

GABY INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**FOR THE THREE AND NINE MONTHS
ENDED SEPTEMBER 30, 2022 AND 2021
(in United States dollars)**

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

GABY INC.

Condensed Interim Consolidated Statements of Financial Position

| (Unaudited) | | September 30, | December 31, | January 1, |
|--|-------|----------------------|--------------|--------------|
| <i>In United States dollars</i> | Note | 2022 | 2021 | 2021 |
| ASSETS | | | (Note 2) | (Note 2) |
| Current assets | | | | |
| Cash | | 1,418,018 | 3,213,891 | 80,621 |
| Restricted cash | | - | - | 65,684 |
| Accounts receivable | | 123,369 | 126,666 | 479,224 |
| Inventories | 5 | 505,600 | 1,060,106 | 504,143 |
| Prepaid expenses | | 400,025 | 373,998 | 68,112 |
| Other current asset | 3b | 346,647 | 487,593 | - |
| | | 2,793,659 | 5,262,254 | 1,197,784 |
| Non-current assets | | | | |
| Property and equipment | 6 | 4,344,594 | 6,204,834 | 858,760 |
| Intangible assets and goodwill | 7 | 36,304,113 | 36,948,888 | 1,875,817 |
| Other assets | 8 | 3,623,034 | 3,650,274 | 17,320 |
| Total assets | | 47,065,400 | 52,066,250 | 3,949,681 |
| LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY) | | | | |
| Current liabilities | | | | |
| Bank indebtedness | | - | - | 121,840 |
| Accounts payable and accrued liabilities | 9,10 | 5,375,106 | 6,493,518 | 5,540,551 |
| Income taxes payable | | 3,430,095 | 2,587,824 | 48,153 |
| Deferred revenue | | 362,346 | 217,407 | - |
| Short-term notes payable | | 1,500 | 15,000 | 70,000 |
| Promissory notes payable | 11 | 196,153 | 209,545 | 1,106,676 |
| Convertible debentures | 11 | 341,921 | 415,705 | 512,785 |
| Current portion of lease liabilities | 12 | 678,900 | 587,900 | 48,231 |
| Current portion of long-term debt | 13 | 5,102,376 | 536,762 | 66,970 |
| | | 15,488,397 | 11,063,661 | 7,515,206 |
| Non-current liabilities | | | | |
| Lease liabilities | 12 | 4,481,048 | 6,256,106 | 446,328 |
| Long-term debt | 13 | 20,858,970 | 26,288,068 | 162,481 |
| Other long-term liabilities | 14 | 5,330,762 | 5,386,507 | 13,119 |
| Total liabilities | | 46,159,177 | 48,994,342 | 8,137,134 |
| SHAREHOLDERS' EQUITY (DEFICIENCY) | | | | |
| Share issuance obligation | | - | - | 94,061 |
| Share capital | 16 | 50,802,714 | 49,974,798 | 35,347,158 |
| Contributed surplus | 15,16 | 6,962,410 | 6,656,942 | 4,486,910 |
| Deficit | | (59,169,730) | (53,629,291) | (43,862,646) |
| Accumulated other comprehensive income (loss) | | 2,310,829 | 69,459 | (252,936) |
| | | 906,223 | 3,071,908 | (4,187,453) |
| Total liabilities and shareholders' equity (deficiency) | | 47,065,400 | 52,066,250 | 3,949,681 |
| Going concern | 1 | | | |
| Subsequent events | 25 | | | |

See accompanying notes to the condensed interim consolidated financial statements

GABY INC.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

| (Unaudited) | | Three months ended | | Nine months ended | |
|---|------|---------------------------|-------------|--------------------------|-------------|
| <i>In United States dollars</i> | | September 30, | | September 30, | |
| <i>In United States dollars</i> | Note | 2022 | 2021 | 2022 | 2021 |
| | | | (Note 2) | | (Note 2) |
| REVENUE | | 5,353,127 | 7,552,741 | 16,321,237 | 19,428,617 |
| COST OF SALES | | | | | |
| Direct inventory costs | 17 | 2,849,925 | 4,367,657 | 8,671,424 | 12,503,360 |
| Variable gross profit | | 2,503,202 | 3,185,084 | 7,649,813 | 6,925,257 |
| Allocated indirect costs | 18 | 3,885 | 166,764 | 297,937 | 390,121 |
| Distribution costs | | 10,859 | 49,207 | 54,053 | 165,442 |
| Total cost of sales | | 2,864,669 | 4,583,628 | 9,023,414 | 13,058,923 |
| Gross profit | | 2,488,458 | 2,969,113 | 7,297,823 | 6,369,694 |
| Selling, general and administrative expenses | 19 | 2,373,735 | 2,613,662 | 6,918,057 | 6,092,523 |
| Share-based compensation and expenses | 15 | 220,489 | 346,507 | 854,106 | 878,874 |
| Depreciation of property and equipment | 6 | 215,159 | 170,746 | 529,628 | 351,054 |
| Amortization of intangible assets | 7 | 214,925 | - | 644,775 | - |
| Loss from operations before the following: | | (535,850) | (161,802) | (1,648,743) | (952,757) |
| Foreign exchange loss | | (1,890,461) | (574,847) | (2,156,282) | (394,156) |
| Interest expense | | (797,224) | (860,503) | (2,433,422) | (1,817,930) |
| Interest income | | - | 361 | 511 | 827 |
| Gain on dissolution of subsidiary | 4 | - | - | 2,444,783 | - |
| Other items of income (expense) | 20 | (93,720) | (1,171,639) | (337,881) | (2,231,330) |
| Total other income (expense) | | (2,781,405) | (2,606,628) | (2,482,291) | (4,442,589) |
| Loss before income tax expense | | (3,317,255) | (2,768,430) | (4,131,034) | (5,395,346) |
| Current income tax expense | | 352,443 | 631,416 | 1,516,637 | 1,314,201 |
| Deferred income tax expense (recovery) | | 88,375 | 13,294 | (107,232) | (19,143) |
| Income tax expense | | 440,818 | 644,710 | 1,409,405 | 1,295,058 |
| Net loss | | (3,758,073) | (3,413,140) | (5,540,439) | (6,690,404) |
| Other comprehensive income | | | | | |
| Items that may be reclassified to net loss in the future: | | | | | |
| Exchange difference on translation | | 1,969,930 | 599,237 | 2,052,888 | 369,947 |
| Item reclassified to net loss in current period: | | | | | |
| Dissolution of subsidiary | 4 | - | - | 188,482 | - |
| Total comprehensive loss | | (1,788,143) | (2,813,903) | (3,299,069) | (6,320,457) |
| Net loss per share: | | | | | |
| Basic and diluted | 21 | (\$0.01) | (\$0.01) | (\$0.01) | (\$0.01) |

See accompanying notes to the condensed interim consolidated financial statements

GABY INC.

