GABY INC.
(formerly GABRIELLA'S KITCHEN INC.)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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 GABY 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.

GABY INC. (formerly GABRIELLA'S KITCHEN INC.)
Condensed Interim Consolidated Statements of Financial Position

		(Unaudited)	(Audited)
		September 30,	December 31,
In Canadian dollars	Note	**2019**	2018
ASSETS			
Current			
Cash		**2,264,054**	53,658
Accounts receivable		**8,268,252**	367,590
Inventories		**2,607,774**	592,771
Prepaid expenses and deferred costs	4	**1,034,273**	236,259
		14,174,353	1,250,278
Non-current			
Property and equipment	5	**7,875,803**	534,028
Intangible assets and goodwill	6	**12,258,857**	2,775,642
Security deposits		**254,257**	54,194
Total assets		**34,563,270**	4,614,142
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	8	**8,525,228**	1,510,790
Income taxes payable		**139,152**	-
Current portion of long-term debt	11	**81,041**	-
Current portion of lease liabilities	14	**397,782**	58,600
Current liabilities before the following:		**9,143,203**	1,569,390
Promissory notes payable	9	**751,253**	-
Derivative liability	12	**72,228**	-
Convertible debentures	8,10	**558,249**	-
Contingent consideration payable	13	**1,820,000**	1,615,392
		12,344,933	3,184,782
Non-current liabilities			
Lease liabilities	2,14	**6,459,307**	79,087
Long-term debt	11	**202,158**	-
Deferred lease inducement		**-**	46,942
Deferred tax liability		**262,831**	332,600
Total liabilities		**19,269,229**	3,643,411
SHAREHOLDERS' EQUITY			
Share issuance obligation	15	**83,333**	511,200
Share capital	16	**40,205,512**	18,218,110
Contributed surplus	16	**4,076,520**	1,270,663
Deficit		**(28,854,184)**	(19,154,623)
Accumulated other comprehensive income		**(217,140)**	125,381
		15,294,041	970,731
Total liabilities and shareholders' equity		**34,563,270**	4,614,142
Going concern	1		
Subsequent events	27		

See accompanying notes to the condensed interim consolidated financial statements

GABY INC. (formerly GABRIELLA'S KITCHEN INC.)

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Unaudited)		**Three months ended September 30,**		**Nine months ended September 30,**	
In Canadian dollars	Note	**2019**	2018	**2019**	2018
REVENUE					
Gross revenue		**6,352,919**	539,766	**9,566,644**	1,762,017
Promotional activity		**(152,525)**	(223,148)	**(559,535)**	(610,779)
Amortization of product listing fees		**(27,216)**	(27,526)	**(75,267)**	(85,090)
Total revenue		**6,173,178**	289,092	**8,931,842**	1,066,148
COST OF SALES					
Direct inventory costs	17	**5,811,095**	305,432	**8,334,503**	991,737
Variable gross profit (loss)		**362,083**	(16,340)	**597,339**	74,411
Allocated indirect costs	18	**363,884**	121,217	**875,979**	475,632
Distribution costs		**43,207**	35,961	**142,587**	149,984
Total cost of sales		**6,218,186**	462,610	**9,353,069**	1,617,353
Gross profit (loss)		**(45,008)**	(173,518)	**(421,227)**	(551,205)
Selling, general and administrative expenses	19	**3,327,176**	1,321,886	**9,378,795**	3,192,319
Share based compensation and expenses	15	**328,907**	99,843	**708,259**	99,843
Depreciation of plant and equipment		**186,172**	18,525	**279,222**	36,392
Amortization of intangibles		**4,560**	7,466	**13,530**	11,668
Loss from operations before the following:		**(3,891,823)**	(1,621,238)	**(10,801,033)**	(3,891,427)
Interest expense		**(213,120)**	(474,028)	**(510,452)**	(628,902)
Interest income		**23**	11,127	**3,851**	11,918
Other gains and losses	20	**1,749,228**	(23,228)	**1,589,434**	(448,829)
Total other expenses		**1,536,131**	(486,129)	**1,082,833**	(1,065,813)
Loss before income tax expense (recovery)		**(2,355,692)**	(2,107,367)	**(9,718,200)**	(4,957,240)
Current income tax expense		**40,287**	-	**140,238**	-
Deferred income tax recovery		**(48,060)**	-	**(158,877)**	-
Income tax expense (recovery)		**(7,773)**	-	**(18,639)**	-
Net loss		**(2,347,919)**	(2,107,367)	**(9,699,561)**	(4,957,240)
Other comprehensive loss, net of tax					
Items that may be reclassified to net profit in the future:					
Exchange difference on translation		**(124,713)**	-	**(247,996)**	-
Items reclassified to net profit in the current period:					
Divestiture of subsidiary	3	**(94,525)**		**(94,525)**	
Total comprehensive loss		**(2,567,157)**	(2,107,367)	**(10,042,082)**	(4,957,240)
Net loss per share:					
Basic and diluted	21	**($0.01)**	($0.03)	**($0.07)**	($0.09)

See accompanying notes to the condensed interim consolidated financial statements

GABY INC. (formerly 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		-	-	-	(4,957,240)	-	(4,957,240)
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		-	604,510	124,886	-	-	729,396
Debenture conversion		-	5,861,289	**(45,529)**	-	-	5,815,760
Warrant exercise		-	13,040	(90)	-	-	12,950
Stock option expense		-	-	99,843	-	-	99,843
Balance as at September 30, 2018		**-**	**17,540,247**	**1,052,481**	**(16,391,349)**	**-**	**2,201,379**
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		-	-	-	(9,794,086)	(247,996)	(10,042,082)
Reclassification of comprehensive loss	3	-	-	-	94,525	(94,525)	-
Settlement of share-issuance obligation	15	(511,200)	511,200	-	-	-	-
Issuance of Units	16	-	17,977,518	1,997,502	-	-	19,975,020
Equity issuance costs	16	-	(1,339,710)	-	-	-	(1,339,710)
Issued on business acquisition	3	-	4,830,000	-	-	-	4,830,000
Warrant exercise		-	216,286	(2,236)	-	-	214,050
Share-based compensation	15,16	83,333	250,000	177,017	-	-	510,350
Stock option expense	16	-	-	634,303	-	-	634,303
Forfeiture of stock options		-	-	(123,254)	-	-	(123,254)
Issuance of warrants attached to convertible debentures	16	-	-	81,900	-	-	81,900
Issuance of warrants attached to promissory notes	9	-	-	40,625	-	-	40,625
Returned to treasury	3	-	(457,892)	-	-	-	(457,892)
Balance as at September 30, 2019		**83,333**	**40,205,512**	**4,076,520**	**(28,854,184)**	**(217,140)**	**15,294,041**

