

GABY Announces Second Quarter 2019 Financial Results

SANTA ROSA, CALIFORNIA and **CALGARY, ALBERTA** – August, 29, 2019 – Gabriella's Kitchen Inc. ("GABY" or the "Company") (CSE: GABY) (OTCQB: GABLF), a U.S.-focused CPG company operating in the regulated cannabis sector in California and the national mainstream grocery channel, today announced financial results for the three-month period ended June 30, 2019. GABY's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). All financial information presented in this release is in Canadian dollars (\$), unless otherwise noted.

“When we announced our target on May 7, 2019 of \$35 million in pro-forma revenue for the fiscal year, we took into account that Q2 would be a slower quarter due to the delayed closing of our \$20 million raise, the company's short-term decision to allocate available capital to maintain relationships and shelf space with dispensaries, and the transitioning from a shared distribution model in Southern California to a sole distribution model, staffed with our internal salespeople,” said Margot Micallef, Founder, and CEO of GABY. “On the back of our transition to a sole distributor model, we increased the number of California dispensaries we distribute to from 80 to 170 in the quarter. Backed by \$20 million in additional capital received in June, we acquired a 25,000 sq. ft. state of the art production facility in Sonoma, and we successfully completed the integration of Sonoma Pacific into GABY, aligning its platform with CPG best practices from inventory management to brand development, grassroots marketing, analytics-based decision making and relationship management at the retail level. We believe that with our statewide distribution network, our newly expanded procurement team, our third-party brands currently being distributed and our state-of-the-art production capabilities, GABY is well positioned to rapidly scale revenue in the 2nd half of 2019 and into 2020.”

Ms. Micallef continued, “Our team has a proven track record of building and scaling national CPG brands and I am particularly excited by the addition of Lulu's Chocolates to our brand portfolio. Edibles are one of the fastest growing subsegments of the cannabis market in California and Lulu's fulfils a specific customer need that is currently underserved. Lulu's Chocolates shares GABY's commitment to natural products, health and wellness, and diverse THC & CBD as well as uninfused products offerings. Lulu's space in the market dovetails perfectly with GABY's approach to growing brands in both the California regulated and national mainstream channels.”

Financial Highlights for the Second Quarter Ended June 30, 2019

The following are financial highlights of Gaby's operating results for the three months ended June 30, 2019 compared to the three months ended June 30, 2018:

- Revenue was \$2.5 million as compared to \$319,737
- Gross loss was \$49,712 as compared to \$264,607
- Operating expenses were \$4.5 million as compared to \$1.1 million

The following is a summary of key balance sheet items at June 30, 2019, compared to December 31, 2018:

- Cash was \$11.5 million as compared to \$53,658
- Total assets of \$37.3 million as compared to \$4.6 million

- Total working capital¹ of \$10.5 million as compared to (\$319,112)
- Total debt excluding lease obligations of \$1.9 million as compared to nil.

Corporate Highlights

- On April 1, 2019, GABY closed the acquisition of Sonoma Pacific Distribution
- On June 12, 2019, GABY closed a \$20 Million Private Placement
- On July 25, 2019, GABY closed the acquisition of Lulu's Chocolates, a California-Based Manufacturer of CBD and THC Infused Chocolates
- On July 26, 2019, GABY Acquired a 25,000 sq. ft. State-of-the-Art Production Facility enabling it to consolidate in due course all its current operating segments (manufacturing and distribution) and move into cultivation
- As of August 20, 2019, Lulu's CBD infused chocolates are now sold in over 300 mainstream retail locations in California

About Gabriella's Kitchen Inc.

GABY is a U.S.-focused, consumer packaged goods company operating a *family of brands* in the cannabis industry and in the mainstream grocery channel. Through its subsidiaries GABY indirectly holds a number of licenses and permits issued by the California Department of Health, the California Bureau of Cannabis Control and the County of Sonoma respectively, including manufacturing, distribution, cultivation and nursery licenses. With these licenses and permits to operate in the cannabis channel, and its existing infrastructure of major retailers and an extensive broker and distribution network in the mainstream channel, GABY has successfully brought a number of its proprietary, acquired and third-party brands to market in both the licensed and mainstream market.

Margot and her sister Gabriella co-founded GABY after Gabriella received a dire cancer diagnosis which spurred the sisters to prolong Gabriella's life through a holistic approach to health. Today, GABY is a wellness company with a diverse range of products that use cannabis, hemp and hemp derived cannabinoids to address a variety of dietary and health concerns. Although Gabriella ultimately passed away from her illness, she lived exponentially longer than doctors predicted. Her memory and passion live on through GABY's mission: to empower people to live healthy lives without compromise.

GABY's shares trade on the CSE under the symbol "GABY" and on the OTCQB under the symbol "GABLF". For more information, visit www.GABYInc.com

For further inquiries, please contact:

General

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¹ *Excluding: related party payables, promissory notes, convertible debentures and contingent consideration

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Disclaimer and Forward-Looking Information

The CSE does not accept responsibility for the adequacy or accuracy of this release. Certain information set forth in this news release may contain forward-looking statements that involve substantial known and unknown risks and uncertainties, certain of which are beyond the control of the Company. Forward-looking statements are frequently characterized by words such as "plan", "continue", "expect", "project", "intend", "believe", "anticipate", "estimate", "may", "will", "potential", "proposed" and other similar words, or statements that certain events or conditions "may" or "will" occur. These statements are only predictions. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Forward looking statements include, but are not limited to, the anticipated closing of additional acquisitions by the Company, the continued growth and expansion of the Company's operations, and the receipt of regulatory approvals, including the approval of the CSE. The Company assumes no obligation to update forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