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

| (Unaudited) <i>In United States dollars</i> | Note | Share issuance obligation | Share capital | Contributed surplus | Deficit | Accumulated other comprehensive income (loss) | Total |
|--|------|---------------------------------|-------------------|------------------------|---------------------|--|----------------|
| Balance as at December 31, 2020 | 2 | 94,061 | 35,347,158 | 4,486,910 | (43,862,646) | (252,936) | (4,187,453) |
| Net and comprehensive income (loss) | | - | - | - | (6,690,404) | 369,947 | (6,320,457) |
| Issuance of Units | 16 | (28,200) | 2,685,504 | 437,175 | - | - | 3,094,479 |
| Issuance costs | 16 | - | (714,688) | 249,145 | - | - | (465,543) |
| Shares for services | 15 | - | 334,663 | - | - | - | 334,663 |
| RSUs issued as shares | 15 | - | 88,376 | (88,376) | - | - | - |
| Equity issued as payment of debts | 15 | - | 585,199 | 6,410 | - | - | 591,609 |
| Issuance of Subscription Receipts | 16 | 6,672,924 | - | - | - | - | 6,672,924 |
| Spin off of Subscription Receipts | 16 | (6,738,785) | 5,795,437 | 943,348 | - | - | - |
| Shares issued for business acquisition | 16 | - | 5,399,184 | - | - | - | 5,399,184 |
| Stock option and RSU expense | 15 | - | - | 404,713 | - | - | 404,713 |
| Stock option forfeitures | 15 | - | - | (28,275) | - | - | (28,275) |
| Balance as at September 30, 2021 | 2 | - | 49,520,833 | 6,411,050 | (50,553,050) | 117,011 | 5,495,844 |
| Balance as at December 31, 2021 | 2 | - | 49,974,798 | 6,656,942 | (53,629,291) | 69,459 | 3,071,908 |
| Net and comprehensive income (loss) | | - | - | - | (5,351,957) | 2,052,888 | (3,299,069) |
| Reclassification of comprehensive loss | | - | - | - | (188,482) | 188,482 | - |
| Shares for services | 15 | - | 537,970 | - | - | - | 537,970 |
| RSUs issued as shares | 15 | - | 243,760 | (243,760) | - | - | - |
| Equity issued as payment of debts | 16 | - | 46,186 | 13,498 | - | - | 59,684 |
| Stock option and RSU expense | 15 | - | - | 535,730 | - | - | 535,730 |
| Balance as at September 30, 2022 | | - | 50,802,714 | 6,962,410 | (59,169,730) | 2,310,829 | 906,223 |

See accompanying notes to the condensed interim consolidated financial statements

GABY INC.

Condensed Interim Consolidated Statements of Cash Flows

| (Unaudited) | | Three months ended | | Nine months ended | |
|---|------|---------------------------|-------------|--------------------------|-------------|
| | | September 30, | | September 30, | |
| <i>In United States dollars</i> | Note | 2022 | 2021 | 2022 | 2021 |
| | | | (Note 2) | | (Note 2) |
| OPERATING ACTIVITIES | | | | | |
| Net loss | | (3,758,073) | (3,413,140) | (5,540,439) | (6,690,404) |
| Adjustments to reconcile net loss to cash flow from operations: | | | | | |
| Deferred income tax expense (recovery) | | 88,375 | 13,294 | (107,232) | (19,143) |
| Depreciation | 6 | 219,045 | 247,087 | 669,006 | 558,087 |
| Amortization of intangible assets | 7 | 214,925 | - | 644,775 | - |
| Gain on dissolution of subsidiary | 4 | - | - | (2,444,783) | - |
| Interest expense | | 797,224 | 860,503 | 2,433,422 | 1,817,930 |
| Share-based compensation | 15 | 220,489 | 532,274 | 854,106 | 878,874 |
| Unrealized foreign exchange loss (gain) | | 1,696,606 | 579,017 | 1,937,232 | 208,609 |
| Other adjustments | 22 | (21,716) | 850,996 | 135,863 | 767,023 |
| Cash used in operating activities before the following: | | (543,125) | (329,969) | (1,418,050) | (2,479,024) |
| Net change in non-cash working capital related to operations | | 801,506 | 821,022 | 1,973,197 | 1,916,540 |
| Cash generated (used) in operating activities | | 258,381 | 491,053 | 555,147 | (562,484) |
| INVESTING ACTIVITIES | | | | | |
| Purchase of property and equipment | 6 | (23,825) | (15,233) | (47,825) | (23,919) |
| Proceeds from sale of property and equipment | | 1,800 | 72,900 | 1,800 | 73,900 |
| Business acquisition – net cash outflow | 3 | - | - | - | (1,688,708) |
| Deposits received (paid), net | | - | - | (4,200) | 1,500 |
| Cash generated (used) in investing activities | | (22,025) | 57,667 | (50,225) | (1,637,227) |
| FINANCING ACTIVITIES | | | | | |
| Advances from related parties | | - | - | - | 622 |
| Repayment of short-term notes payable | | (9,000) | - | (13,500) | (54,549) |
| Repayment of long-term debt | | (86,191) | (181,861) | (447,694) | (329,755) |
| Repayment of lease liabilities | 12 | (172,016) | (100,728) | (455,091) | (192,735) |
| Repayment of promissory notes, debentures | 11 | - | - | (43,420) | - |
| Issuance of Units | 16 | - | - | - | 235,227 |
| Issuance of Subscription Receipts | 16 | - | - | - | 6,930,471 |
| Equity issuance costs paid | | - | - | - | (414,626) |
| Interest paid | | (371,656) | (575,204) | (1,428,253) | (1,219,345) |
| Cash generated (used) in financing activities | | (638,863) | (857,793) | (2,387,958) | 4,955,310 |
| Foreign currency translation adjustment | | 87,013 | (18,622) | 87,163 | (27,422) |
| Net change in cash | | (315,494) | (327,695) | (1,795,873) | 2,728,177 |
| Cash, beginning of period | | 1,733,512 | 3,136,493 | 3,213,891 | 80,621 |
| Cash, end of period | | 1,418,018 | 2,808,798 | 1,418,018 | 2,808,798 |

See Note 23 for detail of non-cash transactions and other cash flow disclosures

See accompanying notes to the condensed interim consolidated financial statements

GABY INC.

Notes to the Condensed Interim Consolidated Financial Statements

In United States dollars, unless otherwise stated (Unaudited)

NATURE OF BUSINESS

GABY Inc. ("GABY" or "the Corporation") is incorporated in Canada under the Business Corporations Act of Alberta. The Corporation's registered office is 421 7th Avenue SW, Suite 1600, Calgary AB T2P 4K9, Canada and it trades on the Canadian Securities Exchange ("CSE") under the symbol GABY and on the OTCQB under the symbol GABLF. The Corporation produces, markets, and sells at retail, cannabis-related consumer packaged goods ("CPG") in California. The Corporation has a retail focus and is the owner of the Mankind dispensary in San Diego, California. GABY packages and/or markets, for its own proprietary brands as well as for third parties, a variety of cannabis products including: flower, concentrates, pre-rolls, edibles, topicals, tinctures, and other products derived from or infused with cannabis or hemp. **The Corporation has retrospectively changed its presentation currency to the United States Dollar ("USD") from the Canadian dollar ("CAD"). See Note 2 for additional information regarding this change in accounting policy.**

1) GOING CONCERN

These condensed interim consolidated financial statements for the three and nine months ended September 30, 2022 and 2021 ("Financial Statements") have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due.

