GABY INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE AND SIX MONTHS
ENDED JUNE 30, 2020 AND 2019
(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 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.

Condensed Interim Consolidated Statements of Financial Position

In Canadian dollars	Note	(Unaudited) June 30, 2020	(Audited) December 31, 2019
ASSETS			
Current			
Cash		**72,577**	698,951
Accounts receivable		**1,511,505**	2,088,201
Inventories		**511,268**	1,471,410
Prepaid expenses and deferred costs		**218,343**	750,338
		2,313,693	5,008,900
Non-current			
Property and equipment	3	**1,603,056**	7,384,948
Intangible assets and goodwill		**7,836,009**	7,217,874
Security deposits		**43,305**	253,817
Total assets		**11,796,063**	19,865,539
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank indebtedness	5	**139,578**	-
Accounts payable and accrued liabilities	4	**5,663,831**	4,207,012
Income taxes payable		**56,176**	48,349
Short-term notes payable	6	**95,277**	207,424
Current portion of lease liabilities	9	**117,893**	406,068
Current portion of long-term debt	10	**85,477**	80,118
Current liabilities before the following:		**6,158,232**	4,948,971
Promissory notes payable	4,7	**1,165,955**	1,463,179
Convertible debentures	4,8	**644,580**	635,255
		7,968,767	7,047,405
Non-current liabilities			
Lease liabilities	9	**916,588**	6,342,261
Long-term debt	10	**190,413**	177,592
Deferred tax liability		**264,992**	347,194
Total liabilities		**9,340,760**	13,914,452
SHAREHOLDERS' EQUITY			
Share capital	12	**44,666,477**	43,068,525
Contributed surplus	11,12	**5,365,212**	5,373,688
Deficit		**(47,742,058)**	(41,943,032)
Accumulated other comprehensive loss		**165,672**	(548,094)
		2,455,303	5,951,087
Total liabilities and shareholders' equity		**11,796,063**	19,865,539
Going concern	1		
Subsequent events	22		

See accompanying notes to the condensed interim consolidated financial statements

GABY INC.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Unaudited)		Three months ended June 30,		Six months ended June 30,	
In Canadian dollars	Note	2020	2019	2020	2019
CONTINUING OPERATIONS					
REVENUE		**740,202**	2,132,827	**2,189,256**	2,187,002
COST OF SALES					
Direct inventory costs	13	**571,794**	1,848,200	**2,039,523**	1,950,747
Variable gross profit		**168,408**	284,627	**149,733**	236,255
Allocated indirect costs	14	**61,745**	124,569	**195,174**	171,612
Distribution costs		**84,869**	-	**156,392**	-
Total cost of sales		**718,408**	1,972,769	**2,391,089**	2,122,359
Gross profit (loss)		**21,794**	160,058	**(201,833)**	64,643
Selling, general and administrative expenses	15	**1,612,054**	3,657,257	**3,881,737**	4,903,847
Share based compensation and expenses	11	**(100,322)**	206,056	**34,392**	379,352
Depreciation of plant and equipment		**106,068**	51,985	**254,167**	63,457
Loss from operations before the following:		**(1,596,006)**	(3,755,240)	**(4,372,129)**	(5,282,013)
Foreign exchange gain (loss)		**26,010**	(162,420)	**(36,673)**	(159,794)
Gain (loss) on conversion of debt	18	**(13,619)**	-	**61,255**	-
Gain on disposal of assets		**963**	-	**963**	-
Gain on lease termination	18	**-**	-	**543**	-
Interest expense		**(140,447)**	(243,841)	**(373,889)**	(268,190)
Interest income		**-**	-	**-**	3,828
Penalties and interest on past-due taxes		**(3,578)**	-	**(234,800)**	-
Recovery of impairment amount		**3,580**	-	**12,338**	-
Total other gain (loss)		**(127,091)**	(406,261)	**(570,263)**	(424,156)
Loss before income tax expense (recovery)		**(1,723,097)**	(4,161,501)	**(4,942,392)**	(5,706,169)
Current income tax expense		**219**	99,951	**5,565**	99,951
Deferred income tax recovery		**(36,009)**	(66,375)	**(99,463)**	(110,817)
Income tax expense (recovery)		**(35,790)**	33,576	**(93,898)**	(10,866)
Net loss from continuing operations		**(1,687,307)**	(4,195,077)	**(4,848,494)**	(5,695,303)
DISCONTINUED OPERATIONS					
Net loss from discontinued operations	17	**(110,854)**	(776,812)	**(950,532)**	(1,656,339)
Net loss		**(1,798,161)**	(4,971,889)	**(5,799,026)**	(7,351,642)
Other comprehensive loss, net of tax					
Items that may be reclassified to net					
Exchange difference on translation		**(294,588)**	(80,652)	**713,766**	(123,283)
Total comprehensive loss		**(2,092,749)**	(5,052,541)	**(5,085,260)**	(7,474,925)
Net loss per share:					
Basic and diluted	16	**($0.01)**	($0.04)	**($0.03)**	($0.07)

See accompanying notes to the condensed interim consolidated financial statements

GABY 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, 2018		**511,200**	**18,218,110**	**1,270,663**	**(19,154,623)**	**125,381**	**970,731**
Net and comprehensive loss		-	-	-	(7,351,642)	(123,283)	(7,474,925)
Settlement of share-issuance obligation	18	(511,200)	511,200	-	-	-	-
Issuance of Units		-	17,977,518	1,997,502	-	-	19,975,020
Equity issuance costs	12	-	(1,339,710)	-	-	-	(1,339,710)
Issued on business acquisition		-	4,830,000	-	-	-	4,830,000
Warrant exercise		-	203,050	(1,400)	-	-	201,650
Share-based compensation		250,000	-	4,120	-	-	254,120
Stock option expense	11	-	-	375,232	-	-	375,232
Issuance of warrants attached to convertible debentures	12	-	-	81,900	-	-	81,900
Issuance of warrants attached to promissory notes		-	-	40,625	-	-	40,625
Balance as at June 30, 2019		**250,000**	**40,400,168**	**3,768,642**	**(26,506,265)**	**2,098**	**17,914,643**
Balance as at December 31, 2019		-	43,068,525	5,373,688	(41,943,032)	(548,094)	5,951,087
Net and comprehensive loss		-	-	-	(5,799,026)	713,766	(5,085,260)
Issuance of shares to settle debts	12	-	1,347,952	-	-	-	1,347,952
Issuance of subscription shares	12	-	250,000	-	-	-	250,000
Stock option and RSU expense	11	-	-	2,819	-	-	2,819
Other share-based compensation		**-**	**-**	(11,295)	**-**	**-**	(11,295)
Balance as at June 30, 2020		**-**	**44,666,477**	**5,365,212**	**(47,742,058)**	**165,672**	**2,455,303**

