GABY Inc.

Management's Discussion & Analysis
December 31, 2021 and 2020

FOREWORD

The following is Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of GABY Inc. (the "Corporation" or "GABY") for the years ended December 31, 2021 and 2020. This MD&A should be read in conjunction with the audited consolidated financial statements of the Corporation and accompanying notes as at and for the years ended December 31, 2021 and 2020 (the "Financial Statements"). The Financial Statements and the "SELECTED FINANCIAL INFORMATION" and "SELECTED QUARTERLY INFORMATION" sections of this MD&A have been prepared using International Financial Reporting Standards ("IFRS") and all amounts are reported in Canadian dollars ("CAD") unless otherwise noted in United States dollars ("USD"). Additional information about the Corporation can be found on SEDAR at www.sedar.com and on GABYs corporate website at www.gabyinc.com. Readers should also read the section "CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS" contained at the end of this document. This MD&A is dated April 29, 2022.

NON-GAAP MEASURES: GABY refers to adjusted EBITDA from continuing operations. This measure is not defined under IFRS and is considered a non-GAAP measure. This measure does not have a standardized meaning and may not be comparable to similar measures presented by other issuers and should not be viewed as a substitute for measures reported under IFRS. This financial measure is reconciled to IFRS in the section titled "NON-GAAP DISCLOSURE" towards the end of this document.

CORPORATE PROFILE

As of the date of the MD&A, GABY is a holding company with USA subsidiaries, with the most significant being Miramar Professional Services (“**Miramar**” or “**MPS**”) (acquired in April 2021) and its subsidiary Wild West Industries (“**Wild West**” or “**WWI**”) (collectively, “**Mankind**”) which operate in the cannabis industry and are both located in San Diego, CA. In addition, Miramar holds a retail storefront license and WWI holds distribution and manufacturing licenses, all issued by the Department of Cannabis Control (“**DCC**”). With the foundation of the Mankind dispensary and the expertise of the management team, GABY plans to acquire additional dispensaries and continue to roll out its proprietary brands in Mankind and in other dispensaries it may acquire, as well as to third party dispensaries within California. GABY also owns CBD brands and sells those brands in the mainstream market and on-line. GABY trades on the Canadian Securities Exchange (“**CSE**”) under the symbol GABY and on the OTCQB under the symbol GABLF. As of the date of the MD&A, GABY’s operations include:

GABY

A Multi Vertical California Cannabis Company

2021 Accomplishments and Recent Developments in 2022

Consistent with the Corporation's announcement in the fourth quarter of 2020 of its intent to acquire 100% of Miramar and to complete a capital raise coincident therewith, GABY closed a brokered private placement, together with a non-brokered private placement of units of the Corporation (the "**Q1 Financing**") for aggregate gross proceeds (including non-cash consideration) of $12.7 million on February 4th, 2021 and closed the Miramar acquisition (the "**Miramar Transaction**") effective April 1, 2021 pursuant to regulatory approval of the Miramar Transaction.

Miramar acquisition effective April 1, 2021

Miramar operates a retail cannabis business in San Diego, California operating under the name *Mankind* and owns Wild West Industries, Inc., a California licensed cannabis distributor and manufacturer. Miramar launched its first in-house cannabis brand, Kind Republic, in January 2021.

Mankind operates under Miramar's Type 10 cannabis retail license issued by the DCC and is one of the highest-volume cannabis retailers in California. Mankind offers cannabis goods to medical and recreational consumers through its storefront, curbside pickup, and delivery channels. It is predominately a reseller of goods produced by other companies but also sells its proprietary brands under the brands Kind Republic™ and Dank Space™– an opportunity that management has prioritized for growth. The Corporation initially launched Kind Republic as a mid-tier flower brand and has since added pre-rolls and concentrates and will soon launch a vape line under the same brand. The Dank Space brand was launched in Q1-22 as a high-end premium brand. Both brands are given priority shelf space and customers are initially (as appropriate) directed to these brands. The Corporation realizes an average margin of over 70% on its proprietary brands.

WWI operates its manufacturing business under a Type 6 non-volatile manufacturing license and provides manufacturing services to its parent company, Miramar, as well as to third party licensed cannabis companies for their own use or for resale. It also operates a Type 11 distribution license for the exclusive benefit of its parent company. WWI is operated as a stand-alone business from Miramar's retail operation and charges a market fee for its services.

Total consideration paid to the shareholders of Miramar in April 2021 included 157,894,737 common shares of GABY, USD 5.0 million cash (CAD 6.3 million), and a secured non-convertible promissory note for USD 25.5 million (the "**Notes**"). The purchase agreement also calls for working capital adjustments which have been calculated at $959,547 with the resulting adjustment accommodated through a corresponding adjustment of the interest payments on the Notes.

Integration

Since closing the Miramar Transaction, GABY has integrated and streamlined Mankind operations. Specifically, management has:

1. Onboarded several key positions including – Simon Lileikis as President (**Starbucks**), Paul Stacey as CFO (**Metagreen, Ricoh**), and Rick Foltz as Director of Retail Ops (**Art of Shaving, Nike**).

2. **Implemented USD 3 million in annual savings** commencing in Q1-22 through payroll savings and operating cost efficiencies.

3. **Realized logistics improvements at its distribution operation,** WWI**,** improving inventory turns, and reducing most inventory on hand down from 45 days to an average of 20 days

4. **Launched its proprietary brands onto Mankind shelves** accounting for roughly 20% of cannabis flower sales at Mankind. GABY's new brand, Kind Republic™ sold over USD 1.7 million in Mankind dispensary in the 12 months following its January 2021 launch and boasts a variable gross margin of almost 75%.

5. **Restructured its delivery business** with expected revenue increase over the next 12 months, commencing Q4-21, of $1MM, by extending delivery hours, expanding the fleet and reach of the business to meet existing demand.

6. **Established foundation for consolidation** by creating an operations manual by which acquired dispensaries will operate.

7. **Designed and implemented dispensary sales training programs** to elevate the customer experience, and develop more focused selling strategies.

8. **Strategically remerchandised** for greater influence over consumer buying decisions giving priority to higher margin and proprietary products and facilitating expansion of basket size. Every USD 1 increase in average basket size adds USD 300,000 in additional annual revenue.

9. **Commenced using marketing analytics to target consumers** with more effective messages and promotional programs of particular interest to them resulting in a 3% increase in e-commerce conversions of visitors to customers and increased "click-through" rate by 93%.

10. **Implemented departmental budgets** which integrate the synergies of the acquisition of Mankind and requires all new spends to establish an expected return on investment before being approved.

11. **Substantially completed the mapping of the decision-making processes** and deliverables in each department to identify redundancies, inefficiencies, risk, and improvements in communication and collaboration with other departments. The identification of redundancies and inefficiencies is an ongoing process and Management will continue to streamline operations as opportunities avail themselves.

12. **Closed Santa Rosa based Sonoma Pacific Distribution Inc**. effective August 31, 2021 ("Sonoma Pac" or "SPD"), and in Q1-22 settled SPD's indebtedness to California Department of Tax and Fee Administration ("CDTFA") and dissolved SPD eliminating the remaining outstanding payables of $3.8 million.

Consolidation

GABY's overarching strategy is to consolidate dispensaries in California, to generate horizontal synergies of having multiple dispensaries replicating efficient operational procedures.

The California cannabis culture is unique and is a well-established phenomenon which must be balanced with rigorous operational and financial controls to ensure success in the industry. GABY has effectively integrated Mankind and realized significant synergies- all while being sensitive to the need to preserve those California cannabis traditions, its community impact and its positive company culture.

To that end, GABY has built a pipeline of potential acquisition targets which are at varying stages of discussion and negotiation and will apply the same rigors of analysis described above to future acquisitions with the aim of fully integrating such operations into the *GABY operational platform*, again while preserving the valuable culture of California cannabis.

To date the cultural and community-based initiatives executed at Mankind include:

- Empowering employees as owners by offering Restricted Stock Units in all employee compensation packages enabling all full-time employees of the Corporation to become owners.
- The launching of Mankind's "Plant. People. Planet." initiative, which inspires mutual action between employees and customers through fundraising and community involvement efforts. Current charity partners include The Last Prisoner Project, Cannabis for Conservation, Freedom Grams, and The Brahman Project.
- The launching of Mankind's "Tree Planting Initiative" - which plants a tree together with the Eden Project, for every purchase made at Mankind.
- The development of internal education and idea sharing initiatives, bringing executives, managers, and entry level staff together to ensure channels for communication exist at all levels.

Success in cannabis hinges on understanding the uniqueness of the dispensary ecosystem, and how to best balance operational efficiency with cultural, employee, and consumer needs.

Recent Developments

Effective March 31, 2022 the state of California has ended the process for applying for a provisional cannabis license. Provisional licenses remain the norm in California. Provisional licenses gave businesses a way to continue full operations as they applied for and came into compliance with the rules for full annual permits.

Only 3,378 of the state's active 12,221 marijuana business licenses are full annual permits as of mid-January, according to the state Department of Cannabis Control (DCC). This change may increase the barriers for entry to newcomers and increase the value of Mankind's licenses.