See accompanying notes to the condensed interim consolidated financial statements

GABY INC. (formerly GABRIELLA'S KITCHEN INC.)
Condensed Interim Consolidated Statements of Cash Flows

(Unaudited)		Three months ended September 30,		Nine months ended September 30,	
In Canadian dollars	Note	**2019**	2018	**2019**	2018
OPERATING ACTIVITIES					
Net loss		**(2,347,919)**	(2,107,367)	**(9,699,561)**	(4,957,240)
Adjustments to arrive at cash flow from operations:					
Deferred income tax recovery		**(48,060)**	-	**(158,877)**	-
Depreciation	5	**260,700**	46,633	**521,068**	120,716
Amortization of intangible assets		**4,560**	7,466	**13,530**	11,668
Interest expense		**213,120**	474,028	**510,452**	628,902
Interest income		**-**	(11,034)	**(3,828)**	(11,825)
Share-based payments	15	**328,907**	99,843	**708,259**	441,559
Unrealized foreign exchange loss (gain)		**(308,644)**	-	**(148,850)**	-
Other adjustments	22	**(1,542,996)**	(124)	**(1,542,996)**	(69,622)
Cash used in operating activities before the following:		**(3,440,332)**	(1,490,555)	**(9,800,803)**	(3,835,842)
Net change in non-cash working capital related to operations		**(3,768,901)**	2,387	**(5,750,420)**	(115,859)
Cash used in operating activities		**(7,209,233)**	(1,488,168)	**(15,551,223)**	(3,951,701)
INVESTING ACTIVITIES					
Purchase of property and equipment		**(595,493)**	(26,132)	**(721,284)**	(69,903)
Purchase of intangible assets		**(459,760)**	(42,918)	**(459,760)**	(42,918)
Issuance of notes receivable		**-**	(392,670)	**(500,175)**	(1,124,830)
Cash purchased in acquisition		**-**	-	**168,348**	-
Cash disposed in divestiture		**(5,655)**	-	**(5,655)**	-
Deposits paid		**(181,800)**	-	**(219,745)**	-
Deposit refunds received		**1,595**	-	**1,595**	-
Cash used in investing activities		**(1,241,113)**	(461,720)	**(1,736,676)**	(1,237,651)
FINANCING ACTIVITIES					
Proceeds of promissory notes		**-**	-	**2,100,000**	387,960
Repayment of convertible debenture/ promissory notes		**(381,000)**	(149,999)	**(2,112,992)**	(408,399)
Proceeds on convertible debentures, attached warrants	10	**-**	198,096	**1,300,000**	6,350,000
Issuance costs paid – convertible debentures	10	**-**	(289,680)	**(8,019)**	(649,400)
Advances from (to) related parties, net		**(64,845)**	(33,341)	**(161,453)**	(33,341)
Repayment of long-term debt		**(27,286)**	-	**(31,778)**	(7,308)
Repayment of lease liabilities		**(183,997)**	(11,525)	**(321,595)**	(24,301)
Cash received for shares not yet issued		**-**	-	**-**	435,012
Warrant exercise		**12,400**	-	**214,050**	-
Issuance of common shares and warrants	16	**-**	12,950	**19,975,020**	12,950
Equity issuance costs	16	**-**	-	**(1,089,696)**	-
Interest paid		**(250,620)**	(3,942)	**(348,782)**	(23,447)
Cash provided by (used in) financing activities		**(895,348)**	(277,441)	**19,514,755**	6,039,726
Foreign currency translation adjustment		**73,663**	17,931	**(16,460)**	93,755
Net change in cash		**(9,272,031)**	(2,209,398)	**2,210,396**	944,129
Cash (bank indebtedness), beginning of period		**11,536,085**	3,001,683	**53,658**	(151,844)
Cash, end of period		**2,264,054**	792,285	**2,264,054**	792,285

See accompanying notes to the condensed interim consolidated financial statements, including Note 23

NATURE OF BUSINESS

On September 4, 2019, Gabriella's Kitchen Inc. changed its name to GABY Inc. ("GABY" or "the Corporation"). GABY 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 and on the OTCQB under the symbol GABLF. 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 unlicensed channel, with its offering of traditional better-for-you foods in both United States ("USA") and Canada. Subsequent thereto, primarily through the acquisitions described in Note 3 and Note 27, the Corporation now also produces, markets, and distributes cannabis-related CPG in the USA.

1) GOING CONCERN

These interim condensed consolidated financial statements for the three and nine months ended September 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 16, 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.

