.

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

	<u>RSU's</u>	<u>DSU's</u>
<b>Balance, December 31, 2022</b>	95,553	360,183
Exercised	(95,553)	(21,481)
Issuance	177,035	612,757
<b>Balance, December 31, 2023</b>	177,035	951,459
Exercised	(177,035)	-
Issuance		1,575,398
<b>Balance, September 30, 2024</b>	<u>-</u>	<u>2,526,857</u>
<b>Vested at September 30, 2024</b>	<u>-</u>	<u>2,526,857</u>

The value of Share Units granted on September 3, 2024 was based on the fair value of the Company's common shares on the date of grant, September 3, 2024. Accordingly, the fair value was \$0.82 per Share Unit for a total value of \$1,291,826 and is recorded as stock-based compensation as the Share Units vest.

The value of Share Units granted on August 31, 2023 was based on the fair value of the Company's common shares on the date of grant, August 31, 2023. Accordingly, the fair value was \$1.54 per Share Unit for a total value of \$1,216,280 and is recorded as stock-based compensation as the Share Units vest.

Stock-based compensation related to Share Units of \$1,291,826 and \$1,408,303 was recorded for the three and nine months ended September 30, 2024, respectively (2023 – \$982,045 and \$1,071,129).

During the year ended December 31, 2023, 95,553 RSU's and 21,481 DSU's were settled through the issuance of 117,034 common shares, resulting in a transfer of \$315,994 from contributed surplus to share capital.

***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 issued under the Legacy Option Plan ("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 Stock Option. Stock 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.

Stock-based compensation related to Stock Options of \$12,679 and \$53,033 was recorded for the three and nine months ended September 30, 2024 (2023 – \$36,687 and \$145,890).

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During the year ended December 31, 2023, 2,400,000 stock options were exercised, resulting in the issuance of 1,687,304 common shares.

A summary of the status of the Stock Options outstanding follows.

<u>Exercise price</u>	<u>Stock Options outstanding</u>	<u>Expiry date</u>	<u>Weighted average remaining contractual life (years)</u>	<u>Stock Options exercisable</u>
\$3.40	250,000	2027-03-14	2.45	187,500
2.10	50,000	2026-01-14	1.29	50,000
1.05	250,000	2025-12-14	1.21	250,000
0.34	1,000,000	2025-05-01	0.58	1,000,000
	<u>1,550,000</u>			<u>1,487,500</u>

### ***Warrants***

The Company issued share warrants entitling the holder to acquire 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.

	<u>Share Warrants</u>	<u>Weighted average exercise price</u>
<b>Balance, December 31, 2022</b>	1,490,304	\$ 3.97
Expired	(1,390,304)	3.99
<b>Balance, December 31, 2023</b>	100,000	\$ 3.71
Expired	(100,000)	3.71
<b>Balance, September 30, 2024</b>	<u>-</u>	<u>-</u>

## **7. Related parties**

During the three and nine months ended September 30, 2024, the Company incurred consulting fees and office rent of \$240,012 and \$719,857 respectively (2023 – \$230,424 and \$698,001) to companies controlled by directors and officers of the Company.

During the three and nine months ended September 30, 2024, stock-based compensation related to Stock Options and Share Units issued to directors and officers of the Company totaled \$1,130,943 and \$1,197,805, respectively (2023 – \$987,500 and \$1,124,921).

At September 30, 2024 there was \$137,434 accrued and payable to companies controlled by directors and officers of the Company (December 31, 2023 – \$37,960).

**8. Deferred revenue**

In April 2022, the Company entered into an exclusive evaluation and option agreement. Pursuant to the agreement, MustGrow received EUR 200,000 (\$272,500) which was allocated to a future performance obligation, which was met in September 2024. Accordingly, license revenue of \$272,500 was recorded for the three and nine months ended September 30, 2024.

**8. Financial instruments**

***Interest rate risk***

Interest rate risk is the risk that the future cash flows or fair value of a financial instrument will fluctuate due to changes in market interest rates. The Company is not exposed to cash flow risk because there is no variable interest paid on debt outstanding. The Company is not currently exposed to fair value risk because the fair value of its cash deposits and debt do not vary with changes in interest rates.

***Foreign currency risk***

The Company conducts certain of its operations in United States dollars and is limited to a small number of purchases in US dollars which are recorded at the spot rate at the date of the transaction. As of September 30, 2024, the Company held US dollar cash of \$62,622 (December 31, 2023 – \$575,210).

***Liquidity risk***

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

***Credit risk***

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk includes cash and receivables. The Company reduces its credit risk by maintaining its bank accounts at large international financial institutions. The receivables consist primarily of tax receivables due from federal government agencies. The maximum exposure to credit risk is equal to the fair value or carrying value of the financial assets. As at September 30, 2024 the allowance for credit losses was \$nil (December 31, 2023 – \$nil).

***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.

The long-term debt at September 30, 2024 consists of the Ag-West Bio Inc. loan and the Saskatchewan Minister of Agriculture loan, both valued using a discounted cash flow test taking into consideration the

current market rate of interest with similar term to maturity and the Company's current credit quality. As at September 30, 2024, the fair value of the long-term debt is \$517,991 (December 31, 2023 – \$759,334) and is classified as Level 3 in the fair value hierarchy.

**9. Disputes**

From time to time, the Company may become involved in various legal disputes. While it may not be possible to estimate the exact outcome of these disputes, management believes that there will be no significant adverse effects on the financial position of the Company when such matters are resolved.