SELECTED FINANCIAL INFORMATION AND OVERALL PERFORMANCE

FINANCIAL PERFORMANCE

	Year ended December 31, In $ unless otherwise stated			% Change in year	
	2021	2020	2019[1]	2021	2020
Revenue	**32,435,377**	4,071,546	9,881,087	**697**	(59)
Direct inventory costs	**19,705,701**	3,616,874	9,353,598	**445**	(61)
Variable gross profit	**12,729,676**	454,672	527,489	**2,700**	(14)
Variable gross profit as % of revenue	**39%**	11%	5%		
Gross profit (loss) after distribution and allocated indirect costs	**11,818,762**	(152,013)	78,892	**7,875**	(293)
Gross profit as % of revenue	**36%**	(4)%	1%		
Adjusted EBITDA from continuing operations[3]	**1,438,057**	(6,721,512)	(10,367,230)	**121**	35
Loss from continuing operations before other income (expense)	**(1,899,795)**	(7,821,940)	(12,414,122)	**76**	37
Net loss from continuing operations	**(12,247,087)**	(12,828,842)	(19,409,216)	**5**	34
Net loss from discontinued operations	**-**	(1,161,772)	(3,379,193)	**100**	66
Net loss	**(12,247,087)**	(13,990,614)	(22,788,409)	**12**	39
Total comprehensive loss	**(11,985,908)**	(13,765,063)	(23,461,884)	**13**	41
Total assets	**65,895,047**	5,036,633	19,865,539	**1,208**	(75)
Total non-current financial liabilities	**41,187,907**	776,353	6,519,853	**5,205**	(88)
Loss per share, basic and diluted[1,2]	**(0.02)**	(0.06)	(0.16)	**65**	63
Weighted average number of common shares – basic and diluted[1]	**539,476,460**	228,937,349	144,562,707	**136**	58

(1) As restated to reflect discontinued operations
(2) Percentage change based on unrounded earnings per share
(3) See NON-GAAP DISCLOSURE towards the end of this document

OVERALL PERFORMANCE AND RESULTS OF OPERATIONS

The Miramar Transaction effective April 1, 2021, accounts for substantially all the improvements in financial performance over last year. Revenue of $32.4 million for the year increased by $28.4 million or 697% as a result of the Miramar transaction. Variable gross profit improved to $12.8 million (36% margin) from $0.5 million (11% margin) for the year largely due to sales of high-margin retail products at Mankind versus lower-margin wholesale product at SPD (which was shut down effective August 2021). Accordingly, and due to retail operations of Mankind having minimal indirect costs compared to SPD operations, gross profit improved to $11.8 million (36% margin) compared to negative $0.2 million (-4% margin) in 2020.

Selling, general and administrative expenses ("SG&A") of $10.7 million is $4.0 million or 166% higher than 2020 due to nine months of SG&A from the Miramar acquisition of $6.3 million partially offset by lower SG&A of $2.3 million due to costs cuts introduced mid Q2 2020 and due to the cessation of SPD operations at the end of August 2021.

Adjusted EBITDA from continuing operations of $1.4 million in 2021 improved by $8.2 million over 2020. The improvement reflects the addition of the Miramar acquisition, supported by SG&A reductions from cost cuts and the SPD wind down, as outlined above. Had the wind down of SPD occurred on January 1, 2021 (instead of August 31, 2021) the pro forma EBITDA would have increased to $3.2 million.

While the Miramar Transaction resulted in significant improvements over last year, management still anticipates greater synergies going forward. In August 2021, the Corporation consolidated its distribution operations into a single hub in the Corporation's new headquarters in San Diego. GABY has continued to rationalize its asset base and has shed approximately $3.7 million in annual operating costs, the benefit of which will start to be realized in Q1-22. Management will continue to find opportunities to cut further costs and generate additional revenue, thereby improving Adjusted EBITDA and net income in the future. In addition, management believes its consolidation and integration strategy will further enhance operational synergies of the Miramar Transaction.

The net loss of $12.2 million decreased by $1.7 million over 2020 as the prior year included $1.2 million of losses from discontinued operations from the closure of the frozen food division and because of an increase in adjusted EBITDA from continuing operations of $8.2 million in 2021 that was partially offset by higher income tax expense of $3.0 million, higher interest expense of $2.8 million, and non-cash items of depreciation (including amounts in cost of goods sold ("**COGS**") and share-based compensation and expenses of $0.5 million and $0.9 million, respectively. Had the operations of SPD been discontinued in January 2021, the pro forma consolidated net loss for 2021 would have been $9.9 million.

The resulting loss per share of $0.02 in 2021 improved from $0.06 in 2020 due to both a reduction in the net loss and an increase in total weighted average common shares of 136% over the same period last year.

Share-based compensation and expenses of $1.6 million in 2021 increased by $0.9 million or 143% primarily due to the expansion of share-based compensation to the employees of Miramar.

Depreciation of property and equipment (excluding amounts included in COGS) increased to $0.6 million in 2021 compared to $0.3 in 2020 (a 122% increase) primarily due to the addition of plant, property and equipment as a result of the Miramar acquisition.

Amortization of intangible assets increased by $0.8 million in 2021 over the previous year as a result of amortization of cannabis licenses added with the Mankind acquisition that were assessed as having a finite life, while licenses (held by other subsidiaries) in the past have been assessed as having an indefinite life and were thus not amortized. While nothing changed with the nature of cannabis licenses, it was determined that due to industry and regulatory uncertainty, it was more appropriate to amortize these licenses over an estimated useful life of ten years, which the Corporation will do going forward unless there are specific factors of a given license that would change the assessment.

Interest expense

Interest expense in 2021 was $3.3 million compared to $0.5 million in 2020 (a 521% increase). This increase is primarily the result of the secured non-convertible promissory note for USD $25.5 million utilized in the Miramar acquisition. See below table for a breakdown showing notional interest due on lease liabilities under IFRS and actual cash interest payable on the Corporation's indebtedness.

In $, Balance comprised of:	2021	2020
Lease-related:		
Lease liability interest	**567,058**	290,093
Lease guarantee fee (paid to KMP in common shares)	**52,237**	-
	619,295	290,093
Debt-related:		
Interest charges	**2,705,137**	222,461
Accretion of financing charges	**16,358**	25,799
	2,721,495	248,260
	3,340,790	538,353

The impairment losses as detailed in Note 7 to the Financial Statements are comprised of losses of the following cash-generating units ("CGU"):

In $	2021	2020
Unlicensed segment	**1,361,555**	-
Licensed segment		
SPD	**1,012,480**	4,706,426
KJM (prior manufacturing facility since closed, recovery of leasehold improvements)	**-**	(12,338)
	2,374,035	4,694,088

Impairment of goodwill of $1.4 million in the unlicensed CGU segment ensued from a decline in sales from the Corporation's CBD business. The decline reflects a softening of the market for CBD products; the closure, as a result of the COVID pandemic, of many small retail operations which previously carried the Corporation's CBD products; and the reduction in focus of this division as "non-core" to the Corporation's dispensary operations and thus the de-prioritizing of marketing spending to this division. The impairment losses of the licensed segments of $1.0 million and $4.7 million in 2021 and 2020, respectively, are substantially in respect of the CGU of SPD. During the third quarter of 2021, the Santa Rosa based facility of SPD was closed and all distribution and manufacturing was consolidated into WWI, resulting in a write-down of SPD's Type 11 License to $nil. In 2020, the impairment reflects an impairment of the Type 11 License and goodwill of $1.7 million and $3.0 million, respectively, largely due the Corporation's inability to implement its growth strategy for SPD due to the direct and indirect impacts of the COVID-19 pandemic, as well as a lack of capital as the Corporation's ability to raise capital was tied to the completion of a significant acquisition which took longer than expected.

Transaction Costs

In 2021, transaction costs of $1,213,056 were incurred in respect of the Miramar Transaction. The costs included consultancy, financing charges and legal expenditures.

Other items of income (expense) (See Note 24 to the Financial Statements)

Gain (loss) on foreign exchange

A net foreign exchange loss of $424,921 was recorded in 2021 compared to a loss of $122,577 in 2020. These losses are non-cash and are a function of the fluctuations in the foreign exchange rate between the Canadian and US dollar and the amount of US dollar financial assets and liabilities held, which increased significantly in 2021 with the issuance of the promissory note for the acquisition of Miramar.

Legal settlements

The legal settlements of $374,966 in 2021 are in respect of settlements of two separate legal proceedings brought against the Corporation. The first was to settle a dispute on an additional amount owing on a legacy payable from a discontinued business and the second was to settle a claim by a former employee of one of GABY's subsidiaries.

Gain on extinguishment of debt

During the years 2021 and 2020, the Corporation recognized gains on extinguishment of debts primarily relating to paying debts with shares valued at less than the debt amount, or by obtaining and fulfilling agreements with legacy vendors to extinguish trade payables for less than the face value of the debts.

Gain (loss) on disposal of assets

In 2021 there was a loss on disposal of assets of $189,960 related to the wind down of SPD.

Gain on lease terminations

In 2021, a gain of $91,519 was recognized upon termination of the SPD lease in conjunction with the wind down of its operations. This was a result of the net difference between all lease-related amounts that were removed, including right-of-use asset, lease liability, and security deposit.