See accompanying notes to the condensed interim consolidated financial statements

GABY INC.

Condensed Interim Consolidated Statements of Cash Flows

(Unaudited)		Three months ended June 30,		Six months ended June 30,	
In Canadian dollars	Note	**2020**	2019	**2020**	2019
OPERATING ACTIVITIES					
Net loss		**(1,798,161)**	(4,971,889)	**(5,799,026)**	(7,351,642)
Adjustments to reconcile net loss to cash flow from operations:					
Deferred income tax recovery		**(36,009)**	(66,375)	**(99,463)**	(110,817)
Depreciation	3	**119,706**	153,625	**342,982**	260,368
Amortization of intangible assets		**-**	4,510	**-**	8,970
Loss (gain) on conversion of debt		**13,619**	-	**(61,255)**	-
Gain on disposal of assets		**(963)**	-	**(963)**	-
Gain on lease termination		**-**	-	**(8,261)**	-
Interest expense		**141,269**	248,742	**385,925**	297,332
Interest income		**-**	-	**-**	(3,828)
Recovery of impairment		**(3,580)**	-	**(12,338)**	-
Share-based compensation	11	**(100,322)**	206,056	**34,392**	379,352
Unrealized foreign exchange loss (gain)		**(2,040)**	179,186	**32,329**	159,794
Cash used in operating activities before the following:		**(1,666,481)**	(4,246,145)	**(5,185,678)**	(6,360,471)
Net change in non-cash working capital related to operations		**1,578,126**	(3,025,482)	**3,762,342**	(1,981,519)
Cash used in operating activities	17	**(88,355)**	(7,271,627)	**(1,423,336)**	(8,341,990)
INVESTING ACTIVITIES					
Purchase of property and equipment	3	**(3,446)**	(89,205)	**(6,565)**	(125,791)
Proceeds from sale of property and equipment		**71,461**	-	**85,461**	-
Issuance of notes receivable		**-**	(1,650)	**-**	(500,175)
Cash purchased in acquisition		**-**	168,348	**-**	168,348
Deposits paid		**(2,043)**	(36,132)	**(1,747)**	(37,945)
Cash generated (used) in investing activities	17	**65,972**	41,361	**77,149**	(495,563)
FINANACING ACTIVITIES					
Proceeds on convertible debentures		**-**	-	**-**	1,300,000
Issuance costs paid – convertible debentures	8	**-**	-	**-**	(8,019)
Proceeds on promissory notes	7	**-**	1,900,000	**705,788**	2,100,000
Proceeds on long-term debt		**40,000**	-	**40,000**	-
Advances from related parties	4	**-**	(126,608)	**-**	(96,608)
Repayment of long-term debt		**(15,022)**	(4,492)	**(34,775)**	(4,492)
Repayment of lease liabilities	9	**(39,554)**	(80,171)	**(127,278)**	(137,598)
Repayment of promissory notes, debentures		**-**	(1,731,992)	**-**	(1,731,992)
Issuance of share capital	12	**-**	19,975,020	**250,000**	19,975,020
Issuance of share capital - warrant exercise		**-**	201,650	**-**	201,650
Equity issuance costs	12	**-**	(1,084,603)	**-**	(1,089,696)
Interest paid		**(83,857)**	(70,062)	**(281,153)**	(98,162)
Cash generated (used) in financing activities	17	**(98,433)**	18,978,742	**552,582**	20,410,103
Foreign currency translation adjustment		**(339)**	(88,834)	**27,653**	(90,123)
Net change in cash		**(121,155)**	11,659,642	**(765,952)**	11,482,427
Cash (Bank indebtedness), beginning of period		**54,154**	(123,557)	**698,951**	53,658
Cash (Bank indebtedness), end of period	5	**(67,001)**	11,536,085	**(67,001)**	11,536,085

See accompanying notes to the condensed interim consolidated financial statements

(Unaudited)		**As at June 30,**	
In Canadian dollars	Note	**2020**	2019
CASH (BANK INDEBTEDNESS) CONSISTS OF:			
Cash		**72,577**	11,536,085
Bank indebtedness		**(139,578)**	-
		(67,001)	11,536,085

See Note 18 for detail of non-cash transactions and Note 17 for detail of cash flows from discontinued operations

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 focused company that packages and/or markets for its own proprietary brands as well as for third parties a variety of, cannabis products, including: flower, concentrates, pre-rolls, edibles, topicals, tinctures, and other products derived from or infused with cannabis or hemp. As of the end of March 2020, GABY's business is focused in the United States of America ("USA") Prior to March 2020, GABY also produced and marketed health food products in the USA and Canada (see Note 17 in respect of the shuttering of traditional food operations). Prior to April 1, 2019, the Corporation primarily operated in the mainstream consumer packaged goods ("CPG") channel or unlicensed channel, with its offering of traditional better-for-you foods in both USA and Canada. Thereafter, through acquisitions, the Corporation now produces, markets, and distributes cannabis-related CPG in the USA.