Each of KJM Data and Research Inc., TOP and Sonoma Pacific are subsidiaries of GABY. Each of these subsidiaries hold cannabis licenses in the State of California. Unlike in Canada which has Federal legislation uniformly governing the cultivation, distribution, sale and possession of medical cannabis under the Cannabis Act (Federal), readers are cautioned that in the United States ("U.S."), cannabis is largely regulated at the State level. Cannabis is legal in the State of California however cannabis remains illegal under U.S. federal laws. Notwithstanding the permissive regulatory environment of cannabis at the State level, cannabis continues to be categorized as a controlled substance under the Controlled Substances Act in the U.S. and as such, cannabis-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis are illegal under U.S. federal law. To the knowledge of the Company, the businesses operated by each of GABY's subsidiaries are conducted in a manner consistent with the State law of California and are in compliance with regulatory and licensing requirements applicable in the State of California. However, readers should be aware that strict compliance with State laws with respect to cannabis will neither absolve GABY, or its subsidiaries of liability under U.S. federal law, nor will it provide a defense to any federal proceeding in the U.S. which could be brought against any of GABY, or its subsidiaries. Any such proceedings brought against GABY, or its subsidiaries may materially adversely affect the Company's operations and financial performance generally in the U.S. market specifically.

Neither the Canadian Securities Exchange nor its Regulation Services Provider accepts responsibility for the adequacy or accuracy of this release.

Condensed Interim Consolidated Statement of Loss and Comprehensive Loss

(Unaudited)	Three months ended June 30,		Six months ended June 30,	
<i>In Canadian dollars</i>	2019	2018	2019	2018
REVENUE				
Gross revenue	2,715,382	560,952	3,213,725	1,222,251
Promotional activity	(189,565)	(213,329)	(407,010)	(387,631)
Amortization of product listing fees	(24,148)	(27,886)	(48,051)	(57,564)
Total revenue	2,501,669	319,737	2,758,664	777,056
COST OF SALES				
Direct inventory costs	2,205,335	313,709	2,523,408	686,305
Variable gross profit	296,334	6,028	235,256	90,751
Allocated indirect costs	299,619	217,418	512,095	354,415
Distribution costs	46,427	53,217	99,380	114,023
Total cost of sales	2,551,381	584,344	3,134,883	1,154,743
Gross profit (loss)	(49,712)	(264,607)	(376,219)	(377,687)
Selling, general and administrative expenses	4,182,303	1,094,630	6,051,619	1,870,433
Share based compensation and expenses	206,056	-	379,352	-
Depreciation of plant and equipment	63,516	9,556	93,050	17,867
Amortization of intangibles	4,510	2,100	8,970	4,202
Loss from operations before the following:	(4,506,097)	(1,370,893)	(6,909,210)	(2,270,189)
Foreign exchange gain (loss)	(162,420)	(93,421)	(159,794)	(100,035)
Gain on conversion of debt	-	72,126	-	72,126
Interest expense	(269,796)	(146,396)	(297,332)	(154,874)
Interest income	-	791	3,828	791
Contract termination payment	-	(341,716)	-	(341,716)
Loss on inventory write-down	-	-	-	(55,976)
Total other expenses	(432,216)	(508,616)	(453,298)	(579,684)
Loss before income tax expense (recovery)	(4,938,313)	(1,879,509)	(7,362,508)	(2,849,873)
Current income tax expense	99,951	-	99,951	-
Deferred income tax recovery	(66,375)	-	(110,817)	-
Income tax expense	33,576	-	(10,866)	-
Net loss	(4,971,889)	(1,879,509)	(7,351,642)	(2,849,873)
Other comprehensive loss, net of tax				
Items that may be reclassified to net profit in the future:				
Exchange difference on translation	(80,652)	-	(123,283)	-
Total comprehensive loss	(5,052,541)	(1,879,509)	(7,474,925)	(2,849,873)

Net loss per share:				
Basic and diluted	(\$0.04)	(\$0.04)	(\$0.07)	(\$0.06)

Condensed Interim Consolidated Statements of Financial Position

	(Unaudited)	(Audited)
	June 30,	December 31,
<i>In Canadian dollars</i>	2019	2018
ASSETS		
Current		
Cash	11,536,085	53,658
Accounts receivable	6,657,861	367,590
Inventories	1,120,082	592,771
Prepaid expenses and deferred costs	654,613	236,259
	19,968,641	1,250,278
Non-current		
Due from related parties	61,677	-
Property and equipment	2,853,224	534,028
Intangible assets and goodwill	14,266,041	2,775,642
Security deposits	106,419	54,194
Total assets	37,256,002	4,614,142
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	8,814,317	1,510,790
Income taxes payable	178,545	-
Current portion of long-term debt	29,271	-
Current portion of lease liabilities	398,803	58,600
Current liabilities before the following:	9,420,936	1,569,390
Due to related parties	10,000	-
Promissory notes payable	1,055,794	-
Convertible debentures	739,008	-
Contingent consideration payable	5,500,640	1,615,392
	16,726,378	3,184,782
Non-current liabilities		
Lease liabilities	1,996,197	79,087
Long-term debt	90,411	-
Deferred lease inducement	-	46,942
Deferred tax liability	528,373	332,600
Total liabilities	19,341,359	3,643,411
SHAREHOLDERS' EQUITY		
Share issuance obligation	250,000	511,200
Share capital	40,400,168	18,218,110
Contributed surplus	3,768,642	1,270,663

Deficit	(26,506,265)	(19,154,623)
Accumulated other comprehensive income	2,098	125,381
	17,914,643	970,731
Total liabilities and shareholders' equity	37,256,002	4,614,142
Going concern		
Subsequent events		