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 November 29, 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 Canadian dollars unless otherwise indicated. Other measurement bases used are detailed in the Corporation's audited consolidated financial statements for the years ended December 31, 2018 and 2017 ("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 Corporation's annual consolidated 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 1, 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 AND DIVESTITURE

I. Acquisition of Sonoma Pac

a) Description

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 obtained a Provisional Type 11 distribution license ("Type 11 License") 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 License), 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.I b)	3,087,250	4,121,479
Contingent consideration payable based on 2019 target	3.I 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 License		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.I e)	(375,000)	(500,625)
Net identifiable liabilities assumed		(1,234,866)	(1,648,546)
Add: Goodwill	3.I d)	7,789,173	10,398,546
		6,554,307	**8,750,000**

b) Consideration including contingent consideration

The total consideration was payable in the Corporation's common shares and was 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

In Canadian dollars, unless otherwise stated (Unaudited)

respect of performance targets (based on translation of USD to Canadian dollars ("CAD") at a rate of 1.30 and at 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 licensed revenue of Sonoma Pac for the year ended December 31, 2019 over 2018 verifiable licensed 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. Based on initial assigned probabilities of different outcomes incorporating results reported by Sonoma Pac to date of the acquisition 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 recorded 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. As there were 2,530,433 excess shares held in escrow in respect of meeting the 2019 target valued at $708,521, the Corporation originally recorded additional contingent consideration payable of $3,920,000 to arrive at total contingent consideration of $4,628,521. On November 8, 2019, the Corporation negotiated a settlement of the 2019 target with the additional issuance of 14,000,000 common shares with a fair value of $0.13 at time of issuance, which reduced the contingent consideration payable to $1,820,000 and resulted in a gain on contingent consideration liability of $2,100,000.

A total of 26,875,000 of the common shares issued pursuant to this transaction are subject to an escrow condition as follows:

- 6,250,000 to be released upon perfunctory approvals (which is expected to occur in a few months) or earlier if the common shares 20-day volume-weighted average trading price ("**VWAP**") is equal to or greater than $3.00
- 6,875,000 to be released the earlier of one year and if VWAP is equal or greater than $1.00
- 6,875,000 to be released the earlier of two years and if VWAP is equal or greater than $2.00
- 6,875,000 to be released the earlier of three years and if VWAP is equal or greater than $3.00

Although the shares are held in escrow, the beneficial holders are entitled to dividends and votes thereon and the release from escrow is perfunctory. Therefore, the shares have been recorded as fully outstanding.

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 license and the manufacturing, distribution and pending cultivation licenses acquired subsequently, as described in Note 27, 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 September 30, 2019 were $7,269,800 and $2,137,652, 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.

II. TOP Divestiture

With its acquisition of the cannabis licenses and permits described in Note 6, the manufacturing license owned by TOP became redundant, and therefore, effective August 26, 2019, GABY divested entirely of its 100% interest therein through the termination of the original sales and purchase agreement with the original sole shareholder and former director of GABY, Mara Gordon. Pursuant thereto, 1,115,178 common shares originally issued on the transaction were returned and cancelled; all amounts due to and from GABY and its subsidiaries and TOP were cancelled and forgiven; and any and all obligations to issue additional common shares to Ms. Gordon were terminated. A loss on divestiture of $550,962 was recognized in the statement of loss and comprehensive loss. TOP's results of operations up to the date of separation are included in the licensed operating segment. Accumulated other comprehensive income of $94,525 relating to TOP up to the date of separation has been reclassified out of other comprehensive income to net loss during the three and nine months ended September 30, 2019.

In Canadian dollars, unless otherwise stated (Unaudited)

4) PREPAID EXPENSES AND DEFERRED COSTS

Of the $1,034,273 of prepaid expenses and deferred costs included in the statement of financial position as at September 30, 2019 (December 31, 2018 - $236,259), $61,010 is expected to be recovered more than twelve months after the end of the reporting period (December 31, 2018 - $91,800).

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 December 31, 2017		-	-	41,398	294,936	336,334
Additions		-	-	136,082	69,903	205,985
Depreciation		-	-	(7,902)	(112,814)	(120,716)
Balance as at September 30, 2018		**-**	**-**	**169,578**	**252,025**	**421,603**
Balance as at December 31, 2018		-	-	**163,877**	**370,151**	**534,028**
Jan 1, 2019 adoption of IFRS 16	2	851,416	163,877	(163,877)	-	851,416
Additions		5,932,236	-	-	1,008,783	6,941,019
Acquired on business acquisition		695,977	-	-	40,667	736,644
Divestiture	3	(471,758)	-	-	(168,396)	(640,154)
Depreciation		(324,366)	(55,422)	-	(141,280)	(521,068)
Effect of foreign exchange[1]		(19,772)	-	-	(6,310)	(26,082)
Balance as at September 30, 2019		**6,663,733**	**108,455**	**-**	**1,103,615**	**7,875,803**

6) INTANGIBLE ASSETS AND GOODWILL

		Net book value of Intangible assets and Goodwill				
In $	Note	Computer software	Website costs	Cannabis licenses and permits	Goodwill	Total
Balance as at December 31, 2017		11,164	4,120	-	-	15,284
Additions		-	42,918	-	-	42,918
Amortization		(4,605)	(7,063)	-	-	(11,668)
Balance as at September 30, 2018		**6,559**	**39,975**	**-**	**-**	**46,534**
Balance as at December 31, 2018		**5,023**	**37,621**	**1,351,887**	**1,381,111**	**2,775,642**
Additions	a)	-	-	591,120	-	591,120
Acquired on business acquisition	3	-	-	1,335,000	10,398,546	11,733,546
Divestiture	3	-	-	(1,314,264)	(1,343,137)	(2,657,401)
Amortization		(2,067)	(11,463)	-	-	(13,530)
Effect of foreign exchange[1]		-	-	(48,423)	(122,097)	(170,520)
Balance as at September 30, 2019		**2,956**	**26,158**	**1,915,320**	**10,314,423**	**12,258,857**

[1]Foreign exchange difference arising on translation of foreign operation into Canadian dollars.

a) Acquisition of separately acquired intangibles 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, 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 day prior to the closing of the remaining 20% purchase (**"KJM Future Warrants**").

KJM currently has four use permits issued by Sonoma County: manufacturing; cultivation; nursery and distribution. A Provisional State License for Type 6 (non-volatile) manufacturing has been issued by the Bureau of Cannabis Control ("BCC") of the State of California and an application for a cultivation license from the California Department of Food and Agriculture is in process.

