GABRIELLA'S KITCHEN INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018
(in Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of Gabriella's Kitchen Inc. (the "Corporation") have been prepared by and are the responsibility of the Corporation's management.

The Corporation's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

GABRIELLA'S KITCHEN INC.

Condensed Interim Consolidated Statements of Financial Position

In Canadian dollars	Note	(Unaudited) June 30, 2019	(Audited) December 31, 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	4	**654,613**	236,259
		19,968,641	1,250,278
Non-current			
Due from related parties	7	**61,677**	-
Property and equipment	2,5	**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
LIABIITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	7	**8,814,317**	1,510,790
Income taxes payable		**178,545**	-
Current portion of long-term debt	10	**29,271**	-
Current portion of lease liabilities	12	**398,803**	58,600
Current liabilities before the following:		**9,420,936**	1,569,390
Due to related parties	7	**10,000**	
Promissory notes payable	8	**1,055,794**	-
Convertible debentures	7,9	**739,008**	-
Contingent consideration payable	11	**5,500,640**	1,615,392
		16,726,378	3,184,782
Non-current liabilities			
Lease liabilities	2,12	**1,996,197**	79,087
Long-term debt	10	**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	13	**250,000**	511,200
Share capital	14	**40,400,168**	18,218,110
Contributed surplus	14	**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	1		
Subsequent events	23		

See accompanying notes to the condensed interim consolidated financial statements

GABRIELLA'S KITCHEN INC.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Unaudited)		**Three months ended June 30,**		**Six months ended June 30,**	
In Canadian dollars	Note	**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	15	**2,205,335**	313,709	**2,523,408**	686,305
Variable gross profit		**296,334**	6,028	**235,256**	90,751
Allocated indirect costs	16	**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	17	**4,182,303**	1,094,630	**6,051,619**	1,870,433
Share based compensation and expenses	13	**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 (recovery)		**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	18	**($0.04)**	($0.04)	**($0.07)**	($0.06)

See accompanying notes to the condensed interim consolidated financial statements

GABRIELLA'S KITCHEN INC.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

(Unaudited) *In Canadian dollars*	**Note**	**Share issuance obligation**	**Share capital**	**Contributed surplus**	**Deficit**	**Accumulated other comprehensive income**	**Total**
Balance as at December 31, 2017		**-**	**6,544,097**	**-**	**(11,434,109)**	**-**	**(4,890,012)**
Net and comprehensive loss		-	-	-	(2,849,873)	-	(2,849,873)
Issuance of shares and warrants for cash		-	548,104	93,520	-	-	641,624
Issuance of shares and warrants – debt conversion		-	3,969,207	677,235	-	-	4,646,442
Issuance of warrants attached to convertible debentures		-	-	102,616	-	-	102,616
Share-based compensation		-	341,716	124,886	-	-	466,602
Balance as at June 30, 2018		**-**	**11,403,124**	**998,257**	**(14,283,982)**	**-**	**(1,882,601)**
Balance as at December 31, 2018		**511,200**	**18,218,110**	**1,270,663**	**(19,154,623)**	**125,381**	**970,731**
Net and comprehensive loss		-	-	-	(7,351,642)	(123,283)	(7,474,925)
Settlement of share-issuance obligation	13	(511,200)	511,200	-	-	-	-
Issuance of Units	14	-	17,977,518	1,997,502	-	-	19,975,020
Equity issuance costs	14	-	(1,339,710)	-	-	-	(1,339,710)
Issued on business acquisition	3	-	4,830,000	-	-	-	4,830,000
Warrant exercise		-	203,050	(1,400)	-	-	201,650
Share-based compensation	13	250,000	-	4,120	-	-	254,120
Stock option expense	13	-	-	375,232	-	-	375,232
Issuance of warrants attached to convertible debentures	14	-	-	81,900	-	-	81,900
Issuance of warrants attached to promissory notes	8	-	-	40,625	-	-	40,625
Balance as at June 30, 2019		**250,000**	**40,400,168**	**3,768,642**	**(26,506,265)**	**2,098**	**17,914,643**

See accompanying notes to the condensed interim consolidated financial statements

GABRIELLA'S KITCHEN INC.

Condensed Interim Consolidated Statements of Cash Flows

(Unaudited)		**Three months Ended June**		**Six months Ended June 30,**	
In Canadian dollars	Note	**2019**	2018	**2019**	2018
OPERATING ACTIVITIES					
Net loss		**(4,971,889)**	(1,879,509)	**(7,351,642)**	(2,849,873)
Adjustments to arrive at cash flow from operations:					
Deferred income tax recovery		**(66,375)**	-	**(110,817)**	-
Depreciation	5	**153,625**	37,665	**260,368**	74,083
Amortization of intangible assets		**4,510**	2,100	**8,970**	4,202
Interest expense		**248,742**	146,396	**297,332**	154,874
Interest income	6	**-**	(791)	**(3,828)**	(791)
Share-based payments		**4,120**	341,716	**4,120**	341,716
Share-based compensation	13	**201,936**	-	**375,232**	-
Gain on conversion of debt		**-**	(72,126)	**-**	(72,126)
Unrealized foreign exchange loss		**179,186**	-	**159,794**	-
Increase in deferred lease inducement	2	**-**	(123)	**-**	2,628
Cash used in operating activities before the following:		**(4,246,145)**	(1,424,672)	**(6,360,471)**	(2,345,287)
Net change in non-cash working capital related to operations		**(3,025,482)**	(526,308)	**(1,981,519)**	(118,246)
Cash used in operating activities		**(7,271,627)**	(1,950,980)	**(8,341,990)**	(2,463,533)
INVESTING ACTIVITIES					
Purchase of property and equipment	5	**(89,205)**	(38,595)	**(125,791)**	(43,771)
Issuance of notes receivable		**(1,650)**	(732,160)	**(500,175)**	(732,160)
Cash purchased in acquisition		**168,348**	-	**168,348**	-
Deposits paid		**(36,132)**	-	**(37,945)**	-
Cash provided (used) by investing activities		**41,361**	(770,755)	**(495,563)**	(775,931)
FINANCING ACTIVITIES					
Proceeds of promissory notes	8	**1,900,000**	387,960	**2,100,000**	387,960
Repayment of convertible debenture/ promissory notes		**(1,731,992)**	-	**(1,731,992)**	-
Repayments of callable debt		**-**	(258,400)	**-**	(258,400)
Proceeds on convertible debentures and attached warrants	9	**-**	6,151,904	**1,300,000**	6,151,904
Issuance costs paid – convertible debentures	9	**-**	(359,720)	**(8,019)**	(359,720)
Advances from (to) related parties, net	7	**(126,608)**	(95,775)	**(96,608)**	-
Repayment of long-term debt		**(4,492)**	-	**(4,492)**	(7,308)
Repayment of lease liabilities		**(80,171)**	(6,080)	**(137,598)**	(12,776)
Cash received for shares not yet issued		**-**	-	**-**	435,012
Warrant exercise		**201,650**	-	**201,650**	-
Issuance of common shares and warrants	14	**19,975,020**	-	**19,975,020**	-
Equity issuance costs	14	**(1,084,603)**	-	**(1,089,696)**	-
Interest paid		**(70,062)**	(11,027)	**(98,162)**	(19,505)
Cash provided by financing activities		**18,978,742**	5,808,862	**20,410,103**	6,317,167
Foreign currency translation adjustment		**(88,834)**	48,427	**(90,123)**	75,824
Net change in cash		**11,659,642**	3,135,554	**11,482,427**	3,153,527
Cash (bank indebtedness), beginning of period	6	**(123,557)**	(133,871)	**53,658**	(151,844)
Cash, end of period		**11,536,085**	3,001,683	**11,536,085**	3,001,683

