Gabriella's Kitchen Inc.

Management's Discussion & Analysis
June 30, 2019 and 2018

FORWARD

The following is Management's Discussion and Analysis ("**MD&A**") of the financial condition and results of operations of Gabriella's Kitchen Inc. (the "**Corporation**" or "**GABY**") for the three and six months ended June 30, 2019 and 2018. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements of the Corporation and accompanying notes for the three and six months ended June 30, 2019 and 2018 (the "**Financial Statements**") and the audited consolidated financial statements of the Corporation and accompanying notes as at and for the years ended December 31, 2018 and 2017 (the "**Annual Financial Statements**"). The Financial Statements, Annual Financial Statements and the "SELECTED FINANCIAL INFORMATION" and "SELECTED QUARTERLY INFORMATION" sections of this MD&A have been prepared using International Financial Reporting Standards ("**IFRS**") and all amounts are reported in Canadian dollars unless otherwise noted. Additional information about the Corporation can be found on SEDAR at www.sedar.com and on GABYs corporate website at www.gabyinc.com. Readers should also read the section "CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS" contained at the end of this document. This MD&A is dated August 28, 2019.

NON-GAAP MEASURES: GABY makes reference to pro forma gross revenue. This measure is not defined under IFRS and is considered a non-GAAP measure. Management believes that, in addition to revenue and net loss, pro forma gross revenue is a useful supplemental measure to our investors as management relies on it to provide insight into future operations. This measure does not have a standardized meaning and may not be comparable to similar measures presented by other issuers and should not be viewed as a substitute for measures reported under IFRS. This financial measure is further described in the following section titled "NON-GAAP DISCLOSURE."

CORPORATE PROFILE

GABY is a USA-focused, CPG company operating in the cannabis industry. GABY holds a provisional manufacturing licence issued by the California Department of Public Health and a provisional distribution licence issued by the California Bureau of Cannabis Control ("**CBCC**"). With these licences, its existing infrastructure of major retailers and an extensive broker and distribution network in the mainstream channel, GABY is positioned to bring its proprietary brands to market in both the licenced and mainstream market. GABY trades on the Canadian Securities Exchange ("**CSE**") under the symbol GABY. As of the date of the MD&A, GABY's brands include:

Award Winning line of healthy plant-based frozen entries.

Distributor of Boutique Cannabis flower and wellness products.

Specifically Blended CBD products utilizing the newly discovered power of Hemp Derived CBD.

Artisan Dark Chocolates that open your heart, while nourishing your body. All products are 100% organic, vegan, fair trade, paleo-friendly, soy & gluten free, raw & sweetened with low-glycemic coconut sugar.

Our products were developed to bring you the most full spectrum benefit that cannabis can offer, without creating unwanted side effects or intoxication. Our specific ratio of cannabinoids and plentiful live cannabis terpenes work together synergistically to create a balanced, elevated experience.

OUTLOOK: SUCCESSFUL FINANCING COMPLETED TO LEVERAGE GROWTH

The second quarter of 2019 marks the first fiscal period in which the Corporation's expansion into CPG in the USA cannabis industry has begun to be more fully represented in the overall financial results. Results from both fiscal 2018 and the first quarter of 2019 reflect the costs of building GABY's organization and infrastructure to transform the business, while the second quarter of 2019 begins to also reflect associated revenues.

Sonoma Pacific Distribution Acquisition

The shift in the underlying drivers of the financial results of GABY is attributable to the acquisition, effective April 1, 2019, of Sonoma Pacific Distribution, Inc. ("Sonoma Pac"), a cannabis distribution company in California. With the closing of the acquisition, GABY gained an expansive distribution reach across the state of California, as well as a cannabis distribution licence issued by the CBCC and the County of Santa Rosa. The acquisition complements GABY's extensive experience in CPG and its cannabis manufacturing licence and facilities. The combined experience and asset mix allow GABY to develop high quality Cannabis products and to bring them efficiently and quickly to market via the Sonoma Pac cannabis distribution licence. Sonoma Pac will sell proprietary and third party licenced products into the licenced dispensary channel in California, as well as cannabidiol ("CBD") infused products into the mainstream independent, natural and organic channels in California.

With the acquisitions of its distribution and manufacturing assets completed, the Corporation is focusing on the development and distribution of its existing brands, on acquiring additional brands and on partnering with third party brands which provide higher margins. With this strategy in mind, in 2019 the Corporation expanded its cannabis infused line to include topicals, edibles and beverages which are in demand in licenced dispensaries. In respect of its non-licenced segment, the Corporation has expanded into hemp-based food products, which provides a foundation for the eventual distribution of CBD-infused products into the mainstream. Further, with the acquisitions completed in 2019, the Corporation is able to realize certain synergies and rationalized its sales, marketing and distribution operations.

Continued Transformation

The addition of Sonoma Pac initiated the transformation of GABY into a brand building and brand acquisition public entity which is innovating, manufacturing, distributing and marketing in the USA CPG cannabis space. During the second quarter of 2019, the Corporation continued to invest in the people and infrastructure required to enable this transformation, including ongoing costs to maintain its public listing. Accordingly, the net loss for the quarter was $5,329,889 versus a net loss of $1,879,509 the same quarter last year. The benefits of these costs and efforts will continue to accrue in the latter half of 2019 and extend well beyond.

This transformation will be facilitated by the successful marriage of GABY's mainstream expertise with authentic and credible cannabis experience via three avenues:

- *Cannabis in the mainstream and the 2018 Farm Bill (see* ISSUERS WITH UNITED STATES CANNABIS-RELATED ACTIVITIES*):* GABY is positioned to quickly bring CBD and other non-psychoactive cannabinoids to wellness consumers throughout mainstream sales channels throughout North America. GABY's mission is to become the leading CBD brand provider in North America
- *Cannabis in the licenced channel:* manufacturing and distribution licences provide infrastructure to service the growing cannabis lifestyle and wellness market. The combined synergies of both licences facilitates control of the quality of proprietary products while ushering products to market quickly and efficiently
- *Traditional products in the mainstream:* GABY will refine its existing health and wellness product line while continuing to add hemp-based products to better meet the demands of its customers. GABY has targeted thousands of non-licenced convenience store retail locations for distribution of its non-cannabis products.

Successful Financing to Leverage Growth

GABY's transformation and growth will unfold via the curation of complementary brands and businesses through a combination of contractual relationships, acquisitions and equity investments. In order to pursue these opportunities and to finance the associated investment in infrastructure and people, the Corporation embarked on a successful equity financing through an upsized private placement, which closed on June 12, 2019 and yielded $18.9 million of funds (net of cash issuance costs).

The first two of such acquisitions closed in July 2019, subsequent to the end of the second quarter:

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 share 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 approval by Sonoma County under four distinct license uses: manufacturing; cultivation; nursery and distribution. A Provisional State License for Type 6 (non-volatile) manufacturing has also been issued by the California Bureau of Cannabis Control. 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.

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 intends to leverage Lulu's knowledge and experience in respect of manufacturing and wholesaling of chocolate products in combination with the Sonoma Pac's distribution licence and GABY's consumer packaged goods expertise to further the Corporation's expansion into licenced edible products.

Further information on the KJM and Lulu's acquisitions is contained in Note 23 to the Financial Statements.

Outlook

With the acquisition of Sonoma Pac and an expanded sales force in California, GABY expects to continue to expand its retail cannabis locations through the addition of new brands to the distribution portfolio and the continued expansion of Sonoma Pac's branded products. GABY estimates with the Sonoma Pac acquisition and augmentation of its US-based operations, sales and finance team that pro forma gross revenue[1] for fiscal 2019 will be $35 million compared to pro forma gross revenue[1] of $8.5 million for 2018.

SELECTED FINANCIAL INFORMATION AND OVERALL PERFORMANCE

HIGHLIGHTS

GABY achieved the following notable accomplishments since the last quarter:

- Augmented GABY's US-based team with the hiring of heads of operations, sales and finance plus additional salespeople and events staff;
- Acquired KJM and commenced facility modifications for manufacturing and cultivation activities and future distribution expansion;
- Acquired Lulu's and updated the Lulu branding and packaging, which is set to be introduced in the third quarter
- Launched multi-state expansion strategy;
- Commenced national CBD strategy with launch of topicals infused with hemp CBD;
- Grew the licenced dispensary channel from 80 to 170 dispensaries surpassing stated goal of doubling by year end;
- Launched dual portfolio strategy with training and deployment of salespeople selling cannabis-related products in the licenced dispensary channel and hemp-infused CBD products in the independent grocery and natural channels;
- Completed rebranding and product rationalization of the unlicenced food products and completed formulation of four hemp and high protein bowls to be launched in the third quarter; and
- Upsized the previously announced private placement of common shares and half warrants to $20 million and closed it on June 12, 2019.

