

MUSTGROW BIOLOGICS CORP.

Condensed Interim Consolidated Financial Statements

Three Months Ended March 31, 2021

(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, 2021 and 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 2021	December 31 2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,773,689	\$ 3,312,797
GST receivable	15,887	33,271
Prepaid expenses and deposits	84,702	25,982
Total assets	\$ 3,874,278	\$ 3,372,050
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	\$ 150,989	\$ 144,838
Current portion of long-term debt (note 4)	326,440	-
Note payable (note 4)	205,734	205,734
	683,163	350,572
Non-current liabilities		
Long-term debt (note 4)	382,271	696,503
Total liabilities	1,065,434	1,047,075
EQUITY		
Share capital (note 5)	15,383,311	14,140,922
Contributed surplus (note 5)	2,012,156	2,158,414
Deficit	(14,586,623)	(13,974,361)
	2,808,844	2,324,975
Total liabilities and equity	\$ 3,874,278	\$ 3,372,050

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,	
	2021	2020
Expenses		
Research and development	\$ 96,621	\$ 26,161
Regulatory	16,147	13,655
Corporate communications	37,310	366,378
Transfer agent and exchange fees	54,272	22,531
Office and administration (note 6)	167,538	167,154
Marketing and promotion	129,571	67,065
Patent expenses	13,979	16,051
Professional fees	24,808	26,387
Stock-based compensation (note 5)	59,807	121,105
	<u>\$ 600,053</u>	<u>\$ 826,487</u>
Loss before the following	<u>\$ (600,053)</u>	<u>\$ (826,487)</u>
Finance cost (note 4)	(12,209)	(11,210)
Gain on extinguishment of debt (note 4)	-	105,194
	<u>\$ (612,262)</u>	<u>\$ (732,503)</u>
Net loss for the period	<u>\$ (612,262)</u>	<u>\$ (732,503)</u>
Total comprehensive loss for the period	<u>\$ (612,262)</u>	<u>\$ (732,503)</u>
Net loss per share, basic and diluted	\$ (0.01)	\$ (0.02)
Weighted average number of shares outstanding, basic and diluted	<u>42,054,292</u>	<u>36,625,884</u>

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)

	Number of Common Shares	Share Capital	Contributed Surplus	Deficit	Total
	(note 5)				
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	37,371,339	\$ 12,236,828	\$ 1,927,344	\$ (11,396,938)	\$ 2,767,234
Balance, December 31, 2020	40,492,849	\$ 14,140,922	\$ 2,158,414	\$ (13,974,361)	\$ 2,324,975
Exercise of warrants	2,262,647	1,242,389	(206,065)	-	1,036,324
Stock-based compensation	-	-	59,807	-	59,807
Net loss and comprehensive loss	-	-	-	(612,262)	(612,262)
Balance, March 31, 2021	42,755,496	\$ 15,383,311	\$ 2,012,156	\$ (14,586,623)	\$ 2,808,844

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,	
	2021	2020
Operating Activities		
Net loss	\$ (612,262)	\$ (732,503)
Items not affecting cash		
Finance cost on debt (note 4)	12,209	11,210
Gain on extinguishment of debt (note 4)	-	-
Stock-based compensation	59,807	121,105
Net changes in non-cash working capital items:		
GST receivable	17,384	(1,956)
Prepaid expenses and deposits	(58,720)	(348,553)
Accounts payable and accrued liabilities	6,150	16,606
Cash used in operating activities	(575,432)	(934,091)
Financing Activities		
Subscriptions receivable on issuance of units (note 5)	-	36,000
Exercise of warrants	1,036,324	347,441
Cash provided by financing activities	1,036,324	383,441
Net increase (decrease) in cash during the year	460,892	(550,650)
Cash, beginning of period	3,312,797	4,028,813
Cash, end of period	\$ 3,773,689	\$ 3,478,163

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

MUSTGROW BIOLOGICS CORP.

Notes to the condensed interim consolidated financial statements

Unaudited

(Expressed in Canadian Dollars)

Three Months Ended March 31, 2021 and 2020

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.

On May 7, 2020, the Company formed a wholly owned subsidiary, MustGrow Biologics Columbia S.A.S.

The Company was previously a business development services company. The company is now an agriculture biotechnology 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.

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, 2021, the Company has an accumulated deficit of \$14,586,623, negative operating cash flows of \$575,432 and a total net loss and comprehensive loss of \$612,262.

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 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.

MUSTGROW BIOLOGICS CORP.

Notes to the condensed interim consolidated financial statements

Unaudited

(Expressed in Canadian Dollars)

Three Months Ended March 31, 2021 and 2020

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, 2020. 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 27, 2021.

3. Significant accounting policies

New accounting standards adopted

None.

4. Debt

	March 31 2021	December 31 2020
Ag-West Bio Inc. Loan	382,271	382,271
Saskatchewan Minister of Agriculture Loan	326,440	314,232
	<hr/>	<hr/>
	708,711	696,503
Less current portion	326,440	-
	<hr/>	<hr/>
	382,271	696,503
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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.

MUSTGROW BIOLOGICS CORP.

