MUSTGROW BIOLOGICS CORP.

Condensed Interim Consolidated Financial Statements

Three Months Ended March 31, 2023 and 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, 2023 and 2022 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 2023	December 31 2022
ASSETS		
Current assets		
Cash and cash equivalents	$ 6,103,796	$ 7,016,183
GST and other receivables	83,765	87,788
Prepaid expenses and deposits	133,533	30,411
Total assets	**$ 6,321,094**	**$ 7,134,382**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	$ 334,398	$ 222,302
Deferred revenue (note 7)	913,700	913,700
Current portion of long-term debt (note 4)	404,276	404,276
	1,652,374	**1,540,278**
Non-current liabilities		
Long-term debt (note 4)	355,058	355,058
Total liabilities	**2,007,432**	**1,895,336**
EQUITY		
Share capital (note 5)	24,075,181	24,025,182
Contributed surplus (note 5)	3,888,973	3,817,941
Deficit	(23,650,492)	(22,604,077)
	4,313,662	5,239,046
Total liabilities and equity	**$ 6,321,094**	**$ 7,134,382**

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, 2023	2022
Revenue		
Sales	$ -	$ 1,450
Expenses		
Research and development	$ 342,729	$ 93,850
Regulatory	8,242	15,007
Corporate communications	61,990	32,150
Transfer agent, filing and exchange	67,242	83,892
Office and administration (note 6)	271,203	248,420
Marketing and promotion	124,200	180,650
Patent expenses	19,670	63,428
Professional fees	100,194	77,658
Stock-based compensation (note 5)	121,031	207,327
	$ 1,116,501	$ 1,002,382
Loss before the following	$ (1,116,501)	$ (1,000,932)
Interest income	69,782	4,632
Foreign exchange gain (loss)	304	(3,289)
Finance cost (note 4)	-	(10,066)
Net loss for the period	**$ (1,046,415)**	**$ (1,009,655)**
Total comprehensive loss for the period	**$ (1,046,415)**	**$ (1,009,655)**
Net loss per share, basic and diluted	$ (0.02)	$ (0.02)
Weighted average number of shares outstanding, basic and diluted	49,677,138	47,837,293

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, 2021	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)
Balance, March 31, 2022	49,209,237	$ 23,782,182	$ 2,416,228	$ (18,047,891)	$ 8,150,519
Balance, December 31, 2022	49,659,237	$ 24,025,182	$ 3,817,941	$ (22,604,077)	$ 5,239,046
Exercise of share units	18,518	49,999	(49,999)	-	-
Stock-based compensation	-	-	121,031	-	121,031
Net loss and comprehensive loss	-	-	-	(1,046,415)	(1,046,415)
Balance, March 31, 2023	49,677,755	$ 24,075,181	$ 3,888,973	$ (23,650,492)	$ 4,313,662

(Expressed in Canadian Dollars)

	Three months ended March 31, 2023	2022
Operating Activities		
Net loss	$ (1,046,415)	$ (1,009,655)
Items not affecting cash		
Finance cost (note 4)	-	10,066
Stock-based compensation	121,031	207,327
Net changes in non-cash working capital items:		
GST and other receivables	4,023	11,975
Prepaid expenses and deposits	(103,122)	(14,291)
Accounts payable and accrued liabilities	112,096	9,392
Cash used in operating activities	**(912,387)**	**(785,186)**
Financing Activities		
Exercise of warrants and stock options	-	496,250
Cash provided by financing activities	**-**	**496,250**
Net (decrease) increase in cash during the period	**(912,387)**	**(288,936)**
Cash, beginning of the year	7,016,183	9,619,971
Cash, end of the period	**$ 6,103,796**	**$ 9,331,035**

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 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 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 the operations of its wholly owned subsidiary MustGrow Biologics Colombia S.A.S. until the date of its winding up.

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, 2022. 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, 2023.

3. Significant accounting policies

Accounting standards and amendments adopted

The following accounting standards were adopted by the Company at January 1, 2023:

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 were effective for annual reporting periods beginning on or after January 1, 2023 and are applied retrospectively. There was no material impact from adopting these amendments on the condensed interim consolidated financial statements.

(Expressed in Canadian Dollars)

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 were effective for annual reporting periods beginning on or after January 1, 2023. There was no material impact from adopting these amendments on the condensed interim consolidated financial statements.

4. Debt

	March 31 2023	December 31 2022
Ag-West Bio Inc. loan	382,271	382,271
Saskatchewan Minister of Agriculture loan	377,063	377,063
	759,334	759,334
Less current portion	404,276	404,276
	355,058	355,058

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 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. As at March 31, 2023 and December 31, 2022, $27,213 0f the Ag-West loan is classified as current (2021 – nil).