[1]Refer to NON-GAAAP DISCLOSURE below

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FINANCIAL PERFORMANCE

In $	Three months ended June 30, 2019	2018	% Change	Six months ended June 30, 2019	2018	% Change
Licenced gross revenue	**2,132,827**	-	n/a	**2,187,002**	-	n/a
Unlicenced gross revenue	**582,555**	560,952	4%	**1,026,723**	1,222,251	(16%)
Gross revenue	**2,715,382**	560,952	384%	**3,213,725**	1,222,251	163%
Revenue	**2,501,669**	319,737	682%	**2,758,664**	777,056	255%
Revenue as a % of gross revenue	**92%**	57%		**86%**	64%	
Direct inventory costs	**2,205,335**	313,709	603%	**2,523,408**	686,305	268%
Direct inventory costs as a % of gross revenue	**81%**	56%		**79%**	56%	
Variable gross profit	**296,334**	6,028	4,816%	**235,256**	90,751	159%
Variable gross profit as a % of gross revenue	**11%**	1%		**7%**	7%	
Gross profit (loss) after distribution and allocated indirect costs	**(49,712)**	(264,607)	(81%)	(376,219)	(377,687)	0%
Net loss from operations	**(4,506,097)**	(1,370,893)	229%	(6,909,210)	(2,270,189)	204%
Net loss	**(4,971,889)**	(1,879,509)	165%	(7,351,642)	(2,849,873)	158%
Total comprehensive loss	**(5,052,541)**	(1,879,509)	169%	(7,474,925)	(2,849,873)	162%
Total assets				**37,256,002**	4,614,142	707%
Total non-current financial liabilities				**2,086,608**	**69,357**	2,909%
Loss per share, basic and diluted[1,2]	**(0.04)**	(0.04)	8%	**(0.07)**	(0.06)	15%
Weighted average number of common shares – basic and diluted[1]	**123,135,073**	50,829,106	142%	**107,433,305**	48,084,983	123%

(1) On April 18, 2018, GABY amended its articles to effect a subdivision of its common shares on the basis of seven Common Shares for post-subdivision Common Shares for each pre-subdivision Common Share then outstanding, and to amend its articles to replace the existing classes of shares of GABY with one class of common shares and one class of preferred shares. The loss and comprehensive loss per share and outstanding share capital disclosed above reflects the subdivision.
(2) Percentage change based on unrounded earnings per share

OVERALL PERFORMANCE AND RESULTS OF OPERATIONS

Gross revenue increased over the comparative periods last year by 384% and 163% to $2,715,382 and $3,213,725 for three ("**QTD**") and six-month ("**YTD**") periods ended June 30, 2019, respectively. The QTD growth was a combination of acquisition growth in the licenced segment, which reported gross revenue of $2,132,827; and organic growth from the unlicenced segment of 4%. On a YTD basis, the acquisition growth from the licenced segment of $2,187,002 of gross revenue was partially offset by a decline in gross revenue of 16% in the unlicenced segment.

Revenue, which is after promotional activities, such as couponing, and amortization of product listing fees, improved as a percentage of gross revenue to 92% and 86% on a QTD and YTD basis, respectively, compared to 57% and 64% for the same periods last year. The improvement reflects an increased focus on reducing promotional activities in the unlicenced business as well as the fact that licenced gross revenue is not subject to these expenses. On a QTD basis, these costs as a percentage of unlicenced revenue have decreased to 37% compared to 43% last year and 54% in the first quarter of 2019.

During the second quarter, the management downsized and restructured the unlicenced sales team, reduced and renegotiated promotional spending, phased out slower moving stock keeping units ("SKU's"), prepared for the introduction of new hemp-based protein bowl product offerings and implemented initiatives to reduce production costs. The foregoing efforts contributed to the quarter's growth in unlicenced gross revenue and revenue. All of the gross revenue growth during the quarter arose from the USA, with an increase in unlicenced revenue of 10% to $510,616 and was partially offset by a decrease in Canadian gross revenue by 25% to $73,710.

Direct inventory costs as a percentage of gross revenue were 81% and 79% for the QTD and YTD, respectively, versus 56% for both the same periods last year. The increase mostly reflects that the licenced segment has a lower mark up; however, this segment does not have the promotional activity and product listing fees. As a result, direct inventory costs as a percentage of revenue were 88% and 91% for the QTD and YTD, respectively, versus 91% and 88% in the comparative periods. The improvement in the quarter reflects that the newly acquired licenced segment's direct inventory cost as a percentage of revenue is approximately 90% compared to the unlicenced segment, which was 97% and 100% for the QTD and YTD, respectively. This, along with the lower percentage of promotional activity, resulted in a higher variable gross margins of 11% compared to 1% in the same quarter last year, while YTD remained consistent at 7%.

Gross profit after the allocation of indirect overhead costs and distribution costs was negative $49,712 and negative $376,219 for the QTD and YTD, respectively, compared to negative $264,607 and negative $377,667, for the respective periods last year. The improvement for the QTD mostly reflects that the distribution business of the licenced segment has much lower facility overhead than the manufacturing business which makes up the unlicenced segment. In addition, allocated indirect overhead is generally non-variable in nature and, as such, the allocations will decline as a percentage of gross revenue when sales volume increases, as it did in the quarter.

Selling, general and administration ("**SG&A**") expenses increased by $3.1 million and $4.2 million to $4,182,303 and $6,051,619 for the QTD and YTD, respectively. The increase in the QTD and YTD includes the SG&A of $1.5 million and $1.7 million, respectively, attributable to the new acquisitions in the licenced segment. The increase also includes increases in legal, accounting, regulatory, investor relation and insurance costs to maintain its shares for listing on a public exchange of approximately $1.0 million and $1.4 million, with the remaining increase mostly attributable to investment in personnel, both in senior management as well as in operating teams to support the integration of the Sonoma Pac acquisition and future acquisitions, including the anticipated acquisition of Lulu's and KJM (see Note 23 of Financial Statements). GABY saw some of the benefits in the current quarter with increased acquisition and organic growth in revenue plus improved operating ratios, but will more fully realize the benefits of these increased costs in Q3 and beyond.

Share-based compensation and expenses were $206,056 and $379,352 in the QTD and YTD, respectively, compared to $nil the same periods year, which includes stock option expense.

Depreciation of property and equipment increased to $63,516 and $93,050 in the QTD and YTD, respectively, compared to $9,556 and $17,867 in the same respective periods last year due to GABY's adoption of IFRS 16 Leases as more fully described below, which resulted in recognizing right-of-use assets of $851,416 on January 1, 2019 on which amortization is now recorded. In addition, 2019 includes amortization on the assets of TOP and Sonoma Pac.

Amortization of intangibles increased to $4,510 and $8,970 QTD and YTD, respectively, compared to $2,100 and $4,202 in the same respective periods last year due to additions to website costs in the latter part of 2018.

The combined effect of the aforementioned decrease in gross profit after distribution and allocated indirect costs, resulting from higher promotional activity and direct inventory costs, together with higher operating expenses, mostly in respect of fees incurred in respect of going public efforts, increased our loss from operations by $3,135,204 to $4,506,097 for the second quarter of 2019 and by $4,639,021 to $6,909,210 on a year-to-date basis.

Significant items of Other income (expense) as reported on the statement of loss include the following:

Gain (loss) on foreign exchange transactions and translation

A foreign exchange loss of $162,420 and $159,794 was recorded QTD and YTD, respectively, compared to $93,421 and $100,035 in the same periods last year. The gains and losses are in respect of: settlement and translation of USA denominated working capital balances in the unlicenced segment; and, in 2018, on the callable debt denominated in USD currency; and, in 2019, the gain on translation of share-based contingent consideration of USD 1,184,000.