1. GOING CONCERN

These interim condensed consolidated financial statements for the three and six months ended June 30, 2020 and 2019 ("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's holdings are in the initial growth stage of the business life cycle and have not yet reached a profitable level of operations. Further, certain of the Corporation's operations are in the USA cannabis sector which has been legalized by certain USA states but remains federally illegal and is subject to legislative uncertainty.

For the six months ended June 30, 2020 the Corporation had a net loss of $5.8 million and negative cash flow from operations of $1.4 million. For the year ended December 31, 2019, the Corporation had a net loss of $22.8 million and negative cash flow from operations of $17.3 million. As at June 30, 2020 the working capital deficit was $5.7 million. Management is continuing to address the need to increase revenue and control costs with the goal of becoming profitable on a run-rate basis by the end of 2020. This focus included the shuttering of traditional food operations as described in Note 17. To date, management has obtained bridge financing as described in Note 7 while it works to secure longer-term financing. The novel coronavirus ("COVID-19") was declared a pandemic by the World Health Organization and has caused significant uncertainty; consequently, it is difficult to reliably measure the potential impact of this uncertainty on GABY's future results.

Historically the Corporation has had operating losses, negative cash flows from operations and working capital deficiencies. Whether, and when, the Corporation can attain profitability and positive cash flows from operations is uncertain. These uncertainties cast significant doubt upon the Corporation's ability to continue as a going concern.

The Corporation will need to raise capital to fund its operations. While the Corporation has been successful in raising capital in the past, there can be no assurance that it will be able to do so in the future. The ability to raise capital may be adversely impacted by uncertain market conditions including the impact of COVID-19. To address its financing requirements, the Corporation will seek financing through debt and equity financings, asset sales, and rights offerings to existing shareholders. The outcome of these matters cannot be predicted at this time.

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") and Interpretations of the International Financial Reporting Interpretations Committee.

These Financial Statements were approved and authorized for issue by the Corporation's board of directors ("Board") on August 28, 2020.

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 annual consolidated financial statements ("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.

In the most recent Annual Financial Statements, it was disclosed that the functional currency of one of the subsidiaries, Gabriella's Kitchen LLC, was the Canadian dollar. The functional currency was re-evaluated in 2020 and it was determined that given the change in operations of the consolidated entity, including the shift to US dollar operations and the discontinuance of the Canadian operations, the functional currency is now the US dollar effective January 1, 2020. Accordingly, the transactions and balances of Gabriella's Kitchen LLC are now translated in the same manner as the other subsidiaries. As a result of this change, the translation loss of $168,991 was included in other comprehensive income rather than a translation loss of $249,744 being included in net loss.

In Canadian dollars, unless otherwise stated (Unaudited)

3. PROPERTY AND EQUIPMENT

	Net book value of Property and equipment				
In $	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, 2018	**-**	**-**	**163,877**	**370,151**	**534,028**
Jan 1, 2019 adoption of IFRS 16	851,416	163,877	(163,877)	-	851,416
Additions	807,403	-	-	223,520	1,030,923
Acquired on business acquisition	695,977	-	-	40,667	736,644
Depreciation	(143,440)	(36,745)	-	(80,184)	(260,369)
Effect of foreign exchange	(30,586)	-	-	(8,832)	(39,418)
Balance as at June 30, 2019	**2,180,770**	**127,132**	**-**	**545,322**	**2,853,224**
Balance as at December 31, 2019	**6,471,210**	**56,579**	**-**	**857,159**	**7,384,948**
Purchase	-	-	-	6,565	6,565
Disposals	(5,638,437)	(53,579)	-	(132,696)	(5,824,712)
Depreciation	(250,517)	-	-	(92,465)	(342,982)
Effect of foreign exchange	326,711	-	-	52,526	379,237
Balance as at June 30, 2020	**908,967**	**3,000**	**-**	**691,089**	**1,603,056**

In Canadian dollars, unless otherwise stated (Unaudited)

4. 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.

In $	Three months ended		Six months ended	
a. Amounts included in Selling, general and administrative expenses:	**June 30, 2020**	June 30, 2019	**June 30, 2020**	June 30, 2019
Compensation of key management personnel ("**KMP**")[1]				
Cash compensation for services provided by separate management entities	**30,000**	106,932	**73,333**	225,381
Cash compensation to individuals	**26,667**	164,732	**283,824**	330,940
Share-based compensation, net of forfeitures	**(107,475)**	144,382	**(34,727)**	271,144
Total compensation of KMP	**(50,808)**	416,046	**322,430**	827,465
Other expenses on behalf of the Corporation by an entity related by a director and officer	**7,013**	115,395	**38,720**	198,786
Consulting fees to a company controlled by close family	**45,000**	-	**90,000**	-
Rent paid to a company controlled by an officer and	**-**	10,968	**10,968**	21,937
b. Amounts included in Cost of sales:				
Royalty and licensing fees paid to a company controlled by a close family member of a KMP	**-**	13,936	**-**	16,915
c. Amounts included in Interest expense:				
Interest on convertible debentures to directors and entities controlled by directors	**3,730**	12,665	**7,459**	17,352
Interest on convertible debentures to entity controlled by person related to officer and director of the Corporation	**-**	1,640	**-**	2,328
Interest paid to directors in respect of short-term promissory notes	**17,936**	1,752	**32,597**	1,752

d. Due to related parties included in statement of financial position	Note	**Jun 30, 2020**	Dec 31, 2019
Included in Promissory notes payable:			
To directors, entities controlled by directors, close family member of a director		**748,505**	698,693
Included in convertible debentures:			
To entity controlled by directors		**100,000**	100,000
Included in accounts payable and accrued liabilities			
Compensation payable to key management personnel or their separate management entities		**202,972**	91,875
Other amounts due to KMP		**8,742**	9,621
Interest payable in respect of c) above		**12,432**	4,973
Rent payable to a company controlled by an officer and director		**15,356**	3,839
Consulting fees payable to a company controlled by a close family member of certain key management personnel		**-**	15,750
Amounts due on reimbursements of other expenses in a) above		**113,929**	108,326
e. Advances from (to) related parties, net			
Non-interest-bearing advance from director and officer		**-**	30,000

[1] KMP 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 (C-suite executives of the Board).