In 2020, the Corporation terminated all but one of its long-term facilities leases, which caused a write-off of the carrying amount of the related lease liabilities net of right-of-use assets and resulted in total net gains of $199,388.

Government assistance income

In 2020, the Corporation recognized government assistance income of $267,579 in respect to loans received from government entities in its unlicensed CGU at below-market rates of interest and/or with a provision for debt forgiveness, as well as grants received in connection with some of the loans.

Loss on inventory write down

In 2021 there was an inventory write down of $83,144 related to the wind down of SPD.

Penalties and interest on past due taxes

In 2020, SPD incurred penalties and interest charges of $490,214 in respect of excise taxes on Cannabis sales which were submitted late. In 2021, there were $211,404 of additional incurred penalties and interest charges. These penalties and interest charges were extinguished upon settlement of all outstanding obligations with CDTFA and the dissolution of SPD in Q1-22.

Current income tax expense

Current income tax expense of $2,698,552 and $5,565 in 2021 and 2020, respectively, arise on a loss before income taxes of $9,784,726 and $14,299,514, primarily due to US federal taxes imposed on gross profit and due to deductible timing differences as further described in Note 25 to the Financial Statements.

Deferred tax recovery

The deferred income tax recovery in 2021 of $236,191 primarily relates to the decrease in the carrying value of intangible assets due to amortization. The deferred income tax recovery in 2020 of $314,465 is a result of the use of deferred tax assets from loss carry forwards and other items to offset deferred tax liabilities, combined in 2020 with the effect of the reduction of deferred tax liabilities relating to the Type 11 License as a result of the impairment recorded. Deferred tax assets not offset by deferred tax liabilities within the same entity and tax jurisdiction are not recognized by the Corporation unless they relate to legal entities with a history of taxable income.

SELECTED QUARTERLY FINANCIAL INFORMATION

	2021				2020			
In $	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	8,221,941	9,530,505	11,271,030	3,411,901	1,075,591	806,699	740,202	1,449,054
Gross profit (loss)	3,896,030	3,741,708	3,945,786	235,238	27,323	22,497	21,794	(223,627)
Net loss and loss per share from continuing operations								
Net loss	(3,856,660)	(4,294,335)	(1,576,265)	(2,519,830)	(6,589,384)	(1,390,964)	(1,687,307)	(3,161,187)
Loss per share	(0.01)	(0.01)	(0.00)	(0.01)	(0.03)	(0.01)	(0.01)	(0.01)
Net loss and loss per share								
Net loss	(3,856,660)	(4,294,335)	(1,576,265)	(2,519,830)	(6,655,508)	(1,536,080)	(1,798,161)	(4,000,865)
Loss per share	(0.01)	(0.01)	(0.00)	(0.01)	(0.03)	(0.01)	(0.01)	(0.02)

REVENUE AND GROSS PROFIT (LOSS)

2020 Revenue was primarily driven by SPD, with lesser contributions from Lulu's and 2Rise. The increase in Q1 2021 revenue over Q4 2020 reflects large low-margin bulk flower brokerage sales in Q1 2021. The significant increase in revenue from Q1 to Q2 2021 was a result of the Miramar acquisition, on April 1, 2021.

The revenue growth from the Miramar acquisition was partially offset by the winding down of SPD, resulting in a decrease in revenue of $1.6 million (Q2-Q3 2021), and $1 million (Q3-Q4 2021).

The significant increase in gross profit from Q1 to Q2, 2021 was a result of the Miramar acquisition on April 1, 2021. Miramar's gross profit percentage saw an average 3% point increase in the quarters following Q2 2021. The improvement in margin was a result of product mix resets at the store and incentives targeted at higher-margin products and product categories. Q4, 2021 did not have the lower margin impact of SPD operations.

NET LOSS

The lower net loss of $1.8 million in Q2 2020 compared to $4.0 million in Q1 2020 reflects cost saving initiatives introduced in Q2 2020 which continued into the remainder of 2020. The increase in net loss of $5.1 million in Q4 2020 over Q3 2020 is primarily a result of impairment losses of $4.7 million recognized in Q4. The net loss in Q1 2021 of $2.5 million includes $1.1 million of transaction costs on the acquisition of Miramar. The lower net loss in Q2 2021 of $1.6 million mostly reflects increased operating income from the Miramar Transaction net of the increased interest on the notes issued in respect of the Miramar Transaction, increased income tax expenses on taxable income and increased share-based compensation. The higher net loss of $2.7 million in Q3 2021 over Q2 2021 primarily reflects the impairment loss of $1.0 million on SPD's Type 11 distribution license and higher foreign exchange loss of $1.1 million mostly on translation of USD 25.5 Notes issued on Miramar Transaction, with the remaining decrease mostly due to the shutdown of SPD resulting in higher operating losses and inventory write-downs. The decrease in the net loss by $0.4 million from Q3 2021 to Q4 2021 mostly reflects lower foreign exchange loss of $0.8 million on USD/CAD currency fluctuations and $0.2 million higher gross profit on sale of higher-margin items and reduction of SG&A of $0.2 million due cost rationalizations introduced in the fourth quarter, partially offset by amortization of intangible assets in Q4 of $0.8 million. For additional explanation of net loss please refer to the sections entitled "Financial Performance" and "Analysis of Cashflows".

FINANCIAL CONDITION

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

The following chart highlights significant changes in the Consolidated Statements of Financial Position from December 31, 2020 to December 31, 2021. As most of the balances are in USD translated into CAD, the accounts are affected by foreign currency fluctuations. The foreign exchange rates of CAD to USD used to translate period-end balances were 1.2752 and 1.2656 on December 31, 2020 and December 31, 2021, respectively and 1.2575 at April 1, 2021 (Mankind acquisition date).

Line item	Increase (decrease) in $	Primary factors explaining change for the year ended December 31, 2021
Current assets	5,132,495	Increase in current assets was from the Miramar acquisition, including cash and inventories
Property and equipment	6,757,748	Increase in property and equipment were from the Miramar acquisition
Intangibles and goodwill	44,370,470	The Miramar acquisition added $47.6 million of goodwill and intangible assets, partially offset by impairment of $2.4 million and amortization of $0.8 million
Other assets	4,597,701	The addition of a $4.3 million indemnification asset, deferred tax assets of $0.2 million and additional security deposits, all relating to the Miramar acquisition
Current liabilities	4,418,779	Increase primarily reflects increase in trade accounts payable and accrued liabilities of $1.1 million, income taxes payable of $3.2 million, lease liabilities of $0.6 million, and current portion of long-term debt of $0.6 million of which all are materially related to the Miramar acquisition, partially offset by a reduction of $1.1 million in Promissory notes and convertible debentures.
Lease liabilities	7,348,571	Addition of the Miramar acquisitions lease commitments
Long-term debt	33,062,983	Related to the Miramar acquisition financing
Other liabilities	6,800,434	Increase due to uncertain tax positions liability of $4.3 million related to preacquisition federal tax positions covered by indemnity agreement and deferred tax liability of $2.5 million on licenses acquired
Equity	9,227,647	Additional Share capital and other equity instruments issued for financing the Miramar transaction and other share-based payments $21.2 million. Offset by accumulated deficit increase of $12.2 million

LIQUIDITY AND CAPITAL RESOURCES

Going Concern

Readers should refer to Note 1 to the Financial Statements.

For the year ended December 31, 2021, the Corporation had a net loss of $12.2 million and cash flows from operations of $0.1 million. As at December 31, 2021 the working capital deficit was $7.3 million, of which $4.2 is attributable to accounts payable of shuttered operations comprised of $3.8 million in SPD and $0.4 million from the discontinued frozen food operations. GABY is working on arrangements which will likely result in a much lower settlement of these liabilities including the write off of accounts payable as a result of the dissolution of SPD. To service the remaining working capital deficit, management will harvest further synergies from the acquisition of Miramar and WWI as follows:

- through the implementation of its consolidation strategy;
- the recent closure of its Santa Rosa facilities;
- the cost cuts implemented in Q3 2021 at Miramar and WWI;
- additional cost cuts anticipated from further efficiency analysis at its distribution facility, including:
  - the shortening of inventory turns;
  - the simplification of inventory intake and outtake processes; and
  - the restructuring of its supplier relationships to require them to deliver inventory in a *retail ready* manner;
- the reaping of additional margins on its current and anticipated new proprietary brands through its self-manufacturing and self-distribution of its proprietary products and the sale of same into its proprietary retail channel;
- enhancing the performance of its omni-channel platform (especially delivery and curbside); and
- continuing the streamlining of shared overhead costs.

In addition to the above actions, Management has in the past obtained financing by accessing the capital markets as described in Note 20 to the Financial Statements. Management believes these activities, in conjunction with prudent management of working capital, will enable GABY to support operations over the next year and beyond.

The USD 25.5 million notes issued April 1, 2021, in respect of the Miramar Transaction have a term of seven years, an annual coupon rate of 10% with balloon payments every 24 months of USD $5.0 million and a final balloon payment of USD $10.5 million on maturity. Quarterly interest payments are limited to $500,000. Accrued and unpaid quarterly interest in excess of the limit is brought current every two years in conjunction with the principal payment schedule. Interest is not charged on the unpaid interest in excess of the limit of $500,000. GABY may prepay all or any portion of the promissory note without penalty. It is anticipated that GABY will either generate sufficient cashflows from the implementation of its consolidation strategy to service future balloon payments of principal, to fund growth of its operations and its future growth strategy, including future acquisitions as part of its retail consolidation strategy or it will need to raise capital to fund all or a portion thereof. 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.