The foregoing licenses acquired through the share purchase do not constitute a business combination and the transaction is therefore accounted for as an asset acquisition. The total purchase price of USD 450,000 represents 100% of the ownership interest in KJM, as the transfer of the remaining 20%, while subject to BCC approval, is expected to occur simply as a matter of time, and is comprised of USD 400,000 plus USD 50,000 being the fair value attributable to the derivative liability of the KJM Future Warrants (see Note 12). Further, the 20% interest is held in title only and is not entitled to any beneficial rights, including voting and dividends, or obligations thereto, including any possible funding requirements.

7) 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 September 30, 2019 and December 31, 2018 was 3.95%. No amounts were outstanding under the demand operating loan as of September 30, 2019 and December 31, 2018.

In Canadian dollars, unless otherwise stated (Unaudited)

8) 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.

September 30,	**Three months ended**		**Nine 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	52,610	189,999	277,991	339,997
Cash compensation to remaining key management personnel	119,797	-	450,737	-
Share-based compensation to shareholders and directors	83,668	99,844	354,812	99,844
Total compensation of key management personnel	256,075	289,843	1,083,540	439,841
Other expenses on behalf of the Corporation by a corporate shareholder and an entity related by common ownership	23,034	50,838	221,820	123,413
Rent paid to a company controlled by an officer and director	10,968	-	32,905	-
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	-	-	16,915	-
c. Amounts included in Interest expense:				
Interest on convertible debentures to directors and entities controlled by directors	4,875	-	22,407	-
Interest on convertible debentures to entity controlled by person related to officer and director of the Corporation	-	-	2,328	-
Interest payable to a director in respect of a short term promissory note as described in Note 8	723	-	2,475	-
Interest on callable debt to shareholders and an entity related by common ownership		-	-	10,119
d. Convertible debentures issued (netted as issue cost of convertible debenture issued at the time):				
Finder's fees paid to a company significantly influenced by a person who is a family member who was a controlling shareholder at the time.	-	-	-	(205,230)
285 Compensation Warrants for finder's fees issued to the same company above, in connection with the issuance of convertible debentures and at the time were netted against the convertible debentures.	-	-	-	(47,330)
Convertible debentures issued to a company controlled by same person referred to above	-	-	-	125,000

[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)

e. Due to or from related parties included in statement of financial position	September 30, 2019	Dec 31, 2018
Included in Convertible debentures:		
To directors and entities controlled by directors	100,000	-
Included in Accounts payable and accrued liabilities		
Compensation payable to key management personnel or their separate management entities	51,174	145,866
Interest payable in respect of c) above	1,192	-
Rent payable to a company controlled by an officer and director	-	3,586
Amounts due on reimbursements of other expenses in a) above	42,356	106,442
Royalties and licensing fees payable to a company controlled by a close family member of certain key management personnel	-	9,516

9) PROMISSORY NOTES PAYABLE

	In $	
	Sept 30, 2019	Dec 31, 2018
(a) Promissory note payable, including interest accrual of $12,561	**462,561**	-
(b) Promissory notes payable, including interest accrual of $38,692	**288,692**	-
	751,253	-

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

b) 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 16).

10) 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 16). 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:

In Canadian dollars, unless otherwise stated (Unaudited)

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 nine month period ended September 30, 2019 relating to the convertible debentures, including coupon interest and accretion of issuance costs and debenture discount, is $43,212 and $146,195, 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 $	
	September 30, 2019	September 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	**(712,992)**	-
Interest accretion expense on warrants and legal	**61,160**	-
Ending balance of convertible debentures	**558,249**	-

11) LONG-TERM DEBT

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

			In $	
Repayable in monthly instalments, including interest	**Interest**	**Matures**	**Sept 30, 2019**	Dec 31, 2018
USD 448	4.9%	Sept 2023	**25,735**	-
USD 875	1.9%	April 2023	**48,117**	-
USD 707	1.9%	April 2023	**38,867**	-
USD 743	2.90%	June 2023	**41,926**	-
USD 620	5.24%	Sept 2022	**27,276**	-
USD 1,150	5.24%	Sept 2022	**50,639**	-
USD 1,150	5.24%	Sept 2022	**50,639**	-
			283,199	-
Less: current portion			**(81,041)**	-
			202,158	-

In Canadian dollars, unless otherwise stated (Unaudited)

12) DERIVATIVE LIABILITY

In conjunction with the purchase of assets as described in Note 6a, GABY issued the KJM Future Warrants which is a derivative liability and was initially recognized at its fair value of $65,902 (USD 50,000). Subsequent changes in fair value of the KJM Future Warrants are recognized through profit and loss. The KJM Future Warrants issuance was classified as an option liability as it will be settled through the issuance of a variable number of warrants based on the exchange rate and trading price of GABY's common shares at the time of settlement. At September 30, 2019 the KJM Future Warrants were fair valued at $72,228 (USD 54,545), resulting in a loss on fair value of derivatives of $6,042 for the three and nine month periods ended September 30, 2019 (2018 - $nil).

13) CONTINGENT CONSIDERATION PAYABLE

		In $	
Contingent Consideration in respect of:	**Note**	**Sept 30, 2019**	Dec 31, 2018
Sonoma Pac acquisition	3	**1,820,000**	-
TOP acquisition	a)	**-**	1,615,392
		1,820,000	1,615,392

a) Pursuant to the TOP divestiture described in Note 3, no contingent consideration is payable on the original acquisition as described in the Annual Financial Statements.

14) 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 September 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	**5,850,372**
Divestiture of lease liabilities (see Note 3)	**(503,295)**
Total cash outflows for leases	**(731,637)**
Initial payments capitalized to right of use assets	**67,289**
Variable lease payments not included in the measurement of lease liabilities	**200,261**
Portion of lease payments allocated to interest expense	**233,460**
Guarantee fee - GABY warrants	**(7,737)**
Effects of changes in foreign exchange rate	**(21,434)**
Lease liabilities at September 30, 2019	**6,857,089**
Current portion of lease liabilities	**(397,782)**
Lease liabilities (non-current) as at September 30, 2019	**6,459,307**

Pursuant to the permits and licenses described in Note 6, in July 2019, GABY entered into a material lease agreement for an additional production facility in California. The lease requires payments of USD 41,416 per month and has an initial term of 7 years with one renewal option for an additional 5-year term, which GABY expects to exercise. To entice the lessor to approve the lease, GABY Inc. paid a lease guarantee fee in warrants to purchase its common shares (Note 15), the fair value of which has been added to the lease liability.