Substantially all of the Corporation's operations are in the USA cannabis sector, which has been legalized by certain USA states but remains federally illegal and is subject to legislative uncertainty.

For the nine months ended September 30, 2022, the Corporation had a net loss of \$5.5 million. For the year ended December 31, 2021, the Corporation had a net loss of \$9.8 million. As at September 30, 2022, working capital amounted to negative \$12.7 million. To service the remaining working capital deficit, management is in discussion with the holders of the \$25.5 million promissory note to restructure the repayment terms with the goal of enhancing cashflow and deferring the principal payments. Management is also continuing to address the need to increase revenue and control costs. Management has in the past obtained financing by accessing the capital markets as described in Note 16 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.

Historically, the Corporation has had operating losses 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 is uncertain. These uncertainties cast significant doubt upon the Corporation's ability to continue as a going concern. As such, the Corporation may need to raise additional capital to continue to pursue its growth strategy and to fund its operations. While the Corporation has been successful in raising capital in the past, there can be no assurance that it will be able to do so in the future. The ability to raise capital may be adversely impacted by uncertain market conditions.

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

GABY INC.

Notes to the Condensed Interim Consolidated Financial Statements

In United States dollars, unless otherwise stated (Unaudited)

These adjustments could be material.

2) BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Statement of compliance

These Financial Statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board and Interpretations of the International Financial Reporting Interpretations Committee. These Financial Statements were approved and authorized for issue by the Corporation's audit committee on November 25, 2022.

Basis of presentation

These Financial Statements have been prepared under the historical cost convention, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value, and are expressed in United States dollars unless otherwise indicated. Other measurement bases used are detailed in the Corporation's annual consolidated financial statements ("Annual Financial Statements"). Certain comparative figures have been reclassified to conform to the current period's presentation.

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

These Financial Statements follow the same accounting policies and methods of application as the most recent Annual Financial Statements with the exception of the following policies adopted or adjusted in the current period:

Effective April 1, 2022, the Corporation made a change in accounting policy regarding its presentation currency. Previously, the Corporation used the functional currency of the parent company, GABY Inc., as its presentation currency, which is the Canadian dollar. Management made the determination that presenting the financial statements of the Corporation in United States dollars would provide more relevant and useful information to the majority of stakeholders of the Corporation and users of the financial statements. Further, the United States dollar is the currency in which management conducts its operating, capital and financing decisions of the consolidated group because the business operations are located in the United States. The functional currency of GABY Inc. remains the Canadian dollar, and as a result of this change, its accounts are translated to USD based on the Corporation's accounting policy for foreign currency translation from functional currency to presentation currency. As the functional currency of all other entities in the consolidated group is and has been USD, translation of the transactions and balances in the other entities is no longer required unless those entities transact in other currencies, which does not typically occur. The change to adopt the United States dollar as the presentation currency of the Corporation has been applied retrospectively back to January 1, 2021.

For comparative reporting purposes, historical financial statements were translated into the USD reporting currency as follows: assets and liabilities were translated at the CAD to USD closing rate in effect at the end of the comparative periods; revenues, expenses and cash flows were translated at the average rate in effect for the comparative periods and equity transactions were translated at historical rates. These financial statements are presented in United States dollars. All financial information is expressed in USD unless otherwise stated.

GABY INC.**Notes to the Condensed Interim Consolidated Financial Statements***In United States dollars, unless otherwise stated (Unaudited)***3) BUSINESS ACQUISITION - 2021****a) Description**

Effective April 1, 2021, the Corporation acquired 100% of the issued and outstanding equity of Miramar Professional Services (“MPS”), a cannabis retailer, which owns 100% of the issued and outstanding equity of Wild West Industries (“WWI”), a cannabis manufacturing and distribution company (together, “Mankind”). Through the acquisition of Mankind, the Corporation has secured a Type 10 retail license (“Type 10 License”), a Type 6 manufacturing license (“Type 6 License”), and a Type 11 distribution license (“Type 11 License”) all issued by the Department of Cannabis Control in the state of California, and the retail and distribution facilities and related assets located in San Diego, California. The acquisition-date fair value of the total consideration was as follows:

| In \$, preliminary allocation as of September 30, 2021 | Note | April 1, 2021 |
|--|------|----------------------|
| Cash consideration | b) | 5,000,000 |
| Share consideration | b) | 5,399,184 |
| Debt consideration | b) | 25,500,000 |
| | | 35,899,184 |
| Purchase price adjustment – net working capital | b) | (763,059) |
| Total consideration | | 35,136,125 |
| The amounts recognized as of the acquisition date are as follows: | | |
| Cash | c) | 3,311,292 |
| Accounts receivable – fair and gross value, estimate 100% recoverable | | 21,299 |
| Inventory | | 1,242,056 |
| Prepaid expenses and deposits | | 157,601 |
| Property and equipment | 6 | 6,698,255 |
| Security deposits | | 68,273 |
| Intangibles – Type 6, 10 and 11 Licenses ¹ | 7 | 2,515,076 |
| Net deferred tax liabilities ¹ | | (165,525) |
| Accounts payable and accrued liabilities | | (2,550,335) |
| Income taxes payable | | (1,296,595) |
| Deferred revenue | | (196,644) |
| Lease liabilities | 12 | (7,068,369) |
| Long-term debt | | (864,000) |
| Uncertain tax position liability | | (4,703,904) |
| Indemnification asset - Uncertain tax position liability | | 4,703,904 |
| Net identifiable assets acquired | | 1,872,384 |
| Add: Goodwill ¹ | d) | 33,263,741 |
| | | 35,136,125 |

¹ These amounts were adjusted based on the final valuations and estimates as reflected in the 2021 Annual Financial Statements, as follows: total intangible assets of \$8,597,000, net deferred tax liabilities of \$1,980,371, and goodwill of \$28,996,663.

GABY INC.

Notes to the Condensed Interim Consolidated Financial Statements

In United States dollars, unless otherwise stated (Unaudited)

b) Consideration

The Definitive Agreement provided for the acquisition of all the equity securities of Mankind for total consideration of \$36.5 million, subject to adjustment in accordance with the Definitive Agreement. The consideration was satisfied as follows:

- (i) the payment of \$5.0 million in cash;
- (ii) the issuance of 157,894,737 common shares with a deemed value of \$0.038 per share, constituting \$6.0 million of the consideration; and
- (iii) the issuance of a secured non-convertible promissory note for \$25.5 million bearing interest at a rate of 10% per annum. The promissory note requires quarterly interest-only payments of the interest incurred in the quarter capped at \$500,000 per quarter, with any additional interest incurred to be accrued and paid with the next principal payment. The principal is required to be paid as follows: \$5.0 million at the end of years two, four, and six, with the remaining \$10.5 million due at the end of year seven.