See accompanying notes to the condensed interim consolidated financial statements, including Note 19

NATURE OF BUSINESS

Gabriella's Kitchen Inc. ("GABY" or "the Corporation") is incorporated in Canada under the Business Corporations Act of Alberta. The Corporation's registered office is 200, 209 – 8th Avenue SW, Calgary, Alberta T2P 1B8, Canada and it trades on the Canadian Securities Exchange ("CSE") under the symbol GABY. The Corporation is a wellness company that produces and markets health food products, topicals and tinctures in both Canada and the United States of America. Prior to October 1, 2018, the Corporation operated in the mainstream consumer packaged goods ("CPG") channel or unlicenced channel, with its offering of traditional better-for-you foods in both United States ("USA") and Canada. Subsequent thereto, through acquisition of The Oil Plant, Inc. ("TOP") on October 1, 2018 as described in the Corporation's annual consolidated financial statements dated December 31, 2018 ("Annual Financial Statements"); the April 1, 2019 acquisition of Sonoma Pac (see Note 3) plus the acquisitions described in Note 23, the Corporation now produces, markets, and distributes cannabis-related CPG in the USA.

1) GOING CONCERN

These interim condensed consolidated financial statements for the three and six months ended June 30, 2019 and 2018 ("Financial Statements") have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due.

The Corporation is in the initial growth stage of the business life cycle and has not yet reached a profitable level of operations. Until the Corporation reaches profitability, its ability to continue as a going concern is dependent upon the availability of operating and long-term financing. Management is continuing to address the need to increase revenue and control costs. As described in Note 14, in June 2019, the Corporation obtained equity financing and has entered into a letter of intent for an equity line of credit to fund future ongoing operations. With the resulting availability of working capital and access to the equity line of credit, the Corporation should have sufficient funds in place to fund operational losses for one year and beyond.

Should the Corporation be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they come due. These Financial Statements do not reflect adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Corporation was unable to realize its assets and settle its liabilities as a going concern in the normal course of operation. These adjustments could be material.

2) BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Statement of compliance

These Financial Statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim financial reporting.

These Financial Statements were approved and authorized for issue by the audit committee of the Corporation's board of directors ("Board") on August 28, 2019.

Basis of presentation

These Financial Statements have been prepared under the historical cost convention, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value, and are expressed in in Canadian dollars unless otherwise indicated. Other measurement bases used are detailed in the Corporation's Annual Financial Statements.

Certain comparative figures have been reclassified to conform to the current year's presentation.

The notes presented in these Financial Statements include only significant events and transactions occurring since the Corporation's last fiscal year end and are not fully inclusive of all matters required to be disclosed by IFRS in the Corporations annual consolidation financial statements. As a result, these Financial Statements should be read in conjunction with the Annual Financial Statements.

These Financial Statements follow the same accounting policies and methods of application as the most recent Annual Financial Statements except as noted below.

New accounting standards, interpretations and amendments adopted by the Corporation

IFRS 16, Leases, applies to annual reporting periods beginning on or after January 1, 2019 and was adopted by the Corporation pursuant thereto. IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The new accounting policy and the transitional provisions and disclosures are as follows:

Policy applicable from January 1, 2019
At inception of a contract, the Corporation assesses whether the contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for considerations. To assess whether a contract conveys the right to control the use of an identified asset, the Corporation assesses whether:

- The contract involves the use of any identified assets: this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Corporation has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Corporation has the right to direct the use of the asset. The Corporation has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Corporation has the right to direct the use of the asset if either:
    - The Corporation has the right to operate the asset; or
    - The Corporation designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after January 1, 2019.

At inception or on reassessment of a contract that contains a lease component, the Corporation allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Corporation has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Policy applicable before January 1, 2019
For contracts entered into before January 1, 2019, the Corporation determined whether the arrangement was or contained a lease based on the assessment of whether:

- The purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- The purchaser had the ability or right to control the physical asset while obtaining or controlling more than an insignificant amount of the output; or
- Facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

As a lessee
The Corporation recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received.

The right of use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term unless it is reasonably certain that the Corporation will purchase or receive title to the asset at or before the end of the lease term, in which case the asset is depreciated over its useful life regardless of the lease term. The estimated useful lives of right-of use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Corporation's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are comprised of the following:
- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and

- The exercise price under a purchase option that the Corporation is reasonably certain to exercise, lease payments in an option renewal period if the Corporation is reasonably certain to exercise and extension option, and penalties for early termination of a lease unless the Corporation is reasonably certain not to terminate early

The lease liability is measured at amortized costs using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Corporation's estimate of the amount expected to be payable under a residual value guarantee, or if the Corporation changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use assets, or is recorded in profit or loss if the carrying amount of the right-of-use assets has been reduced to zero.

The Corporation presents right-of-use assets that do not meet the definition of investment property in property and equipment and lease liabilities in lease liabilities in the statement of financial position.

Short-term leases and leases of low value assets

The Corporation has elected not to recognize right-of-use assets and lease liabilities for short-term leases of assets that have a lease term of 12 months or less and leases of low value assets including information technology equipment. The Corporation recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Initial adoption

Previously, the Corporation determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Corporation assesses whether a contract is or contains a lease based on the definition of a lease as described above.

On transition to IFRS 16, the Corporation elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not re-assessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1st 2019.

i. Leases classified as operating leases under IAS 17

As lessee, the Corporation previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Corporation. Under IFRS 16, the Corporation recognizes right-of-use assets and lease liabilities for most leases.

The Corporation elected to apply recognition exemptions to short-term leases of assets. For other leases which were classified as operating under IAS 17, the Corporation recognized right-of-use assets and lease liabilities.

In Canadian dollars, unless otherwise stated (Unaudited)

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Corporation's incremental borrowing rate as at January 1, 2019 ("**Discount Rate**"). Right-of-use assets are measured at either:

- Their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Discount Rate at the date of initial application; or
- An amount equal to the lease lability, adjusted by the amount of any prepaid or accrued lease payments.

The Corporation used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied a single discount rate to a portfolio of leases with similar characteristics;
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term;
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application;
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

ii. Leases previously classified as finance leases

For leases that were previously classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at January 1, 2019 are determined as the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

Impacts of initial adoption on the Financial Statements

On transition to IFRS 16, the Corporation recognized an additional $851,416 of right-of use assets and $898,358 of lease liability, with the difference of $46,942 reducing the deferred lease inducement liability to $nil.

When measuring the lease liabilities, the Corporation discounted lease payments using a Discount Rate at January 1, 2019. The weighted average rate applied was 11.2%.