In Canadian dollars, unless otherwise stated (Unaudited)

15) SHARE-BASED PAYMENTS AND SHARE ISSUANCE OBLIGATION

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

In $	Note	Three months ended 2019	Three months ended 2018	Nine months ended 2019	Nine months ended 2018
Operating expenses:					
Stock option plan employee compensation and consulting fees	a	**135,817**	99,843	**511,049**	99,843
Consulting services settled through issuance of warrants	b	**86,658**	-	**90,778**	-
Consulting services to be settled through shares	d	**106,432**		**106,432**	
Share-based compensation and expense		**328,907**	99,843	**708,259**	99,843
Other expenses:					
Interest expense – accretion of warrants issued with promissory notes		**-**		**40,625**	
Other gains and losses	c	**-**	-	**-**	341,716
Total share-based expenses included in net loss		**328,907**	**99,843**	**748,884**	**441,559**
Total share-based compensation netted against common shares	c	**250,000**	**-**	**250,000**	**-**

a. Stock option plan

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

	Nine months ended September 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	**$0.46**	**9,785,000**	$0.39	3,375,000
Exercised	**-**	**-**	-	-
Expired	**-**	**-**	-	-
Forfeited	**$0.46**	**(1,250,000)**	-	-
Closing	**$0.42**	**11,910,000**	**$0.39**	**3,375,000**
Vested and exercisable at period end	**$0.31**	**1,241,667**	**$0.36**	**908,333**

In Canadian dollars, unless otherwise stated (Unaudited)

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

	September 30, 2019		December 31, 2018	
Exercise price	**Number**	**Weighted average contractual life in years**	**Number**	**Weighted average contractual life in years**
$0.2856	1,625,000	3.93	1,775,000	4.68
$0.3500	25,000	4.58	-	-
$0.3600	3,950,000	4.85	-	-
$0.5000	6,310,000	9.03	1,600,000	8.89
	11,910,000	**6.94**	**3,375,000**	**6.68**

Fair value of options granted

The options are granted for no consideration. The fair value of the options granted during the period ended September 30, 2019 of $0.17 per option (September 30, 2018 $0.15) 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%
August 2019	$0.36	$0.36	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 Share based compensation and expenses for the three and nine months ended September 30, 2019 is $135,817 and $511,049, respectively (September 30, 2018 - $99,843 for both periods) and is classified as contributed surplus on the Corporation's consolidated statement of financial position. Of the foregoing amounts, $83,668 and $354,812 was in respect of key management personnel for the three and nine months ended September 30, 2019, respectively (September 30, 2018 - $99,843 for both periods).

b. Warrants issuable for services

i. Warrants Subject to No Vesting Conditions

The Corporation enters into agreements for various services for which all or partial consideration is comprised of warrants. As the fair value of the provision of services is difficult to measure, the Corporation measures the fair value of services received or to be received by reference to the fair value of warrants granted using the Black-Scholes Model, which takes into account the assumptions outlined in Note 16.

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On August 1, 2019 the Corporation entered into an agreement for investor relations services over a period of one year for consideration of $10,000 per month plus 350,000 warrants each exercisable into one common share at any time up to August 1, 2021. Of these warrants, 175,000 are exercisable at a price of $0.42 per warrant and 175,000 are exercisable at a price of $0.45 per warrant. The fair value of the warrants of $47,250 has been set up as a prepaid with a corresponding increase to contributed surplus and is being expensed over 12 months as the service obligation is contractually required over that period. The resulting expense included in share-based compensation and expenses for both the three and nine month period ended September 30, 2019 is $7,767 (2018 - $nil for both periods).

On August 1, 2019 the Corporation entered into an agreement for consulting services in respect of investing and financing opportunities for the Corporation in exchange for the issuance of 500,000 warrants each exercisable into one common share at any time up to August 1, 2024. The exercise price is $0.38 for 300,000 of the warrants and $0.48 for 200,000 of the warrants. The fair value of the warrants of $71,000 was recorded as share-based compensation and expenses for both the three- and nine-month period ended September 30, 2019 (2018 - $nil for both periods) with a corresponding increase in contributed surplus.

On July 2, 2019 the Corporation entered into an agreement for public relations services over a period of one year for a payment of USD 2,000 per month plus 200,000 warrants each exercisable into one common share at any time up to July 2, 2021 at an exercise price of $0.375 per warrant. The fair value of the warrants of $32,000 has been set up as prepaid with a corresponding increase to contributed surplus and is being expensed over 12 months as the service is contractually required over that period. The resulting expense included in share-based compensation and expenses for both the three- and nine-month period ended September 30, 2019 is $7,891 (2018 - $nil for both periods).
On July 1, 2019, the Corporation issued a total of 500,000 warrants each exercisable into one common share. The warrants expire July 1, 2024 and vest and are exercisable as outlined in the table below:

Vest	Number of Warrants in each Tranche	Exercise Price	Expected life in years
July 1, 2019	100,000	$0.38	2
July 1, 2020	100,000	$0.50	2
July 1, 2021	100,000	$0.55	2
July 1, 2022	100,000	$0.60	3
July 1, 2023	100,000	$0.65	4
	500,000		

The warrants were issued in lieu of a personal guarantee in respect of a building lease entered into on July 1, 2019 (see Note 14). As the fair value of the personal guarantee is difficult to estimate, the Corporation measured the fair value of the personal guarantees using the Black-Scholes Model with the following inputs for all tranches: Share price at measurement date of $0.39, average risk-free interest rate of 1.39% based on interest rates of Government of Canada

In Canadian dollars, unless otherwise stated (Unaudited)

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 as outlined in the table above. The resulting fair value of $77,000 has been included in the calculation of the net present value of the lease asset of which $22,647 has been recognized as an increase in contributed surplus.

ii. Warrants Subject to Market Vesting Conditions

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.