The consideration was to be adjusted by the amount by which actual working capital (defined as working capital plus debt) is greater than (less than) target working capital of \$587,733. The purchase price adjustment constituted a reduction of the purchase price by \$763,059, to be transacted through a reduction of quarterly interest payments on the promissory note of no more than \$150,000 per quarter until the total purchase price adjustment has been satisfied. This right to reduce future interest payments is presented as Other current asset. Since the acquisition date, this asset has been reduced by \$750,000 through reduction of quarterly interest payments. The asset has been increased by \$333,588 as a result of tax-related indemnification claims related to under-accruals which directly affect the working capital calculation. The resulting asset as of September 30, 2022 is \$346,647.

c) Acquisition cash flows

| In \$ | April 1, 2021 |
|--|--------------------|
| Cash consideration | (5,000,000) |
| Less cash acquired on acquisition | 3,311,292 |
| Net cash outflow – investing activities | (1,688,708) |

d) Goodwill

The composition of goodwill, if recognized, would include knowledge and experience of Mankind in respect of retail operations of cannabis products in the state of California; its established relationship with reputable cannabis manufacturers and distributors, as well as the expected synergies from the combination of Mankind's retail license with GABY's consumer packaged goods expertise in branding. Any goodwill recognized would have \$nil tax value.

e) Acquisition costs

Acquisition-related costs in 2021 of \$972,304 not directly attributable to the issuance of shares are included in Transaction costs in the statement of loss and comprehensive loss and in operating cash flows in the statement of cash flows.

GABY INC.

Notes to the Condensed Interim Consolidated Financial Statements

In United States dollars, unless otherwise stated (Unaudited)

f) Revenue and loss contribution

Revenue and net income from the Mankind acquisition included in the results of the Corporation for the period from April 1, 2021 to September 30, 2021 were \$13,530,421 and \$999,492, respectively. The revenue and net loss of the Corporation for the nine months ended September 30, 2021 would have been \$25,992,376 and \$6,780,858, respectively, had the acquisition of Mankind occurred on January 1, 2021.

4) DISSOLUTION OF SUBSIDIARY

The Corporation wound up and dissolved one of its subsidiaries, Sonoma Pacific Distribution (“SPD”), effective March 30, 2022. SPD was insolvent and had ceased operations in August 2021. The Corporation purchased the remaining assets of SPD, being two accounts receivable and a vehicle, in exchange for assumption of various SPD payables and debt. The remaining debts of SPD have been written off in consolidation due to SPD being dissolved. All intercompany balances with SPD have also been written off, with the gains and losses being eliminated in consolidation. A gain of \$2,444,783 was recognized on dissolution of SPD, which consists of the write-off of that amount of SPD accounts payable and accrued liabilities. Accumulated other comprehensive loss of \$188,482 relating to SPD up to the date of dissolution has been reclassified out of other comprehensive income to net loss during the nine months ended September 30, 2022. The net loss of SPD included in the Financial Statements for the three and nine months ended September 30, 2022 is \$nil and \$32,547, respectively.

5) INVENTORIES

| In \$, Balance comprised of: | Sep 30, 2022 | Dec 31, 2021 |
|-------------------------------------|---------------------|---------------------|
| Raw and semi-finished materials | 18,234 | 8,411 |
| Packaging materials | 63,072 | 50,408 |
| Finished goods | 424,294 | 1,001,287 |
| | 505,600 | 1,060,106 |

Inventories expensed for the three and nine months ended September 30, 2022 and 2021 are as follows:

| | Three months ended | | Nine months ended | |
|--------------|---------------------------|-----------|--------------------------|------------|
| | September 30, | | September 30, | |
| In \$ | 2022 | 2021 | 2022 | 2021 |
| | 2,864,669 | 4,583,628 | 9,023,414 | 13,058,923 |

GABY INC.**Notes to the Condensed Interim Consolidated Financial Statements***In United States dollars, unless otherwise stated (Unaudited)***6) PROPERTY AND EQUIPMENT****Net book value of property and equipment**

| In \$ | Right-of-use assets - facilities | Right-of-use assets - equipment | All other property and equipment | Total |
|---|---|--|---|------------------|
| Balance as at December 31, 2020 | 413,998 | - | 444,762 | 858,760 |
| Business acquisition | 6,339,840 | - | 358,415 | 6,698,255 |
| Additions | - | - | 23,919 | 23,919 |
| Disposals | (373,109) | - | (202,352) | (575,461) |
| Depreciation ¹ | (418,812) | - | (139,275) | (558,087) |
| Balance as at September 30, 2021 | 5,961,917 | - | 485,469 | 6,447,386 |
| Balance as at December 31, 2021 | 5,772,955 | 31,628 | 400,251 | 6,204,834 |
| Additions | - | - | 47,825 | 47,825 |
| Disposals and remeasurements ² | (1,228,967) | - | (10,092) | (1,239,059) |
| Depreciation ¹ | (558,349) | (4,994) | (105,663) | (669,006) |
| Balance as at September 30, 2022 | 3,985,639 | 26,634 | 332,321 | 4,344,594 |

¹ Depreciation recognized was allocated to the following line items in the Condensed Interim Consolidated Statements of Loss for the nine months ended September 30, 2022 and 2021:

| | Sep 30, 2022 | Sep 30, 2021 |
|--|---------------------|--------------|
| Cost of sales | 139,378 | 207,033 |
| Depreciation of property and equipment | 529,628 | 351,054 |
| | 669,006 | 558,087 |

² See Note 12 for details regarding the lease liability remeasurement which caused this corresponding remeasurement of the related right-of-use asset.

7) INTANGIBLE ASSETS AND GOODWILL**Net book value of intangible assets and goodwill**

| In \$ | Cannabis licenses and permits | Goodwill | Total |
|--|--|-------------------|-------------------|
| Balance as at December 31, 2020 | 800,000 | 1,075,817 | 1,875,817 |
| Business acquisition (Note 3) ¹ | 2,515,076 | 33,263,741 | 35,778,817 |
| Impairment | (800,000) | - | (800,000) |
| Balance as at September 30, 2021 | 2,515,076 | 34,339,558 | 36,854,634 |
| Balance as at December 31, 2021 | 7,952,225 | 28,996,663 | 36,948,888 |
| Amortization | (644,775) | - | (644,775) |
| Balance as at September 30, 2022 | 7,307,450 | 28,996,663 | 36,304,113 |

¹ As stated in Note 3, the allocation of the purchase price to these items was modified in the 2021 Annual Financial Statements.