In Canadian dollars, unless otherwise stated (Unaudited)

5. BANK INDEBTEDNESS

A demand operating loan has been authorized by TD Canada Trust to a maximum of $150,000 (2019 - $150,000), which bears interest at the bank's prime lending rate plus 3.00% per annum and is secured by a general security agreement and an assignment of insurance. The prime rate at June 30, 2020 was 2.45% (December 31, 2019 - 3.95%).

6. SHORT-TERM NOTES PAYABLE

	In $	
	Jun 30, 2020	Dec 31, 2019
Non-interest bearing		
Promissory notes payable of USD 70,000 due on closing of next financing transaction undertaken by the Corporation generating proceeds of at least $500,000	**95,277**	90,748
Other promissory notes payable of USD 90,000	**-**	116,676
	95,277	207,424

7. PROMISSORY NOTES PAYABLE

		In $	
		Jun 30, 2020	Dec 31, 2019
Due to related parties:	Note		
USD note payable, including interest accrual of $nil (Dec 31, 2019 - $6,758)	a	**-**	448,076
Note payable, including interest accrual of $13,048 (Dec 31, 2019 - $617)	b	**263,048**	250,617
Note payable, including interest accrual of $2,555 (2019 - n/a)	c	**87,555**	-
USD notes payable, including interest accrual of $6,142 (2019 - n/a)	d	**169,498**	-
Notes payable, including interest accrual of $8,404 (2019 – n/a)	e	**228,404**	-
Sub-total of promissory notes payable to related parties		**748,505**	698,693
Due from others:			
Note payable, including interest accrual of $2,822 (Dec 31, 2019 -18,233)	f	**2,822**	468,233
Notes payable, including interest accrual of $61,213 (Dec 31, 2019 - $46,253)	g	**311,213**	296,253
Note payable, including interest accrual of $3,415 (2019 –n/a)	h	**103,415**	-
		1,165,955	1,463,179

a) The promissory note was for a principal amount of USD 340,500 that was payable on demand to a company controlled by an officer and director of the Corporation. The note accrued interest, which is payable monthly in arrears, at a rate of 10% per annum on the unpaid portion of the principal until the principal is repaid in full. The promissory note plus interest was repaid through issuance of treasury common shares in January 2020 as described in Note 12.

b) The promissory note, payable to a director of the Corporation, accrues interest, which is payable monthly in arrears, at a rate of 10% per annum on the unpaid portion of the principal until the principal is repaid in full. The note matures on the earlier of the first business day following the date on which the Corporation receives proceeds of an equity or debt financing in excess of $5 million; and an initial term ended June 30, 2020 which has ended and is now payable on demand.

c) The promissory note, payable to a close family member of a director of the Corporation, accrues interest, which is payable monthly in arrears, at a rate of 10% per annum on the unpaid portion of the principal until the principal is repaid in full. Interest is also due at the same rate on any overdue interest amounts.

d) The promissory notes were for a total principal amount of USD 220,000 that was payable on demand to a company controlled by an officer and director of the Corporation. USD 100,000 of these notes payable was settled in January 2020 through issuance of common shares (see Note 12). The notes accrue interest, which is payable monthly in arrears, at a rate of 10% per annum on the unpaid portion of the principal until the principal is repaid in full. Interest is also due at the same rate on any overdue interest amounts.

e) The promissory notes, payable on demand to a company controlled by an officer and director of the Corporation, accrue interest, which is payable monthly in arrears, at a rate of 10% per annum on the unpaid portion of the principal until the principal is repaid in full. Interest is also due at the same rate on any overdue interest amounts.

f) The promissory note accrued interest at a rate of 5% per annum compounded annually, had a three-month initial term which ended July 25, 2019 and therefore was repayable on demand and was repayable by the Corporation at any time without penalty. The promissory note plus interest (all but $2,822) was repaid through issuance of treasury common shares in January 2020 as described in Note 12.

g) Three promissory notes are payable on demand and 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.

h) The promissory note is payable on demand and accrues interest, which is payable monthly in arrears, at a rate of 10% per annum on the unpaid portion of the principal until the principal is repaid in full. Interest is also due at the same rate on any overdue interest amounts.

In Canadian dollars, unless otherwise stated (Unaudited)

8. CONVERTIBLE DEBENTURES

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

	In $	
	Jun 30, 2020	Dec 31, 2019
Beginning balance	**635,255**	-
Gross proceeds received	**-**	1,550,000
Issue costs – legal fees and commissions	**-**	(27,893)
Equity component – 650,000 warrants	**-**	(81,900)
Remaining liability component initially recognized	**635,255**	1,440,207
Repayments	**-**	(892,992)
Interest accretion expense on warrants and legal	**9,325**	88,040
Ending balance of convertible debentures	**644,580**	635,255

Total interest for the three and six months ended June 30, 2020 relating to the convertible debentures, including coupon interest and accretion of issuance costs, is $29,165 and $58,331 (three and six months ended June 30, 2019 - $82,986 and $102,983).