	In $
Operating lease commitment at December 31, 2018 as disclosed in the Corporation's consolidated financial statements	**1,115,093**
Above discounted using the Discount Rate at January 1, 2019	**898,358**
Finance lease liabilities recognized as at December 31, 2018	**137,687**
Lease liabilities recognized at January 1, 2019	**1,036,045**

In Canadian dollars, unless otherwise stated (Unaudited)

3) BUSINESS ACQUISITION

a) Description of acquisition of Sonoma Pac

On, April 1, 2019, the Corporation acquired 100% of the issued and outstanding equity of Sonoma Pacific Distribution ("Sonoma Pac"), a cannabis distribution and marketing company. Through the acquisition, the Corporation has secured a Provisional Type 11 distribution licence ("Type 11 Licence") issued by the Bureau of Cannabis Control in the state of California; the distribution facility and related assets located in Santa Rosa, California; and the Sonoma Pacific brand under which a number of products are sold.

The Corporation is in the process of obtaining a valuation of the underlying assets of Sonoma Pac including its property, plant and equipment, intangibles (including the Type 11 Licence), the Sonoma Pacific brand, customer lists and goodwill, and is also determining Sonoma Pac's final working capital balances. The acquisition date fair value of the total consideration is as follows:

	Note	USD	Canadian $
14,719,567 common shares earned in respect of 2018 target	3 b)	3,087,250	4,121,479
Contingent consideration payable based on 2019 target	3 b)	3,467,057	4,628,521
Total estimated consideration		**6,554,307**	**8,750,000**
The amounts recognized as of the acquisition date are as follows:			
Cash		126,103	168,348
Accounts receivable – fair and gross value, estimate 100%		6,533,563	8,722,307
Inventory		991,858	1,324,130
Prepaid expenses and deposits		6,500	8,678
Plant and equipment		551,793	736,644
Security deposits		14,076	18,791
Intangibles – Type 11 Licence		1,000,000	1,335,000
Net deferred tax liability		(203,344)	(271,464)
Accounts payable and accrued liabilities		(9,087,393)	(12,131,670)
Income taxes payable		(99,706)	(133,108)
Due to related party		(122,173)	(163,101)
Lease liability		(549,637)	(733,765)
Long term debt		(21,506)	(28,711)
Note and amounts payable to the Corporation	3 e)	(375,000)	(500,625)
Net identifiable assets acquired		(1,234,866)	(1,648,546)
Add: Goodwill	3 d)	7,789,173	10,398,546
		6,554,307	**8,750,000**

b) Consideration including contingent consideration

The total consideration is payable in the Corporation's common shares and is contingent upon performance targets in respect of Sonoma Pac's calendar year of 2018 and 2019 as follows:

1) 2018 target: Based on Sonoma Pac's 2018 revenue of United States Dollars ("USD") 4,696,674 as reported in its audited financial statements for the year ended December 31, 2018, 14,719,567 Common Shares were payable in respect of performance targets (based on translation of USD to Canadian dollars ("CAD") at a rate of 1.30 and at

In Canadian dollars, unless otherwise stated (Unaudited)

a deemed price of CAD $0.4148 per common share. The common shares have been valued at the closing price of $0.28 at April 1, 2019.

2) 2019 target: The number of common shares issuable is equal to 0.35 times the increase in verifiable licenced revenue of Sonoma Pac for the year ended December 31, 2019 over 2018 verifiable licenced revenue attributable solely to the verifiable revenue generating assets of Sonoma Pac acquired by GABY ("2019 Earn-out") translated into Canadian dollars, divided by the volume weighted average price of the common shares for the 20-day period ending on the day following the public release of GABY's 2019 consolidated financial statements. The range of value of common shares to be issued is $nil to an unlimited amount. Based on initial assigned probabilities of different outcomes incorporating results reported by Sonoma Pac to date plus estimated verifiable revenue to the end of fiscal 2019 and an estimate of the percentage of the verifiable revenue generated from the revenue-generating assets of Sonoma Pac acquired by GABY, the Corporation anticipates that contingent consideration payable of USD 3,467,057 or CAD 4,628,521 is payable in respect of the 2019 target. Pursuant to the closing, 17,250,000 shares were issued in escrow ("Escrow Shares"), with the amount and timing of release thereof to Sonoma Pac shareholders subject to final verification of the 2019 Earn-out. Any Escrow Shares not released pursuant to the performance conditions, will be returned to treasury for cancellation. As there are 2,530,433 excess shares held in escrow in respect of meeting the 2019 target valued at $708,521, the Corporation has recorded additional contingent consideration payable of $3,920,000 to arrive at total contingent consideration of $4,628,521.

All of the common shares issued pursuant to this transaction are subject to a three year escrow from the date of issuance, pursuant to which 15% of the shares held in escrow will be released in equal tranches every six months.

c) Purchase consideration – cash inflow

In $	2019	2018
Cash consideration	**-**	-
Less cash acquired on acquisition	**168,348**	-
Net cash inflow – investing activities	**168,348**	-

d) Goodwill

The composition of goodwill, includes the knowledge and experience of Sonoma Pac in respect of distribution of cannabis products in the state of California; its established relationship with reputable cannabis cultivators and manufacturers, as well as the expected synergies from the combination of Sonoma Pac's distribution licence and the manufacturing, distribution and pending cultivation licences acquired subsequently, as described in Note 23, together with GABY's consumer packaged goods expertise. Any goodwill recognized would have $nil tax value.

e) Pre-existing arrangements

As a result of the acquisition, a 5% short-term note receivable plus interest receivable thereon, amounting to USD 375,000 (CAD 492,225) were eliminated on consolidation against the same amounts due from Sonoma Pac. The interest income and interest expense in respect of the 5% short-term note receivable/payable were eliminated on consolidation effective April 1, 2019. The short-term note payable by Sonoma Pac will be included in the determination of Sonoma Pac's net assets in the determination of goodwill.

f) Acquisition costs

Acquisition-related costs of $20,538 that were not directly attributable to the issue of shares are included in selling, general and administrative expenses in the statement of loss and comprehensive loss and in operating cash flows in the statement of cash flows.

g) Revenue and loss contribution

Revenue and net loss from the Sonoma Pac acquisition included in the results of the Corporation for the period from April 1, 2019 to June 30, 2019 were $2,136,706 and $1,080,964; respectively. The revenue and profit and loss of the combined entity as though the acquisition had occurred at the beginning of the annual reporting period has not been provided as it is impractical to provide.

As of the date of these consolidated financial statements, the determination of fair value of assets and liabilities acquired is based on preliminary estimates and has not been finalized.

4) PREPAID EXPENSES AND DEFERRED COSTS

Of the $654,613 of prepaid expenses and deferred costs included in the statement of financial position as at June 30, 2019 (December 31, 2018 - $236,259), $50,960 is expected to be recovered more than twelve months after the end of the reporting period (December 31, 2018 - $91,800).

