

MUSTGROW BIOLOGICS CORP.

Condensed Interim Consolidated Financial Statements

Three Months Ended March 31, 2020

(Unaudited)

Expressed in Canadian Dollars

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

The accompanying unaudited condensed interim consolidated financial statements of MustGrow Biologics Corp. for the three months ended March 31, 2020 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 2020	December 31 2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,372,969	\$ 4,028,813
Subscriptions receivable (note 5)	-	36,000
GST receivable	22,231	20,275
Prepaid expenses and deposits	356,131	7,578
Total assets	\$ 3,751,331	\$ 4,092,666
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	\$ 116,522	\$ 99,916
Current portion of long-term debt (note 4)	-	373,554
Note payable (note 4)	205,734	205,734
	322,256	679,204
Non-current liabilities		
Long-term debt (note 4)	661,841	382,271
Total liabilities	984,097	1,061,475
EQUITY		
Share capital (note 5)	12,236,828	11,889,387
Contributed surplus (note 5)	1,927,344	1,806,239
Deficit	(11,396,938)	(10,664,435)
	2,767,234	3,031,191
Total liabilities and equity	\$ 3,751,331	\$ 4,092,666

See note 1 – Nature and continuance of operations
The accompanying notes are an integral part of these 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,	
	2020	2019
Expenses		
Research and development	\$ 26,161	\$ 7,588
Regulatory	13,655	1,159
Corporate communications	366,378	20,421
Transfer agent and exchange fees	22,531	2,516
Office and administration (note 6)	167,154	138,633
Marketing and promotion	67,065	-
Patent expenses	16,051	2,501
Professional fees	26,387	74,731
Stock-based compensation (note 5)	121,105	25,812
	\$ 826,487	\$ 273,361
Loss before the following	\$ (826,487)	\$ (273,361)
Finance cost (note 4)	(11,210)	(11,469)
Gain on extinguishment of debt (note 4)	105,194	-
Net loss for the period	\$ (732,503)	\$ (284,830)
Total comprehensive loss for the period	\$ (732,503)	\$ (284,830)
Net loss per share, basic and diluted	\$ (0.02)	\$ (0.01)
Weighted average number of shares outstanding, basic and diluted	36,625,884	24,985,575

See note 1 – Nature and continuance of operations

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

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

	<u>Number of Common Shares</u> (note 5)	<u>Share Capital</u>	<u>Contributed Surplus</u>	<u>Deficit</u>	<u>Total</u>
Balance, December 31, 2018	10,454,154	\$ 7,552,326	\$ 1,108,517	\$ (9,146,397)	\$ (485,554)
Issuance of shares	1,712,533	1,151,532	-	-	1,151,532
Stock-based compensation	-	-	25,812	-	25,812
Net loss and comprehensive loss	-	-	-	(284,830)	(284,830)
Balance, March 31, 2019	<u>12,166,687</u>	<u>\$ 8,703,858</u>	<u>\$ 1,134,329</u>	<u>\$ (9,431,227)</u>	<u>\$ 406,960</u>
Balance, December 31, 2019	36,325,084	\$ 11,889,387	\$ 1,806,239	\$ (10,664,435)	\$ 3,031,191
Exercise of warrants	1,046,255	347,441	-	-	347,441
Stock-based compensation	-	-	121,105	-	121,105
Net loss and comprehensive loss	-	-	-	(732,503)	(732,503)
Balance, March 31, 2020	<u>37,371,339</u>	<u>\$ 12,236,828</u>	<u>\$ 1,927,344</u>	<u>\$ (11,396,938)</u>	<u>\$ 2,767,234</u>

See note 1 – Nature and continuance of operations
The accompanying notes are an integral part of these consolidated financial statements

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

	Three months ended March 31,	
	2020	2019
Operating Activities		
Net loss	\$ (732,503)	\$ (284,830)
Items not affecting cash		
Finance cost on debt (note 4)	11,210	11,469
Gain on extinguishment of debt (note 4)	(105,194)	-
Stock-based compensation	121,105	25,812
Net changes in non-cash working capital items:		
GST receivable	(1,956)	14,272
Prepaid expenses and deposits	(348,553)	(1,340)
Accounts payable and accrued liabilities	16,606	(22,941)
Cash used in operating activities	(1,039,285)	(257,558)
Financing Activities		
Issuance of shares	-	1,151,532
Subscriptions receivable on issuance of units (note 5)	36,000	-
Exercise of warrants	347,441	-
Cash provided by financing activities	383,441	1,151,532
Net increase (decrease) in cash during the year	(655,844)	893,974
Cash, beginning of period	4,028,813	507,329
Cash, end of period	\$ 3,372,969	\$ 1,401,303

See note 1 – Nature and continuance of operations
The accompanying notes are an integral part of these consolidated financial statements

1. Nature and continuance of operations

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

On March 29, 2018, the Company changed its name to MustGrow Biologics Corp.