As further described in Note 17 of the Financial Statements, WWI holds a note payable to a private lender for USD 500,000. The Corporation is required to make the payments as required pursuant to the conditions of the note payable and must meet various covenants to avoid an event of default. The Corporation has made all required payments on time, but is not in compliance with all of the covenants as of December 31, 2021. In the event of a continuing default under the terms of the loan agreement, all amounts owing become payable upon demand and interest of additional 10% per annum could be charged on the outstanding principal balance at the option of the lender. The lender has not communicated any intention of accelerating the maturity or charging additional interest. Further, the remaining balance is already included in the current portion of long-term debt as it is due with the next year.

Historically the Corporation has had operating losses, negative cash flows from operations and working capital deficiencies. While the Corporation expects to be able to reduce these losses by prudent management of its operations, whether, and when, the Corporation can attain profitability and positive cash flows from operations is indeterminable, and accordingly, a. material uncertainty exists that may cast significant doubt upon the Corporation's ability to continue as a going concern.

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. The 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 were unable to realize its assets and settle its liabilities as a going concern in the normal course of operation. These adjustments could be material.

Analysis of Cash Flows

In $	**Year ended December 31,**		
Summary of Cash Flows from:	**2021**	**2020**	**Increase (decrease)**
Net loss	**(12,247,087)**	(13,990,614)	1,743,527
Non-cash items	**8,856,386**	5,743,050	3,113,336
Cash operating loss	**(3,390,701)**	(8,247,564)	4,856,863
Non-cash working capital changes	**3,506,324**	6,544,788	(3,038,464)
Operating activities	**115,623**	(1,702,776)	1,818,399
Investing activities	**(2,002,332)**	101,583	(2,103,915)
Financing activities	**5,819,503**	993,489	4,826,014
Foreign currency translation adjustment	**31,899**	11,561	20,338
Increase (decrease) in cash	**3,964,693**	(596,143)	4,560,836
Cash, beginning of year	**102,808**	698,951	(596,143)
Cash, end of year	**4,067,501**	102,808	3,964,693

As shown in the table above, cash flows from operating activities before changes in non-cash working capital increased by $4.9 million in 2021 over 2020. The increase mostly reflects the positive cash flow from the Miramar acquisition and SG&A savings from the wind down of SPD operations and increase in non-cash items.

Management is focused on improving the cash flow from operations through increased revenue-generating activities and operating efficiencies resulting from streamlining and simplifying operations and reductions in SG&A. In 2022, the Corporation will realize the full benefit of the cost cuts resulting from the closure of the SPD operations, and anticipates it will be able to realize further cost cuts in its manufacturing and distribution operations.

The net decrease in cash flows from non-cash working capital changes of $3.0 million mostly reflects an increase of accounts payable of $0.7 million in 2021, compared to an increase in 2020 primarily in SPD accounts payable of $3.7 million. In 2021, there was an increase of $1.5 million in income taxes payable, which was offset by decreases in accounts receivable and prepaid/deferred costs.

The decrease in cash flows from investing activities of $2.0 million mostly reflects the net cash in the Miramar acquisition.

The increase in cash flows from financing activities of $4.9 million primarily reflects the financing of the Miramar transaction through issuance of units, share capital and subscription receipts of $9.3 million, offset by net decrease in cash flow from Promissory notes, debt, debentures, and lease liabilities of $2.1 million, interest paid of $1.8 million, and $0.6 million of equity issuance costs.

FINANCIAL INSTRUMENTS

The Corporation's current financial instruments are listed in Note 31 to the Financial Statements. In conjunction with the Miramar Transaction, the Corporation incurred additional indebtedness of USD25.5 million bearing interest at 10% annually (and paid quarterly) maturing in April 2028.

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

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

Interest rate risk

At December 31, 2021, all of the Corporation's borrowings are at fixed rates, and therefore the Corporation is not subject to interest rates risk in respect of its financial instruments. The Corporation will be exposed to interest rate fluctuations starting in August 2023 in respect of the long-term settlement payable included in long-term debt which bears interest at floating rates after year 1 (see Note 17 of the Financial Statements). The rates are tied to the US prime rate of interest. A 1.00% change in the US prime rate would increase interest expense over the remainder of the term of the loan by approximately USD 5,700 (CAD 7,200).

Credit risk

With the wind up of Sonoma Pac during the third quarter of 2021, the Corporation's exposure to credit risk has decreased significantly. The majority of remaining trade accounts receivable have been written off or reduced by an allowance for doubtful accounts to reflect management's assessment of expected credit losses. As the remaining business operations carry relatively minimal trade accounts receivable, credit risk will be significantly reduced in future periods.

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

In $, Balance comprised of:	2021	2020
Trade accounts receivable	**307,357**	888,369
GST receivable	**23,371**	68,055
Other accounts receivable	**17,867**	-
Sub-total before allowance	**348,595**	956,424
Allowance for doubtful accounts	**(188,286)**	(345,317)
	160,309	611,107
Aging of receivables:		
30 days	**58,521**	177,852
60 days	**675**	9,483
90 days	**42**	42,397
Over 90 days	**289,357**	726,692
	348,595	956,424
Exposure by geographic area:		
Canada	**35,251**	81,020
United States	**313,344**	875,404
	348,595	956,424

Credit losses totaling $281,885 (2020 - $591,154) were recorded for accounts for which collection has become doubtful. With the exception of these amounts, management does not believe that it has significant credit risk associated with its customers based on analysis of the outstanding amounts and the probability of collection from each customer; however, COVID-19 has caused significant economic uncertainty and consequently, collection of receivables will likely take longer than usual and is subject to further uncertainty. The maximum credit risk is the fair value of the accounts receivable. The allowance for doubtful accounts and past due receivables is reviewed by management at each balance sheet reporting date. The Corporation updates its estimate of the allowance for doubtful accounts based on the evaluation of the recoverability of accounts receivable balances of each customer considering historic collection trends, the contractual relationship with the customer and the nature of the customer. The allowance for doubtful accounts is estimated on an account-by-account basis based on expected credit losses. With the dissolution of SPD, the Corporation's exposure to credit risk is materially reduced.

The balance of Other current asset of $617,098 as at December 31, 2021 is the amount receivable remaining under the Mankind purchase agreement relating to the net working capital adjustment, which will be applied against future quarterly interest payments on the note payable to the former shareholders of MPS, subject to a limit of USD 150,000 per quarter. As the Corporation has a right of set-off, it believes it has little, if any, credit risk in respect of this balance.

Accounts receivable from one major customer amounted to 73% of gross trade accounts receivable as at December 31, 2021 (2020 – 48%). However, concentration risk does not affect the Corporation with respect to this customer balance, as it relates to a customer in the Sonoma Pacific Distribution business, which has been permanently closed.

Tax risk

Changes in the tax rate of an increase in taxes levied by federal of state governments could have a material adverse effect on the Corporation's business, results of operations, and financial condition. Currently, state-licensed marijuana businesses are assessed a comparatively high effective federal tax rate due to IRC Section 280E, which prohibits businesses from deducting all expenses except their COGS when calculating federal tax liability. Any increase in tax levies resulting from additional tax measures may have a further adverse effect on the operations of the Corporation, while any decrease in such tax levies will be beneficial to future operations.

Foreign currency risk

The Corporation on a consolidated basis conducts most of its operations in United States dollars. However, the functional currency of GABY Inc. is the Canadian dollar. As at December 31, 2021, the following working capital balances denominated in US dollars were included in the accounts of GABY Inc.:

	Receivable (Payable)	
	USD	CAD equivalent
Other current asset	**487,593**	617,098
Accounts payable and accrued liabilities	**(317,225)**	(401,479)
Short-term notes payable	**(15,000)**	(18,984)
Net exposure	**155,368**	196,635

In addition to the balances above, the Corporation has foreign exchange exposure with regards to long-term debt totaling USD 26,201,900 (CAD 33,161,125). As at December 31, 2021, each one cent strengthening (weakening) in the USD relative to the CAD would decrease (increase) the Corporation's comprehensive loss by about $260,000. The Corporation's net exposure to foreign currency risk has not been hedged.

Other price risk

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

Liquidity risk and capital management

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

The Corporation manages its liquidity risk through the management of its capital structure and financial leverage as outlined in Note 32 to the Annual Financial Statements. It also manages liquidity risk by continuously monitoring actual cash flows.

As further described in Liquidity and Capital Resources, with the continued harvesting of synergies from the Miramar Transaction, the Corporation is mitigating its liquidity risk. Management believes these activities, in conjunction with prudent management of working capital, will enable GABY to support operations over the next year and beyond. Readers should refer to the going concern assumption in Note 1 to the Financial Statements.

Off-Balance Sheet Arrangements

The Corporation does not have any special purpose entities nor is it party to any arrangement that would be excluded from the balance sheet.

SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES

All related party transactions are reviewed by the Audit Committee of the Corporation. Note 11 to the Financial Statements sets out the amounts of related party transactions, the nature of which are further outlined below.

a) Amounts included in Selling, general and administrative expenses

Compensation of key management personnel

Certain services of C-suite executives of GABY were provided through companies controlled by certain directors and officers of the Corporation ("Management Entities"). The C-suite executives, along with the Board have the authority and responsibility for directing and controlling the activities of the Corporation. Compensation for consulting and marketing services is paid to these C-suite executives for the provision of their services. The directors do not receive cash compensation for services related to the Board, but along with C-suite executives, receive share-based compensation.

Other expenses

One of the Management Entities is reimbursed for expenses incurred by it in respect of GABY's business. GABY enters into this related party transaction as the Management Entity is responsible for a number of its investment companies and can often provision the services more economically and efficiently. The Management Entity does not charge a mark-up on these expenses.

Consulting fees

The Corporation pays $15,000 per month for general capital markets and merger and acquisitions advisory services to a company controlled by a close family member of a director and officer. These fees have historically been paid in shares priced on a monthly basis, but as the liquidity of the Corporation increases, may be paid in cash.

Contract service fees

The Corporation had a month-to-month agreement with a related party for USD 5,000 per month for provision of marketing and other corporate services. The party was selected to perform these services by Mankind before it was acquired by GABY, and the arrangement continued through October 2021 when management determined that the services were no longer needed.

Rent included in SG&A expenses

Starting in October of 2018, GABY sublet office space on a month-to month basis from an entity controlled by an officer and director of GABY. The entity charges rent based on the actual rent paid by it in total apportioned to GABY and others based on the percentage of square footage occupied by each party. With the move of GABY's operations to California in March of 2020, effective April 1, 2020, GABY no longer leases this office space.

b) Amounts included in interest expense

From time to time, the Corporation is and has been financed by related parties, often to bridge cash flow needs until the Corporation is able to raise capital. This support is not unusual for companies like GABY which are in the initial growth stage of the business life cycle and in the cannabis industry, where often traditional sources of financing are unavailable.

In conjunction with the acquisition of Miramar, certain leases personally guaranteed by the former shareholders of Miramar were assumed by a director and officer of GABY. Pursuant thereto, this director and officer is paid a guarantee fees of 2% per annum of the guarantee amount. The guarantee fee rate is considered a fair market rate for the personal risk taken by the director and officer. The guarantee fee may be made in cash or shares at the option of the guarantor. To date it has been paid in shares.

c) Due to related parties and other transactions

Shares and promissory notes issued to directors and officers

As described in Note 20c to the Financial Statements, in January 2020, a company controlled by the CEO of GABY was issued 16,666,666 common shares as payment of $1,083,333 owed to it. The settlement was primarily in respect of interest-bearing debt, including a USD 100,000 promissory note issued in January 2020. In 2020, the CEO also injected a further USD 120,000 and CAD 220,000 in return for 10% interest-bearing promissory notes for like amounts. Further, in January 2020, 3,003,003 common shares were issued to a director of GABY for $250,000 cash and in March 2020 a close family member of a KMP advanced $85,000 in return for a 10% interest-bearing promissory note. That close family member of KMP also received shares as payment for consulting fee invoices as described in Note 16 to the Financial Statements. As is common for venture corporations in early stages of the business life cycle, the founder, family members, and directors often provide capital to support operations. In 2021, all promissory notes due to related parties and accrued interest thereon were repaid.

Convertible debentures

The convertible debentures due to a related party as at December 31, 2020 of $100,000 was repaid during 2021. The convertible debentures originally issued in March 2019 were issued to this related parties on the same terms and conditions as to unrelated parties to provide bridge financing while the Corporation completed the Private Placement.

Other amounts due and from related parties

Refer to Note 11 to the Financial Statements for further related party transaction detail and amounts owed to and from these related parties in respect of the above-mentioned transactions.

These related party transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

d) Advances from (to) related parties, net

Repayment to KMP for assumption of line of credit balance

In January 2021, a KMP assumed an outstanding line of credit issued by a Canadian bank to GABY, when that bank determined it could not provide banking services to the Corporation due to its indirect holding of US cannabis licenses. The Corporation repaid the KMP in 2021.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

These Financial Statements follow the same accounting policies and methods of application as the most recent Annual Financial Statements with the exception of the following policies adopted or adjusted in the current period due to applicability of additional items as a result of the Mankind acquisition:

Deferred revenue

The Corporation records deferred revenue for rewards points earned by customers at time of product sales and recognizes the amounts as revenue when those points are redeemed. Points outstanding for which the customer has not made a purchase for more than one year are recognized as revenue on the assumption that the points will not be redeemed. The Corporation also includes outstanding gift cards in deferred revenue.

Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rate and laws that have been enacted or substantively enacted at the statement of financial statement date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred income tax assets and liabilities are presented as non-current. As the Corporation operates in the cannabis industry, it is subject to the limits of IRC Section 280E under which the Corporation is only allowed to deduct expenses directly related to the cost of producing the products or cost of production. The Corporation applies IFRIC 23, Uncertainty over income tax treatments, which is reflected in the following accounting policy.

The Corporation recognizes uncertain income tax positions using a probability-weighted approach to determine the amount that is more-likely-than-not to be sustained upon examination by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Recognition or measurement is reflected in the period in which the likelihood changes. Any interest and penalties related to unrecognized tax liabilities are presented within income tax expense.

VOTING SECURITIES AND SECURITIES CONVERTIBLE INTO VOTING SECURITIES OUTSTANDING

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

Designation of Securities	Number of instruments outstanding as of date of MD&A[1]	Number of Common Shares Issuable upon Conversion or Exercise
Common Shares	690,201,892	690,201,892
Warrants	263,474,407	263,474,407
Broker Warrants	7,992,569	15,985,138
Options[2]	4,875,000	4,875,000
Restricted Share Units[3]	41,446,666	41,446,666
Total Fully Diluted Capital		1,015,983,103

(1) Reflects 6,875,573 common shares, 854,540 Warrants, and 2,150,000 Restricted Share Units issued subsequent to December 31, 2021
(2) All of the Options are out of the money and not expected to be exercised before their expiration date.
(3) Outstanding Restricted Share Units reflect forfeiture of 100,000 units subsequent to December 31, 2021

RISKS AND UNCERTAINTIES

The following are certain factors relating to the business of GABY. These risks and uncertainties are not the only ones facing GABY. Additional risks and uncertainties not presently known to GABY or currently deemed immaterial by GABY, may also impair the operations of GABY. If any such risks actually occur, shareholders of GABY could lose all or part of their investment and the business, financial condition, liquidity, results of operations and prospects of GABY could be materially adversely affected and the ability of GABY to implement its growth plans could be adversely affected.

The acquisition of any of the securities of GABY is speculative, involving a high degree of risk, and should be undertaken only by persons whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. An investment in the securities of GABY should not constitute a major portion of an individual's investment portfolio and should only be made by persons who can afford a total loss of their investment. GABY's shareholders should carefully evaluate the following risk factors associated with GABY's securities, along with the risk factors described elsewhere in this MD&A.

COVID-19

The COVID-19 outbreak has been declared a pandemic by the World Health Organization. This has resulted in governments worldwide, including the US, Canadian and state and provincial governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally and in the USA and Canada resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions; however, the success of these interventions is not currently determinable. The current challenging economic climate may lead to adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on GABY's operating results and financial position in the future. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on our business is not known at this time.

Business Structure Risk

GABY is a holding company and, after the shuttering of its traditional food business in March 2020, effectively all its assets are the capital stock of its subsidiaries in California. It has no material assets other than cash, except ownership of its subsidiaries. As a result, investors in GABY are subject to the risks attributable to its subsidiaries. As a holding company, GABY conducts substantially all its business through its subsidiaries, which generate substantially all of its revenues. Consequently, GABY's cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of its subsidiaries and the distribution of those earnings to GABY. To the extent that GABY requires funds, and its subsidiaries and such other entities are restricted from making such distributions by applicable law, regulation or contract, or are otherwise unable to provide such funds, it could materially adversely affect GABY's liquidity and financial condition, as well as its ability to make distributions to its shareholders. In the event of a bankruptcy, liquidation or reorganization of any of GABY's material subsidiaries, holders of indebtedness and trade creditors may be entitled to payment of their claims from the assets of those subsidiaries before GABY.

GABY has no earnings or dividend record, and the ability of these entities to pay dividends and other distributions will depend on their operating results and will be subject to applicable laws and regulations which require that solvency and capital standards be maintained by such companies and contractual restrictions contained in the instruments governing their debt. Dividends paid by GABY would be subject to tax and, potentially, withholdings. GABY does not anticipate paying any dividends on its common shares in the foreseeable future. Please see "Anti-Money Laundering Laws and Regulations in ISSUERS WITH UNITED STATES CANNABIS-RELATED ACTIVITIES Section".

Involvement in Cannabis Industry

GABY is engaged directly and indirectly in the recreational-use cannabis industry in California. Readers should refer to "ISSUERS WITH UNITED STATES CANNABIS-RELATED ACTIVITIES" section below.