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 nine months ended September 30, 2019 is $nil and $4,120 (September 30, 2018 - $nil all periods).

c. Shares issued for services

		2019		2018	
Shares issued in respect of:		**Number**	**$**	**Number**	**$**
Private placement as described Note 16	i	**833,333**	**250,000**	-	-
To settle share issuance obligation at Dec 31, 2018	ii	**1,383,800**	**511,200**	-	-
Contract termination payment	iii	-	-	1,400,070	341,716
Total common shares issued		**2,217,133**	**761,200**	1,400,070	341,716

i) 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 16. In exchange for the services, the Corporation agreed to issue 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 issued pursuant to the private placement. Upon issuance of the 833,333 common shares in September 2019, the share issuance obligation was relieved by $250,000 and a corresponding amount was recorded as share capital.

ii) 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.

iii) 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, included in Other gains and losses on the statement of loss and comprehensive loss for the nine-month period ended September 30, 2018 (three months ended September 30, 2018 - $nil).

d. Shares issuable for services in respect of share issuance

On August 1, 2019 the Corporation entered into an agreement for a consultant to provide advisory services in respect of strategic growth and development of the Corporation for a period of one year for $500,000 payable by the issuance of 1,351,351 common shares. One quarter of the common shares issuable are payable in arrears on each quarterly anniversary date as the services are performed, unless the services result in the culmination of a financial transaction, in which case the remaining unissued common shares become payable 30 days thereafter. The number of common shares issuable have been reserved and price protected with Canadian Securities Exchange at the price of $0.37 per share and accordingly, the Corporation has recorded a share issuance obligation and share-based compensation expense of $83,333 for the three and nine months ended September 30, 2019.

A consultant agreed to provide scientific advisory services for fiscal 2019 in return of the issuance of 140,000 common shares in January 2020. The Corporation has recorded share based compensation expense of $23,099 for the three and nine months ended September 30, 2019 representing the fair value of 105,000 shares earned up to September 30, 2019 based on the closing price of $0.22.

In Canadian dollars, unless otherwise stated (Unaudited)

16) 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 SFL (Note 15c)	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 obligations (Note 15c)	2,217,133	761,200	-	-	-	-	-	-	-	761,200
Issuance of Units (Note 16 d)	66,583,400	17,977,518	33,291,693	1,997,502	-	-	-	-	1,997,502	19,975,020
Equity issuance costs (Note 16e)	-	(1,339,710)	-	-	-	-	-	-	-	(1,339,710)
Stock option expense (Note 15a)	-	-	-	-	-	-	-	511,049	511,049	511,049
Issuance of warrants attached to convertible debentures (Note 10)	-	-	650,000	81,900	-	-	-	-	81,900	81,900
Issuance of warrants attached to promissory notes (Note 9)	-	-	312,500	40,625	-	-	-	-	40,625	40,625
Issued on business acquisition (Note 3)	17,250,000	4,830,000	-	-	-	-	-	-	-	4,830,000
Returned to treasury (Note 3)	(1,115,178)	(457,892)	-	-	-	-	-	-	-	(457,892)
Warrant exercise	565,000	210,501	(565,000)	(1,451)	-	-	-	-	(1,451)	209,050
Compensation warrant exercise	17,500	5,785	17,500	45	(5)	(830)			(785)	5,000
Share-based compensation (Note 15)	-	-	2,150,000	177,017	-	-	-	-	177,017	177,017
Closing September 30, 2019	**175,998,638**	**40,205,512**	**78,090,766**	**3,194,161**	**477**	**79,215**	**-**	**803,144**	**4,076,520**	**44,282,032**

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 25) from the stock split.

b. Warrants

Set out below are summaries of warrants granted by the Corporation:

	Nine months ended September 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[1]	**$0.37**	**42,234,073**	-	-
Granted[2]	**$0.38**	**36,404,193**	$0.37	42,444,073
Issued on compensation warrants[3]	**$0.37**	**17,500**	-	-
Exercised	**($0.37)**	**(565,000)**	$0.37	(210,000)
Expired	**-**	**-**	-	-
Forfeited	**-**	**-**	-	-
Closing	**$0.38**	**78,090,766**	**$0.37**	**42,234,073**
Vested and exercisable at period end	**$0.38**	**77,090,766**	**$0.37**	**42,234,073**

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

	September 30, 2019		**December 31, 2018**	
Exercise price	**Number**	**Weighted average contractual life in years**	**Number**	**Weighted average contractual life in years**
$0.37	42,336,573	0.92[1]	42,234,073	1.66
$0.375 - 0.38	34,204,193	1.76[2]	-	n/a
$0.42 - $0.65	1,550,000	3.27[3]		
	78,090,766	**1.34**	**42,234,073**	**1.66**

[1] The Corporation may accelerate the expiry date of the 41,686,573 warrants exercisable at $0.37 per common share 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 each issuable at $0.38 upon 30 days written notice to the holders.

[3]See Note 15 for market vesting conditions for 600,000 warrants exercisable at $0.50.

In Canadian dollars, unless otherwise stated (Unaudited)

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%
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%
July 2019	$0.375 $0.65	$0.375	1.50%	80%	2 - 4	0%
August 2019	$0.38 - $0.48	$0.36	1.50%	80%	2	0%

[1] Based on interest rates of Government of Canada Bonds with similar maturity at the date of grant
[2] Estimated using a 50% weighting towards GABY's actual stock volatility over a period of less than one year and a 50% weighting of a composite of comparable 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 15 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 0.70 years.