² The intangible assets acquired on the Mankind acquisition were initially classified as indefinite lived assets and were later classified as definite lived assets in the 2021 Annual Financial Statements upon final analysis of the assets and allocations relating to the

GABY INC.**Notes to the Condensed Interim Consolidated Financial Statements***In United States dollars, unless otherwise stated (Unaudited)*

acquisition. As such, the amortization of these assets from the acquisition date of April 1, 2021 to December 31, 2021 was all recognized in the fourth quarter of 2021. Had these assets been classified as definite lived from the start, amortization of \$429,850 would have been recognized for the comparative nine months ended September 30, 2021.

8) OTHER ASSETS

| In \$, Balance comprised of: | Sep 30, 2022 | Dec 31, 2021 |
|-------------------------------------|---------------------|--------------|
| Deferred tax asset | 118,807 | 150,247 |
| Indemnification asset | 3,431,754 | 3,431,754 |
| Security deposits | 72,473 | 68,273 |
| | 3,623,034 | 3,650,274 |

The indemnification asset was recorded upon acquisition of Mankind in relation to the indemnification agreement received in the Mankind purchase agreement for estimated potential liabilities of Mankind as at the acquisition date for uncertain tax positions. The related liability is included in Other long-term liabilities.

9) RELATED PARTY TRANSACTIONS

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

| In \$ | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---------|--|--------------|
| a. Amounts included in Selling, general and administrative expenses: | 2022 | 2021 | 2022 | 2021 |
| Compensation of key management personnel ("KMP") ¹ | | | | |
| Cash compensation ² | 174,828 | 169,848 | 482,500 | 384,247 |
| Share-based compensation, net of forfeitures | 144,919 | 81,221 | 458,781 | 346,472 |
| Total compensation of KMP | 319,747 | 251,069 | 941,281 | 730,719 |
| Consulting fees to a company controlled by close family of certain KMP ³ | 34,445 | 35,732 | 105,206 | 107,871 |
| Contract service fees to a company controlled by close family of certain KMP ⁴ | - | 15,000 | - | 30,000 |
| b. Amounts included in Interest expense: | | | | |
| Interest on convertible debentures to KMP | - | - | - | 1,006 |
| Interest on promissory notes to KMP | - | - | - | 4,421 |
| Lease guarantee fee paid to KMP via share issuance (see Note 12) | 10,299 | 13,998 | 33,503 | 28,601 |
| c. Due to related parties included in statement of financial position | | | Sep 30, 2022 | Dec 31, 2021 |
| Included in accounts payable and accrued liabilities | | | | |
| Compensation payable to KMP or their separate management entities | | | 57,448 | 49,544 |
| Other amounts due to KMP (expense reimbursements, etc.) | | | 572 | 26,122 |
| Rent payable to a company controlled by certain KMP | | | - | 9,100 |
| Consulting fees payable to a company controlled by close family of KMP ³ | | | 34,293 | - |

GABY INC.

Notes to the Condensed Interim Consolidated Financial Statements

In United States dollars, unless otherwise stated (Unaudited)

¹ KMP consist of those that have the authority and responsibility for planning, directing and controlling the activities of the Corporation, which includes the most senior executive team (C-suite executives) and the Corporation's board of directors ("Board").

² Includes \$56,250 and \$168,750 paid to separate management entities for the three and nine months ended September 30, 2022 (three and nine months ended September 30, 2021 - \$56,250 and \$168,750).

³ The Corporation has a month-to-month agreement with this related party for CAD 15,000 per month for provision of investor relations and consulting services.

⁴ The Corporation had a month-to-month agreement with this related party for \$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.

10) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | In \$ | |
|---|------------------|------------------|
| | Sep 30, 2022 | Dec 31, 2021 |
| Balance comprised of: | | |
| Trade accounts payable | 2,510,246 | 3,288,505 |
| Credit cards payable | 5,322 | 9,127 |
| Payroll liabilities | 354,960 | 357,389 |
| Accrued liabilities | 666,538 | 596,957 |
| Interest payable (current portion) | 1,078,913 | 1,725 |
| Sales, excise, and use taxes payable | 759,127 | 2,239,815 |
| | 5,375,106 | 6,493,518 |
| Aging of trade accounts payable: | | |
| 30 days | 1,565,428 | 751,096 |
| 60 days | 170,726 | 48,645 |
| 90 days | 10,291 | 18,808 |
| Over 90 days | 763,801 | 2,469,956 |
| | 2,510,246 | 3,288,505 |

11) PROMISSORY NOTES AND CONVERTIBLE DEBENTURES

In March 2022, the terms of various of the convertible debentures totaling CAD 471,116 and the remaining promissory note payable were modified to further extend the due date to April 1, 2023.

The following table summarizes the activity in promissory notes during the nine months ended September 30, 2022 and 2021:

| | In \$ | |
|---|----------------|----------------|
| | Sep 30, 2022 | Sep 30, 2021 |
| Beginning balance as at December 31, 2021 and 2020 | 209,545 | 1,106,676 |
| Accrued interest | 17,808 | 79,413 |
| Repayments of accrued interest (in 2021, principal and accrued interest through share issuance) | (14,003) | (934,032) |
| Effects of foreign exchange | (17,197) | (49,086) |
| Ending balance of promissory notes | 196,153 | 202,971 |

GABY INC.**Notes to the Condensed Interim Consolidated Financial Statements***In United States dollars, unless otherwise stated (Unaudited)*

The following table summarizes the outstanding balance and changes in the amounts recognized in the components of the convertible debentures during the nine months ended September 30, 2022 and 2021:

| | In \$ | |
|--|----------------|----------------|
| | Sep 30, 2022 | Sep 30, 2021 |
| Beginning balance as at December 31, 2021 and 2020 | 415,705 | 512,785 |
| Repayments (in 2021, through share issuance) | (43,420) | (157,425) |
| Accrued interest recharacterized as principal | - | 56,725 |
| Interest accretion expense on warrants and legal | - | 2,488 |
| Effects of foreign exchange | (30,364) | 149 |
| Ending balance of convertible debentures | 341,921 | 414,722 |

Total interest for the nine months ended September 30, 2022 relating to the convertible debentures, including coupon interest and accretion of issuance costs, is \$42,776 (September 30, 2021 - \$50,300).