In Canadian dollars, unless otherwise stated (Unaudited)

9. 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 for the periods ending June 30, 2020 and 2019 is as follows:

	June 30, In $	
	2020	2019
Balance, beginning of period	**6,748,329**	1,036,045
Acquired on business acquisition	**-**	733,765
Additions related to new lease agreements	**-**	794,942
Divestitures	**(5,913,531)**	-
Total cash outflows for leases	**(490,221)**	(323,565)
Variable lease payments not included in the measurement of lease liabilities	**95,113**	102,710
Portion of lease payments allocated to interest expense	**269,088**	83,446
Guarantee fee – GABY warrants	**(10,591)**	-
Effects of changes in foreign exchange rate	**336,294**	(32,343)
Balance, end of period	**1,034,481**	2,395,000
Current portion of lease liabilities	**(117,893)**	(398,803)
Non-current portion, end of period	**916,588**	1,996,197

10. LONG-TERM DEBT

Long-term debt consists of the following:

			In $	
Repayable in monthly instalments, including interest of:	**Interest**	**Matures**	**Jun 30, 2020**	Dec 31, 2019
Vehicle finance loans secured by the vehicles financed:				
USD 448	4.9%	Sept 2023	**22,375**	23,756
USD 875	1.9%	April 2023	**40,544**	43,924
USD 707	1.9%	April 2023	**32,718**	35,479
USD 743	2.90%	June 2023	**35,746**	38,446
USD 620	5.24%	Sept 2022	**22,169**	24,635
USD 1,150	5.24%	Sept 2022	**41,169**	45,735
USD 1,150	5.24%	Sept 2022	**41,169**	45,735
			235,890	257,710
Other long-term debt:				
Canada Emergency Business Account ("CEBA") loan, interest-free and eligible for 25% debt forgiveness if 75% repaid by December 31, 2022. Otherwise, the loan converts on that date into a 3-year note bearing interest at 5% per annum			**40,000**	-
Total long-term debt			**275,890**	257,710
Less: current portion			**(85,477)**	(80,118)
			190,413	177,592

In Canadian dollars, unless otherwise stated (Unaudited)

11. SHARE-BASED COMPENSATION AND PAYMENTS

Amounts recognized from share-based payment transactions recognized are as follows:

In $	Note	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Included in operating expenses:					
Stock option plan employee compensation and consulting fees	11a	**156,607**	201,936	**357,221**	375,232
Consulting fees settled through issuance of warrants	12c	**4,000**	4,120	**4,000**	4,120
RSU plan employee compensation	11b	**40,086**	-	**44,576**	-
Forfeiture of options		**(301,015)**	-	**(398,978)**	-
Amortization of prepaid share-based payment	11c	**-**	-	**27,573**	
Total share-based payments included in net loss		**(100,322)**	206,056	**34,392**	379,352
Settlement of accounts payable in lieu of cash	11d	**119,369**	-	**218,369**	
Settlement of amounts due to a director in lieu of cash payment		**-**	-	**33,898**	
Share-based compensation netted against common shares (cost of equity issuance)		**-**	250,000	**-**	250,000
Total share-based payments		**19,047**	456,056	**286,659**	629,352

a. Stock option plan

Set out below are summaries of activity in respect of the Corporation's stock options for the periods ended as follows:

	June 30, 2020 Average exercise price per option in $	June 30, 2020 Number of options	June 30, 2019 Average exercise price per option in $	June 30, 2019 Number of options
Opening	**$0.30**	**11,790,000**	$0.39	3,375,000
Granted	**-**	**-**	$0.50	5,835,000
Forfeited	**$0.30**	**(5,625,000)**		
Closing	**$0.30**	**6,165,000**	$0.46	9,210,000
Vested and exercisable at period end	**$0.27**	**1,813,333**	$0.36	916,667

In Canadian dollars, unless otherwise stated (Unaudited)

Share options outstanding as at June 30, 2020 and December 31, 2019 have the following range of exercise prices and weighted average remaining contractual life:

	June 30, 2020		December 31, 2019	
Exercise price	Number	Weighted average contractual life in years	Number	Weighted average contractual life in years
$0.1250	150,000	4.39	300,000	4.89
$0.2700	2,740,000	4.27	5,890,000	4.77
$0.2856	1,250,000	3.18	1,625,000	3.68
$0.3500	25,000	3.82	25,000	4.32
$0.3600	2,000,000	4.10	3,950,000	4.60
	6,165,000	**3.99**	11,790,000	4.56

Fair value of options granted

The options are granted for no consideration. There were no options granted during the six months ended June 30, 2020. The fair value of the options granted during the period ended June 30, 2019 of $0.15 per option was determined using the Black Scholes Model which considers 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%
Apr 2019	$0.35	$0.35	1.53%	80%	5	0%

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

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

The amount included in operating expenses for employees, directors', officers' and consulting services received for the three and six months ended June 30, 2020, net of credits for forfeitures, is -$144,408 and -$41,757 (June 30, 2019 - $201,936 and $375,232) and is classified as contributed surplus on the Corporation's consolidated statement of financial position. Of the foregoing amounts, -$66,692 was in respect of KMP for the period ended June 30, 2020 (June 30, 2019 - $126,762).

b. Restricted share units ("RSUs")

The Corporation implemented an RSU plan in 2020. The RSUs vest one-third each over the first, second and third anniversary year from the date of grant and are each issuable into one common share of the Corporation. The share price at date of grants ranged from $0.035 to $0.07 per share. The fair value of the RSUs adjusted for estimated forfeitures is estimated as $433,962 which will be recorded as an expense over the three years in which services are received with a corresponding amount recorded as contributed surplus.

In Canadian dollars, unless otherwise stated (Unaudited)

The RSU Plan is to be administered by the Board, or a committee thereof, either of which has full and final authority with respect to the granting of RSUs under the RSU Plan. The vesting conditions of any RSUs granted under the RSU Plan shall be determined by the Board at the time of grant but provided that the vesting term of any RSUs may not exceed three years.

The RSU Plan provides that, subject to the requirements of the Exchange, the aggregate number of securities reserved for issuance, set aside and made available for issuance under the RSU plan and the Corporation's Option Plan may not exceed 10% of the issued and outstanding Common Shares at the time of granting of Options (including all Options previously granted by the Corporation).

Subject to certain exceptions, if a director or officer ceases to hold office, any unvested RSUs held by such person will expire immediately after they cease to hold office. The settlement of RSUs into shares shall generally occur on or shortly after the vesting date, subject to security regulations including black-out periods. The Corporation has the sole and absolute discretion to settle the RSUs in cash, purchase of its own shares on the CSE, or if approved by the Board, to issue shares from treasury. Until and unless common shares have been issued in accordance with the RSU Plan, the holder of the RSUs has no shareholder rights in respect of the RSUs, including the right to receive dividends.