Set out below are summaries of warrants granted by the Corporation:

	Nine months ended September 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	**$1,000**	**482**	-	-
Granted	**-**	**-**	$1,000	482
Exercised	**$1,000**	**(5)**	-	-
Expired	**-**	**-**	-	-
Forfeited	**-**	**-**	-	-
Closing and vested at period end	**$1,000**	**477**	**$1,000**	**482**
Average weighted remaining life in years	**0.70**		**1.45**	

In Canadian dollars, unless otherwise stated (Unaudited)

d. Private Placement

On June 12, 2019 the Corporation completed a private placement for gross proceeds of $19,975,020 through the issuance of 66,583,400 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 15 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 it sells 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.

17) DIRECT INVENTORY COSTS

September 30,	Three months ended		Nine months ended	
In $	**2019**	2018	**2019**	2018
Balance comprised of:				
Salaries and benefits	**617,869**	101,799	**1,134,669**	372,298
Direct material	**5,085,449**	203,633	**6,939,585**	619,439
Other direct costs	**107,777**	-	**260,249**	-
	5,811,095	**305,432**	**8,334,503**	**991,737**

18) ALLOCATED INDIRECT COSTS

September 30,	Three months ended		Nine months ended	
In $	**2019**	2018	**2019**	2018
Balance comprised of:				
Employee salaries, wages and benefits	**53,744**	39,265	**156,828**	166,463
Production facility costs	**220,238**	20,597	**476,200**	123,511
Depreciation of production equipment	**45,766**	25,233	**122,928**	73,451
Other overhead costs	**44,136**	36,122	**120,023**	112,207
	363,884	**121,217**	**875,979**	**475,632**

In Canadian dollars, unless otherwise stated (Unaudited)

19) SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

September 30,	Three months ended		Nine months ended	
In $	2019	2018	2019	2018
Balance comprised of:				
Employee salaries and benefits	**1,499,711**	378,547	**3,376,072**	1,010,042
Consulting fees	**142,756**	294,604	**1,796,964**	555,791
Administrative costs	**861,280**	326,289	**2,324,642**	656,000
Advertising and promotion	**308,740**	67,585	**512,596**	232,804
Selling costs	**152,194**	132,719	**457,949**	208,609
Professional fees	**362,495**	122,142	**910,572**	529,073
	3,327,176	**1,321,886**	**9,378,795**	**3,192,319**

20) OTHER GAINS AND LOSSES

September 30,		Three months ended		Nine months ended	
In $	Note	2019	2018	2019	2018
Balance comprised of:					
Foreign exchange gain (loss)		**206,232**	(23,228)	**46,438**	(123,263)
Loss on divestiture	3	**(550,962)**	-	**(550,962)**	-
Fair value loss on derivative liability	12	**(6,042)**	-	**(6,042)**	-
Gain on contingent consideration liability	3	**2,100,000**	-	**2,100,000**	-
Gain on conversion of debt		**-**	-	**-**	72,126
Contract termination payment	15	**-**	-	**-**	(341,716)
Loss on inventory write-down		**-**	-	**-**	(55,976)
		1,749,228	**(23,228)**	**1,589,434**	**(448,829)**

21) 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 nine months ended September 30, 2019 was 176,189,153 and 130,603,774 (2018 – 74,514,796 and 56,991,733).

In Canadian dollars, unless otherwise stated (Unaudited)

22) OTHER ADJUSTMENTS TO ARRIVE AT CASH FLOW FROM OPERATIONS

September 30,		Three months ended		Nine months ended	
In $	Note	**2019**	2018	**2019**	2018
Balance comprised of:					
Increase in deferred lease inducement	2	**-**	(124)	**-**	2,504
Loss on divestiture	3	**550,962**	-	**550,962**	-
Fair value loss on derivative liability	12	**6,042**	-	**6,042**	-
Gain on contingent consideration liability	3	**(2,100,000)**	-	**(2,100,000)**	-
Gain on conversion of debt		**-**	-	**-**	(72,126)
		(1,542,996)	**(124)**	**(1,542,996)**	**(69,622)**

23) NON-CASH TRANSACTIONS

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

	September 30, 2019, In $	3 Months	9 Months
1	Lease capitalization		
	Increase in lease liability	**5,065,573**	**5,849,326**
	Increase in right-of-use assets	**5,065,573**	**5,849,326**
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**
	Increase in contingent consideration	**-**	**3,920,000**
	Increase in share capital	**-**	**4,830,000**
4	Shares for services		
	Increase in share issuance obligation	**-**	**250,000**
	Decrease in share capital	**-**	**250,000**
5	Direct financing of capital assets		
	Increase in long-term debt	**189,770**	**287,499**
	Increase in capital assets	**189,770**	**287,499**

In Canadian dollars, unless otherwise stated (Unaudited)

	September 30, 2018, In $	3 Months	9 Months
1	Assets under finance lease and finance lease obligations were recognized in equal and offsetting amounts of	**100,137**	**136,082**
2	Conversion of callable debt to share capital and warrants:		
	Decrease in callable debt	**-**	**4,718,568**
	Increase in share capital	**-**	**3,969,207**
	Increase in contributed surplus	**-**	**677,235**
	Recognition of gain on conversion of debt	**-**	**72,126**
3	Issuance of shares and warrants previously paid for:		
	Decrease in share issuance liability	**-**	**641,624**
	Increase in share capital	**-**	**548,104**
	Increase in contributed surplus	**-**	**93,520**
4	Deferred costs of issuance of convertible debentures which were not paid in cash:		
	Decrease in convertible debentures	**-**	**387,680**
	Increase in share capital	**-**	**262,794**
	Increase in contributed surplus	**-**	**124,886**
5	Conversion of convertible debentures:		
	Decrease in convertible debentures	**5,815,760**	**5,815,760**
	Increase in share capital	**5,861,289**	**5,861,289**
	Decrease in contributed surplus	**45,529**	**45,529**

24) FAIR VALUE OF FINANCIAL INSTRUMENTS

The Corporation's current financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, income taxes payable, promissory notes, current portion of long-term debt derivative liabilities 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.