12) LEASE LIABILITIES

The Corporation is obligated under various lease agreements, many of which require escalating payments. The current payment as of September 30, 2022 is shown in the summary below, and the future escalating payments are reflected in the estimated future payment tables below. Except as noted, management has determined that it is reasonably certain that GABY will exercise all options to extend the leases. Accordingly, the lease terms used to calculate the lease liabilities include the renewal periods where applicable. A summary of long-term lease obligations is set forth below.

| Finance leases, all secured by asset financed, due: | Monthly instalments including interest | | Interest | | In \$ | |
|--|---|-------|------------------|------------------|-------|--|
| | | | Sep 30, 2022 | Dec 31, 2021 | | |
| California, USA facilities | | | | | | |
| Miramar Professional Services | | | | | | |
| May 2025 with extension to May 2030 Feb 2023, five-year extension available but not included in the lease term | 58,347 | 8.00% | 4,417,888 | 4,661,146 | | |
| | 8,500 | 8.00% | 41,663 | 112,464 | | |
| Wild West Industries | | | | | | |
| Jan 2025, five-year extension available but not included in the lease term | 26,133 | 8.00% | 674,157 | 2,039,377 | | |
| | | | 5,133,708 | 6,812,987 | | |
| Equipment – WWI forklift, Oct 2026 | 583 | 2.14% | 26,240 | 31,019 | | |
| Total lease liabilities | | | 5,159,948 | 6,844,006 | | |
| Less current portion | | | (678,900) | (587,900) | | |
| Long-term lease liabilities | | | 4,481,048 | 6,256,106 | | |

See Note 6 for information regarding the related right-of-use assets and depreciation of those assets.

GABY INC.**Notes to the Condensed Interim Consolidated Financial Statements***In United States dollars, unless otherwise stated (Unaudited)*

| Estimated payments on finance leases are as follows | In \$ |
|--|------------------|
| Remainder of 2022 | 280,688 |
| 2023 | 1,058,187 |
| 2024 | 1,072,516 |
| 2025 | 790,516 |
| 2026 | 783,146 |
| Thereafter | 2,837,210 |
| Total future minimum lease payments | 6,822,263 |
| Less amount representing interest | (1,662,315) |
| Finance lease obligations | 5,159,948 |
| Estimated principal repayments are as follows | |
| Remainder of 2022 | 175,763 |
| 2023 | 675,651 |
| 2024 | 751,612 |
| 2025 | 526,229 |
| 2026 | 560,904 |
| Thereafter | 2,469,789 |
| | 5,159,948 |

A reconciliation of the balance of lease liabilities for the nine months ended September 30, 2022 and 2021 is as follows:

| | In \$ | |
|---|---------------------|---------------------|
| | Sep 30, 2022 | Sep 30, 2021 |
| Beginning balance as at December 31, 2021 and 2020 | 6,844,006 | 494,559 |
| Acquired on business acquisition | - | 7,068,369 |
| Divestitures ¹ | - | (461,928) |
| Remeasurements ² | (1,228,967) | - |
| Total cash outflows for leases | (1,006,141) | (630,510) |
| Variable lease payments not included in the measurement of lease liabilities | 140,616 | 94,436 |
| Portion of lease payments allocated to interest expense | 376,931 | 316,118 |
| Guarantee fee for Mankind leases – share-based compensation to KMP ³ | 33,503 | 28,601 |
| Effect of foreign exchange | - | (1,282) |
| Balance, end of period | 5,159,948 | 6,908,363 |
| Current portion of lease liabilities | (678,900) | (524,500) |
| Non-current portion, end of period | 4,481,048 | 6,383,863 |

¹ Management made the decision to cease operations at Sonoma Pacific Distribution effective August 2021 and, accordingly, sought and obtained termination of the lease agreement effective September 1, 2021. All asset and liability balances relating to this lease were cleared as of that date, with the net difference being recorded to gain on lease termination.

² The WWI lease was remeasured effective September 30, 2022 as a result of a change in lease term. Management had previously determined that it was reasonably certain that the five-year extension option of this lease would be exercised to extend the lease to 2030. However, as production in this facility has ceased and the Corporation is no longer planning to use the facility in the future, it has been determined that the lease term should be adjusted to exclude payments during the renewal period.

³ The MPS leases are guaranteed personally by an officer and director of GABY, for which a guarantee fee of 2% per annum of the outstanding balance of the leases liabilities is accrued monthly and paid to the guarantor in GABY shares from time to time.

GABY INC.**Notes to the Condensed Interim Consolidated Financial Statements***In United States dollars, unless otherwise stated (Unaudited)***13) LONG-TERM DEBT**

Long-term debt consists of the following at September 30, 2022 and December 31, 2021:

| | | | In \$ | |
|--|----------|----------|--------------------|--------------|
| | Interest | Maturity | Sep 30, 2022 | Dec 31, 2021 |
| Mankind acquisition note payable (Note a) | 10.00% | Apr 2028 | 25,500,000 | 25,500,000 |
| Accrued interest on the above (moved to accrued liabilities in current period) | | Apr 2023 | - | 421,233 |
| | | | 25,500,000 | 25,921,233 |
| Long-term settlement payable with current monthly payment of \$3,500, interest of US prime rate plus 4% | 11.00% | Aug 2024 | 270,391 | 280,668 |
| Vehicle finance loans secured by the vehicles financed: | | | | |
| Repaid in current period | n/a | n/a | - | 10,059 |
| Long-term debts held by Mankind on acquisition: | | | | |
| Repaid in current period | n/a | n/a | - | 200,000 |
| WWI loan agreement, monthly payment of \$28,053 | 18.50% | Dec 2022 | 81,628 | 305,193 |
| | | | 81,628 | 505,193 |
| Government assistance loans, net of discount: | | | | |
| Canada Emergency Business Account ("CEBA") loan, interest free and eligible for 25% debt forgiveness if 75% repaid by December 31, 2023. Otherwise, the loan converts on that date into a 3-year note bearing interest at 5% per annum | | | 27,668 | 26,785 |
| US government assistance loans, bearing interest at 3.75% per annum, repayable over a term of 30 years, requiring aggregate payments of \$1,212 per month | | | 81,659 | 80,892 |
| | | | 109,327 | 107,677 |
| Total long-term debt | | | 25,961,346 | 26,824,830 |
| Less: current portion | | | (5,102,376) | (536,762) |
| | | | 20,858,970 | 26,288,068 |

Estimated principal repayments, net of amortization of discounts, are as follows:

| | |
|-------------------|-------------------|
| Remainder of 2022 | 83,635 |
| 2023 | 5,045,926 |
| 2024 | 248,485 |
| 2025 | 4,999,605 |
| 2026 | (178) |
| Thereafter | 15,583,873 |
| | 25,961,346 |

- a) The Corporation issued a secured non-convertible promissory note on April 1, 2021 for \$25.5 million bearing interest at a rate of 10% per annum as part of the consideration for the Mankind acquisition. The promissory note requires quarterly interest-only payments of the interest incurred in the quarter capped at \$500,000 per quarter, with any additional interest incurred to be accrued and paid with the next principal payment. The principal is required to be paid as follows: \$5 million at the end of years two, four, and six, with the remaining \$10.5 million due at the end of year seven. The promissory note is secured by a pledge of all issued and outstanding shares of

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MPS. The first payment of \$5 million along with the accrued interest in excess of \$500,000 per quarter is due in April 2023 and, accordingly, became a current liability during the nine months ended September 30, 2022. GABY has given formal notice to the holders of the Promissory Note of certain claims to which GABY is entitled to indemnification (the "Indemnity Claim") under the Stock Purchase Agreement dated April 1, 2021 between the Corporation and the vendors of the shares of MPS (the "MPS Stock Purchase Agreement"). To service the remaining working capital deficit, management is in discussion with the holders of the Promissory Note to offset the amount that GABY believes it is entitled to under the Indemnity Claim against the amounts due under the Promissory Note or to restructure the note payable.