Set out below is a summary of RSUs activity for the period ended June 30, 2020:

	June 30, 2020
	Number of RSUs
Opening	-
Granted	8,995,000
Forfeited	(655,000)
Closing	8,340,000
Vested at period end	-

The weighted average fair value of the RSUs granted during the period ending June 30, 2020 was $0.065 per RSU, which was based on the common share closing price on the CSE on the date of grant and assumes no future expected dividends.

The amount included in share-based compensation and expenses for the three and six months ended June 30, 2020 is $40,086 and $44,576 (June 30, 2019 - $nil) and is classified as contributed surplus on the Corporation's consolidated statement of financial position. Of the foregoing amounts, $30,627 and $31,965 was in respect of KMP for the three and six months ended June 30, 2020 (June 30, 2019 - $nil).

c. *Warrants issued for services*

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 as described in the Corporation's Annual Financial Statements. Below are transactions from 2019 which affect the current year's expenses:

In Canadian dollars, unless otherwise stated (Unaudited)

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 was set up as a prepaid with a corresponding increase to contributed surplus and was being expensed over twelve months, as the service obligation is contractually required over that period. In January 2020, the Corporation terminated the contract resulting in expensing of the remaining prepaid. The resulting expense included in share-based compensation and expenses for the period is $27,573 (2019 - $nil).

On July 2, 2019 the Corporation entered into an agreement for public relations services for twelve months of services 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 was set up as prepaid with a corresponding increase to contributed surplus and is being expensed over twelve months as the service is contractually required over that period. The services of the consultant were not required for the six months ended June 30, 2020 and therefore the share-based compensation and expenses for that period is $nil (2019 - $nil).

d. *Shares issued for settlement of accounts payable*

		June 30, 2020		June 30, 2019	
Shares issued in respect of:		**Number**	**$**	**Number**	**$**
Consulting service fees payable	i	**1,646,695**	**94,500**	**-**	-
Consulting services fees payable to related party	ii	**1,834,210**	**123,869**	-	-
Total common shares issued		**3,480,905**	**218,369**	**-**	-

i) A consultant agreed to receive payment for six months of consulting fees in shares rather than cash. The Corporation measured the fair value of services received as invoiced as measured when such services were previously paid in cash. The common shares were measured using five-day weighted-average share price on date of issuance at an average of $0.062 per share.

ii) A consultant agreed to receive payment for seven months of consulting fees in shares rather than cash. The Corporation measured the fair value of services received as invoiced as measured when such services were previously paid in cash. The common shares were measured using five-day weighted-average share price on date of issuance at an average of $0.06 per share.

In Canadian dollars, unless otherwise stated (Unaudited)

12. 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:

	Note	Share Capital – Class A common voting shares – Number	Share Capital – Class A common voting shares – $	Contributed Surplus $	Total transaction $
Balance as at December 31, 2018		**90,480,783**	**18,218,110**	**1,270,663**	**19,488,773**
Settlement of share-issuance obligations		1,383,800	511,200	-	511,200
Issuance of Units		66,583,400	17,977,518	1,997,502	19,975,020
Equity issuance costs		-	(1,339,710)	-	(1,339,710)
Stock option expense		-	-	375,232	375,232
Issuance of warrants attached to convertible debentures		-	-	81,900	81,900
Issuance of warrants attached to promissory notes		-	-	40,625	40,625
Issued on business acquisition		17,250,000	4,830,000	-	4,830,000
Warrant exercise		545,000	203,050	(1,400)	201,650
Stock-based compensation		-	-	4,120	4,120
Closing balance, June 30, 2019		**176,242,983**	**40,400,168**	**3,768,642**	**44,168,810**
Balance as at December 31, 2019		**205,775,825**	**43,068,525**	**5,373,688**	**48,442,213**
Issuance of shares to settle indebtedness to company controlled by director and officer	12a	16,666,666	1,083,333	-	1,083,333
Issuance of shares to director from treasury	12b	3,003,003	250,000	-	250,000
Stock option expense	11a	-	-	357,221	357,221
RSU compensation expense	11b	-	-	44,576	44,576
Stock option forfeitures	11a	-	-	(398,978)	(398,978)
Warrant forfeitures	12c	-	-	(25,490)	(25,490)
Share-based payments	11d	3,480,905	218,369	14,195	232,564
Issuance of shares to settle non-interest-bearing promissory notes	12e	462,497	46,250	-	46,250
Closing balance, June 30, 2020		**229,388,896**	**44,666,477**	**5,365,212**	**50,031,689**

a. Shares issued from treasury to settle indebtedness

In January 2020, 16,666,666 common shares issued at $0.065 per share were issued to a company controlled by a director and officer of the Corporation to settle amounts owing of $1,083,333 as detailed in the table below. The share price was based on the closing price of the shares one day prior to the Board's approval of the issuance.

	USD (if applicable)	**CAD**
Promissory notes plus interest issued in USD	**447,167**	583,099
Promissory note plus interest issued in CAD		466,336
Settlement of other amounts due to related party		33,898
		1,083,333

In Canadian dollars, unless otherwise stated (Unaudited)

b. Shares issued from treasury to a company controlled by a director

In February 2020, 3,003,003 common shares were issued to a director for total proceeds of $250,000 or $0.083 per share, based on the five-day weighted-average closing price of the shares prior to the date of issuance.

c. Warrants

Set out below are summaries of warrants granted by the Corporation for the six-month periods:

	June 30, 2020		June 30, 2019	
	Average exercise price per warrant in $	Number of warrants	Average exercise price per warrant in $	Number of warrants
Opening[1]	**$0.38**	**78,590,766**	$0.37	42,234,073
Granted	**$0.28**	**2,000,000**	$0.39	34,854,193
Exercised	**-**	**-**	$0.37	(545,000)
Forfeited	**$0.54**	**(500,000)**	-	-
Closing	**$0.37**	**80,090,766**	$0.38	76,543,266
Vested and exercisable at period end	**$0.37**	**79,490,766**	$0.38	75,943,266

Warrants outstanding as at the end of the periods have the following range of exercise prices and weighted average remaining contractual lives:

	June 30, 2020		December 31, 2019	
Exercise price	Number	Weighted average contractual life in years	Number	Weighted average contractual life in years
$0.20 - $0.35	**2,000,000**	**2.83**	-	-
$0.37	**42,336,573**	**0.17[1]**	42,336,573	0.67[1]
$0.375 - $0.38	**34,104,193**	**1.01**	34,204,193	1.51
$0.42 - $0.65	**1,650,000**	**1.85**	2,050,000	2.77[2]
	80,090,766	**0.61**	78,590,766	1.09

[1] 41,686,573 of these warrants expired on August 28, 2020.
[2] See Note 18 of the Annual Financial Statements for market vesting conditions for 600,000 warrants exercisable at $0.50.