Interest expense

Interest expense was $269,796 and $297,332 QTD and YTD, respectively, compared to $146,396 and $154,874 for the same periods last year. Interest in the prior periods included interest on the full amount of callable debt, whereas interest recorded in 2019 primarily relates to the interest accretion and accrual in respect of the convertible debentures from March 1, 2019 and the promissory notes from May 2019, as well as notes acquired on the Sonoma Pac acquisition.

Interest revenue

The Corporation recorded interest income of $nil and $3,828, QTD and YTD, respectively, compared to $791 for both comparative periods in 2018, on advances totaling USD 375,000 to Sonoma Pac during the quarter ended March 31, 2019. The advances were made in anticipation of GABY's acquisition of Sonoma Pac on April 1, 2019. Post-acquisition interest income and expense between the two companies is eliminated upon the consolidation of Sonoma Pac.

Contract termination payment

In Q2 2018, a share-based payment of $341,716 was recorded as a cost of terminating a sponsorship agreement as described in Note 13c to the Consolidated Financial Statements. The expense is a non-cash payment and is considered nonrecurring as the Corporation does not foresee entering into similar contracts in the foreseeable future.

Loss on inventory write-down

Loss on inventory write-down was $nil for all periods except for $55,976 recorded in Q1 of 2018. The decrease reflects gained production efficiencies lowering spoilage and improved inventory management.

Current income tax expense

Although the Corporation is incurring losses, most expenses in respect of cannabis related activities, other than cost of sales, are not deductible at the federal level in the USA, which resulted in the Corporation recording a current income tax expense of $99,951 for the three and six month periods ended June 30, 2019 compared to $nil in the comparable periods in 2018.

Deferred tax recovery

The Corporation recorded a deferred income tax recovery of $66,375 and $110,817 for the three and six months ended June 30, 2019; respectively, compared to $nil last year. In the prior periods last year, the Corporation had $nil deferred tax recovery as it had taken an 100% valuation allowance against net deferred tax assets arising mostly in respect of tax loss carryforward balances.

Net loss

After consideration of the foregoing other income (expense) items, the net loss for the QTD increased to $5.0 million, compared to prior quarter comparable of $1.9 million. YTD net loss and comprehensive loss increased to $7.4 million compared to prior year comparative of $2.8 million. Basic and diluted loss per share for the QTD remained unchanged at $0.04 per share despite a higher loss due to 142% increase in the number of weighted average common shares to 123,135,073 and on a YTD basis increased 21% to $0.07 per share versus $0.06 in the same period last year, as the increase in the net loss of 158% was partially offset by the 123% increase in weighted average common shares to 107,433,305

Other comprehensive loss and total comprehensive loss

Other comprehensive loss includes a foreign exchange loss on the translation of GABY's self-sustaining USA subsidiaries, TOP and Sonoma Pac of $80,652 and $123,283, QTD and YTD, respectively. GABY had no self-sustaining subsidiaries in the same periods last year. Accordingly, total comprehensive loss for the QTD increased to $5.1 million, compared to prior quarter comparable of $1.9 million. YTD comprehensive loss increased to $7.5 million compared to prior year comparative of $2.8 million.

SELECTED QUARTERLY FINANCIAL INFORMATION

GABY has traditionally experienced seasonal fluctuations in gross revenue, net revenue and net loss, with the first and fourth quarters (fall and winter) being typically stronger than the second and third quarters (spring and summer) for frozen food entrees. These seasonal variations are also dependent on numerous factors, including GABY's entry into new markets and offering of new products, weather, consumer behavior and overall industry competition and dynamics, mostly in the USA. Seasonality may also impact some activities in the licenced segment depending on the portfolio of business activities undertaken in that segment in the future. The increase in gross revenue, revenue and net loss in Q2 2019 primarily reflects the acquisition in the licenced segment of Sonoma Pac effective April 1, 2019. The decrease in the gross loss in Q2 reflects that Sonoma Pac has higher margins than GABY's unlicenced segment, due to promotional costs in the latter. In addition, starting in Q4 2018 results include the acquisition of TOP effective October 1, 2018. Finally, the significant increase in the net loss starting in Q2 2018 onwards reflects non-cash share-based payments and compensation of $341,716, $99,843, $703,452, $173,296 and $206,056 from Q2 2018 to Q2 2019, respectively, as well as increased costs required to obtain and maintain public listing obtained in August 2018 and to support GABY's organic and acquisition growth.

	2019		2018				2017	
In $	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Gross revenue	2,715,382	498,343	680,219	539,766	560,952	661,299	520,747	303,387
Revenue	2,501,669	256,995	425,453	289,092	319,737	457,319	343,242	239,737
Gross profit (loss)	(49,712)	(326,507)	(149,061)	(173,518)	(264,607)	(113,080)	(222,655)	(88,959)
Net loss	(4,971,889)	(2,379,753)	(2,763,274)	(2,107,367)	(1,879,509)	(970,364)	(1,065,325)	(924,530)
Loss per share	(0.04)	(0.03)	(0.03)	(0.03)	(0.03)	(0.02)	(0.02)	(0.02)

FINANCIAL CONDITION

Readers should refer to the Note 1 of the Financial Statements regarding the going concern assumption in conjunction with the discussion below.

The following chart highlights significant changes in the Consolidated Statements of Financial Position from December 31, 2018 to June 30, 2019.

Line item	Increase (decrease) in $	Primary factors explaining change for the 6 months ended June 30,2019
Current assets	18,718,363	Increase in cash of $11.5 million on private placement in June 2019 (net of expenditures) plus increase in current assets on the acquisition of Sonoma Pac
Due from related parties	61,677	Non-interest bearing advance to a director and officer settled in August 2019
Property and equipment	2,319,196	Increase due to recording of right-of-use ("**ROU**") assets of approximately $0.9 million on adoption of IFRS 16 Leases on January 1, 2019; $0.7 million on the acquisition of Sonoma Pac; and $1.0 million of asset additions including $0.8 million in respect of ROU assets of $0.7 million partially offset by depreciation of $0.3 million
Intangibles and goodwill	11,490,399	Primarily due to acquisition of Sonoma Pac
Security deposits	52,225	Deposit on new building lease
Current liabilities before: due to related parties, promissory note payable, convertible debentures and contingent consideration payable	7,851,546	Increase mostly in respect of Sonoma Pac acquisition of $7.6 million and due to recognition of current portion of lease liabilities of $0.4 million on the adoption of IFRS 16 Leases on January 1, 2019
Promissory notes payable	1,055,794	Promissory notes issued to bridge working capital needs before private placement completed in June 2019 – see Note 8 of Financial Statements
Convertible debentures	739,008	Due to issuance in March 1, 2019 net of amounts converted to Units on the private placement in June 2019 – see Note 9 of Financial Statements
Contingent consideration payable	3,885,248	Primarily due to contingent share consideration payable recorded on acquisition of Sonoma Pac
Lease liabilities	1,917,110	Recording of right-of-use assets of approximately $0.9 million on adoption of IFRS 16 Leases on January 1, 2019, plus acquisition of Sonoma Pac $0.7 MM, plus addition of $0.7 million on new building lease (less payments thereon to period end
Deferred lease inducement	(46,942)	Reduction of deferred lease inducement on adoption of IFRS 16 Leases on January 1, 2019
Deferred tax liability	195,773	Provision for the six month period and amount recognized on Sonoma-Pac acquisition
Due to related party	10,000	Advance from director and officer
Equity	16,943,912	Primarily due to private placement of $20 million less YTD losses. See Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

LIQUIDITY AND CAPITAL RESOURCES

Going Concern

Readers should refer to Note 1, Going Concern of the Financial Statements.

Funding from private placement to fund road map to profitable operations

As outlined in the analysis of cash flows below, GABY's cash outflows from operations before changes in working capital increased to approximately $4.2 million in the quarter compared to approximately $1.4 million for the same quarter last year. The increased requirements of $2.8 million reflect the acquisition of Sonoma Pac effective March 1, 2019 which had $1.3 million of operational cash outflows before changes in working capital, increased corporate costs to acquire and maintain public listing to provide GABY with greater access to capital markets and investment in high caliber people and resources to implement its acquisition growth strategies.

