

MUSTGROW BIOLOGICS CORP.

Condensed Interim Consolidated Financial Statements

Three and Six Months Ended June 30, 2021

(Unaudited)

Expressed in Canadian Dollars

MUSTGROW BIOLOGICS CORP.
Condensed interim consolidated statements of financial position
Unaudited
(Expressed in Canadian Dollars)

| | June 30 2021 | December 31 2020 |
|---|---------------------|---------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 3,186,577 | \$ 3,312,797 |
| GST receivable | 19,506 | 33,271 |
| Prepaid expenses and deposits | 45,543 | 25,982 |
| Total assets | \$ 3,251,626 | \$ 3,372,050 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (note 6) | \$ 116,025 | \$ 144,838 |
| Current portion of long-term debt (note 4) | 339,959 | - |
| Note payable (note 4) | 205,734 | 205,734 |
| | 661,718 | 350,572 |
| Non-current liabilities | | |
| Long-term debt (note 4) | 382,271 | 696,503 |
| Total liabilities | 1,043,989 | 1,047,075 |
| EQUITY | | |
| Share capital (note 5) | 15,404,431 | 14,140,922 |
| Contributed surplus (note 5) | 2,049,807 | 2,158,414 |
| Deficit | (15,246,601) | (13,974,361) |
| | 2,207,637 | 2,324,975 |
| Total liabilities and equity | \$ 3,251,626 | \$ 3,372,050 |

See note 1 – Nature and continuance of operations
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 June 30, | | Six months ended June 30, | |
|---|-----------------------------|-----------------------|---------------------------|-----------------------|
| | 2021 | 2020 | 2021 | 2020 |
| Expenses | | | | |
| Research and development | \$ 124,745 | \$ 37,420 | \$ 221,366 | \$ 63,606 |
| Regulatory | 8,836 | 14,889 | 24,983 | 28,544 |
| Corporate communications | 34,700 | 338,413 | 72,010 | 704,791 |
| Transfer agent and exchange fees | 37,024 | 27,951 | 91,296 | 50,482 |
| Office and administration (note 6) | 177,252 | 143,769 | 344,790 | 310,899 |
| Marketing and promotion | 144,685 | 77,573 | 274,256 | 144,639 |
| Patent expenses | 48,889 | 46,189 | 62,868 | 62,240 |
| Professional fees | 28,157 | 29,055 | 52,965 | 55,442 |
| Stock-based compensation (note 5) | 42,171 | 347,721 | 101,978 | 468,825 |
| | \$ 646,459 | \$ 1,062,980 | \$ 1,246,512 | \$ 1,889,468 |
| Loss before the following | \$ (646,459) | \$ (1,062,980) | \$ (1,246,512) | \$ (1,889,468) |
| Finance cost (note 4) | (13,519) | (11,554) | (25,728) | (22,764) |
| Gain on extinguishment of debt (note 4) | - | - | - | 105,194 |
| Net loss for the period | \$ (659,978) | \$ (1,074,534) | \$ (1,272,240) | \$ (1,807,038) |
| Total comprehensive loss for the period | \$ (659,978) | \$ (1,074,534) | \$ (1,272,240) | \$ (1,807,038) |
| Net loss per share, basic and diluted | \$ (0.02) | \$ (0.03) | \$ (0.03) | \$ (0.05) |
| Weighted average number of shares outstanding, basic and diluted | 42,777,487 | 37,371,339 | 42,417,887 | 36,998,612 |