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.

For the three months ended March 31, 2023 and 2022, non-cash finance cost of $nil and $10,066 was recorded, respectively.

(Expressed in Canadian Dollars)

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, 2021	47,784,237	$	23,031,182
Exercise of warrants and stock options	1,875,000		994,000
Balance, December 31, 2022	49,659,237	$	24,025,182
Exercise of restricted share units	18,518		49,999
Balance, March 31, 2023	49,677,755	$	24,075,181

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 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 and are amortized over the vesting period.

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

(Expressed in Canadian Dollars)

		RSU's	DSU's
Balance, December 31, 2021		-	-
Issuance		95,553	360,183
Balance, December 31, 2022		95,553	360,183
Exercised		(18,518)	-
Balance, March 31, 2023		77,035	360,183
Vesting date:	2022-08-30		360,183
	2022-12-08	18,518	
	2023-06-08	58,517	
		77,035	360,183
Vested at March 31, 2023		18,518	360,183

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 $50,425 was recorded for the three months ended March 31, 2023 (2022 – 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 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.

The following table presents the details of issuances of Stock Options under the Legacy Option Plan since January 1, 2022. Such Stock 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 Stock Options at the date of issuance was estimated using the Black-Scholes option pricing model using the following assumptions.

Issuance date	Number of options	Exercise price	Estimated life	Risk-free rate	Volatility
3/14/2022	250,000	$ 3.40	3-5 years	1.90%	98%

(Expressed in Canadian Dollars)

Stock-based compensation related to Stock Options of $70,606 and $88,327 was recorded for the three months ended March 31, 2023 and 2022, respectively.

During the three months ended March 31, 2023, no Stock Options were exercised. During the three months ended March 31, 2022, 25,000 Stock Options were exercised, resulting in the issuance of 25,000 common shares.

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

Exercise price	Stock Options outstanding	Expiry date	Weighted average remaining contractual life (years)	Stock Options exercisable
$3.40	250,000	2027-03-14	3.96	62,500
2.10	50,000	2026-01-14	2.79	25,000
1.05	250,000	2025-12-14	2.71	187,500
0.34	1,050,000	2025-05-01	2.09	787,500
0.32	250,000	2024-07-17	1.30	250,000
0.25	2,100,000	2023-12-17	0.72	2,100,000
	3,950,000			3,412,500

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.

	Share Warrants	Weighted average exercise price
Balance, December 31, 2021	3,240,304	$ 1.91
Issued	100,000	3.71
Exercised	(1,850,000)	0.35
Balance, December 31, 2022	1,490,304	$ 3.97
Balance, March 31, 2023	1,490,304	$ 3.97

During the year ended December 31, 2022, 1,850,000 Share Warrants were exercised, resulting in the issuance of 1,850,000 common shares.

(Expressed in Canadian Dollars)

The following table summarizes Share Warrants issued to consultants of the Company as compensation for services since January 1, 2022. The fair value of these warrants was estimated using the Black-Scholes option pricing model.

					Assumptions			
Issue date	Number of warrants	Exercise price	Black Scholes estimated value	Stock-based compensation	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%

Stock-based compensation related to Share Warrants is recognized over the vesting period of each issuance, which may span multiple fiscal years. For the three months ended March 31, 2023 and 2022, stock-based compensation related to warrants was $nil and $119,000. respectively.

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 summarizes the Share Warrants that remain outstanding as at March 31, 2023:

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

6. Related parties

During the three months ended March 31, 2023, the Company incurred consulting fees and office rent of $223,423 (2022 – $223,824) to companies controlled by directors and officers of the Company.

During the three months ended March 31, 2023, stock-based compensation related to Stock Options and Share Units issued to directors and officers of the Company totaled $86,922 (2022 – $82,734).

At March 31, 2023 there was $43,919 accrued and payable to companies controlled by directors and officers of the Company (December 31, 2022 – $33,227).

7. Deferred revenue

In August 2022, the Company and Sumitomo Corporation extended their Exclusive Evaluation and Option Agreement. Pursuant to the extension agreement, MustGrow received USD 500,000 ($641,200) which has been allocated to a future performance obligation and as such 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, MustGrow received EUR 200,000 ($272,500) which has been allocated to a future performance obligation and as such was recorded as deferred revenue.

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 March 31, 2023, the Company held US dollar cash of $288,372 (December 31, 2022 – 357,594).

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.

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 March 31, 2023 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 March 31, 2023, the fair value of the long-term debt is $ 759,334 (December 31, 2022 - $759,334) and is classified as level 3 in the fair value hierarchy.