

# MUSTGROW BIOLOGICS CORP.

## Management's Discussion and Analysis

For the three months ended March 31, 2020

### General

This management discussion and analysis of financial position and results of operations ("**MD&A**") is prepared as at May 27, 2020 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2019 and related notes of MustGrow Biologics Corp. (formerly Duport Capital Ltd.) (the "**Company**" or "**Duport**"). The audited consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board ("**IASB**") and interpretations of the IFRS Interpretations Committee ("**IFRIC**").

Management is responsible for the preparation and integrity of the Company's consolidated financial statements, including the maintenance of appropriate information systems, procedures and internal controls. Management is also responsible for ensuring that information disclosed externally, including the financial statements and MD&A, is complete and reliable.

All dollar amounts included therein and in the following MD&A are expressed in Canadian dollars except where noted. This discussion contains forward-looking statements that involve risks and uncertainties. Such information, although considered to be reasonable by the Company's management at the time of preparation, may prove to be inaccurate and actual results may differ materially from those anticipated in the statements made. Additional information on the Company is available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com).

### Description of Business

On March 13, 2018 the Company completed a three-cornered amalgamation (the "**Amalgamation**") pursuant to an amalgamation agreement between the Company, MPT Mustard Products & Technologies Inc. ("**MPT**") and 102023826 Saskatchewan Ltd. ("**Subco**"). Pursuant to the terms of the amalgamation agreement the Company acquired all of the issued and outstanding MPT common shares and MPT common share purchase warrants in exchange for the Company's common shares and common share purchase warrants and MPT and Subco amalgamated pursuant to the provisions of *The Business Corporations Act* (Saskatchewan). The Company issued one common share for every two MPT common share and one warrant for every two MPT warrants, for aggregate consideration of 10,454,154 common shares (post-consolidation) of the Company and 1,289,837 warrants of the Company being issued to the MPT shareholders and warrant holders.

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

On January 1, 2020, the Company and its wholly owned subsidiary, MPT, amalgamated and continued operations as MustGrow Biologics Corp.

Prior to 2018, the Company was a business development services company.

The Company is now a publicly traded (CSE: MGRO) (OTC: MGROF) agricultural biotechnology company focused on providing natural science-based biological solutions for high value crops, including fruit & vegetable and cannabis cultivation. MustGrow has designed and owns a United States EPA-approved organic solution that uses the mustard seed's natural defense mechanism to protect plants from pests and diseases. Approximately 110 independent tests have been completed, validating MustGrow's safe and effective signature products. This product, in granule format, is EPA-approved across all key U.S. states as a biopesticide and is designated by Health Canada's PMRA (Pest Management Regulatory Agency) as biopesticide. MustGrow has now concentrated a liquid format to be applied through standard drip or spray equipment, improving functionality and performance features.

### **Share Issuances**

On February 19, 2018, Duport issued 14,429,654 shares then on March 12, 2018, completed a 3.3:1 share consolidation, resulting in a total of 6,098,888 number of shares outstanding immediately before the Amalgamation.

On March 13, 2018, the Company issued 10,454,454 common shares pursuant to the Amalgamation. The Amalgamation was deemed to be a reverse takeover of the Company by MPT. Accordingly, for accounting purposes, MPT was deemed to issue 6,098,888 shares to acquire the Company. On March 13, 2018, the Company issued 1,289,837 warrants (each to purchase one common share) pursuant to the Amalgamation. 789,837 such warrants had exercise prices of \$1.00 to \$1.20 per share and expired between June and September 2018. 500,000 of such warrants have an exercise price of \$0.30 per share and expire July 10, 2022.

On March 20, 2018, the Company completed an issuance of 6,720,000 units (the "Unit Offering") consisting of one common share and one warrant to purchase one common share at \$0.35 per share (the "Unit"). Issue price was \$0.25 per Unit. Proceeds net of issuance costs were \$1,463,530. The Company issued 6,720,000 warrants pursuant to the Unit Offering. Each warrant entitles the holder to purchase one common share at \$0.35 per share until March 19, 2020.

Pursuant to the Unit Offering on March 20, 2018, the Company issued 537,600 unit warrants to intermediaries as compensation for Unit placement. Each warrant entitles the holder to purchase one Unit at \$0.25 per Unit 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.

On December 17, 2018, the Company issued 2,200,000 options to directors, officers and consultants of the Company. Such options had an exercise price of \$0.25, a contractual life of five years and were vested 25% immediately and 25% on each of the next three anniversaries of issuance.

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 (the "March 2019 Private Placement"). Net proceeds after share issuance costs were \$1,151,532.

On July 17, 2019, the Company issued 250,000 options to a director of the Company. Such options had an exercise price of \$0.32, a contractual life of five years and were vested 25% immediately and 25% on each of the next three anniversaries of issuance.

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. Issue price was \$0.35 per unit. Proceeds, net of cash issuance costs, were \$3,689,557. Intermediaries that placed the 2019 Unit Offering received 534,986 warrants. All warrants issued pursuant to the 2019 Unit Offering have an exercise price of \$0.50 per share and a two-year term.