Operating Risks

Competition

The recreational cannabis and CBD market in North America is highly competitive. GABY competes with numerous other national and international competitors, some of which are very large and have substantially greater financial resources than those of GABY. These factors may result in higher trade marketing costs, discounts and/or promotional rebates used to promote GABY's products and may affect GABY's revenues. GABY may also be affected by new entrants into the marketplace from the expansion or renovation of existing competitors. Failure by GABY to sustain its competitive position could adversely impact GABY's financial performance.

Product Safety

GABY's products may expose it to risks associated with product safety and integrity. GABY cannot assure that active management of these risks, including maintaining strict controls in its facilities and distribution systems, will eliminate all the risks related to food and product safety. GABY could be adversely affected in the event of a significant outbreak of food-borne illness or food safety issues including food or product tampering or contamination. Failure to trace or locate any contaminated or defective products or ingredients could affect GABY's ability to be effective in a recall situation. If any of these risks were to materialize, it could result in harm to customers, and/or negative publicity, which could adversely affect GABY's brands, reputation, operations or financial performance and could lead to unforeseen liabilities from legal claims or otherwise.

Economic Conditions and Retail Trends

GABY's revenue and profitability are impacted by consumer discretionary spending, which is influenced by general economic conditions. These economic conditions could include high levels of unemployment, political uncertainty, energy costs, natural disasters, acts of terrorism, inflation, interest rate changes, and access to consumer credit. Additionally, the CPG industry and cannabis industry are continually evolving as consumer preferences and consumption patterns shift. As a result of evolving retail customer trends, GABY must anticipate and meet these trends in a highly competitive environment on a timely basis. GABY's failure to anticipate and react to shifting consumer trends and preferences through successful innovation could result in decreased demands for its products, which could in turn affect the financial performance of GABY.

Negative Operating Cash Flow

GABY reported negative cash flow from operations for the year ended December 31, 2021. While it is anticipated that the Corporation will be able to manage its cash flow through the prudent management of its operation, the Corporation may continue to report negative operating cash flow in future periods as it strives to reach positive operating cash flow.

GABY's cash flow may not be sufficient to fund its ongoing activities at all times and from time to time, GABY may require additional financing to conduct its business. There is risk that if the economy and banking industry experienced unexpected and/or prolonged deterioration, GABY's access to additional financing may be affected. Failure to obtain such financing on a timely basis could have a material adverse effect on GABY.

Cybersecurity

GABY depends on the uninterrupted operation of information technology ("IT") systems to process, transmit and store information for the operation of its business. Some of this information concerns the business, its customers or partners and may be sensitive or confidential in nature. GABY has implemented security measures to protect and prevent unauthorized access to its IT systems. However, these IT systems may still be vulnerable to an increasing number of sophisticated cyber threats and other failures such as interruptions, natural disasters, human error and other security issues.

If GABY does not allocate and effectively manage the resources necessary to build and sustain reliable IT infrastructure, fails to identify or respond to cybersecurity threats in a timely manner, or the Corporation's IT systems are damaged, destroyed, shut down or cease to function properly, GABY's business could be disrupted, which could adversely affect the Corporation's reputation, operations or financial performance.

Trademark and Brand Protection

GABY believes its brands and other intellectual property are important to its success. GABY relies on a number of trademarks, copyrights, trade secrets and other intellectual property rights to protect its brands and products. The Corporation depends on its continued ability to use its intellectual property to increase brand awareness and further develop brands and products. The Corporation has taken steps to protect certain of its intellectual property in Canada and elsewhere. However, the Corporation's proprietary rights could be challenged, circumvented, infringed or invalidated by third parties. There can be no assurance that the processes and resources invested by the Corporation to protect its intellectual property from third party infringement will be sufficient. Third parties may also assert or prosecute infringement claims against the Corporation for its use of intellectual property allegedly owned by third parties. The materialization of any of these risks could result in substantial costs, diversion of resources, the invalidation of the Corporation's intellectual property, or otherwise adversely affect the reputation, operations or financial performance of the Corporation.

Insurance

GABY has insurance to protect its assets, operations and employees. While GABY believes its insurance coverage addresses the material risks to which it is exposed and is adequate for its current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for all the risks and hazards to which GABY is exposed. If GABY were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, GABY could experience adverse impacts to its operations or financial performance.

Inventory Management

GABY is subject to risks associated with managing its inventory. Failure to successfully manage such risks could result in shortages of inventory, or excess or obsolete inventory which cannot be sold profitably or at all. Any of these outcomes could adversely affect the financial performance of GABY.

Employee Attraction and Development

GABY's continued growth is dependent on its ability to hire, retain and develop its leaders and other key personnel. Any failure to effectively attract talented and experienced employees and to establish adequate succession planning and retention strategies could result in a lack of requisite knowledge, skill and experience. This could negatively affect GABY's ability to operate its business, which in turn, could adversely affect GABY's reputation, operations or financial performance.

Reliance on Key Personnel

GABY's success depends in part on certain key personnel and effective leadership. The loss of the services of such key personnel may have a material adverse effect on the operations or financial performance of GABY or affect its ability to implement its long-term strategic objectives.

Management of Growth

GABY may be subject to growth-related risks including capacity constraints and pressures on its internal systems and controls. The ability of GABY to manage growth effectively will require it to continue to implement and improve its operational and financial systems and expand, train and manage its employee base. The inability of GABY to deal with such growth-related challenges may have a material adverse effect on GABY, its operations or financial performance.

Litigation

GABY may become subject to legal proceedings, which may involve suppliers, customers, consumers, regulators, tax authorities or other persons. The potential outcome of legal proceedings and claims could result in a material adverse affect on GABY' reputation, operations or financial performance.

Third Party Risk

GABY has a variety of key business relationships with third parties including vendors, suppliers, distributors, retailers and contractors. GABY has no direct influence on the operation or management of such third parties. Negative events affecting such third parties could adversely impact GAB''s reputation, operations or financial performance. Additionally, the loss or disruption of any of GAB''s supply or distribution network could interrupt product supply. If not effectively managed or remedied, this could negatively impact GAB''s ability to attract and retain customers, and could adversely affect GAB''s reputation, operations or financial performance.

Supply of Raw Materials

GABY's costs are directly impacted by fluctuations in the prices of raw materials that it processes into finished products. Fluctuations in raw material prices can therefore drive GAB''s financial results upward or downward and may materially impact GAB''s financial performance.

Financial Risks

GABY is subject to various financial risks, including liquidity, credit, interest rate and foreign exchange risks. READERS SHOULD REFER TO "FINANCIAL INSTRUMENTS" SECTION ABOVE AND THE GOING CONCERN ASSUMPTION IN NOTE 1 TO THE FINANCIAL STATEMENTS.

ISSUERS WITH UNITED STATES CANNABIS-RELATED ACTIVITIES

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

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

Nature of involvement and exposure to USA cannabis-related activities

The Corporation had direct involvement in USA cannabis-related activities through its 100% owned subsidiary, Sonoma Pac, which held a Type 11 (as described below) cannabis distribution license for the State of California issued by the CBCC. Pursuant to the shutdown of SPD in Q3 2021, the Type 11 license and related activities particular to that license have terminated.

Effective April 1, 2021, GABY acquired Miramar and its subsidiary, Wild West Industries, Inc. ("Wild West"), which had involvement and exposure to USA-cannabis related activities as follows: In June 2015, the founders of Miramar received a conditional use permit from the City of San Diego to operate a medical marijuana consumer cooperative. Following the passage of the Adult Use of Marijuana Act in 2016, the City of San Diego announced that its licensed dispensaries would be allowed to sell adult-use cannabis as soon as was permissible under California law. The City also allowed local permittees to begin operating for-profit. On January 1, 2018, Miramar began adult-use cannabis sales alongside offering medical cannabis to its customers. Miramar received its annual provisional license for its Type 10 cannabis retail outlet operations in July 2019. In December 2020, Miramar renewed its conditional use permit for an additional five years.

In 2019, Miramar acquired Wild West, a licensed distributor and manufacturer of cannabis products in California. Wild West holds a provisional annual license for Type 6 (non-volatile) manufacturing, and a provisional annual license for distribution of adult-use and medicinal cannabis issued by the DCC.

Regulatory Overview

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

To GABY's knowledge, presently 36 states, four out of five permanently inhabited USA territories, as well as the District of Columbia, have legalized medical cannabis. Thirteen other states have laws that limit THC content, for the purpose of allowing access to products that are rich in CBD, a non-psychoactive component of cannabis. The recreational use of cannabis is legal in 14 states, the District of Columbia, the Northern Mariana Islands, and Guam. Another 16 states and the U.S. Virgin Islands have decriminalized its use. Notwithstanding the foregoing, marijuana remains illegal under USA federal law with marijuana listed as a Schedule 1 drug under the United States Controlled Substances Act of 1970, as amended (the "Controlled Substances Act").