In Canadian dollars, unless otherwise stated (Unaudited)

5) PROPERTY AND EQUIPMENT

		Net book value of Property and equipment				
In $	Note	Right-of use assets - facilities	Right-of use assets - equipment	Assets under finance lease	All other property and equipment	Total
Balance as at Dec 31, 2017		-	-	41,398	294,936	336,334
Purchase		-	-	35,945	5,176	41,121
Depreciation		-	-	(2,968)	(33,450)	(36,418)
Balance as at June 30, 2018		**-**	**-**	**74,375**	**266,662**	**341,037**
Balance as at Dec 31, 2018		-	-	**163,877**	**370,151**	**534,028**
Jan 1, 2019 adoption of IFRS	2	851,416	163,877	(163,877)	-	851,416
Additions		807,403	-	-	223,520	1,030,923
Acquired on business acquisition		695,977	-	-	40,667	736,644
Depreciation		(143,440)	(36,745)	-	(80,184)	(260,369)
Effect of foreign exchange		(30,586)	-	-	(8,832)	(39,418)
Balance as at June 30, 2019		**2,180,770**	**127,132**	**-**	**545,322**	**2,853,224**

6) BANK INDEBTEDNESS

A demand operating loan has been authorized by TD Canada Trust to a maximum of $150,000 (2018 - $150,000), which bears interest at the bank's prime lending rate plus 3.00% per annum and is secured by a general security agreement and an assignment of insurance. The prime rate at June 30, 2019 and December 31, 2018 was 3.95%. No amounts were outstanding under the demand operating loan as of June 30, 2019 and December 31, 2018.

In Canadian dollars, unless otherwise stated (Unaudited)

7) RELATED PARTY TRANSACTIONS

These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. No amounts are owing to or owing from the related parties in respect of the transactions unless otherwise referenced in the table below.

June 30,	Three months ended		Six months ended	
In $	**2019**	**2018**	**2019**	2018
a. Amounts included in Operating expenses:				
Compensation of key management personnel[1]				
Cash compensation for services provided by separate management entities, which are also corporate shareholders	106,932	75,000	225,381	149,999
Cash compensation to remaining key management personnel	164,732	-	330,940	-
Share-based compensation to shareholders and directors	144,382	-	271,144	-
Total compensation of key management personnel	416,046	75,000	827,465	149,999
Other expenses on behalf of the Corporation by a corporate shareholder and an entity related by common ownership	115,395	31,360	198,786	72,574
Rent paid to a company controlled by an officer and director	10,968	-	21,937	-
b. Amounts included in Cost of sales:				
Royalty and licensing fees paid to a company controlled by a close family member of certain key management personnel	13,936	-	16,915	-
c. Amounts included in Interest expense:				
Interest on convertible debentures to directors and entities controlled by directors	12,665	-	17,352	-
Interest on convertible debentures to entity controlled by person related to officer and director of the Corporation	1,640	-	2,328	-
Interest payable to a director in respect of a short term promissory note as described in Note 8	1,752	-	1,752	-
Interest on callable debt to shareholders and an entity related by common ownership		7,086	-	10,119

[1] Key management personnel consist of those that have the authority and responsibility for planning, directing and controlling the activities of the Corporation, which includes the most senior executive team and the Board.

In Canadian dollars, unless otherwise stated (Unaudited)

d. Due to related parties included in statement of financial position	June 30, 2019	Dec 31, 2018
Included in due from related parties:		
Advance due to director of the Corporation	61,677	-
Included in debentures payable:		
To directors and entities controlled by directors	200,000	-
Included in accounts payable and accrued liabilities		
Compensation payable to key management personnel or their separate management entities	282,838	145,866
Interest payable in respect of c) above	9,945	-
Rent payable to a company controlled by an officer and director	-	3,586
Amounts due on reimbursements of other expenses in a) above	279,800	106,442
Royalties and licensing fees payable to a company controlled by a close family member of certain key management personnel	25,012	9,516
Included in promissory note (see Note 8)		
Promissory note and interest due to a director repaid July 2019	201,752	-
Promissory note and interest due to an employee of Sonoma Pac	116,022	-
Included in due to related party		
Non-interest-bearing advance from director and officer	10,000	-

In Canadian dollars, unless otherwise stated (Unaudited)

8) PROMISSORY NOTES PAYABLE

	In $	
	June 30, 2019	Dec 31, 2018
(a) Promissory note payable, including interest accrual of $1,752	**201,752**	-
(b) Promissory note payable, including interest accrual of $6,890	**456,890**	-
(c) Promissory notes payable, including interest accrual of $31,130	**281,130**	-
(d) Series of promissory notes payable totaling USD 83,113	**116,022**	-
	1,055,794	-

a) Demand promissory note accrues interest at a rate of prime plus 3% per annum compounded annually, and can be repaid at any time without penalty. The note and interest was repaid in July 2019.

b) The promissory note accrues interest at a rate of 5% per annum compounded annually, has a three-month initial term ending July 25, 2019, and can be repaid at any time without penalty. After the initial term has ended, the note is automatically extended and becomes payable on demand.

c) These promissory notes accrue interest at a rate of 12% per annum compounded annually, and can be repaid at any time without penalty subject to a minimum of 1% interest on the principal. The initial term of the notes has ended, and the notes are now payable on demand. The counterparties of these notes received a loan fee of 3% of the principal, as well as an aggregate total of 312,500 warrants as incentive to issue the notes (see note 12).

d) This series of promissory notes was acquired through the business acquisition of Sonoma Pac. The notes accrue interest at a rate of 10% per annum compounded annually, have twelve-month initial terms, and can be repaid at any time subject to payment of the full 10% interest on the principal regardless of early repayment. After the initial term has ended, the notes may be extended by written agreement. The notes and interest were repaid in July 2019.

In Canadian dollars, unless otherwise stated (Unaudited)

9) CONVERTIBLE DEBENTURES

The Corporation received gross proceeds of $1,300,000 from a non-brokered private placement of 1,300 units ("Units") of the Corporation at a price of $1,000 per Unit ("Offering"). Each Unit is comprised of a secured convertible debenture in the principal amount of $1,000 ("Debentures") and 500 common share purchase warrants ("Purchase Warrants") (See Note 14). The Debentures accrue interest at a rate of 15% per annum and mature March 1, 2021. The principal of the Debentures, plus any accrued and unpaid interest thereon, are redeemable by the Corporation and retractable by the holder of the Debenture, at the option of such party, at any time after May 30, 2019 up to and including March 1, 2021. Over that same time period, the holder of the Debenture also has the option to convert the principal amount of the Debentures, plus any accrued and unpaid interest thereon, at the greater of: (i) $0.37; or (ii) the last closing price of the Corporation's common shares. The debentures are secured by a general security agreement granted by the Corporation.

The convertible debentures were separated into their liability and equity components using the effective interest method. The fair value of the liability component was determined based on an estimated rate of 18.95% for convertible debentures without the conversion or attached Purchase Warrants. The Corporation determined no value is attributable to the conversion feature. The difference between the proceeds received on the Units and the fair value of the convertible debentures was attributed to the Purchase Warrants as follows:

As at March 1, 2019	**In $**
Convertible debenture fair value	**1,218,100**
650,000 Purchase Warrants	**81,900**
Total proceeds received	**1,300,000**

The Corporation incurred legal fees of $8,019 in respect of the issuance of the Units, which were netted against the convertible debenture and accreted as interest expense. Total interest for the three and six month period ended June 30, 2019 relating to the convertible debentures, including coupon interest and accretion of issuance costs and debenture discount, is $82,986 and$102,983; respectively, (2018 - $nil for both periods).