On January 1, 2020, the Company amalgamated with its wholly-owned subsidiary MPT Mustard Products & Technologies Inc.

The Company was previously a business development services company. Following the Amalgamation, the company is now an agriculture biotechnology development company developing new, novel, natural biopesticide products from mustard seed as well as distributing other biopesticide and biofertility products.

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.

These financial statements have been prepared on a going concern basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. As at and for the three months ended March 31, 2020, the Company has an accumulated deficit of \$11,396,938, negative operating cash flows of \$1,039,285 and a total net loss and comprehensive loss of \$732,503.

The Company’s ability to continue as a going concern depends on its ability to continue raising capital through share offerings to support the development of its products and to fund its operations. Although the Company has been successful in the past in raising capital through share placements, there is no assurance that this will continue to be successful.

The conditions described above indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. If the Company is unable to obtain additional financing, the Company will have insufficient funds to continue operations.

These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that would be necessary should the company be unable to continue as a going concern. Such adjustments could be material.

2. Basis of preparation

The comparative financial statements of the Company are prepared on a consolidated basis and include the operations and financial position of the Company and its formerly wholly owned subsidiary MPT.

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

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Notes to the condensed interim consolidated financial statements

Unaudited

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Three Months Ended March 31, 2020

of December 31, 2019. 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.

3. Significant accounting policies

New accounting standards adopted

None.

4. Debt

	March 31 2019	December 31 2019
Ag-West Bio Inc. Loan	382,271	382,271
Saskatchewan Minister of Agriculture Loan	279,570	373,554
	661,841	755,825
Less current portion		(373,554)
	661,841	382,271

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 is due on the earlier of March 1, 2022 and the day on which the Company earns cumulative revenue in excess of \$250,000 from the commercial sale of the products or technology with no interest accruing until this point in time. At such time, interest will be accrued at the prime rate plus 2% and increased to 10% per annum for any principal and interest in arrears.

The terms of the Saskatchewan Minister of Agriculture loan were amended as of March 1, 2020. Previously the due date was February 1, 2020 and this was amended to March 1, 2022. Previously, interest accretion on this loan was recorded at an effective rate of 14%. Under the new terms, from February 1, 2020 onward, interest accretion is recorded at an effective rate of 17%. The amendment resulted in extinguishment of a portion of the debt and a gain of \$105,194.

For the three months ended March 31, 2020 and 2019, non-cash interest expense of \$11,210 and \$11,469, respectively, was recorded.

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As at March 31, 2020 and December 31, 2019 there was a note payable of \$205,734. The amount is unsecured, non-interest bearing and payable seven days following the substantial sale of all of the assets of the Company. Notwithstanding, the Company intends to repay the amount when cash flow permits and therefore classifies the amount as a current liability. There are no restrictions on prepayment nor any prepayment penalty.

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, 2018	23,273,042	\$ 7,552,326
Issuance of shares	1,712,533	1,151,532
Issuance of units	11,139,879	3,116,621
Exercise of warrants	199,630	68,908
Balance, December 31, 2019	36,325,084	\$ 11,889,387
Exercise of warrants	1,043,255	347,441
Balance, March 31, 2020	<u>37,368,339</u>	<u>\$ 12,236,828</u>

The Company completed a private placement of common shares and issued 1,662,533 shares on March 12, 2019 and 50,000 shares on March 13, 2019, in the aggregate amount of 1,712,533 shares, at \$0.70 per common share for gross proceeds of \$1,198,773. Net proceeds after share issuance costs were \$1,151,532.