On June 12, 2019, GABY completed an equity private placement (**"Private Placement"**) as described in Note 13 d of the Financial Statement as follows:

	In $
Gross proceeds from Units	19,975,020
Cash issuance costs – commissions and legal	(1,084,603)
Net cash received on issuance	18,890,417

As further described below, a portion of the proceeds were used to pay down accumulated accounts payable and repay a portion of short-term financing which bridged GABY's operations prior to the completion of the private placement. With the resulting working capital at June 30, 2019 of $7.2 million and the availability of an equity line of credit up to USD 10 million, GABY has available funds to invest in acquisitions and fund working capital to fund organic growth over the next year. This, along with the ongoing measures that were taken to improve margins in the unlicenced segment, as described previously in *Overall Performance and Results of Operations*, should start to stem operational cash flow losses and assist in GABY's ultimate goal for operations to become self sustaining.

While the Corporation has funding in place to fund operating losses over the next year and has undertaken measures to achieve eventual positive cash flow from operations, there are number of unforeseen circumstances such as economic downturns and or changes in regulations which may require the Corporation to alter growth plans and/or find additional sources of financing. Although the Corporation had been successful in the past in obtaining financing through the sale of equity securities and through debt financing, there can be no assurance that it will be able to obtain adequate financing in the future or that the terms of such financing would be on terms favourable to the Corporation.

Analysis of Cash Flows

In $	Three months ended June 30,			Six months end June 30,		
	2019	2018	Increase (decrease) in cash	2019	2018	Increase (decrease) in cash
Net loss	(4,971,889)	(1,879,509)	(3,092,380)	(7,351,642)	(2,849,873)	(4,501,769)
Non-cash items	725,744	454,837	270,907	991,171	504,586	486,585
Cash operating loss	(4,246,145)	(1,424,672)	(2,821,473)	(6,360,471)	(2,345,287)	(4,015,184)
Non-cash working capital changes	(3,025,482)	(526,308)	(2,499,174)	(1,981,519)	(118,246)	(1,863,273)
Operating activities	(7,271,627)	(1,950,980)	(5,320,647)	(8,341,990)	(2,463,533)	(5,878,457)
Investing activities	41,361	(770,755)	812,116	(495,563)	(775,931)	280,368
Financing activities	18,978,742	5,808,862	13,169,880	20,410,103	6,317,167	14,092,936
Foreign currency translation adjustment	(88,834)	48,427	(137,261)	(90,123)	75,824	(165,947)
Increase (decrease) in cash	11,659,642	3,135,554	8,524,088	11,482,427	3,153,527	8,328,900
Cash (bank indebtedness), beginning of period	(123,557)	(133,871)	10,314	53,658	(151,844)	205,502
Cash (bank indebtedness), end of period	11,536,085	3,001,683	8,534,402	11,536,085	3,001,683	8,534,402

As shown in the table above, cash flow from operating activities before changes in non-cash working capital decreased by $2.8 million and $4.0 million over the three and six- month prior year periods, respectively. The decrease mostly reflects the increase in SG&A expenses of $3.1 million and $4.2 million, over the respective periods, on the newly acquired licenced segment acquisitions, increases in legal, accounting, regulatory, investor relation and insurance costs to maintain its shares for listing on a public exchange and increased investment in personnel and related costs to build out its management and operating teams to support acquisitional and organic growth in the licenced segment.

The increase in net cash outflow from non-cash working capital of $2.5 million and $1.9 million on a QTD and YTD basis, respectively, mostly reflect payments on accounts payable that had accrued prior to the Corporation completing the private placement in June 2019 of $19 million (after cash issuance costs).

The reduced requirements for investing activities of $0.8 million and $0.3 million on a QTD and YTD basis, respectively, mostly reflect that the prior periods included an investment in a short-term receivable of The Oil Plant for $732,160 – CAD ($550,000 USD), where as Q1 of 2019 reflects an investment in notes receivable of $531,748 in Sonoma Pac.

The investing activities and the operational cash losses prior to the private placement of $19 million (after cash issuance costs) were funded in 2019 by the issuance of convertible debentures of $1.3 million and promissory notes of $2.1 million. Subsequent thereto, the net cash from the private placement was used to further funding working capital, repay related party advances and repay $1.7 million of the promissory notes and debentures, resulting in remaining cash of $11.5 million at June 30, 2019.

FINANCIAL INSTRUMENTS

The Corporation's current financial instruments include cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, promissory notes, due to related party 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.

The contingent consideration payable is measured at fair value as outlined further in Note 11 of the Financial Statements.

The Corporation's activities are exposed to a variety of financial risks, including price risk, credit risk and liquidity risk. The Corporation's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Corporation's financial performance. Risk management is carried out by financial management in conjunction with overall corporate governance.

The Corporation is exposed to the following risks in respect of certain of the financial instruments held:

Interest rate risk

The Corporation's exposure to interest rate fluctuations is with respect to the use of its bank revolving credit line which bears interest at floating rates as well as one promissory note for $200,000 which was repaid in July 2019. The rates are tied to the prime rate of interest. Rate changes are likely to be minimal. As no line of credit was outstanding at June 30, 2019 and the aforementioned promissory note was repaid in July 2019 with no change in prime rate to then, the Corporation has no exposure to changes in interest rates.

Credit risk

With the acquisition of Sonoma Pac effective April 1, 2019, the Corporation's exposure to credit risk changed as customers are slower paying due to the cash nature of the business as is reflected in the aging schedule below. The Corporation is exposed to credit risk in the event of non-performance by customers but considers the regulatory oversight as a mitigating factor in the segment. The maximum credit risk is the fair value of the accounts receivable. The allowance for doubtful accounts and past due receivables is reviewed by management at each balance sheet reporting date. The Corporation updates its estimate of the allowance for doubtful accounts based on the evaluation of the recoverability of accounts receivable balances of each customer considering historic collection trends, the contractual relationship with the customer and the nature of the customer.

The following tables outlines the Corporation's exposure to credit risk for trade receivables by aging of the accounts and by geographic area:

In $	June 30, 2019	Dec 31, 2018
Trade accounts receivable	6,596,366	313,121
GST receivable	85,131	66,298
Other accounts receivable	18,646	41,882
	6,700,143	421,301
Allowance for doubtful accounts	(42,282)	(53,711)
	6,657,861	367,590
In $	**June 30, 2019**	Dec 31, 2018
Aging:		
30 days	595,704	227,450
60 days	778,632	114,085
90 days	2,795,604	12,716
Over 90 days	2,530,203	67,050
	6,700,143	421,301
By Geography:		
Canada	124,901	130,193
United States	6,575,242	291,108
	6,700,143	421,301

Accounts receivable from one customer in the licenced segment in the USA amounted to 86% of gross trade accounts receivable as at June 30, 2019 (December 31, 2018 – three major customers in the unlicenced segment in the USA amounted to 84%).

Foreign currency risk

With the acquisition of Sonoma Pac, the Corporation conducts most of its operations in USD. As at June 30, 2019, the following working capital balances were included in the Financial Statements:

In $	USD	CAD equivalent
Cash	763,631	1,002,342
Accounts receivable	4,977,114	6,532,960
Total current assets	5,740,745	7,535,302
Accounts payable and accrued liabilities	(5,428,652)	(7,125,649)
Income taxes payable	(136,024)	(178,545)
	176,069	231,108

In addition to the balances above, the Corporation has foreign exchange exposure with regards to the contingent consideration payable relating to the acquisition of TOP of USD 1,184,000 and long term debt of USD 91,179. As at June 30, 2019, each one cent strengthening (weakening) in the USD relative to the CAD, would (decrease) increase the Corporation's net comprehensive loss by approximately $11,000**.** The Corporation's net exposure to foreign currency risk is minor and mostly relates to self-sustaining operations, accordingly, the foreign currency exchange exposure above has not been hedged.

Other price risk

The Corporation's exposure to other price risk is limited since there are no significant financial instruments which fluctuate as a result of changes in market prices.

Liquidity risk and capital management

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit lines. The Corporation's accounts payable and accrued liabilities and current portion of lease liabilities are due within one year. The degree to which the Corporation is leveraged may reduce its ability to obtain additional financing for working capital and to finance investments to improve cash flows from operations.

The Corporation manages its liquidity risk through the management of its capital structure and financial leverage as outlined in Note 27 to the Annual Financial Statements. It also manages liquidity risk by continuously monitoring actual cash flows.

Off-Balance Sheet Arrangements

The Corporation does not have any special purpose entities nor is it party to any arrangement that would be excluded from the balance sheet, other than the operating lease commitments as disclosed in the notes to the Annual Financial Statements.

SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES

All related party transactions are reviewed by the Corporate Governance Committee of the board of directors of the Corporation, comprised of a majority of independent directors The following sets forth certain transactions in which the Corporation is involved.

Key management personnel costs included in SG&A and share based compensation and expenses

Key management of the Corporation is provided through companies controlled by certain shareholders ("Management Entities"). They, along with the Board of Directors, have the authority and responsibility for directing and controlling the activities of the Corporation. Compensation for consulting and marketing services is paid to these related party for the provision of their services.

In addition, one of the shareholder's companies is reimbursed for expenses incurred by it in respect of the Corporation's business. The Corporation enters into this related party transaction as the shareholder's Management Entity is responsible for a number of its investment companies and can often provision the services more economically and efficiently.

Other SG&A expenses

One of the Management Entities is reimbursed for expenses incurred by it in respect of GABY's business. GABY has entered into this related party transaction as the Management Entity is responsible for a number of its investment companies and can often provision the services more economically and efficiently.

Rent included in SG&A expenses

Starting in October of 2018, GABY sublet office space on a month-to month basis from an entity controlled by an officer and director of GABY. The entity charges rent based on the actual rent paid by it in total apportioned to GABY and others based on the percentage of square footage occupied by each party.

Royalties included in cost of sales

TOP pays royalty fees to two entities which own rights to the underlying intellectual property and which are controlled by a close family member of an officer and director of GABY. The royalties are payable on the sale of products that use the Aunt Zelda's trademark or that were developed using information from a proprietary database.

Convertible debentures March 2019

In connection with the March 1, 2019 issuance of $1.3 million of convertible debentures (see Note 8 of the Financial Statements), the Corporation issued $430,000 of convertible debentures to related parties as follows: $100,000 to and officer and director; $275,000, directly and indirectly, to four directors; and $55,000 to a company that is controlled by a relative of a director and officer of the Corporation. The convertible debentures were issued to these related parties on the same terms and conditions as to unrelated parties to provide bridge financing while the Corporation completed the Private Placement. Interest recorded on the debentures issued to the officer and directors amounted to $17,352 and $2,328 to the other related party. On June 12, 2019 the Corporation repaid $175,000 of the convertible debentures plus interest of $7,406 to three of the non-officer directors, leaving $200,000 plus interest of $9,945 due to the remaining two directors. In addition, the $55,000 plus accrued interest of $2,328 due to the other related party was repaid.

Short term promissory note

In May 2019, a director of the Corporation lent $200,000 to provide bridge financing prior to the Corporation's completion of the Private Placement. The loan plus interest at prime rate plus 3% was repaid to the director in July.

Interest on callable debt

In 2018, the Corporation paid interest on callable debt owed to shareholders and an entity related by common ownership. The Corporation entered into this related party transaction because alternate sources of financing were unavailable and it had not yet reached a profitable level of operations due to the Corporation being in the initial growth stage of the business life cycle. All of the callable debt was either repaid or converted to equity in 2018.

Amounts due and from related parties

Refer to Note 7 to the Consolidated Financial Statements for further related party transaction detail and amounts owed to and from these related parties in respect of the above mentioned transactions. In addition to the above, the following amounts are outstanding as June 30, 2019: a non-interest bearing advance of $10,000 provided by a director and officer to provide bridge financing; a promissory note of USD 83,113 (CAD 116,022) assumed on the acquisition of Sonoma Pac, which was repaid July 2019; and an advance to a director and officer of $61,677 which was settled in August 2019.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

The Financial Statements have been prepared using the IFRS standards and interpretations currently issued. The Corporation initially adopted effective January 1, 2019, the following standard:

IFRS 16 Leases was issued January 2016 and replaces IAS 17 Leases. The new standard requires entities to recognize lease assets and lease obligations on the balance sheet. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. Certain shorter-term leases (less than 12 months) and leases of low-value are exempt from the requirements and may continue to be treated as operating leases. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

For expediency and as permitted, GABY used the modified retrospective approach for adopting the new policy effective January 1, 2019 as opposed to applying the policy retroactively. On adoption of the policy, on January 1, 2019 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 lease inducement liability to $nil.

VOTING SECURITIES AND SECURITIES CONVERTIBLE INTO VOTING SECURITIES OUTSTANDING

As of the date of the MD&A, the Corporation had outstanding:

	Securities exercisable or convertible into Common Shares				
	Share issuance obligation	Warrants[1,2,3]	Stock Options[4]	Compensation Warrants[2]	Common Shares[1,2]
Outstanding as of the date of the MD&A	250,000	78,090,766	13,160,000	477	**176,240,483**
Number of Class A voting Common Shares issuable on the conversion or exercise of outstanding security	250,000	78,090,766	13,160,000	3,339,000	**94,839,766**
					271,080,249
Cash payable on exercise	$-	$29,446,375	$5,642,868	$1,094,715	**$36,183,958**

Issuances and exercise subsequent to June 30, 2019 reflected as outstanding as of the date of the MD&A:

(1) Reflects issuance of 17,500 warrants and 17,5000 common shares on the exercise of 5 compensation warrants for $5,000.
(2) Reflects the exercise of 20,000 warrants into 20,000 common shares for $7,400.
(3) Reflects the grant of 1,550,000 warrants and 3,950,000 stock options as disclosed in the Subsequent Events note of the Financial Statements.

ISSUERS WITH UNITED STATES CANNABIS-RELATED ACTIVITIES

Canadian Securities Administrators Staff Notice 51-352 (Revised) – Issuers with USA. Marijuana-Related Activities ("Staff Notice 51-352") provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the USA as permitted within a particular state's regulatory framework.

In accordance with Staff Notice 51-352, the Corporation will evaluate, monitor and reassess the disclosure contained herein, and any related risks, on an ongoing basis and the same will be supplemented, amended and communicated to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding marijuana regulation. As a result of Corporation's direct involvement in distribution of Cannabis edibles (as described herein), the Corporation is subject to Staff Notice 51-352 and accordingly provides the following disclosure.

Nature of involvement and exposure to USA cannabis-related activities:

As of June 30, 2019, the Corporation had direct involvement in USA cannabis-related activities through its 100% owned subsidiaries: TOP, a manufacturer of cannabis-infused oils and tinctures in California and Sonoma Pac which holds a cannabis distribution licence for the State of California issued by the CBCC. Subsequent to June 30, 2019, as described in the Subsequent Event Note of the Financial Statements, the Corporation acquired Lulu's Chocolate, which manufactures and sells CBD infused chocolates in approximately 250 grocery stores across the United States and THC-infused chocolates to 35 dispensaries in California. As further described thereto, it also acquired KJM which has four licenses issued by Sonoma County: manufacturing; cultivation; nursery and distribution. A Provisional State License for Type 6 (non-volatile) manufacturing has also been issued by the Bureau of Cannabis Control is that estate of California. The disclosure contained herein reflects the Corporation's direct involvement with the USA cannabis industry as at June 30, 2019 with the acquisition of TOP effective October 1, 2018 and acquisition of Sonoma-Pac April 1, 2019.

USA Federal Law and Enforcement

Pursuant to the above-mentioned acquisitions of TOP and Sonoma Pac, the Corporation anticipates that it will derive a substantial portion of its revenues from the cannabis industry in certain states of the USA, which industry is illegal under USA federal law. While some states in the USA have authorized the use and sale of cannabis, it remains illegal under federal law and the approach to enforcement of USA federal laws against cannabis is subject to change. Because the Corporation engages in cannabis-related activities in the USA, it assumes certain risks due to conflicting state and federal laws. The federal law relating to cannabis could be enforced at any time and this would put the Corporation at risk of being prosecuted and, amount other consequences, having its assets in the USA seized.

At present, 33 states, as well as the District of Columbia, Guam and Puerto Rico, have legalized medical cannabis. In addition, in 10 states the sale and possession of cannabis is legal for both medical and adult-use and the District of Columbia has legalized adult-use but not for commercial sale. Notwithstanding the foregoing, marijuana remains illegal under USA federal law with marijuana listed as a Schedule I drug under the United States Controlled Substances Act of 1970, as amended (the "**Controlled Substances Act**").