14) OTHER LONG-TERM LIABILITIES

| In \$, Balance comprised of: | Sep 30, 2022 | Dec 31, 2021 |
|--|--------------|--------------|
| Deferred tax liability | 1,816,080 | 1,954,753 |
| Sales tax payable under long-term payment plan | 82,928 | - |
| Estimated liability for uncertain tax positions ¹ | 3,431,754 | 3,431,754 |
| | 5,330,762 | 5,386,507 |

¹ See description of this liability and the related indemnification asset in Note 8

15) SHARE-BASED COMPENSATION AND PAYMENTS

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

| In \$ | Note | Three months ended | | Nine months ended | |
|---|------|--------------------|----------------|-------------------|------------------|
| | | Sep 30, 2022 | Sep 30, 2021 | Sep 30, 2022 | Sep 30, 2021 |
| Included in operating expenses: | | | | | |
| Stock option plan employee compensation and consulting fees | | 2,719 | 18,129 | 19,316 | 79,261 |
| RSU plan employee compensation | a | 145,107 | 163,305 | 516,414 | 325,338 |
| Forfeiture of options | | - | - | - | (28,275) |
| Amortization of prepaid share-based payment | | - | - | 19,736 | - |
| Shares for services | | 72,663 | 165,073 | 298,640 | 502,550 |
| Total share-based payments included in operating loss | | 220,489 | 346,507 | 854,106 | 878,874 |
| Lease guarantee fee paid or accrued to be paid in shares issued to certain KMP | | 10,299 | 13,998 | 33,503 | 28,601 |
| Shares issued to settle outstanding SARs, included in Settlement expenses | 20 | - | - | 237,798 | - |
| Total share-based payments included in net loss | | 230,788 | 360,505 | 1,125,407 | 907,475 |
| Settlement of accounts payable in lieu of cash payment | b | 921 | 57,895 | 25,939 | 591,609 |
| Issuance of equity to settle share-based equity issuance costs recognized in 2021 | | - | - | 33,745 | - |
| Total share-based payments | | 231,709 | 418,400 | 1,185,091 | 1,499,084 |

GABY INC.**Notes to the Condensed Interim Consolidated Financial Statements***In United States dollars, unless otherwise stated (Unaudited)***a. Restricted share units ("RSUs")**

Set out below is a summary of RSUs activity for the nine months ended September 30, 2022 and 2021:

| Number of RSUs | Sep 30, 2022 | Sep 30, 2021 |
|-----------------------|---------------------|--------------|
| Opening | 39,396,666 | 16,375,000 |
| Granted | 18,275,001 | 31,600,000 |
| Issued as shares | (4,506,664) | (2,513,336) |
| Forfeited | (9,684,165) | - |
| Closing | 43,480,838 | 45,461,664 |
| Vested at period end | 7,329,169 | 1,466,667 |

The amount included in operating expenses for directors', officers', employees' and consulting services received for the three and nine months ended September 30, 2022 is \$145,107 and \$516,414 (September 30, 2021 - \$163,305 and \$325,338) and is classified as contributed surplus on the Corporation's consolidated statement of financial position. Of the foregoing amounts, \$84,161 and \$263,313 was in respect of KMP for the three and nine months ended September 30, 2022 (September 30, 2021 - \$95,595 and \$202,226).

b. Shares issued for settlement of accounts payable

| Nine months ended: | September 30, 2022 | | September 30, 2021 | |
|-------------------------------------|---------------------------|------------------|---------------------------|----------------|
| | Number | \$ | Number | \$ |
| Shares issued in respect of: | | | | |
| Consulting service fees payable | i | - | 2,357,914 | 195,066 |
| Corporate service fees payable | | 1,364,999 | 1,322,800 | 46,925 |
| Legal fees payable | ii | - | 4,575,803 | 349,618 |
| Total common shares issued | | 1,364,999 | 8,256,517 | 591,609 |

- i) Various consultants agreed to receive payment for consulting fees in shares rather than cash in 2021. The Corporation measured the fair value of services received as invoiced, as measured when such services were previously paid in cash. The common shares were measured using the five-day weighted-average share price on the date of issuance at an average of CAD 0.10 per share. The 2021 amount includes \$6,410 related to 200,000 warrants issued along with the shares to one of the consultants.
- ii) A legal firm agreed to receive payment for legal fees in shares rather than cash. The Corporation measured the fair value of services received as invoiced, as measured when such services were previously paid in cash. The common shares were measured using the five-day weighted-average share price on the date of issuance at an average of CAD 0.10 per share.

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16) SHARE CAPITAL AND CONTRIBUTED SURPLUS

Authorized share capital

The Corporation is authorized for an unlimited number of shares without nominal or par value as follows:

Unlimited number of Class A common voting shares

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

Common shares issued and outstanding and Contributed surplus

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

| | Note | Share capital | | Contributed surplus | Total transaction |
|---|------|------------------------------|-------------------|---------------------|-------------------|
| | | Class A common voting shares | | | |
| | | Number | \$ | \$ | \$ |
| Balance as at December 31, 2020 | | 237,793,408 | 35,347,158 | 4,486,910 | 39,834,068 |
| Issuance of Units | | 80,140,444 | 2,685,504 | 437,175 | 3,122,679 |
| Issuance of shares for business acquisition | | 157,894,737 | 5,399,184 | - | 5,399,184 |
| Spin off of Subscription Receipts | | 172,929,123 | 5,795,437 | 943,348 | 6,738,785 |
| Share-based payments | 15 | 14,635,056 | 919,862 | 6,410 | 926,272 |
| RSUs issued as common shares | 15 | 2,513,336 | 88,376 | (88,376) | - |
| Equity issuance costs | a | - | (714,688) | 249,145 | (465,543) |
| Stock option expense | 15 | - | - | 51,083 | 51,083 |
| RSU expense | 15 | - | - | 325,355 | 325,355 |
| Balance as at September 30, 2021 | | 665,906,104 | 49,520,833 | 6,411,050 | 55,931,883 |
| Balance as at December 31, 2021 | | 683,326,319 | 49,974,798 | 6,656,942 | 56,631,740 |
| Share-based payments | 15 | 32,364,060 | 584,156 | 13,498 | 597,654 |
| RSUs issued as common shares | 15 | 4,506,664 | 243,760 | (243,760) | - |
| Stock option expense | 15 | - | - | 19,316 | 19,316 |
| RSU expense | 15 | - | - | 516,414 | 516,414 |
| Balance as at September 30, 2022 | | 720,197,043 | 50,802,714 | 6,962,410 | 57,765,124 |

a. Private Placement

On February 4, 2021, the Corporation closed a brokered private placement of subscription receipts of the Corporation (the "Brokered Private Placement") together with its non-brokered private placement of units of the Corporation (the "Non-Brokered Private Placement") for aggregate gross proceeds (including debt conversion and non-cash consideration) of \$9.9 million.