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

In August 2013, the US administration attempted to address the inconsistencies between federal and state regulation of cannabis and issued the Cole Memorandum ("Cole Memorandum"), which outlined certain priorities for the Department of Justice ("DOJ") relating to the prosecution of cannabis offences. The Cole Memorandum instructed the DOJ to not prosecute violations of federal drugs laws related to cannabis activity in states where laws had been enacted legalizing cannabis in some form and where strong and effective regulatory and enforcement systems to control the cultivation, processing, distribution, sale and possession of cannabis had been implemented. The DOJ did not provide (and has not provided since) specific guidelines for what regulatory and enforcement systems would be deemed sufficient under the Cole Memorandum. In light of limited investigative and prosecutorial resources, the Cole Memorandum concluded that the DOJ should be focused on addressing only the most significant threats related to cannabis, a non-exhaustive list of which was enumerated therein.

In January 2018, former Attorney General Sessions rescinded the aforementioned Cole Memorandum and directed all US Attorneys to enforce the laws enacted by Congress by following well-established principles when pursuing prosecutions related to cannabis activities (the "Sessions Memorandum"). There can be no assurance that the federal government will not enforce federal laws relating to cannabis in the future. As a result of the Sessions Memorandum, federal prosecutors are now free to utilize their prosecutorial discretion to decide whether to prosecute cannabis activities despite the existence of state-level laws that may be inconsistent with federal prohibitions. No discretion was given to federal prosecutors in the Sessions Memorandum as to the priority they should ascribe to such cannabis activities and it is uncertain how active U.S. federal prosecutors will be in relation to such activities.

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

While there is a risk that these US Attorneys and the current administration at large may seek to enforce federal drug laws against use that is now permitted under state law, as described below, the Leahy Amendment remains in force, preventing the expenditure of Department of Justice budgetary resources on such enforcement against medical cannabis companies. Additionally, Senators Gardner (R-CO) and Warren (D-MA) introduced legislation that would amend the federal Controlled Substances Act to exempt state-legal marijuana activity from its provisions. Public support in the USA for legalization of medical and adult-use cannabis continues to grow, with a majority of the public supporting legalization, which continues to spread under state law.

In July 2020, a House subcommittee introduced a base appropriations bill with the Leahy Amendment included. The Leahy Amendment was then renewed through a series of stopgap spending bills throughout 2020 and on December 27, 2020 it was renewed effective through September 30, 2021. The Cole Memorandum and the Leahy Amendment gave medical cannabis operators and investors in states with legal regimes greater certainty regarding federal enforcement as to establish cannabis businesses in those states; however, should the Leahy Amendment not be renewed in subsequent spending bills, there can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law. Such potential proceedings could involve significant restrictions being imposed upon GABY or third parties, while diverting the attention of key executives. Such proceedings could have a material adverse effect on GABY's business, revenues, operating results and financial condition as well as GABY's reputation, even if such proceedings were concluded successfully in favor of GABY.

While the Sessions Memorandum has introduced some uncertainty regarding federal enforcement, the cannabis industry continues to experience growth in legal medical and adult- use markets across the USA. USA Attorney General Jeff Sessions resigned on November 7, 2018. As of his resignation, Matthew Whitaker was the acting USA Attorney General until William Barr was appointed as the USA Attorney General on February 14, 2019. In an April 10, 2019 Senate Appropriations Subcommittee meeting to discuss the Justice Department's budget 2020, in response to a question about his position on the proposed Strengthening the Tenth Amendment Through Entrusting States (STATES) Act, Attorney General Barr stated: "Personally, I would still favor one uniform federal rule against marijuana," "But if there is not sufficient consensus to obtain that then I think the way to go is to permit a more federal approach so states can, you know, make their own decisions within the framework of the federal law. So we're not just ignoring the enforcement of federal law." The STATES Act, if it were to pass, would allow states to determine their own approaches to marijuana. Attorney General Barr said the legislation is still being reviewed by his office but that he would "much rather... the approach taken by the STATES Act than where we currently are."

On January 7, 2021, President Joe Biden announced Judge Merrick Garland as his nominee for the next U.S. Attorney General. On January 20, 2021, Robert M. Wilkinson replaced Jeffrey A. Rosen as the Acting Attorney General while Judge Garland seeks confirmation from the U.S. Senate. Neither interim Attorney General Jeffrey A. Rosen nor Robert M. Wilkinson have provided a clear policy directive for the United States as it pertains to state-legal marijuana-related activities. On March 11, 2021, Judge Garland was sworn in as Attorney General of the United States. It is not yet known whether the Department of Justice under President Biden and Attorney General Garland will re-adopt the Cole Memorandum or announce a substantive marijuana enforcement policy. It is unclear what impact this development will have on USA federal government enforcement policy. Despite the expanding market for legal cannabis, traditional sources of financing, including bank lending or private equity capital, is lacking which can be attributable to the fact that cannabis remains a Schedule I substance under the Controlled Substances Act. These traditional sources of financing are expected to remain scarce until the federal government legalizes cannabis cultivation and sales or passes specific legislation allowing chartered banks to provide banking services to cannabis companies despite that cannabis remains federal illegal.

Compliance with State Licensing and Regulatory Frameworks

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

Program for Monitoring Compliance and Disclosure of Material Non-Compliance

The following sections present an overview of market and regulatory conditions for the cannabis industry in USA states which the Corporation is directly involved, of which at the date of this document comprises the state of California. Although the Corporation's activities are compliant with applicable state and local law in the USA, strict compliance with such state and local laws with respect to cannabis may neither absolve the Corporation of liability under USA federal law, nor may it provide a defense to any federal proceeding which may be brought against the Corporation.

California Regulatory Landscape

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

MAUCRSA went into effect on January 1, 2018. Until recently, the four (4) agencies that regulated marijuana at the state level are the Bureau of Cannabis Control ("BCC"), the California Department of Food and Agriculture ("CDFA"), the California Department of Public Health ("CDPH"), and the California Department of Tax and Fee Administration ("CDTFA"). On July 12, 2021, California Governor Gavin Newson signed into law Assembly Bill 141 (AB-141), which established the Department of Cannabis Control ("DCC"). The DCC consolidates the BCC, CDFA's CalCannabis Licensing Division, and CDPH's Manufactured Cannabis Safety Branch into a single department. The DCC is charged with licensing, inspecting, and providing regulatory oversight over all cannabis businesses in California.

In May 2018, the California Department of Consumer Affairs, the California Department of Public Health and the California Department of Food and Agriculture proposed to re-adopt their emergency cannabis regulations. The three licensing authorities proposed changes to the regulatory provisions to provide greater clarity to licensees and to address issues that had arisen since the emergency regulations went into effect in December 2017. One of the included changes was that applicants may now complete one license application which allow for both medical and adult-use cannabis activity. These emergency cannabis regulations were officially readopted and came into effect in June 2018. In January 2019, California's three state cannabis licensing authorities announced that the Office of Administrative Law officially approved state regulations for cannabis businesses. The final cannabis regulations took effect immediately and superseded the previous emergency regulations.

To operate legally under state law, cannabis operators must obtain a state license and local approval. Local authorization is a prerequisite to obtaining state licensure from all three state licensing agencies, and local governments are permitted to prohibit or otherwise regulate the types and number of cannabis businesses allowed in their locality. California has not set a limit on the number of state licenses an entity may hold, unlike other states that have restricted how many cannabis licenses an entity may hold in total or for various types of cannabis activity. Although vertical integration across multiple license types is allowed under MAUCRSA, testing laboratory licensees may not hold any other licenses aside from a laboratory license. There are also no residency requirements for ownership under MAUCRSA.

As of April 1, 2021, the Corporation is further involved in the cannabis-related activities in the state of California through its acquisition of Miramar. Miramar is directly involved in operating a cannabis dispensary, through its Type 10 cannabis retail outlet operations, and through its subsidiary, Wild West, which holds a provisional annual license for Type 6 (non-volatile) manufacturing issued by the Department of Public Health of the State of California, and a provisional annual license for distribution of adult-use and medicinal cannabis issued by the CBCC. Miramar has represented to the Corporation as of the date of this document, that its business, including Wild West, was conducted in substantial compliance with the regulatory framework enacted by the State of California.

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

Type 7: authorized to manufacture cannabis products using volatile solvent extractions.
Type 6: authorized to manufacture cannabis products using mechanical or non-volatile solvent extractions.
Type N: authorized to manufacture cannabis products (other than extracts or concentrates) using infusion processes but does not conduct extractions.
Type P: authorized to only package or repackage cannabis products or relabel the cannabis product container.

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

Type 8: authorized to test the chemical composition of cannabis and cannabis products.
Type 9: authorized to conduct retail cannabis sales exclusively by delivery.
Type 10: authorized to sell cannabis goods to customers.
Type 11: authorized to transport and store cannabis goods purchased from other licensed entities and sell them to licensed retailers, and responsible for laboratory testing and quality assurance to ensure packaging and labeling compliance.
Type 13: authorized to transport cannabis goods between licensed cultivators, manufacturers, and distributors.

Local Licensure, Zoning and Land Use Requirements

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

Record-Keeping and Continuous Reporting Requirements

California's state license application process additionally requires comprehensive criminal history, regulatory history and personal disclosures for all owners. Any criminal convictions or civil penalties or judgments occurring after licensure must promptly be reported to the regulatory agency from which the licensee holds a license. State licenses must be renewed annually. Disclosure requirements for local authorization may vary, but generally tend to mirror the State of California's requirements. Licensees must also keep detailed records pertaining to various aspects of the business for up to seven years. Such records must be easily accessible by the regulatory agency from which the licensee holds a license. Additionally, licensees must record all business transactions, which must be uploaded to METRC, the state-wide traceability system selected by California to track commercial cannabis activity.