On December 10, 2019, the Company completed a private placement of 11,139,879 units (the "2019 Unit Offering") consisting of one common share and one-half warrant to purchase one common share at \$0.50 per share (the "2019 Unit"). Issue price was \$0.35 per 2019 Unit. The issue price allocated to the share portion of the 2019 Unit was \$0.30 and \$0.05 was allocated to the warrant. Proceeds, net of cash issuance costs of \$209,400, were \$3,689,557 of which \$36,000 was receivable at December 31, 2019. Additional non-cash issuance costs of \$53,499 were calculated to reflect the issuance of 534,986 warrants to the brokers that placed the 2019 Unit Offering. These warrants have an exercise price of \$0.50 per share and a two-year term.

Stock options

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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.

On July 17, 2019, the Company issued 250,000 options to a director of the Company. On December 17, 2018, the Company issued 2,200,000 options to directors, officers and consultants of the Company. 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.

<u>Issuance Date</u>	<u>Estimated Life</u>	<u>Risk-free Rate</u>	<u>Volatility</u>
2019-07-17	3-5 years	1.47%	87%
2018-12-17	3-5 years	1.98%	100%

Stock based compensation of \$16,605 and \$25,812 was recorded for the three months ended March 31, 2020 and 2019, respectively.

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>
\$0.32	250,000	2024-07-17	4.30	62,500
\$0.25	2,200,000	2023-12-17	3.72	1,100,000

Warrants

The Company issued two types of warrants:

- Share warrants entitling the holder to acquire additional common shares of the Company at a fixed ratio of one for one (the "Share Warrants"); and
- 2018 Unit warrants entitling the holder to acquire additional 2018 Units of the Company at a fixed ratio of one for one (the "2018 Unit Warrants").

A summary of the status of the Share Warrants follows.

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	<u>Share Warrants</u>	<u>Weighted Average Exercise Price</u>
Balance, December 31, 2018	8,620,000	\$ 0.35
Issuance	6,104,921	0.50
Issuance	9,630	0.35
Exercised	<u>(190,000)</u>	<u>0.35</u>
Balance, December 31, 2019	14,544,551	\$ 0.41
Issuance	550,000	0.40
Issuance	187,480	0.35
Exercised	(858,775)	0.35
Expired	<u>(7,268,335)</u>	<u>0.35</u>
Balance, March 31, 2020	<u>7,154,921</u>	<u>\$ 0.48</u>

A summary of the status of the 2018 Unit Warrants follows.

	<u>2018 Unit Warrants</u>	<u>Weighted Average Exercise Price</u>
Balance, December 31, 2018	537,600	\$ 0.25
Exercised	(9,630)	0.25
Balance, December 31, 2019	<u>527,970</u>	<u>\$ 0.25</u>
Exercised	(187,480)	0.25
Expired	<u>(340,490)</u>	<u>0.25</u>
Balance, March 31, 2020	<u>-</u>	

On March 20, 2018, the Company issued 6,720,000 Share Warrants pursuant to the 2018 Unit Offering and recorded a gross amount of \$537,600 in contributed surplus based on the fair value of the warrants, reduced by the allocated cost of issuance. Each warrant entitles the holder to purchase one common share at \$0.35 per share until March 19, 2020.

On October 30, 2018, the Company issued 1,400,000 Share Warrants to a financial advisor in exchange for services. Such warrants have an exercise price of \$0.35, expire March 20, 2020 and vest 50% immediately and 50% on March 1, 2019. The fair value of these warrants was estimated using the Black-Scholes option pricing model at \$0.04 per warrant, based on the following assumptions: expected annualized volatility of 100%; risk-free interest rate of 2.22%; expected dividend yield of 0%; expected life of 1.4 years. Stock based compensation of \$56,000 was recorded for the year ended December 31, 2018.

Pursuant to the 2018 Unit Offering on March 20, 2018, the Company issued 537,600 2018 Unit Warrants to intermediaries as compensation for 2018 Unit placement, and are accounted for as equity-settled share-

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based payments to non-employees under IFRS 2, and recorded \$91,392 in contributed surplus with the corresponding amount treated as a cost of issuance for share capital and warrants. Each warrant entitles the holder to acquire one 2018 Unit at a price of \$0.25 per 2018 Unit, each 2018 Unit comprised of one common share and one warrant to purchase a common share at \$0.35 per share until March 19, 2020. The fair value of these 2018 Unit Warrants at the date of issuance was estimated using the Black-Scholes option pricing model at \$0.17 per warrant, based on the following assumptions: expected annualized volatility of 120%; risk-free interest rate of 1.81%; expected dividend yield of 0%; expected life of two years. In December 2019, 9,630 unit warrants were exercised, which resulted in the issuance of 9,630 shares and 9,630 share warrants.