See note 1 – Nature and continuance of operations

The accompanying notes are an integral part of these condensed interim 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 | 448,015 | (100,574) | - | 347,441 |
| Stock-based compensation | - | - | 468,825 | - | 468,825 |
| Net loss and comprehensive loss | - | - | - | (1,807,038) | (1,807,038) |
| Balance, June 30, 2020 | <u>37,371,339</u> | <u>\$ 12,337,402</u> | <u>\$ 2,174,490</u> | <u>\$ (12,471,473)</u> | <u>\$ 2,040,419</u> |
| Balance, December 31, 2020 | 40,492,849 | \$ 14,140,922 | \$ 2,158,414 | \$ (13,974,361) | \$ 2,324,975 |
| Exercise of warrants | 2,298,847 | 1,263,509 | (210,585) | - | 1,052,924 |
| Stock-based compensation | - | - | 101,978 | - | 101,978 |
| Net loss and comprehensive loss | - | - | - | (1,272,240) | (1,272,240) |
| Balance, June 30, 2021 | <u>42,791,696</u> | <u>\$ 15,404,431</u> | <u>\$ 2,049,807</u> | <u>\$ (15,246,601)</u> | <u>\$ 2,207,637</u> |

See note 1 – Nature and continuance of operations

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

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

| | Six months ended June 30, | |
|--|---------------------------|---------------------|
| | 2021 | 2020 |
| Operating Activities | | |
| Net loss | \$ (1,272,240) | \$ (1,807,038) |
| Items not affecting cash | | |
| Finance cost on debt (note 4) | 25,728 | 22,764 |
| Gain on extinguishment of debt (note 4) | - | (105,194) |
| Stock-based compensation | 101,978 | 468,825 |
| Net changes in non-cash working capital items: | | |
| GST receivable | 13,765 | 2,925 |
| Prepaid expenses and deposits | (19,561) | (97,069) |
| Accounts payable and accrued liabilities | (28,814) | (1,980) |
| Cash used in operating activities | (1,179,144) | (1,516,767) |
| Financing Activities | | |
| Subscriptions receivable on issuance of units (note 5) | - | 36,000 |
| Exercise of warrants | 1,052,924 | 347,441 |
| Cash provided by financing activities | 1,052,924 | 383,441 |
| Net decrease in cash during the year | (126,220) | (1,133,326) |
| Cash, beginning of period | 3,312,797 | 4,028,813 |
| Cash, end of period | \$ 3,186,577 | \$ 2,895,487 |

See note 1 – Nature and continuance of operations
The accompanying notes are an integral part of these condensed interim 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. On May 7, 2020, the Company formed a wholly owned subsidiary, MustGrow Biologics Columbia S.A.S.

The company is 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 consolidated 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 six months ended June 30, 2021, the Company has an accumulated deficit of \$15,246,601, negative operating cash flows of \$1,179,144 and a total net loss and comprehensive loss of \$1,272,240.

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.

Uncertainties surrounding COVID-19

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.

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 August 25, 2021.

3. Significant accounting policies

New accounting standards adopted

None.

Accounting standards issued but not effective

Amendments to IAS 1 In January 2020, IASB issued Classification of Liabilities as “Current” or “Non-current”, which amends IAS 1.

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 financial statements.

Amendments to IAS 8 In February 2021, IASB issued Definition of Accounting Estimates, which amends IAS 8.

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

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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 financial statements.

4. Debt

| | June 30 <u>2021</u> | December 31 <u>2020</u> |
|---|--------------------------------------|--|
| Ag-West Bio Inc. loan | 382,271 | 382,271 |
| Saskatchewan Minister of Agriculture loan | 339,959 | 314,232 |
| | <u>722,230</u> | <u>696,503</u> |
| Less current portion | 339,959 | - |
| | <u>382,271</u> | <u>696,503</u> |

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 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. 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 and six months ended June 30, 2021, non-cash interest expense of \$13,519 and \$25,728 was recorded (2020 – \$11,554 and \$22,764).

As at June 30, 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

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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 |
|-----------------------------------|-------------------------------|-----------------------------|
| | <u> </u> | <u> </u> |
| Balance, December 31, 2019 | 36,325,084 | \$ 11,889,387 |
| Exercise of warrants | 4,167,765 | 2,251,535 |
| | <u> </u> | <u> </u> |
| Balance, December 31, 2020 | 40,492,849 | \$ 14,140,922 |
| Exercise of warrants | 2,298,847 | 1,263,509 |
| | <u> </u> | <u> </u> |
| Balance, June 30, 2021 | <u>42,791,696</u> | <u>\$ 15,404,431</u> |

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.

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.