25) STOCK APPRECIATION RIGHTS

In the three- and nine-month periods ended September 30, 2019 the Corporation issued respectively, 140,000, and 4,235,000 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 September 30, 2019 was 14,168,000. 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 September 30, 2019, no liquidity event has occurred.

In Canadian dollars, unless otherwise stated (Unaudited)

26) 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 licensed and unlicensed channels, both of which are in the manufacturing, distribution and marketing of wellness products to address a variety of dietary and health concerns. The licensed channel includes cannabis-related products to which the manufacturing, sale and distribution are subject to regulation. The unlicensed 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	Licensed		Unlicensed		Total	
September 30, in $	**2019**	2018	**2019**	2018	**2019**	2018
Gross revenue	**5,793,974**	-	**558,945**	539,766	**6,352,919**	539,766
Promotional activity	**-**	-	**(152,525)**	(223,148)	**(152,525)**	(223,148)
Amortization of product listing fees	**-**	-	**(27,216)**	(27,526)	**(27,216)**	(27,526)
Total revenue	**5,793,974**	-	**379,204**	289,092	**6,173,178**	289,092
Cost of sales	**5,647,447**	-	**570,739**	462,610	**6,218,186**	462,610
Gross income (loss)	**146,527**	-	**(191,535)**	(173,518)	**(45,008)**	(173,518)

Nine-month period ended	Licensed		Unlicensed		Total	
September 30, in $	**2019**	2018	**2019**	2018	**2019**	2018
Gross revenue	**7,980,976**	-	**1,585,668**	1,762,017	**9,566,644**	1,762,017
Promotional activity	**-**	-	**(559,535)**	(610,779)	**(559,535)**	(610,779)
Amortization of product listing fees	**-**	-	**(75,267)**	(85,090)	**(75,267)**	(85,090)
Total revenue	**7,980,976**	-	**950,866**	1,066,148	**8,931,842**	1,066,148
Cost of sales	**7,769,806**	-	**1,583,263**	1,617,353	**9,353,069**	1,617,353
Gross income (loss)	**211,170**	-	**(632,397)**	(551,205)	**(421,227)**	(551,205)

27) SUBSEQUENT EVENTS

Acquisition of 2Rise Naturals LLC ("2Rise")

On October 2, 2019 the Corporation entered into a definitive agreement to acquire all the issued and outstanding securities of 2Rise in an all-share transaction valued at USD$1 million (the "Transaction"). 2Rise owns a portfolio of high-quality organic CBD products including, THC-Free CBD tincture, full-spectrum tincture with turmeric or vanilla, and high potency full spectrum capsules. 2Rise's promises customers 100% plants, no chemicals. Its products are distributed in 1000 stores nationwide, including Erewhon. 2Rise products are focused on the CBD supplement market and complement GABY's existing CBD line Lulu's Chocolates and Sonoma Specific skincare line. GABY plans to expand distribution of 2Rise products through its existing mainstream distribution.

GABY proposes to acquire all issued and outstanding securities of 2Rise in an arm's length transaction on the basis of common shares of GABY being issued to the holders of 2Rise securities in exchanged for all issued and outstanding 2Rise securities based on GABY share price calculated based on the 5-day volume weighted average trading price ("VWAP") prior to and including the date of the announcement of the Transaction at an enterprise value of USD$1.0 million in respect of 2Rise. As part of the Transaction GABY will issue 500,000 warrants giving the holder of the warrant for a period of two years the right to purchase 500,000 GABY common shares at a price of $0.45. Management anticipates that the transaction will close by fiscal year end.

The Corporation is in the process of obtaining a valuation of the underlying assets of 2Rise including its property, plant and equipment, intangibles and goodwill, and is also determining 2Rise's working capital balances. The composition of goodwill, if recognized, would include knowledge and experience of 2Rise's in respect of manufacturing and wholesale of skincare products in the United States, as well as the expected synergies from the combination of Sonoma Pac's distribution license together with GABY's consumer packaged goods expertise. Any goodwill recognized would have $nil tax value.

Acquisition of Lulu's

On July 26, 2019, GABY entered into a letter of intention to acquire 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. Management anticipates that the transaction will close by fiscal year end.

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 license together with GABY's consumer packaged goods expertise. Any goodwill recognized would have $nil tax value.

Issuance and Amendment of stock options

In October 2019, the Corporation cancelled 5,660,000 stock options and 650,000 stock options which were forfeited both of which were originally issued at exercise price of $0.50 with 94% of the options cancelled having remaining lives of over nine years with original vesting evenly over five years and the remaining 6% having vesting over two years and remaining lives of four to five years. Concurrently, a total of 5,890,000 stock options were issued in place of the cancelled options at an exercise price of $0.27 vesting one third each, immediately and on the first and second anniversary date. Accordingly, the new stock options will be treated as amendments with the excess, if any, of fair value of the new stock options over the fair value of the cancelled stock options as at the date of cancellation to be recognized as an expense over the new vesting period. In addition, the remaining original fair value of the cancelled options will be amortized over the revised vesting period.

On November 20, 2019, the Corporation granted 300,000 stock options to two newly appointed board members. The stock options vest evenly one third on the grant date, and the first and second anniversary dates and each is exercisable into one common share at an exercise price of $0.125.

Issuance of common shares subsequent to period end

On November 5, 2019 the Corporation issued 1,351,531 common shares to be reserved in respect of settlement of the share issuance obligation of $500,000 described in Note 15 d). The Corporation will record an increase to equity of $500,000 and an equal amount split between the reduction of share issuance obligation as of that date and prepaid to be expensed over remaining service period ending July 31, 2019. On November 8, 2019 the Corporation issued 14,000,000 common shares in respect of the settlement of contingent consideration on the Sonoma Pac acquisition as described in Note 3 b). The Corporation recorded a share capital of $1,820,000 and a reduction of contingent consideration liability of $1,820,000.