Notes to the condensed interim consolidated financial statements

Unaudited

(Expressed in Canadian Dollars)

Three Months Ended March 31, 2021 and 2020

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, 2021, non-cash interest expense of \$12,209 was recorded (2020: \$11,210).

As at March 31, 2021 and December 31, 2020 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 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, 2019	36,325,084	\$ 11,889,387
Exercise of warrants	4,167,765	2,251,535
Balance, December 31, 2020	40,492,849	\$ 14,140,922
Exercise of warrants	2,262,647	1,242,389
Balance, March 31, 2021	42,755,496	\$ 15,383,311

Stock options

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

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

MUSTGROW BIOLOGICS CORP.

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

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

<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>
1/14/2021	50,000	\$ 2.10	3-5 years	0.37%	110%
12/14/2020	250,000	1.05	3-5 years	0.39%	110%
5/1/2020	1,050,000	0.34	3-5 years	0.34%	116%
7/17/2019	250,000	0.32	3-5 years	1.47%	87%
12/17/2018	2,200,000	0.25	3-5 years	1.98%	100%

Stock based compensation related to stock options of \$36,219 and \$16,605 was recorded for the three months ended March 31, 2021 and 2020, 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>
\$2.10	50,000	1/14/2026	4.79	12,500
\$1.05	250,000	12/14/2025	4.71	62,500
0.34	1,050,000	5/1/2025	4.09	262,500
0.32	250,000	7/17/2024	3.30	125,000
0.25	2,125,000	12/17/2023	2.72	1,575,000

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.

MUSTGROW BIOLOGICS CORP.

Notes to the condensed interim consolidated financial statements

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(Expressed in Canadian Dollars)

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	<u>Share warrants</u>	<u>Exercise price</u>
Balance, December 31, 2019	14,544,551	\$ 0.41
Issuance	550,000	0.40
Issuance	187,480	0.35
Issuance	2,050,000	0.35
Issuance	100,000	0.28
Issuance	100,000	0.78
Exercised	(876,361)	0.35
Exercised	(150,000)	0.30
Exercised	(300,000)	0.40
Exercised	(2,578,924)	0.50
Expired	(7,268,335)	0.35
Balance, December 31, 2020	6,358,411	\$ 0.44
Exercised	(100,000)	0.28
Exercised	(350,000)	0.30
Exercised	(20,000)	0.35
Exercised	(1,792,647)	0.50
Balance, March 31, 2021	<u>4,095,764</u>	<u>\$ 0.43</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, 2019	527,970	\$ 0.25
Exercised	(187,480)	0.25
Expired	(340,490)	0.25
Balance, December 31, 2020	<u>-</u>	

MUSTGROW BIOLOGICS CORP.

Notes to the condensed interim consolidated financial statements

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Three Months Ended March 31, 2021 and 2020

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
1/20/2020	550,000	\$0.40	\$0.23	\$ 126,500	88%	1.68%	1-2 years	0%
5/1/2020	1,400,000	\$0.35	\$0.18	\$ 252,000	116%	0.31%	1-2 years	0%
6/16/2020	100,000	\$0.28	\$0.16	\$ 16,000	112%	0.28%	1-2 years	0%
9/11/2020	650,000	\$0.35	\$0.19	\$ 123,500	110%	0.25%	1-2 years	0%

Stock based compensation of \$23,588 was recorded for these warrants for the three months ended March 31, 2021 (2020: \$104,500).

During the three months ended March 31, 2021, 2,262,647 Share Warrants were exercised, resulting in the issuance of 2,262,647 common shares.

The following tables summarize the warrants that remain outstanding at March 31, 2021:

Share warrants	Exercise price	Expiry
1,701,374	\$ 0.50	December 2021
250,000	\$ 0.40	January 2022
1,414,390	\$ 0.35	April 2022
630,000	\$ 0.35	September 2022
100,000	\$ 0.78	December 2022
<u>4,095,764</u>		

6. Related parties

During the three months ended March 31, 2021, the Company incurred consulting fees and office rent of \$149,657 (2020 – \$152,074) to companies controlled by directors and officers of the Company.

During the three months ended March 31, 2021, stock-based compensation related to stock options issued to directors and officers of the Company totaled \$24,694 (2020 – \$16,411).

At March 31, 2021 there was \$18,926 accrued and payable to companies controlled by directors and officers of the Company (2020 – \$19,459).

At March 31, 2021 there was \$36,750 of prepaid expenses made to companies controlled by directors and officers of the Company (2020 – nil).

MUSTGROW BIOLOGICS CORP.

Notes to the condensed interim consolidated financial statements

Unaudited

(Expressed in Canadian Dollars)

Three Months Ended March 31, 2021 and 2020

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
2040	<u>2,427,889</u>
	<u>\$ 11,056,649</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, 2021, the Company held U.S. dollar cash of \$9,405 (2020 – \$11,315).

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. At March 31, 2021, the fair value of the long-term debt is \$708,711 (December 31, 2020 - \$696,503) and is classified as level 3 in the fair value hierarchy.

9. Other uncertainties

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