On May 1, 2020, the Corporation issued four tranches of warrants totaling 2,000,000 in number as partial compensation for services from a consultant. Each warrant has a three-year life and is exercisable into one common share for the exercise price per warrant outlined below upon the common shares reaching varying targets of volume weighted average price over 20 consecutive days (“Target VWAP”) as follows:

In Canadian dollars, unless otherwise stated (Unaudited)

Number of Warrants in each Tranche	Target VWAP	Exercise price
500,000	$0.15	$0.20
500,000	$0.20	$0.25
500,000	$0.25	$0.30
500,000	$0.30	$0.35
2,000,000		

d. Special Warrants

The Corporation from time to time issues instruments exercisable for the purchase of Common Shares and Warrants for the purpose of compensating brokers or agents in connection with financing transactions, which are referred to above as Special Warrants. The balance included in Special Warrants is comprised of Compensation Warrants and Broker Warrants as follows:

		June 30, 2020		December 31, 2019	
		#	$	#	$
Compensation Warrants	i.	-	-	477	79,215
Broker Warrants	ii.	**4,522,634**	**927,140**	4,522,634	927,140
Special Warrants			**927,140**		1,006,355

i. Compensation Warrants

The 477 Compensation Warrants entitled 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 and expired on June 13, 2020.

Set out below are summaries of Compensation Warrant activity by the Corporation for the periods ended June 30:

	June 30, 2020		June 30, 2019	
	Average exercise price in $	Number of Compensation Warrants	Average exercise price in $	Number of Compensation Warrants
Opening	**$1,000**	**477**	$1,000	482
Granted	-	-	-	-
Exercised	-	-	-	-
Expired	-	**(477)**	-	-
Closing and vested at period end	-	-	$1,000	482
Weighted average remaining life in years	**0.00**		0.96	

ii. Broker Warrants

Each Broker Warrant entitles the holder to acquire one Common Share and one half-warrant at a combined price of $0.30 for a period of 24 months following the closing date of June 19, 2019. Each whole warrant acquired through exercise of the Broker Warrants entitles the holder to acquire one Common Share at a price of $0.38 per share for a period of 24 months from the date of issuance of the warrant.

In Canadian dollars, unless otherwise stated (Unaudited)

Set out below are summaries of Broker Warrant activity by the Corporation for the periods ended June 30:

	June 30, 2020		June 30, 2019	
	Average exercise price in $	Number of Broker Warrants	Average exercise price in $	Number of Broker Warrants
Opening	**$0.30**	**4,522,634**	-	-
Granted	**-**	**-**	$0.30	4,522,634
Exercised	**-**	**-**	-	-
Expired	**-**	**-**	-	-
Closing and vested at period end	**$0.30**	**4,522,634**	$0.30	4,522,634
Weighted average remaining life in years	**0.95**		1.95	

e. Shares issued to settle non-interest-bearing promissory notes

On January 31, 2020, 462,497 common shares were issued at fair value of $46,250 to settle USD 90,000 of the short-term notes payable (Note 6) resulting in a gain on settlement of $74,874 as included in the consolidated statement of loss and comprehensive loss.

13. DIRECT INVENTORY COSTS

In $	Three months ended June 30,		Six months ended June 30,	
Balance comprised of:	**2020**	2019	**2020**	2019
Salaries and benefits	**74,485**	315,060	**511,536**	350,288
Direct material	**486,741**	1,397,382	**1,480,297**	1,447,987
Other direct costs	**10,568**	135,758	**47,690**	152,472
	571,794	1,848,200	**2,039,523**	1,950,747

14. ALLOCATED INDIRECT COSTS

In $	Three months ended June 30,		Six months ended June 30,	
Balance comprised of:	**2020**	2019	**2020**	2019
Production licenses and permits	**41,568**	-	**81,888**	-
Production facility costs	**7,086**	27,764	**57,091**	71,522
Depreciation of production equipment	**13,906**	6,761	**26,890**	10,046
Other overhead costs	**(815)**	90,044	**29,305**	90,044
	61,745	124,569	**195,174**	171,612

In Canadian dollars, unless otherwise stated (Unaudited)

15. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

In $	Three months ended June 30,		Six months ended June 30,	
Balance comprised of:	**2020**	2019	**2020**	2019
Employee salaries and benefits	**888,690**	1,149,462	**2,201,876**	1,650,567
Consulting fees	**317,155**	1,149,408	**712,408**	1,430,602
Administrative costs	**164,633**	952,013	**514,862**	1,190,216
Advertising and promotion	**36,290**	77,543	**71,124**	84,385
Professional fees	**205,286**	328,831	**381,467**	548,077
	1,612,054	3,657,257	**3,881,737**	4,903,847

16. 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, Special Warrants, RSUs and Stock Options are non-dilutive and are therefore excluded from the diluted loss per share for the periods in which they were outstanding. The weighted average numbers of shares outstanding for the three and six months ended June 30, 2020 was 228,398,710 and 225,672,574 (three and six months ended June 30, 2019 – 123,135,073 and 107,433,305).