The following table summarizes the outstanding balance and changes in the amounts recognized in the components of the convertible debentures during the periods:

	In $	
	June 30, 2019	June 30, 2018
Beginning balance	**-**	-
Gross proceeds received	**1,300,000**	-
Issue costs - legal	**(8,019)**	-
Equity component – 650,000 warrants	**(81,900)**	-
Liability component initially recognized	**1,210,081**	-
Repayments	**(512,992)**	
Interest accretion expense on warrants and legal	**41,919**	-
Ending balance of convertible debentures	**739,008**	-

In Canadian dollars, unless otherwise stated (Unaudited)

10) LONG TERM DEBT

Long term debt consists vehicle finance loans secured by the vehicles financed as follows:

Repayable in monthly instalments, including interest	Interest	Matures	In $ June 30, 2019	Dec 31, 2018
USD 448	4.9%	Sept 2023	**26,812**	-
USD 875	1.9%	April 2023	**50,891**	-
USD 707	1.9%	April 2023	**41,979**	-
			119,682	-
Less: current portion			**(29,271)**	-
			90,411	-

11) CONTINGENT CONSIDERATION PAYABLE

Contingent Consideration in respect of:	Note	In $ June 30, 2019	Dec 31, 2018
Sonoma Pac acquisition	3	**3,920,000**	-
TOP acquisition	See below	**1,580,640**	1,615,392
		5,500,680	1,615,392

Pursuant to the TOP acquisition as described in the Annual Financial Statements, the Corporation recorded contingent consideration payable of USD 1,184,000 as of December 31, 2018. The contingent consideration amount of up to USD 1,850,000 will be adjusted by the proportionate percentage by which TOP achieves a revenue target of USD 10,000,000 in fiscal 2019 (subject to a maximum of 100%) ("Earnout"). The range of value of common shares to be issued is USD 7,539 to USD 1,850,000 or CAD 10,022 to CAD 2,459,390 using the USD/CAD exchange rate on June 30, 2019 and revenue recognized by TOP for the six months ended June 30, 2019. Based on the assigned probabilities of different outcomes, the recorded contingent consideration payable of USD 1,184,000, which assumed achievement of 64% of the Earnout, remains unchanged from the original estimate. As the number of shares issuable in respect of the contingent consideration is variable, it was recorded as a liability and is remeasured at each reporting date, with changes recognized in profit or loss until the final share-based consideration is determined. At June 30, 2019, the contingent consideration payable was adjusted to $1,580,640 (December 31, 2018 - $1,615,392) to reflect the period-end foreign exchange rate. The resulting foreign exchange gain of $34,752 is included in the foreign exchange gain (loss) for the six months ended June 30, 2019 (June 30, 2018 - $nil). Each 10% increase or decrease in the assumed percentage of achieving the Earnout would result in a corresponding increase (decrease) of USD 185,000 (CAD 245,939 based on the period-end exchange rate) in the contingent liability and loss, subject to the minimum and maximum amounts described above.

In Canadian dollars, unless otherwise stated (Unaudited)

12) LEASE LIABILITIES

The Corporation is obligated under various lease agreements as described in the Annual Financial Statements. A reconciliation of the balance of lease liabilities as at June 30, 2019 is as follows:

	In $
Lease liabilities recognized at January 1, 2019 (Note 2)	**1,036,045**
Lease liabilities recognized after January 1, 2019:	
Acquired on business acquisition	**733,765**
Additions related to new lease agreements	**794,942**
Total cash outflows for leases	**(323,565)**
Variable lease payments not included in the measurement of lease liabilities	**102,710**
Portion of lease payments allocated to interest expense	**83,446**
Effects of changes in foreign exchange rate	**(32,343)**
Lease liabilities at June 30, 2019	**2,395,000**
Current portion of lease liabilities	**(398,803)**
Lease liabilities (non-current) as at June 30, 2019	**1,996,197**

13) SHARE-BASED PAYMENTS AND SHARE ISSUANCE OBLIGATION

Amounts recognized from share-based payment transactions recognized are as follows for periods ended June 30th:

		Three months ended		Six months ended	
In $	Note	**2019**	2018	**2019**	2018
Operating expenses:					
Stock option plan employee compensation and consulting fees	a	**201,936**	-	**375,232**	-
Consulting fees to be settled through issuance of warrants	b	**4,120**	-	**4,120**	-
Other expenses:					
Contract termination payment	c	**-**	341,716		341,716
Total share-based compensation included in net loss		**206,056**	**341,716**	**379,352**	**341,716**
Total share-based compensation netted against common shares	d	**250,000**	**-**	**250,000**	**-**

In Canadian dollars, unless otherwise stated (Unaudited)

a. Stock option plan

Set out below are summaries of options granted under the Corporation stock option plan:

	Six months ended June 30, 2019		Twelve months ended December 31, 2018	
	Average exercise price per option in $	**Number of options**	**Average exercise price per option in $**	**Number of options**
Opening	**$0.39**	**3,375,000**	-	-
Granted	**$0.50**	**5,835,000**	$0.39	3,375,000
Exercised	**-**	**-**	-	-
Expired	**-**	**-**	-	-
Forfeited	**-**	**-**	-	-
Closing	**$0.46**	**9,210,000**	**$0.39**	**3,375,000**
Vested and exercisable at period end	**$0.36**	**916,667**	**$0.36**	**908,333**

Share options outstanding as at June 30, 2019 and December 31, 2018 have the following range of exercise prices and weighted average remaining contractual life:

	June 30, 2019		December 31, 2018	
Exercise price	**Number**	**Weighted average contractual life in years**	**Number**	**Weighted average contractual life in years**
$0.2856	1,775,000	4.18	1,775,000	4.68
$0.3500	25,000	4.83	-	-
$0.5000	7,410,000	9.30	1,600,000	8.89
	9,210,000	**8.31**	**3,375,000**	**6.68**

In Canadian dollars, unless otherwise stated (Unaudited)

Fair value of options granted

The options are granted for no consideration. The fair value of the options granted during the period ended June 30, 2019 of $0.15 per option (June 30, 2018 – not applicable) was determined using the Black Scholes Model which takes into account the following inputs:

Grant dates	Exercise price	Share price at measurement date	Average Risk free interest rate[1]	Expected volatility[2]	Expected life in years	Expected dividend yield
Jan 2019	$0.50	$0.29	1.90%	80%	5	0%
April 2019	$0.35	$0.35	1.53%	80%	5	0%

[1] Based on interest rates of Government of Canada Bonds with similar maturity at the date of grant

[2] Estimated by considering industry share price volatility. The expected volatility reflects the assumption that the historical volatility over a period similar to the expected life of the options is indicative of future trends, which may not necessarily be the actual outcome.

The amount included in operating expenses for directors', officers' and consulting services received for the three and six months ended June 30, 2019 is $201,936 and $375,232; respectively; (June 30, 2018 - $nil for both periods) and is classified as contributed surplus on the Corporation's consolidated statement of financial position.

b. Warrants issuable for services

On April 30, 2019 the Corporation issued a total of 600,000 warrants in five tranches as partial compensation for services from a consultant providing similar services to employees. Accordingly, the Corporation measured the fair value of service received by reference to the fair value of the warrants granted determined using the Black-Scholes Model which takes into account the following inputs for all tranches: Share price at measurement date of $0.28, average risk-free interest rate of 1.49% based on interest rates of Government of Canada Bonds with similar maturities at the date of grant; expected volatility of 80% consistent with assumptions in a above, expected dividend yield of 0% and expected life in years and probability of attaining the market performance condition ("**Market Probability**") as outlined in table below.