Operating Procedure Requirements

Applicants must submit standard operating procedures ("T&T System") describing how the operator will, among other requirements, secure the facility, manage inventory, comply with California's seed-to-sale tracking requirements, dispense cannabis, and handle waste, as applicable to the license sought. Once the standard operating procedures are determined compliant and approved by the applicable state regulatory agency, the licensee is required to abide by the processes described and seek regulatory agency approval before any changes to such procedures may be made. Licensees are additionally required to train their employees on compliant operations and are only permitted to transact with other legal and licensed businesses. Each licensee is required to assign an account manager to oversee the T&T System. The account manager must be fully trained on the system and is accountable to record all commercial cannabis activities accurately and completely. The licensee should correct any data that is entered into the T&T System in error within three business days of discovery of the error.

Site Visits & Inspections

As a condition of obtaining a state license, operators must consent to random and unannounced inspections of the commercial cannabis facility, as well as the facility's books and records to monitor and enforce compliance with state law. Many localities have also enacted similar standards for inspections, and the state has already commenced site visits and compliance inspections for operators who have received state temporary or annual licenses.

Miramar and Wild West have been subject to annual site visits from the DCC and all minor non-conformances have been rectified.

Retail Compliance

California requires that certain warnings, images, and content information to be printed on all marijuana packaging. CBCC regulations also include certain requirements about tamper-evident and child-resistant packaging. Both distributors and retailers are responsible for confirming that products are properly labeled and packaged before they are sold to a customer.

Corporation's Compliance Procedures

The Corporation relies on industry experts in California cannabis law as local outside counsel to oversee and monitor compliance with USA state law on an ongoing basis. These experts in the field keep the Corporation fully informed of regulatory changes and recommend standard operating procedures to facilitate the implementation and maintenance of compliant operations, required tracking and license reporting. The Corporation will continue to work closely with the advisors to develop and improve its internal compliance program and will defer to their legal opinions and risk mitigation guidance regarding California's complex regulatory framework.

The internal compliance program, including the update of operational procedures and use of checklists, requires continued monitoring by managers and executives of the Corporation to ensure all operations conform with legally compliant standard operating procedures. In anticipation of future growth, the Corporation is investigating a number of software solutions developed specifically for the cannabis industry to allow for automation of both internal as well as third-party compliance auditing, covering all state and municipal, facility and operational requirements to maintain licensing criteria. Sonoma Pac is required to report and disclose to the Corporation all instances of non-compliance, regulatory, administrative, or legal proceedings that may be initiated against them. As at the date of this document, to the best of Management's belief, he Corporation's licensed subsidiaries are in compliance with all material regulatory requirements.

Service Providers

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

Ability to Access Capital

While Management believes the continued harvesting of synergies from the Miramar Transaction, in conjunction with prudent management of working capital, will enable GABY to support operations over the next year and beyond, the Corporation may require additional capital to support ongoing operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Corporation when needed or on terms which are acceptable. The Corporation's inability to raise financing through traditional banking to fund ongoing operations, capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon the Corporation's business, results of operations, financial condition or prospects.

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

Restricted Access to Banking

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

Anti-Money-Laundering Laws and Regulations

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

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

Heightened Scrutiny by Regulatory Authorities

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

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

As at December 31, 2021, most of GABY's financial statement line items are highly related to USA cannabis related activities and as of April 1, 2021, with the acquisition of Miramar, almost all of its activities and applicable financial statement line items will be USA cannabis related.

NON-GAAP DISCLOSURE

Adjusted EBITDA is used by management and investors to analyze the Corporation's profitability based on the Corporation's principal business activities regardless of how: these activities are financed; assets are depreciated and amortized, and results are taxed in various jurisdictions or subject to entity specific tax planning. It therefore excludes interest expense, taxes, depreciation, and items which management considers are not related to operational performance of its core businesses. In addition, Adjusted EBITDA provides an indication of the Corporation's ongoing ability to service its debt, income taxes and capital expenditures and therefore excludes non-cash expenses.

Below is a reconciliation of the non-GAAP measure Adjusted EBITDA from continuing operations:

	2021	2020	2019[1]
Net loss from continuing operations:	**(12,247,087)**	(12,828,842)	(19,409,216)
Add (subtract):			
Interest expense	**3,340,790**	538,353	715,941
Income tax expense (recovery)	**2,462,361**	(308,900)	(327,375)
Depreciation (COGS and operating)	**980,970**	462,930	813,352
Amortization	**805,646**	-	16,916
EBITDA	**(4,657,320)**	(12,136,459)	(18,190,382)
Adjustments:			
Share-based compensation and expenses	**1,551,236**	637,498	1,216,624
Other (income) expense aside from interest expense	**4,544,141**	4,777,449	6,606,528
Adjusted EBITDA	**1,438,057**	(6,721,512)	10,367,230

[1] As restated to reflect discontinued operations

Adjusted EBITDA is compared to net loss from continuing operations, the closest comparable IFRS measure. To arrive at Adjusted EBITDA, the following items are excluded from net loss from continuing operations as follows:

1) Interest expense is added back as it is related to financing decisions
2) Income tax expense (recovery) is added back as it is reflective of taxation jurisdiction or entity-specific tax planning, not related to core operational performance.
3) Depreciation and amortization, as they are non-cash charges and not indicative of operational performance.
4) Share-based compensation, which is a non-cash expense.
5) Other income (expenses) as follows:
    a. Items related to financing decisions, including timing of payments and application for government assistance:
        Gain (loss) on conversion of debt
        Gain (loss) on disposal of assets
        Gain on lease termination
        Government assistance income
        Penalties and interest on past-due taxes
    b. Items that are not related to core operations and are not indicative of operational performance:

Foreign exchange gain (loss)
Interest income
Impairment losses (recovery)
Transaction costs
Other expenses, including write-offs of inventory for non-operational reasons (plant closure etc)

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains "forward-looking information" and "forward-looking statements" within the meaning of Canadian securities laws ("forward-looking statements"). Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based on management's current beliefs, expectations or assumptions regarding the future of the business, future plans and strategies, operational results and other future conditions of the Corporation. In addition, the Corporation may make or approve certain statements in future filings with Canadian securities regulatory authorities, in press releases, or in oral or written presentations by representatives of the Corporation that are not statements of historical fact and may also constitute forward-looking statements.

All statements, other than statements of historical fact, made by the Corporation that address activities, events or developments that the Corporation expects or anticipates will or may occur in the future are forward-looking statements, including, but not limited to, statements preceded by, followed by or that include words such as "may", "will", "would", "could", "should", "believes", "estimates", "projects", "potential", "expects", "plans", "intends", "anticipates", "targeted", "continues", "forecasts", "designed", "goal", or the negative of those words or other similar or comparable words and includes, among others, information regarding: expectations for the effects of any transactions; expectations for the potential benefits of any transactions; statements relating to the business and future activities of, and developments related to, the Corporation after the date of this MD&A, including such things as future business strategy, competitive strengths, goals, expansion and growth of the Corporation's business, operations and plans; expectations that planned acquisitions will be completed, including but not limited to other potential acquisition(s); expectations that licenses applied for will be obtained; potential future legalization of adult-use and/or medical cannabis under USA federal law; expectations of market size and growth in the USA, California and such other states in which the Corporation has expressed desire to operate in; expectations for other economic, business, regulatory and/or competitive factors related to the Corporation or the cannabis industry generally; and other events or conditions that may occur in the future.

Forward-looking statements may relate to future financial conditions, results of operations, plans, objectives, performance or business developments. These statements speak only as of and at the date they are made and are based on information currently available and on the then current expectations. Holders of securities of the Corporation are cautioned that forward-looking statements are not based on historical facts but instead are based on reasonable assumptions and estimates of management of the Corporation at the time they were provided or made and involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation, as applicable, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements, including, but not limited to, risks and uncertainties related to: the available funds of the Corporation and the anticipated use of such funds; the availability of financing opportunities; legal and regulatory risks inherent in the cannabis industry; risks associated with economic conditions, dependence on management; risks relating to USA regulatory landscape and enforcement related to cannabis, including political risks; risks relating to anti-money-laundering laws and regulation; other governmental and environmental regulation; public opinion and perception of the cannabis industry; risks related to contracts with third-party service providers; risks related to the enforceability of contracts; reliance on the expertise and judgment of senior management of the Corporation, and ability to retain such senior management; risks related to proprietary intellectual property and potential infringement by third parties; risks relating to the management of growth; increasing competition in the industry; risks associated to cannabis products manufactured for human consumption including potential product recalls; reliance on key inputs, suppliers and skilled labor; cybersecurity risks; ability and constraints on marketing products; fraudulent activity by employees, contractors and consultants; tax- and insurance-related risks; risks related to the economy generally; risk of litigation; conflicts of interest; risks relating to certain remedies being limited and the difficulty of enforcement of judgments and effecting service outside of Canada; risks related to future acquisitions or dispositions; sales by existing shareholders; limited research and data relating to cannabis; as well as those risk factors discussed under "Risk Factors" described in the Annual Financial Statements.

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

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