The USA federal government regulates drugs through the Controlled Substances Act, which places controlled substances, including cannabis, in a schedule. Cannabis is classified as a Schedule I drug. Under USA federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the USA, and a lack of accepted safety for the use of the drug under medical supervision. The USA Food and Drug Administration has not approved marijuana as a safe and effective drug for any indication.

In 2013, the Department of Justice issued the Cole memorandum ("**Cole Memorandum**"), which instructs federal law enforcement agencies not to prosecute violations of federal drug laws related to cannabis where the activity is permitted and regulated under cannabis laws of the relevant state. In 2014, following the issuance of the Cole Memorandum, the Financial Crimes Enforcement Network under the USA Treasury Department notified banks that it would not seek enforcement of money laundering laws against banks that service cannabis companies operating under state law, provided strict due diligence and reporting standards are met. While most banks continue to decline to operate under such strict requirements, a number of local banks have undertaken to service the cannabis industry with basic financial services. Since 2014, the USA Congress has annually passed appropriations bills that include a provision, known as the Rohrabacher-Farr Amendment, now known as the Leahy Amendment (the "**Leahy Amendment**"), which prohibits expenditure of federal budget resources on the enforcement of federal controlled substances laws that interfere with state medical cannabis programs.

In January 2018, former Attorney General Sessions rescinded the aforementioned Cole Memorandum, substituting it with a policy that assigns the enforcement of federal marijuana laws the USA Attorney(s) in each state ("**Sessions Memorandum**"). While there is a risk that these USA Attorneys and the current administration at large may seek to enforce federal drug laws against use that is now permitted under state law, the Leahy Amendment remains in force, preventing the expenditure of Department of Justice budgetary resources on such enforcement against medical cannabis companies. Additionally, Senators Gardner (R-CO) and Warren (D-MA) introduced legislation that would amend the federal Controlled Substances Act to exempt state-legal marijuana activity from its provisions. Public support in the USA for legalization of medical and adult-use cannabis continues to grow, with a majority of the public supporting legalization, which continues to spread under state law.

The Leahy Amendment was included in the fiscal year 2019 budget and remains in effect until September 30, 2019. At such time, it may or may not be included in the omnibus appropriations package or a continuing budget resolution once the current continuing resolution expires. The Cole Memorandum and the Leahy Amendment gave medical cannabis operators and investors in states with legal regimes greater certainty regarding federal enforcement as to establish cannabis businesses in those states. While the Sessions Memorandum has introduced some uncertainty regarding federal enforcement, the cannabis industry continues to experience growth in legal medical and adult-use markets across the USA. USA Attorney General Jeff Sessions resigned on November 7, 2018. As of his resignation, Matthew Whitaker was the acting USA Attorney General until William Barr was appointed as the USA Attorney General on February 14, 2019. In an April 10, 2019 Senate Appropriations Subcommittee meeting to discuss the Justice Department's budget 2020, in response to a question about his position on the proposed Strengthening the Tenth Amendment Through Entrusting States (STATES) Act, Attorney General Barr stated: "Personally, I would still favor one uniform federal rule against marijuana," "But if there is not sufficient consensus to obtain that then I think the way to go is to permit a more federal approach so states can, you know, make their own decisions within the framework of the federal law. So we're not just ignoring the enforcement of federal law." The STATES Act, if it were to pass, would allow states to determine their own approaches to marijuana. Attorney General Barr said the legislation is still being reviewed by his office but that he would "much rather... the approach taken by the STATES Act than where we currently are." It is unclear what impact this development will have on USA federal government enforcement policy. Despite the expanding market for legal cannabis, traditional sources of financing, including bank lending or private equity capital, is lacking which is can be attributable to the fact that cannabis remains a Schedule I substance under the Controlled Substances Act. These traditional sources of financing are expected to remain scarce until, and if, the federal government legalizes cannabis cultivation and sales.

Although the Corporation's activities are compliant with applicable state and local law in the USA, strict compliance with such state and local laws with respect to cannabis may neither absolve the Corporation of liability under USA federal law, nor may it provide a defense to any federal proceeding which may be brought against the Corporation.

There is no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. Unless the USA Congress amends the Controlled Substances Act with respect to medical and/or adult-use cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current federal law. If the federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing applicable state laws are repealed or curtailed, the Corporation's business, results of operations, financial condition and prospects would be materially adversely affected.

Service Providers

As a result of any adverse change to the approach in enforcement of USA cannabis laws, adverse regulatory or political change, additional scrutiny by regulatory authorities, adverse change in public perception in respect of the consumption of marijuana or otherwise, third party service providers to the Corporation could suspend or withdraw their services, which may have a material adverse effect on the Corporation's business, revenues, operating results, financial condition or prospects..

Ability to Access Capital

The Corporation requires equity and/or debt financing to support on-going operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Corporation when needed or on terms which are acceptable. The Corporation's inability to raise financing through traditional banking to fund on-going operations, capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon the Corporation's business, results of operations, financial condition or prospects.

If additional funds are raised through further issuances of equity or convertible debt securities, existing Corporation shareholders could suffer significant dilution.

Restricted Access to Banking

In February 2014, the Financial Crimes Enforcement Network ("FinCEN") bureau of the USA Treasury Department issued guidance (which is not law) with respect to financial institutions providing banking services to cannabis businesses, including burdensome due diligence expectations and reporting requirements. This guidance does not provide any safe harbors or legal defenses from examination or regulatory or criminal enforcement actions by the Department of Justice, FinCEN or other federal regulators. Thus, most banks and other financial institutions in the USA do not appear to be comfortable providing banking services to cannabis-related businesses, or relying on this guidance, which can be amended or revoked at any time by the current Trump administration, or any future administration. In addition to the foregoing, banks may refuse to process debit card payments and credit card companies generally refuse to process credit card payments for cannabis-related businesses. As a result, the Corporation may have limited or no access to banking or other financial services in the USA. The inability or limitation in the Corporation's ability to open or maintain bank accounts, obtain other banking services and/or accept credit card and debit card payments may make it difficult for the Corporation to operate and conduct its business as planned or to operate efficiently.

Anti-Money Laundering Laws and Regulations

The Corporation is subject to a variety of laws and regulations domestically and in the USA that involve money laundering, financial recordkeeping and proceeds of crime, including the Bank Secrecy Act, as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), Sections 1956 and 1957 of U.S.C. Title 18 (the Money Laundering Control Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended and the rules and regulations thereunder, the Criminal Code (Canada) and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the USA and Canada.

In the event that any of the Corporation's operations, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such operations in the USA were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of the Corporation to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while there are no current intentions to declare or pay dividends on the Corporation's common shares in the foreseeable future, in the event that a determination was made that the Corporation's proceeds from operations (or any future operations or investments in the USA) could reasonably be shown to constitute proceeds of crime, the Corporation may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

Heightened Scrutiny by Regulatory Authorities

For the reasons set forth above, the Corporation's existing operations in the USA, and any future operations or investments of the Corporation, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Corporation may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Corporation's ability to operate or invest in the USA or any other jurisdiction, in addition to those described herein.

Balance sheet and operating statement exposure to USA cannabis-related activities

Below are the line items of GABY's consolidated statement of financial position and loss and comprehensive loss which contain USA-cannabis related activities:

Dollar value and proportion of Applicable Financial Statement line items which relates to USA cannabis-related activities for the six-month period ended June 30, 2019		
Consolidated Statement of Financial Position	***$***	***%***
Cash	809,695	7
Accounts receivable	6,450,419	97
Inventories	727,693	65
Prepaid expenses and deferred costs	160,002	24
Due to related parties	61,677	100
Property and equipment	1,484,547	52
Intangible assets and goodwill	14,232,367	100
Security deposits	37,299	35
Total assets	23,963,698	60
Accounts payable and accrued liabilities	7,411,116	84
Income taxes payable	178,545	100
Long term debt	119,682	100
Lease liabilities	1,232,218	51
Deferred tax liability	528,373	100
Total liabilities	9,469,934	61
Consolidated Statement of Loss and Comprehensive Loss	***$***	***%***
Gross revenue	2,187,002	68
Total revenue	2,187,002	79
Loss from operations before items listed in note below[1]	1,649,808	37

[1] Loss reported above is the sub-total as presented in the Financial Statements, before Foreign exchange gain (loss), Gain on conversion of debt, Interest expense, Interest income, Contract termination payment and Loss on inventory write-down.