In Canadian dollars, unless otherwise stated (Unaudited)

Each warrant has a three year life and is exercisable into one common share for $0.50 per warrant upon the common shares reaching varying targets of volume weighted average price over 20 consecutive days (**"Target VWAP")** as outline in the table below.

Number of Warrants in each Tranche	Target VWAP	Expected life in years	Market Probability
100,000	$0.75	2	36%
100,000	$1.00	3	4%
100,000	$1.25	3	0%
150,000	$1.50	3	0%
150,000	$1.75	3	0%
600,000			

The resulting amount included in operating expenses for the consultant's services for the three and six months ended June 30, 2019 is $4,120 (June 30, 2018 - $nil).

c. Shares issued for services

On January 21, 2019 the Corporation issued 1,383,800 common shares to settle the share issuance obligation of $511,200 recorded in Shareholder's Equity at December 31, 2018.

On June 30, 2018, the Stem for Life Foundation ("SFL") was issued 1,400,070 Common Shares of the Corporation in exchange for terminating a sponsorship agreement with the Corporation. Under the sponsorship agreement, the Corporation received certain sponsorship and promotional rights and opportunities provided by SFL, in exchange for a future donation should the Corporation undergo a form of liquidity event as defined in the agreement, with such amount determined in varying amounts depending on the value of the Corporation. Due to the unique nature of the contract and given that the promotional services received to date are difficult to fair value, the fair value of the payment was determined in reference to the fair value of the 1,400,700 Common Shares issued at $0.24 per share based on the aforementioned share issuances during 2018, for a total of $341,716, recorded as "Contract termination payment" on the statement of loss and comprehensive loss for both the three and six month period ended June 30, 2018.

d. Shares issuable for services in respect of share issuance

In May 2019, the Corporation entered into an arrangement for a consultant to provide services directly in respect of the private placement as described in Note 14. In exchange for the services, the Corporation agreed to issued 833,333 common shares to the consultant. As the fair value of the services cannot be estimated reliably, the Corporation measured the fair value of the services based on the fair value of the common shares on the date that the agreement was entered into. The resulting amount of $250,000 was recorded as a share issuance obligation in shareholders' equity, as the amount of shares issuable pursuant to the agreement was fixed, and a corresponding amount was reflected as a deduction from the proceeds of common shares issues pursuant to the private placement.

In Canadian dollars, unless otherwise stated (Unaudited)

14) SHARE CAPITAL AND CONTRIBUTED SURPLUS

Authorized share capital – unlimited number of shares without nominal or par value:

Unlimited number of Class A common voting shares

Unlimited number of Class B non-voting, retractable, redeemable, preferred shares, issuable in series

A reconciliation of the Corporation's Common shares and Contributed surplus is as follows:

	Share Capital		Contributed Surplus							
	Class A common voting shares		Warrants[b]		Compensation Warrants[c]		Conversion feature debentures	Stock option plan	Total	Total transaction
	Number	$	Number	$	#	$	$	$	$	$
Opening January 1, 2018[a]	**45,310,370**	**6,544,097**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,544,097**
Issued with application of Subscription Liability Proceeds	2,360,796	576,199	2,360,796	98,313	-	-	-	-	98,313	674,512
Issued on callable debt and due to related party balance conversion	16,781,501	4,095,883	16,781,501	698,822	-	-	-	-	698,822	4,794,705
Issued with convertible debentures	-	-	22,225,000	57,087	-	-	45,529	-	102,616	102,616
Debenture conversion	22,226,092	5,861,289	-	-	-	-	(45,529)	-	(45,529)	5,815,760
Issued to agents on convertible debenture issue	1,076,776	262,794	1,076,776	44,841	482	80,045	-	-	124,886	387,680
Issued to Stem for Life	1,400,070	341,716	-	-	-	-	-	-	-	341,716
Warrant exercise	210,000	78,240	(210,000)	(540)	-	-	-	-	(540)	77,700
Issued on business acquisition	1,115,178	457,892	-	-	-	-	-	-	-	457,892
Stock option plan expense	-	-	-	-	-	-	-	292,095	292,095	292,095
Closing, Dec 31, 2018	**90,480,783**	**18,218,110**	**42,234,073**	**898,523**	**482**	**80,045**	**-**	**292,095**	**1,270,663**	**19,488,773**
Settlement of share-issuance obligation (Note 11b)	1,383,800	511,200	-	-	-	-	-	-	-	511,200
Issuance of Units (Note 13 d)	66,583,400	17,977,518	33,291,693	1,997,502	-	-	-	-	1,997,502	19,975,020
Equity issuance costs (Note 13 d)	-	(1,339,710)	-	-	-	-	-	-	-	(1,339,710)
Stock option expense (Note 11a)	-	-	-	-	-	-	-	375,232	375,232	375,232
Issuance of warrants attached to convertible debentures (Note 9)	-	-	650,000	81,900	-	-	-	-	81,900	81,900
Issuance of warrants attached to promissory notes(Note 8)	-	-	312,500	40,625	-	-	-	-	40,625	40,625
Issued on business acquisition (Note 3)	17,250,000	4,830,000	-	-	-	-	-	-	-	4,830,000
Warrant exercise	545,000	203,050	(545,000)	(1,400)	-	-	-	-	(1,400)	201,650
Stock-based compensation	-	-	600,000	4,120	-	-	-	-	4,120	4,120
Closing June 30, 2019	**176,242,983**	**40,400,168**	**76,543,266**	**3,021,270**	**482**	**80,045**	**-**	**667,327**	**3,768,642**	**44,168,810**

In Canadian dollars, unless otherwise stated (Unaudited)

a. Class A common voting shares stock split

On April 18, 2018, the shareholders of the Corporation authorized a 7-for-1 stock split of the Corporation's Common Shares. All shares and loss per share information have been retroactively adjusted to reflect the increase in the number of common shares and SARS (Note 21) from the stock split.

b. Warrants

Warrants outstanding as at June 30, 2019 and December 31, 2018 have the following range of exercise prices and weighted average remaining contractual lives:

	June 30, 2019			December 31, 2018		
Exercise price	**Number**	**Vested**	**Weighted average contractual life in years**	**Number**	**Vested**	**Weighted average contractual life in years**
$0.37	41,689,073	41,689,073	1.16[1]	42,234,073	42,234,073	1.66
$0.37	650,000	650,000	1.67	-	-	n/a
$0.38	312,500	312,500	1.91	-	-	n/a
$0.38	33,291,693	33,291,693	1.95[2]	-	-	n/a
$0.50	600,000	-	2.84	-	-	n/a
	76,543,266	**75,943,266**	**1.53**	**42,234,073**	**42,234,073**	**1.66**

[1] The Corporation may accelerate the expiry date of the 41,689,073 warrants upon 30 days written notice to the holders.