In Canadian dollars, unless otherwise stated (Unaudited)

17. DISCONTINUED OPERATIONS

As described in Note 1, the Corporation shuttered its traditional food operations based in Canada in March 2020. The total net assets held for sale at June 30, 2020 as a result is immaterial and therefore has not been reclassified in the Condensed Interim Consolidated Statements of Financial Position. The following amounts have been reclassified out of continuing operations in the Condensed Interim Consolidated Statements of Loss for the three and six months ended June 30, 2020 and 2019:

In $	Three months ended June 30,		Six months ended June 30,	
Net loss from discontinued operations comprised of:	**2020**	2019	**2020**	2019
Revenue	**(18,357)**	368,842	**288,440**	571,662
Cost of sales				
Direct inventory costs	**12,610**	357,136	**384,241**	572,662
Allocated indirect costs	**-**	175,050	**213,154**	340,483
Distribution costs	**-**	46,427	**49,198**	99,380
Total cost of sales	**12,610**	578,613	**646,593**	1,012,525
Gross margin	**(30,967)**	(209,771)	**(358,153)**	(440,863)
Selling, general, and administrative expenses				
Employee salaries and benefits	**36,150**	132,005	**108,662**	225,794
Consulting fees	**3,500**	88,229	**6,961**	223,606
Administrative costs	**39,140**	127,305	**132,443**	273,146
Advertising and promotion	**275**	24,819	**26,029**	119,471
Selling costs	**-**	152,688	**103,015**	305,755
Total selling, general, and administrative expenses	**79,065**	525,046	**377,110**	1,147,772
Depreciation of plant and equipment	**-**	11,530	**4,634**	29,592
Amortization of intangible assets	**-**	4,510	**-**	8,970
Operating loss from discontinued operations	**(110,032)**	(750,857)	**(739,897)**	(1,627,197)
Other income (expense)				
Gain on lease termination	**-**	-	**7,718**	-
Interest on lease liabilities	**(822)**	(25,955)	**(12,036)**	(29,142)
Inventory write-down	**-**	-	**(206,317)**	-
Total other income (expense)	**(822)**	(25,955)	**(210,635)**	(29,142)
Net loss from discontinued operations	**(110,854)**	(776,812)	**(950,532)**	(1,656,339)

Cash flows from discontinued operations are as follows for the three and six months ended June 30, 2020 and 2019:

In $	Three months ended June 30,		Six months ended June 30,	
Net cash flows from discontinued	**2020**	2019	**2020**	2019
Net cash used in operating activities	**93,616**	(703,110)	**(130,218)**	(1,117,207)
Net cash generated by (used in)	**-**	(21,645)	**14,000**	(45,467)
Net cash used in financing activities	**(8,018)**	(47,561)	**(53,790)**	(94,268)
	85,598	(772,316)	**(170,008)**	(1,256,942)

In Canadian dollars, unless otherwise stated (Unaudited)

18. NON-CASH TRANSACTIONS

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

	June 30, 2020, In $	3 months	6 months
1	The following adjustments were recorded as a result of lease terminations:		
	Increase in accounts receivable	-	16,500
	Decrease in property and equipment, net (including right of use assets)	4,985,925	5,632,115
	Decrease in security deposits	170,777	184,775
	Decrease in lease liabilities	5,158,727	5,810,676
	Increase in accrued liabilities	2,025	2,025
	Gain on lease terminations	-	8,261
2	Payment of consulting fees through issuance of common shares:		
	Increase in common shares	119,369	218,369
	Decrease in accounts payable	105,750	204,750
	Loss on settlement of debts	13,619	13,619
3	Extinguishment of debts through issuance of common shares:		
	Decrease in promissory notes	-	1,066,453
	Decrease in amounts due to related party	-	33,898
	Decrease in short-term notes payable	-	98,093
	Increase in common shares	-	1,129,583
	Loss on foreign exchange	-	6,013
	Gain on conversion of debt	-	74,874

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

In Canadian dollars, unless otherwise stated (Unaudited)

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Corporation's current financial instruments include cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, income taxes payable, short-term notes payable, promissory notes payable, 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 lease liabilities and long-term debt, which are measured at amortized cost.

20. STOCK APPRECIATION RIGHTS

During the three and six months ended June 30, 2020, the Corporation issued 140,000 and 679,000 stock appreciation rights (SARs) to employees, consultants, and vendors of the Corporation (three and six months ended June 30, 2019 - 140,000, and 3,955,000). Total issued SARs units outstanding as at June 30, 2020 was 14,862,000 (December 31, 2019 – 14,183,000). The SARs hold no value until a liquidity event occurs, defined in the SARs Plan as either the sale of all or substantially all of the assets or shares of the corporation. As of June 30, 2020, no liquidity event has occurred.

21. SEGMENTED INFORMATION

The Corporation’s chief operating decision makers are the Chief Executive 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 or have been 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 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 months ended	Licensed		Unlicensed		Total	
June 30, In $	**2020**	2019	**2020**	2019	**2020**	2019
Revenue	**503,554**	2,132,827	**236,648**	-	**740,202**	2,132,827
Cost of sales	**560,490**	1,972,769	**157,918**	-	**718,408**	1,972,769
Gross loss	**(56,936)**	160,058	**78,730**	-	**21,794**	160,058

Six months ended	Licensed		Unlicensed		Total	
June 30, In $	**2020**	2019	**2020**	2019	**2020**	2019
Revenue	**1,703,159**	2,187,002	**486,097**	-	**2,189,256**	2,187,002
Cost of sales	**2,062,036**	2,122,359	**329,053**	-	**2,391,089**	2,122,359
Gross loss	**(358,877)**	64,643	**157,044**	-	**(201,833)**	64,643

22. SUBSEQUENT EVENTS

In July of 2020, a total of 701,019 common shares were issued in respect of settlement of $38,556 of payables in respect of consulting services from three service providers. One of the service providers is a related party as it is a company controlled by a close family member of certain key management personnel. It received 286,364 common shares to settle $15,750 of services and fees owed to it in respect of July 2020.