Compliance with State Licensing and Regulatory Frameworks

The Corporation obtains legal advice from its counsel regarding the compliance with applicable state regulatory frameworks and potential exposure and implications arising from federal law of the USA.

Program for Monitoring Compliance and Disclosure of Material Non-Compliance

The following sections present an overview of market and regulatory conditions for the cannabis industry in USA states in which the Corporation is directly involved and is presented as of June 30, 2019, unless otherwise indicated. Although the Corporation's activities are compliant with applicable USA state and local law, strict compliance with state and local laws with respect to cannabis would neither absolve the Corporation of liability under USA federal law, nor provide a defense to any federal proceeding which may be brought against the Corporation.

California

In 1996, California voters approved Proposition 215 (the "Compassionate Use Act"), allowing physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain. The law established a not-for-profit patient/caregiver system, but there was no state licensing authority to oversee the businesses that emerged as a result of the system. In September of 2015, the California legislature passed three bills, collectively known as the "Medical Marijuana Regulation and Safety Act". In 2016, California voters passed "The Adult Use of Marijuana Act", which legalized adult-use cannabis for adults 21 years of age and older and created a licensing system for commercial cannabis businesses. On June 27, 2017, Governor Brown signed SB-94 into law. SB-94 combined California's medicinal and adult-use cannabis regulatory frameworks into one licensing structure under the Medicinal and Adult-Use of Cannabis Regulation and Safety Act ("MAUCRSA").

Pursuant to MAUCRSA: (1) CalCannabis, a division of the California Department of Food and Agriculture, issued licences to cannabis cultivators; (2) the Manufactured Cannabis Safety Branch issues licences to cannabis manufacturers; and (3) the California Department of Consumer Affairs, via its agency the CBCC, issues licences to cannabis distributors, testing laboratories, retailers and micro-businesses. These agencies also oversee the various aspects of implementing and maintaining California's cannabis landscape, including the statewide track and trace system. All three agencies released their emergency rulemakings at the end of 2017 and updated them with revisions in June 2018 (the "Readopted Emergency Regulations"). The three agencies also released the first draft of their permanent rulemakings in July 2018 and the second draft of their permanent rulemakings in October 2018, which are currently undergoing the rulemaking process (the "Proposed Non-Emergency Regulations"). The Readopted Emergency Regulations will remain in effect until the Proposed Non-Emergency Regulations are formally completed. All three agencies began issuing temporary licences in January 2018 and are currently evaluating annual licence applications. To operate legally under state law, cannabis operators must obtain a state licence and local approval. Local authorization is a prerequisite to obtaining state licensure from all three state licensing agencies, and local governments are permitted to prohibit or otherwise regulate the types and number of cannabis businesses allowed in their locality. California has not set a limit on the number of state licences an entity may hold, unlike other states that have restricted how many cannabis licences an entity may hold in total or for various types of cannabis activity. Although vertical integration across multiple licence types is allowed under MAUCRSA, testing laboratory licencees may not hold any other licences aside from a laboratory licence. There are also no residency requirements for ownership under MAUCRSA.

The Corporation is directly involved in the manufacturing of cannabis in California as a result of the acquisition of TOP on October 1, 2018 and Sonoma Pac on April 1, 2019. Both TOP and Sonoma Pac have represented to the Corporation that their respective businesses were conducted in compliance with the regulatory framework enacted by the State of California. Following the respective acquisitions, TOP and Sonoma Pac have operated in compliance with all applicable California laws, regulations, and guidelines.

Below is an overview of some of the principal licence types issued in California (each of which can be issued with a Medical (M-Class) or Adult-Use (A-Class) designation):

Type 7: authorized to manufacture cannabis products using volatile solvent extractions.

Type 6: authorized to manufacture cannabis products using mechanical or non-volatile solvent extractions.

Type N: authorized to manufacture cannabis products (other than extracts or concentrates) using infusion processes but does not conduct extractions.

Type P: authorized to only package or repackage cannabis products or relabel the cannabis product container.

Each of the above manufacturing licence types is inclusive of the types in the list below it. For example, a Type 7 licencee would be able to perform Type 6, N or P tasks. A Type 6 licence could perform Type N or P tasks. A Type N licencee would be able to perform Type P tasks. In addition to these four licences, MCSB is developing a fifth licence type, Type S, for shared-use manufacturing facilities. This licence type will be for businesses and facility owners that alternate use of a manufacturing premises.

Type 8: authorized to test the chemical composition of cannabis and cannabis products.

Type 9: authorized to conduct retail cannabis sales exclusively by delivery.

Type 10: authorized to sell cannabis goods to customers.

Type 11: authorized to transport and store cannabis goods purchased from other licenced entities and sell them to licenced retailers, and responsible for laboratory testing and quality assurance to ensure packaging and labeling compliance.

Type 13: authorized to transport cannabis goods between licenced cultivators, manufacturers, and distributors.

TOP holds an annual commercial cannabis M-Type 6 licence CPDH – 10002262 (manufacturing licence) which expires April 3, 2020.

Sonoma Pac has applied for an annual licence and currently holds a provisional Type 11 Licence (distribution licence) C11-0000334-LIC which expires June 11, 2020. Persons holding a provisional licence are subject to the same rules and regulations as those holding annual licences. Given the approval of Sonoma Pac's local licence by Sonoma County in March 2019, it is anticipated that Sonoma Pac will receive its annual licence on or before the expiry of the current provisional licence.

Local Licensure, Zoning and Land Use Requirements

To obtain a state licence, cannabis operators must first obtain local authorization, which is a prerequisite to obtaining state licensure. All three state regulatory agencies require confirmation from the applicable locality that an applicant is in compliance with local requirements and has either been granted authorization to, upon state licensure, continue previous cannabis activities or commence cannabis operations. One of the basic aspects of obtaining local authorization is compliance with all local zoning and land use requirements. Local governments are permitted to prohibit or otherwise regulate the types and number of cannabis businesses allowed in their locality. Some localities have limited the number of authorizations an entity may hold in total or for various types of cannabis activity. Others have tiered the authorization process, granting the initial rounds of local authorization to applicants that previously conducted cannabis activity pursuant to the Compassionate Use Act or those that meet the locality's definition of social equity. Both TOP and Sonoma Pac were granted full zoning and use permits by Sonoma County on March 14, 2019.

Record-Keeping and Continuous Reporting Requirements

California's state licence application process additionally requires comprehensive criminal history, regulatory history and personal disclosures for all owners. Any criminal convictions or civil penalties or judgments occurring after licensure must promptly be reported to the regulatory agency from which the licencee holds a licence. State licences must be renewed annually. Disclosure requirements for local authorization may vary, but generally tend to mirror the State of California's requirements. Licencees must also keep detailed records pertaining to various aspects of the business for up to seven years. Such records must be easily accessible by the regulatory agency from which the licencee holds a licence. Additionally, licencees must record all business transactions, which must be uploaded to the statewide traceability system, once the system has been implemented by CalCannabis.

Operating Procedure Requirements

Applicants must submit standard operating procedures describing how the operator will, among other requirements, secure the facility, manage inventory, comply with California's seed-to-sale tracking requirements, dispense cannabis, and handle waste, as applicable to the licence sought. Once the standard operating procedures are determined compliant and approved by the applicable state regulatory agency, the licencee is required to abide by the processes described and seek regulatory agency approval before any changes to such procedures may be made. Licencees are additionally required to train their employees on compliant operations and are only permitted to transact with other legal and licenced businesses.

Site Visits & Inspections

GABY's licenced subsidiaries will not be able to obtain or maintain state licensure, and thus engage in commercial cannabis activities in the State of California, without satisfying and maintaining compliance with state and local law. As a condition of state licensure, operators must consent to random and unannounced inspections of the commercial cannabis facility as well as the facility's books and records to monitor and enforce compliance with state law. Many localities have also enacted similar standards for inspections, and the state has already commenced site-visits and compliance inspections for operators who have received state temporary or annual licensure.