[2] If before December 12, 2019, the volume-weighted average trading price of the Corporation's common shares is equal to or greater than $0.55 for any five consecutive trading days, the Corporation may accelerate the expiry of the 33,291,693 warrants upon 30 days written notice to the holders.

The fair value assigned to the warrants issued during the period as outlined in the table above were determined using the Black Scholes Model which takes into account the following inputs:

Grant date	**Exercise price**	**Share price at measurement date**	**Average Risk free interest rate[1]**	**Expected volatility[2]**	**Expected life in years**	**Expected dividend yield**
March & May, 2019	$0.37	$0.325 - $0.35	1.50%	80%	2.0	0%
April 2019[3]	$0.50	$0.32	1.49%	80%	2 - 3	0%
June 2019	$0.38	$0.42	1.49%	80%	0.5	0%

[1] Based on interest rates of Government of Canada Bonds with similar maturity at the date of grant
[2] Estimated by considering industry share price volatility. The expected volatility reflects the assumption that the historical volatility over a period similar to the expected life of the options is indicative of future trends, which may not necessarily be the actual outcome.
[3] In addition, assumes probability of exercise based on meeting market vesting conditions as outlined in Note 13 b ranging from 0% to 36%

c. Compensation Warrants

Each Compensation Warrant entitles the holder thereof to acquire 3,500 Common Shares and 3,500 Warrants at a price of $1,000, or effectively one Common Share and one Warrant at a combined price of $0.2857 per share up to June 13, 2020. The Warrants issuable pursuant to the exercise are subject to the same conditions and terms of the Warrants described above. The average remaining weighted life of the Warrants is 0.96 years.

d. Private Placement

On June 12, 2019 the Corporation completed a private placement for gross proceeds of $19,975,020 through the issuance of 66,666,733 units of the Company ('PP Units"). Each PP Unit consists of one common share and one-half warrant. Each whole warrant is exercisable into one common share at an exercise price of $0.38 per share up to June 12, 2021, provided, however, that if, before December 12, 2019, the VWAP of the Corporation's common shares is equal to or great than $0.55 for any five consecutive trading day period, the Corporation may upon 30 days written notice to the holders, accelerate the expiry date of the warrants. The Corporation allocated the proceeds between the common shares and warrants based on the relative fair value of the common shares on the date of issue.

e. Share issue costs

The Corporation incurred share issue costs of $5,093 in legal fees in respect of the 1,383,000 common shares issued to settle a share issuance obligation and $1,334,617 in respect of the PP Units comprised of legal fees and commission of $1,084,617 plus share based compensation for services of $250,000 as described in Note 13 d.

f. Equity line of credit

Effective April 2, 2019, the Corporation signed a term sheet that would give it the right, but not the obligation, to issue up to USD 10,000,000 of its common shares to an investor ("Investor") over the course of one year ending April 2, 2020 ("Equity LOC"). GABY has full control and discretion over the timing and amount of any common shares that they sell to the Investor. The purchase price of the shares will be calculated as 85% of the average of the highest four of the eight lowest daily low trading prices of GABY's common shares over the ten consecutive trading days following a put request, subject to the lowest price permitted by the CSE. In consideration for entering into the Equity LOC, the Corporation will issue common shares representing 5% of the total Equity LOC.

In Canadian dollars, unless otherwise stated (Unaudited)

15) DIRECT INVENTORY COSTS

June 30,	Three months ended		Six months ended	
In $	**2019**	2018	**2019**	2018
Balance comprised of:				
Salaries and benefits	**390,464**	94,470	**516,800**	270,499
Direct material	**1,679,113**	219,239	**1,854,136**	415,806
Other direct costs	**135,758**	-	**152,472**	-
	2,205,335	313,709	**2,523,408**	**686,305**

16) ALLOCATED INDIRECT COSTS

June 30,	Three months ended		Six months ended	
In $	**2019**	2018	**2019**	2018
Balance comprised of:				
Employee salaries, wages and benefits	**52,792**	72,304	**103,084**	127,198
Production facility costs	**160,507**	70,803	**255,962**	102,914
Depreciation of production equipment	**51,897**	29,069	**77,162**	48,218
Other overhead costs	**34,423**	45,242	**75,887**	76,085
	299,619	217,418	**512,095**	**354,415**

17) SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

June 30,	Three months ended		Six months ended	
In $	**2019**	2018	**2019**	2018
Balance comprised of:				
Employee salaries and benefits	**1,281,468**	322,869	**1,876,361**	631,495
Consulting fees	**1,237,638**	193,265	**1,654,208**	261,187
Administrative costs	**1,079,316**	128,005	**1,463,362**	329,711
Advertising and promotion	**102,362**	84,262	**203,856**	165,219
Selling costs	**152,688**	33,902	**305,755**	75,890
Professional fees	**328,831**	332,327	**548,077**	406,931
	4,182,303	1,094,630	**6,051,619**	**1,870,433**

In Canadian dollars, unless otherwise stated (Unaudited)

18) LOSS PER SHARE

Basic loss per share is calculated by dividing the net loss by the weighted average number of shares outstanding during the year. The potentially dilutive common shares issuable on the outstanding Warrants, Compensation Warrants and Stock Options are non-dilutive and are therefore excluded from the diluted loss per share for the periods in which they were outstanding. The weighted average numbers of shares outstanding for the three and six months ended June 30, 2019 was 123,135,073 and 107,433,305 (2018 – 50,829,106 and 48,084,983).

19) NON-CASH TRANSACTIONS

Non-cash transactions took place during the three- and six-month periods ended as follows:

	June 30, 2019, In $	3 Months	6 Months
1	Lease capitalization		
	Increase in lease liability	**783,753**	**783,753**
	Increase in right-of-use assets	**796,024**	**796,024**
	Decrease in prepaid expenses	**12,271**	**12,271**
2	Settlement of share issuance obligation through issuance of shares:		
	Decrease in share issuance obligation	**-**	**511,200**
	Increase in common shares	**-**	**511,200**
3	Business acquisition – Sonoma Pac		
	Increase in subsidiary investment (eliminated on consolidation)	**8,750,000**	**8,750,000**
	Increase in contingent consideration	**3,920,000**	**3,920,000**
	Increase in share capital	**4,830,000**	**4,830,000**
4	Shares for services		
	Increase in share issuance obligation	**250,000**	**250,000**
	Decrease in share capital	**250,000**	**250,000**
	Increase in contributed surplus	**4,120**	**4,120**
	Increase in expenses –share-based payments	**4,120**	**4,120**
6	Direct financing of capital assets		
	Increase in long-term debt	**97,729**	**97,729**
	Increase in capital assets	**97,729**	**97,729**

In Canadian dollars, unless otherwise stated (Unaudited)

	June 30, 2018, In $	3 Months	6 Months
1	Assets under finance lease and finance lease obligations were recognized in equal and offsetting amounts of	-	35,945
2	Conversion of callable debt to share capital and warrants:		
	Decrease in callable debt	4,718,568	4,718,568
	Increase in share capital	3,969,207	3,969,207
	Increase in contributed surplus	677,235	677,235
	Recognition of gain on conversion of debt	72,126	72,126
3	Issuance of shares and warrants previously paid for:		
	Decrease in share issuance liability	641,624	641,624
	Increase in share capital	548,104	548,104
	Increase in contributed surplus	93,520	93,520
4	Convertible debentures issued in exchange for receivables (cash not received by June 30):		
	Increase in convertible debentures	198,096	198,096
	Increase in accounts receivable	89,096	89,096
	Increase in due from related party	109,000	109,000
5	Deferred costs of issuance of convertible debentures which were not paid in cash by June 30:		
	Decrease in convertible debentures	677,360	677,360
	Increase in accounts payable	84,450	84,450
	Increase in due to related party	205,230	205,230
	Increase in share capital	262,794	262,794
	Increase in contributed surplus	124,886	124,886

20) FAIR VALUE OF FINANCIAL INSTRUMENTS

The Corporation's current financial instruments include cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, income taxes payable, promissory notes and convertible debentures and are measured at amortized cost. The carrying value of these instruments approximates their fair value due to their short-term maturities. The Corporation's non-current financial instruments include long term debt, which is measured at amortized cost.