On December 10, 2019, the Company issued 5,569,935 Share Warrants pursuant to the 2019 Unit Offering and recorded a gross amount of \$556,994 in contributed surplus based on the fair value of the warrants, reduced by the allocated cost of issuance. Each warrant entitles the holder to purchase one common share at \$0.50 per share until December 10, 2021.

Pursuant to the 2019 Unit Offering, on December 10, 2019, the Company issued 534,986 Share Warrants to intermediaries as compensation for the 2019 Unit placement, and are accounted for as equity-settled share-based payments to non-employees under IFRS 2, and recorded \$53,499 in contributed surplus with the corresponding amount treated as a cost of issuance for share capital and warrants. The fair value of these warrants at the date of issuance was estimated using the Black-Scholes option pricing model at \$0.10 per warrant, based on the following assumptions: expected annualized volatility of 89%; risk-free interest rate of 1.67%; expected dividend yield of 0%; expected life of two years.

On January 22, 2020, the Company issued 550,000 Share Warrants to consultants of the Company as compensation for services. The fair value of these warrants was estimated using the Black-Scholes option pricing model at \$0.24 per warrant, based on the following assumptions: expected annualized volatility of 88%; risk-free interest rate of 1.54%; expected dividend yield of 0%; expected life of 2 years. Stock based compensation of \$104,500 was recorded for the three months ended March 31, 2020.

During the three months ended March 31, 2020, 187,480 2018 Unit Warrants were exercised, resulting in the issuance of 187,480 common shares and 187,480 Share Warrants.

The following tables summarize the warrants that remain outstanding as at March 31, 2020:

<u>Share</u> <u>Warrants</u>	<u>Exercise</u> <u>Price</u>	<u>Expiry</u>
6,104,921	\$ 0.50	December 2021
550,000	\$ 0.40	January 2022
<u>500,000</u>	\$ 0.30	July 2022
<u><u>7,154,921</u></u>		

6. Related parties

During the three months ended March 31, 2020, the Company incurred consulting fees and office rent of \$152,074 (2019 – \$99,000) to companies controlled by directors and officers of the Company.

During the three months ended March 31, 2020, stock-based compensation related to stock options issued to directors and officers of the Company totaled \$16,411 (2019 – \$25,812).

As at March 31, 2020 there was \$19,459 accrued and payable to companies controlled by directors and officers of the Company (2019 – \$12,680).

7. Income taxes

For income tax purposes, the Company has non-capital losses which can be applied to reduce future years' taxable income. These losses expire as follows:

2028	\$	284,090
2029		309,228
2030		967,482
2031		1,305,153
2032		1,283,488
2033		805,310
2034		687,056
2035		321,095
2036		290,232
2037		88,532
2038		861,965
2039		1,425,129
	\$	<u>8,628,760</u>

Deferred tax assets have not been recognized in respect of tax losses because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

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 March 31, 2020, the Company held U.S. dollar cash of \$11,315 (2019 – \$362).

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. Refer to note 1 for disclosure regarding the company's ability to continue as a going concern.

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. As at March 31, 2020, the fair value of the long-term debt is \$661,841 (December 31, 2019 - \$755,825) and is classified as level 3 in the fair value hierarchy.

9. Other Uncertainties

The outbreak of the Coronavirus disease ("COVID-19") 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 outbreak 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.

10. Subsequent events

On May 1, 2020, the Company issued 1,050,000 stock options to management and directors of the Company. Each option entitles the holder to acquire one common share of the Company at a price of \$0.34 exercisable until April 30, 2025. The terms of each option, including vesting period (25% on date of grant and 25% on each anniversary) is in accordance with the Company's management and directors stock option plan.

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(Expressed in Canadian Dollars)

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On May 1, 2020, the Company also issued 1,400,000 common Share Warrants to a consultant of the Company. Each Share Warrant entitles the holder to acquire one common share of the Company at a price of \$0.35 exercisable until April 2, 2022.