Compliance Procedures

Since their inception, GABY's licenced subsidiaries have retained industry experts in California cannabis law, as local outside counsel to oversee and monitor compliance with USA. state law on an ongoing basis. These experts in the field keep the Corporation's licenced subsidiaries fully informed of regulatory changes and recommend standard operating procedures to facilitate the implementation and maintenance of compliant operations, required tracking and licence reporting. The Corporation will continue to work closely with the advisors to develop and improve its internal compliance program and will defer to their legal opinions and risk mitigation guidance regarding California's complex regulatory framework. The internal compliance program, including the update of operational procedures and use of checklists, requires continued monitoring by managers and executives of the Corporation to ensure all operations conform with legally compliant standard operating procedures. In anticipation of future growth, the Corporation is investigating a number of software solutions developed specifically for the cannabis industry to allow for automation of both internal as well as third-party compliance auditing, covering all state and municipal, facility and operational requirements to maintain licensing criteria. Sonoma Pac and TOP are required to report and disclose to the Corporation all instances of non-compliance, regulatory, administrative, or legal proceedings that may be initiated against them. GABY's licenced subsidiaries have been in compliance with the regulatory requirements as they have unfolded throughout 2018 and 2019.

NON-GAAP DISCLOSURE

Pro forma gross revenue does not have any standardized meaning as prescribed by IFRS, and, therefore, is considered a non-GAAP measure and may not be comparable to similar measures presented by other issuers. The non-GAAP measure of pro forma gross revenue, combined with IFRS measures, such as revenue and net loss, is a useful measure to our investors as management relies on it to provide insight into future operations.

Estimated pro forma gross revenue for the year ended December 31, 2019 and actual pro forma gross revenue for the year ended December 31, 2018 is calculated as if the Sonoma Pac acquisition had taken place January 1, 2018 and is calculated as follows:

Pro forma gross revenue in $	Note	Estimate for year-ended December 31, 2019	Year ended December 31, 2018
GABY's gross revenue for six months ended June 30, 2019 and year ended December 31, 2018, respectively	1,2	3,213,725	2,442,236
Sonoma Pac gross revenue for the three months ended March 31, 2019 and year ended December 31, 2018; respectively	3,4	9,835,121	6,105,676
Estimate of gross revenue for the six months ended December 31, 2019 for GABY with the inclusion of Sonoma Pac acquisition	5	21,951,154	-
Estimated and actual pro forma revenue		**35,000,000**	**8,547,912**

[1] Gross revenue for the six months ended June 30, 2019 as reported in the Financial Statements, which includes three months of Sonoma Pac gross revenue acquired April 1, 2019.
[2] Gross revenue for the year-ended December 31, 2018 as reported in the Annual Financial Statements.
[3] Sonoma Pac's gross revenue for the three months ended March 31, 2019 as reported in its internal interim financial statements of USD 7,565,478 translated at an assumed average exchange rate of 1.30 CAD to 1 USD.
[4] Sonoma Pac's gross revenue for the year ended December 31, 2018 as reported in its audited financial statements of USD 4,696,674 translated at an assumed average exchange rate of 1.30 CAD to 1 USD.
[5] Based on management's internal forecasts and estimates including future sales volumes and prices, using an assumed average exchange rate of 1.30 CAD to 1 USD for any USD based gross revenue. Actual results may differ. Readers should refer to CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS below.

RISKS AND UNCERTAINTIES

In addition to risks associated with USA Cannabis-related activities and financial instrument risk described above, GABY is subject to a number of additional risks that could cause future results to differ materially from those described herein. The risks described herein are not the only ones facing the Corporation. Additional risks and uncertainties, including those that the Corporation is unaware of, or that are currently deemed immaterial, may also adversely affect the Corporation and its business. If any of the risks described below actually occur, the Corporation's business, financial condition and operating results could be adversely affected.

For a more detailed discussion of risk factors that could materially affect GABY's results of operations and financial condition, please refer to the sections entitled "Risk Factors" in the Corporation's Annual Information Form for the fiscal year ended December 31, 2017 and non-offering long-form prospectus of the Corporation dated August 28, 2018 that are available on the Corporation's SEDAR profile at www.sedar.com.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This MD&A contains "forward-looking information" and "forward-looking statements" within the meaning of Canadian securities laws ("**forward-looking statements**"). Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based on management's current beliefs, expectations or assumptions regarding the future of the business, future plans and strategies, operational results and other future conditions of the Corporation. In addition, the Corporation may make or approve certain statements in future filings with Canadian securities regulatory authorities, in press releases, or in oral or written presentations by representatives of the Corporation that are not statements of historical fact and may also constitute forward-looking statements. All statements, other than statements of historical fact, made by the Corporation that address activities, events or developments that the Corporation expects or anticipates will or may occur in the future are forward-looking statements, including, but not limited to, statements preceded by, followed by or that include words such as "may", "will", "would", "could", "should", "believes", "estimates", "projects", "potential", "expects", "plans", "intends", "anticipates", "targeted", "continues", "forecasts", "designed", "goal", or the negative of those words or other similar or comparable words and includes, among others, information regarding: expectations for the effects of any transactions; expectations for the potential benefits of any transactions; statements relating to the business and future activities of, and developments related to, the Corporation after the date of this MD&A, including such things as future business strategy, competitive strengths, goals, expansion and growth of the Corporation's business, operations and plans; expectations that planned acquisitions will be completed; expectations that licenses applied for will be obtained; potential future legalization of adult-use and/or medical cannabis under USA federal law; expectations of market size and growth in the USA, California and such other states in which the Corporation has expressed desire to operate in; expectations for other economic, business, regulatory and/or competitive factors related to the Corporation or the cannabis industry generally; and other events or conditions that may occur in the future. Forward-looking statements may relate to future financial conditions, results of operations, plans, objectives, performance or business developments. These statements speak only as of and at the date they are made and are based on information currently available and on the then current expectations. Holders of securities of the Corporation are cautioned that forward-looking statements are not based on historical facts but instead are based on reasonable assumptions and estimates of management of the Corporation at the time they were provided or made and involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation, as applicable, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements, including, but not limited to, risks and uncertainties related to: the available funds of the Corporation and the anticipated use of such funds; the availability of financing opportunities; legal and regulatory risks inherent in the cannabis industry; risks associated with economic conditions, dependence on management; risks relating to USA regulatory landscape and enforcement related to cannabis, including political risks; risks relating to anti-money laundering laws and regulation; other governmental and environmental regulation; public opinion and perception of the cannabis industry; risks related to contracts with third-party service providers; risks related to the enforceability of contracts; reliance on the expertise and judgment of senior management of the Corporation, and ability to retain such senior management; risks related to proprietary intellectual property and potential infringement by third parties; risks relating to the management of growth; increasing competition in the industry; risks associated to cannabis products manufactured for human consumption including potential product recalls; reliance on key inputs, suppliers and skilled labor; cybersecurity risks; ability and constraints on marketing products; fraudulent activity by employees, contractors and consultants; tax and insurance related risks; risks related to the economy generally; risk of litigation; conflicts of interest; risks relating to certain remedies being limited and the difficulty of enforcement of judgments and effecting service outside of Canada; risks related to future acquisitions or dispositions; sales by existing shareholders; limited research and data relating to cannabis; as well as those risk factors discussed under "Risk Factors" in GABY's Annual Information Form for the fiscal year ended December 31, 2017 and non-offering long-form prospectus of the Corporation dated August 28, 2018 that are available on the Corporation's SEDAR profile at www.sedar.com.

The purpose of forward-looking statements is to provide the reader with a description of management's expectations, and such forward-looking statements may not be appropriate for any other purpose. In particular, but without limiting the foregoing, disclosure in this MD&A as well as statements regarding the Corporation's objectives, plans and goals, including future operating results and economic performance may make reference to or involve forward-looking statements. Although the Corporation believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Certain of the forward-looking statements and other information contained herein concerning the cannabis industry, its medical, adult-use and hemp-based CBD markets, and the general expectations of the Corporation concerning the industry and the Corporation's business and operations are based on estimates prepared by the Corporation using data from publicly available governmental sources as well as from market research and industry analysis and on assumptions based on data and knowledge of this industry which the Corporation believes to be reasonable. However, although generally indicative of relative market positions, market shares and performance characteristics, such data is inherently imprecise. While the Corporation is not aware of any misstatement regarding any industry or government data presented herein, the cannabis industry involves risks and uncertainties that are subject to change based on various factors.

A number of factors could cause actual events, performance or results to differ materially from what is projected in the forward-looking statements. You should not place undue reliance on forward-looking statements contained in this MD&A. Such forward-looking statements are made as of the date of this MD&A. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law. The Corporation's forward-looking statements are expressly qualified in their entirety by this cautionary statement.