21) STOCK APPRECIATION RIGHTS

In the three and six-month period ended June 30, 2019 the Corporation issued respectively, 140,000, and 3,955,000 stock appreciation rights (SARs) to employees, consultants, and vendors of the Corporation (4,930,331 issued the year ended December 31, 2018). Total issued SARs units outstanding as at June 30, 2019 was 14,028,000. The SARs hold no value until a liquidity event occurs, defined in the SARs Plan as either the sale of all or substantially all of the assets or shares of the corporation. As of June 30, 2019, no liquidity event has occurred.

In Canadian dollars, unless otherwise stated (Unaudited)

22) SEGMENTED INFORMATION

The Corporation's chief operating decision makers are the Chief Executive Officer, President and Chief Operating Officer, and Chief Financial Officer. They review the operating performance of the Corporation by two segments comprised of licenced and unlicenced channels, both of which are in the manufacturing, distribution and marketing of wellness products to address a variety of dietary and health concerns. The licenced channel includes cannabis-related products to which the manufacturing, sale and distribution are subject to regulation. The unlicenced channel includes all other wellness products not subject to the licensing requirements in respect of cannabis. The accounting policies of the segments are the same as those described in the summary of significant accounting policies contained in the Annual Financial Statements. The chief operating decision makers utilize gross profit as a key measure in making operating decisions and assessing performance. Information by segment is as follows:

Three month period ended	Licenced		Unlicenced		Total	
June 30, in $	**2019**	2018	**2019**	2018	**2019**	2018
Gross revenue	**2,132,827**	-	**582,555**	560,952	**2,715,382**	560,952
Promotional activity	**-**	-	**(189,565)**	(213,329)	**(189,565)**	(213,329)
Amortization of product listing fees	**-**	-	**(24,148)**	(27,886)	**(24,148)**	(27,886)
Total revenue	**2,132,827**	-	**368,842**	319,737	**2,501,669**	319,737
Cost of sales	**1,972,769**	-	**578,612**	584,344	**2,551,381**	584,344
Gross income (loss)	**160,058**	-	**(209,770)**	(264,607)	**(49,712)**	(264,607)

Six month period ended	Licenced		Unlicenced		Total	
June 30, in $	**2019**	2018	**2019**	2018	**2019**	2018
Gross revenue	**2,187,002**	-	**1,026,723**	1,222,251	**3,213,725**	1,222,251
Promotional activity	**-**	-	**(407,010)**	(387,631)	**(407,010)**	(387,631)
Amortization of product listing fees	**-**	-	**(48,051)**	(57,564)	**(48,051)**	(57,564)
Total revenue	**2,187,002**	-	**571,662**	777,056	**2,758,664**	777,056
Cost of sales	**2,122,359**	-	**1,012,524**	1,154,743	**3,134,883**	1,154,743
Gross income (loss)	**64,643**	-	**(440,862)**	(377,687)	**(376,219)**	(377,687)

23) SUBSEQUENT EVENTS

Acquisition of KJM Data and Research, LLC ("KJM")

On July 25, 2019, GABY acquired 80% of the issued and outstanding shares of KJM for USD 400,000, less any debt outstanding at closing, and has the right to purchase the remaining 20% of KJM shares subject to certain licensing milestones and other conditions in exchange for the grant of a two year warrant for USD 200,000 worth of GABY common shares at an exercise price to be established at the closing price of GABY common shares one trading prior to the closing of the remaining 20% purchase.

Through the acquisition, the Corporation has secured a 25,000 square foot leased facility located less than one mile from GABY's current Santa Rosa, CA distribution facility. KJM currently has four use permits issued by Sonoma County: manufacturing; cultivation; nursery and distribution. A Provisional State Licence for Type 6 (non-volatile) manufacturing has also been issued by the Bureau of Cannabis Control is that estate of California. The transaction will enable GABY to expand its manufacturing and co-packing footprint; ramp up edible production, establish cultivation for both its internal brands and third-party partner brands and to establish a licenced kitchen for the expansion of its edible brands.

The Corporation is in the process of obtaining a valuation of the underlying assets of KJM including its property, plant and equipment, intangibles (including the four licences and provisional licence), customer lists and goodwill, and is also determining KJM's final working capital balances. The composition of goodwill, if recognized, would include knowledge and experience of KJM in respect of cultivation, manufacturing and distribution of cannabis products in the state of California, as well as the expected synergies from the combination of Sonoma Pac's distribution licence together with GABY's consumer packaged goods expertise. Any goodwill recognized would have $nil tax value.

On closing of the transaction, GABY entered into a seven-year lease plus two five year rights of renewal on the above-mentioned facilities.

Acquisition of Lulu's

On July 26, 2019, GABY acquired 100% of Raw Chocolate Alchemy LLC (d.b.a. Lulu's Chocolate) to purchase 100% of the shares of that company including its wholly owned subsidiary, Lulu's Medicinals LLC (d.b.a. Lulu's Botanicals) (together the two companies are referred to as "Lulu's"). Lulu's CBD-infused chocolates are sold in approximately 250 mainstream grocery stores and its un-infused chocolates are sold in an additional 200 mainstream grocery stores across the United States, including Whole Foods Market in Northern California and Arizona. In addition, Lulu's THC-infused chocolates are sold in 35 dispensaries in California.

The Corporation is in the process of obtaining a valuation of the underlying assets of Lulu's Chocolate including its property, plant and equipment, intangibles and goodwill, and is also determining Lulu's Chocolate's working capital balances. The composition of goodwill, if recognized, would include knowledge and experience of Lulu's in respect of manufacturing and wholesale of chocolate products in the state of California, as well as the expected synergies from the combination of Sonoma Pac's distribution licence together with GABY's consumer packaged goods expertise. Any goodwill recognized would have $nil tax value.

Issuance of share options

In August 2019, the Corporation issued to officer and employees 3,950,000 five-year life stock options which vest evenly over the first three anniversaries from date of grant and each of which are exercisable into one common share at a price of $0.36.

Issuance of warrants

In August 2019, the Corporation issued 1,375,000 warrants for services with strike prices ranges from $0.375 to $0.48 per warrant and have terms ranging from two to five years. The Corporation is in the process of determining the fair value and the accounting treatment on its financial statements.