During the three months ended March 31, 2020, 1,046,255 common shares were issued pursuant to the exercise of warrants. Net proceeds were \$347,441.

### **Results of Operations, Cash Flows and Financial Position**

For the three months ended March 31, 2020 and 2019, the Company incurred losses of \$732,503 and \$284,830, respectively. The increase in the net loss reflects increased levels of corporate and research and development activity in all expense categories made possible by the 2019 Unit Offering. Stock-based compensation increased in the 2020 period due to warrant issuances to certain consultants in exchange for services. Professional fees in the 2019 period were associated with prospectus preparation and other activity related to the Company's listing on the Canadian Securities Exchange.

During the three months ended March 31, 2020, the Company renegotiated the terms of its loan to the Saskatchewan Minister of Agriculture, extending the term from February 1, 2020 to March 1, 2022. A gain on extinguishment of debt of \$105,194 was recorded to reflect the new terms.

Cash used in operating activities for the three months ended March 31, 2020 and 2019 was \$1,039,285 and \$257,558, respectively. The increase in 2020 was due to expenses related to

increased product development, business development and investor relations activities made possible by the 2019 Unit Offering.

Cash provided by financing activities for the three months ended March 31, 2020 and 2019 was \$383,441 and \$1,151,532, respectively. In 2020, the Company received \$347,441 on exercise of warrants and \$36,000 on collection of subscriptions receivable from the 2019 Unit Offering. In 2019, the Company received \$1,151,532 related to the March 2019 Private Placement.

Total assets decreased to \$3,751,331 at March 31, 2020 from \$4,092,666 at December 31, 2019 due to primarily to cash used to fund increased operations.

Total liabilities decreased to \$984,097 at March 31, 2020 from \$1,061,475 at December 31, 2019 primarily due to increased accounts payable related to increased activity levels and the gain on extinguishment of debt on the loan to the Saskatchewan Minister of Agriculture, offset by the accretion in the value of long-term debt.

### **Selected Quarterly Information**

The following selected financial data has been prepared in accordance with IFRS and should be read in conjunction with the Company's financial statements. All dollar amounts are in Canadian dollars.

Quarter Ended	Revenue \$	Income (loss) for the period \$	Income (loss) per Share (Basic & Diluted) \$
March 31, 2020	0	(732,503)	(0.02)
December 31, 2019	0	(485,972)	(0.02)
September 30, 2019	0	(409,891)	(0.02)
June 30, 2019	0	(337,345)	(0.01)
March 31, 2019	0	(284,830)	(0.01)
December 31, 2018	2,000	(280,778)	(0.01)
September 30, 2018	0	(223,156)	(0.01)
June 30, 2018	0	(176,678)	(0.01)

Net losses for the past eight quarterly periods have steadily increased due to increased product development, business development and investor relations activities.

### **Financial Condition, Liquidity and Capital Resources**

The Company's working capital at March 31, 2020 was \$3,429,075 including cash of \$3,372,969. The Company does not generate positive cash flows. The Company is reliant on equity financing to provide the necessary cash to acquire or participate in an active business. There can be no assurance that equity financings will be available to the Company in the future that will be obtained on terms satisfactory to the Company.

The Company has not entered into any off-balance sheet arrangements.

### **Related Party Transactions**

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).

### **Financial Instruments and Risk Management Fair Values**

The fair values of cash and equivalents, receivables, trade payables and long-term debt approximate their fair values because of their nature and relatively short maturity dates or durations. The long-term debt is valued using a discounted cash flow model 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).

#### **(a) Financial Risk Management**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company considers the fluctuations of financial markets and seeks to minimize potential adverse effects on financial performance.

#### **(b) Financial Instrument Risk Exposure**

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management process.

#### *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 obligation. 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.

### *Liquidity Risk*

#### *Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. Such fluctuations may be significant, but the Company is not currently subject to any such risks in a material way.

(i) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposits at its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

(ii) Foreign currency risk

The Company is not exposed to any material foreign currency risk on fluctuations in exchange rates.

(iii) Price risk

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

### **Contingencies**

The Company is not aware of any contingencies or pending legal proceedings as of the date of this MD&A.

### **Additional Share Information**

As at March 31, 2020 the Company had outstanding:

- (i) 37,371,339 common shares;
- (ii) 7,154,921 warrants convertible into shares; and
- (iii) 2,450,000 stock options convertible into shares.

## **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.

## **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.

On May 1, 2020, the Company also issued 1,400,000 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.

## **Disclaimer**

The information provided in this document is not intended to be a comprehensive review of all matters concerning the Company. It should be read in conjunction with all other disclosure documents provided by the Company, which can be accessed at [www.sedar.com](http://www.sedar.com). No securities commission or regulatory authority has reviewed the accuracy or adequacy of the information presented herein.

## **Cautionary Statement on Forward Looking Information**

Certain statements contained in this document constitute "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressly stated or implied.