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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> |
|----------------------|--------------------------|-----------------------|-----------------------|-----------------------|-------------------|
| 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 \$38,193 and \$74,412 was recorded for the three and six months ended June 30, 2021 (2020 – \$51,721 and \$68,325).

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 | 4.55 | 12,500 |
| \$1.05 | 250,000 | 12/14/2025 | 4.46 | 62,500 |
| 0.34 | 1,050,000 | 5/1/2025 | 3.84 | 525,000 |
| 0.32 | 250,000 | 7/17/2024 | 3.05 | 125,000 |
| 0.25 | 2,125,000 | 12/17/2023 | 2.47 | 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.

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| | <u>Share</u> <u>warrants</u> | <u>Exercise</u> <u>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 | (30,000) | 0.35 |
| Exercised | (1,818,847) | 0.50 |
| Balance, June 30, 2021 | <u>4,059,564</u> | <u>\$ 0.43</u> |

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

| | <u>2018 Unit</u> <u>warrants</u> | <u>Weighted average</u> <u>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> | |

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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% |
| 12/1/2020 | 100,000 | 0.78 | \$0.32 | \$ 32,000 | 110% | 0.20% | 1 year | 0% |

Stock based compensation of \$3,978 and \$27,566 was recorded for these warrants for the three and six months ended June 30, 2021 (2020 – \$296,000 and \$400,500).

During the six months ended June 30, 2021, 2,298,847 Share Warrants were exercised, resulting in the issuance of 2,298,847 common shares.

The following tables summarize the warrants that remain outstanding at June 30, 2021:

| Share warrants | Exercise price | Expiry |
|------------------|----------------|----------------|
| 1,675,174 | \$ 0.50 | December 2021 |
| 250,000 | \$ 0.40 | January 2022 |
| 1,414,390 | \$ 0.35 | April 2022 |
| 620,000 | \$ 0.35 | September 2022 |
| 100,000 | \$ 0.78 | December 2022 |
| <u>4,059,564</u> | | |

6. Related parties

During the three and six months ended June 30, 2021, the Company incurred consulting fees and office rent of \$150,996 and \$300,623 (2020 – \$120,376 and \$272,450) to companies controlled by directors and officers of the Company.

During the three and six months ended June 30, 2021, stock-based compensation related to stock options issued to directors and officers of the Company totaled \$24,694 and \$49,388 (2020 – \$47,816 and \$63,860).

At June 30, 2021 there was \$17,212 accrued and payable to companies controlled by directors and officers of the Company (December 31, 2020 – \$38,939).

7. 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 June 30, 2021, the Company held U.S. dollar cash of \$31,088 (December 31, 2020 – \$13,698).

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 June 30, 2021, the fair value of the long-term debt is \$722,230 (December 31, 2020 - \$696,503) and is classified as level 3 in the fair value hierarchy.

8. Subsequent event

On August 3, 2021, the Company executed an exclusive evaluation and option agreement (the "Agreement") with Sumitomo Corporation to evaluate the Company's technology for preplant soil fumigation, bioherbicide, postharvest and food preservation for potatoes and bananas (the "Technology"). Pursuant to the Agreement, the Company granted Sumitomo Corporation the right to use its intellectual property and the exclusive option to acquire exclusive rights in certain applications of the Technology in North, Central, and South America (the "Field of Use"). In addition to the commercial development, Sumitomo Corporation will fund and assume the role and responsibilities for conducting all toxicology, safety, efficacy, and regulatory work necessary for commercializing the Technology. Additionally, Sumitomo Corporation has the non-exclusive ability to acquire rights to the Company's technology for Canadian canola

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and pulses, global turf and ornamentals, floriculture, and all postharvest and food preservation applications not covered within the Field of Use.

MustGrow has on-going field trials under corporate collaboration with numerous agriculture, chemical products, and consumer food companies. The Company reserved the right to complete these existing field trials and pursue commercial distribution agreements excluding those areas and territories defined within the Field of Use, as well as all other rights including the rights to engage with third parties with respect to the Company's technology, excluding within the Field of Use.