Pursuant to the Brokered Private Placement, the Corporation issued 172,929,123 subscription receipts of the Corporation ("Subscription Receipts") at a price of CAD 0.05 per Subscription Receipt. The total value of \$6,738,785 was included in Share Issuance Obligation within equity as at March 31, 2021 and was reclassified to share capital and contributed surplus when converted to Units in June 2021.

Each Subscription Receipt represented the right to receive, without payment of additional consideration or further action on the part of the holder thereof, one unit of the Corporation (each, a "Unit"). Each Unit consists of: (i) one GABY Share;

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and (ii) one GABY Share purchase warrant (each, a “Warrant”). Each Warrant entitles the holder to purchase one GABY Share at an exercise price of CAD 0.09, at any time up to 24 months following the date of issuance subject to the acceleration right included in the instrument.

The Corporation issued Broker Warrants valued at \$249,145 and paid other fees and expenses of \$465,543, for aggregate equity issuance costs of \$714,688 which was offset against share capital.

Pursuant to the Non-Brokered Private Placement, the Corporation issued 80,140,444 Units at a price of CAD 0.05 per Unit. The total value of \$3,122,679 has been bifurcated between share capital and contributed surplus based on the relative fair value of the common shares and Warrants. Of the total value, \$2,890,549 consisted of debts rolled into the Non-Brokered Private Placement by various related and unrelated parties, as follows:

| Balance comprised of, in \$: | Related party | Other | Total |
|---|------------------|------------------|------------------|
| Accounts payable | 564,595 | 211,580 | 776,175 |
| Convertible debentures and accrued interest thereon | 94,488 | 79,748 | 174,236 |
| Promissory notes and accrued interest thereon | 615,409 | 305,037 | 920,446 |
| Share issuance obligation | - | 29,824 | 29,824 |
| Prepayment of future services | 147,288 | 51,434 | 198,722 |
| Payment of transaction costs | - | 791,146 | 791,146 |
| | 1,421,780 | 1,468,769 | 2,890,549 |

b. Warrants

Set out below are summaries of warrants activity for the nine months ended September 30, 2022 and 2021:

| | September 30, 2022 | | September 30, 2021 | |
|--------------------------------------|---|---------------------------|---|---------------------------|
| | Average exercise price per warrant | Number of warrants | Average exercise price per warrant | Number of warrants |
| Opening | CAD 0.09 | 262,619,567 | CAD 0.38 | 38,404,193 |
| Granted ¹ | CAD 0.09 | 854,840 | CAD 0.09 | 253,269,567 |
| Expired | CAD 0.41 | (800,000) | CAD 0.38 | (34,804,193) |
| Closing | CAD 0.09 | 262,674,407 | CAD 0.09 | 256,869,567 |
| Vested and exercisable at period end | CAD 0.09 | 260,674,407 | CAD 0.09 | 254,269,567 |

¹ In 2022, the 854,840 warrants granted were with respect to a finder’s fee accrued and recognized as equity issuance cost in 2021 as described in the Annual Financial Statements.

GABY INC.**Notes to the Condensed Interim Consolidated Financial Statements***In United States dollars, unless otherwise stated (Unaudited)*

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

| Exercise price | September 30, 2022 | | December 31, 2021 | |
|-----------------|--------------------|--|--------------------|--|
| | Number of warrants | Weighted average contractual life in years | Number of warrants | Weighted average contractual life in years |
| \$0.09 | 260,174,407 | 0.59 | 259,319,567 | 1.34 |
| \$0.15 | - | - | 200,000 | 0.31 |
| \$0.20 - \$0.35 | 2,000,000 | 0.58 | 2,000,000 | 1.33 |
| \$0.38 | 300,000 | 1.84 | 300,000 | 2.59 |
| \$0.48 - \$0.50 | 200,000 | 1.84 | 800,000 | 0.89 |
| | 262,674,407 | 0.60 | 262,619,567 | 1.34 |

17) DIRECT INVENTORY COSTS

| In \$ | Three months ended September 30, | | Nine months ended September 30, | |
|------------------------------|-------------------------------------|-----------|------------------------------------|------------|
| | 2022 | 2021 | 2022 | 2021 |
| Balance comprised of: | | | | |
| Salaries and benefits | - | 333,597 | 449,370 | 930,726 |
| Direct material | 2,588,082 | 3,764,870 | 7,395,525 | 10,916,817 |
| Other direct costs | 261,843 | 269,190 | 826,529 | 655,817 |
| | 2,849,925 | 4,367,657 | 8,671,424 | 12,503,360 |

18) ALLOCATED INDIRECT COSTS

| In \$ | Three months ended September 30, | | Nine months ended September 30, | |
|--------------------------------------|-------------------------------------|---------|------------------------------------|---------|
| | 2022 | 2021 | 2022 | 2021 |
| Balance comprised of: | | | | |
| Salaries and benefits | - | 13,377 | - | 45,789 |
| Production licenses and permits | - | 15,336 | 24,910 | 30,674 |
| Production facility costs | - | 75,034 | 132,437 | 165,308 |
| Depreciation of production equipment | 3,885 | 56,634 | 139,377 | 128,206 |
| Other overhead costs | - | 6,383 | 1,213 | 20,144 |
| | 3,885 | 166,764 | 297,937 | 390,121 |

GABY INC.**Notes to the Condensed Interim Consolidated Financial Statements***In United States dollars, unless otherwise stated (Unaudited)***19) SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

| In \$ | Three months ended September 30, | | Nine months ended September 30, | |
|------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
| Balance comprised of: | 2022 | 2021 | 2022 | 2021 |
| Salaries and benefits | 1,332,815 | 1,310,638 | 3,867,001 | 2,946,598 |
| Consulting fees | 107,185 | 131,336 | 293,126 | 419,823 |
| Administrative costs | 542,979 | 658,470 | 1,548,961 | 1,489,978 |
| Advertising and promotion | 270,983 | 217,813 | 853,072 | 564,675 |
| Professional fees | 119,773 | 295,405 | 355,897 | 671,449 |
| | 2,373,735 | 2,613,662 | 6,918,057 | 6,092,523 |

20) OTHER ITEMS OF INCOME (EXPENSE)

| In \$ | | Three months ended September 30, | | Nine months ended September 30, | |
|--|------|-------------------------------------|-------------|------------------------------------|-------------|
| Balance comprised of: | Note | 2022 | 2021 | 2022 | 2021 |
| Gain (loss) on extinguishment of debts | | 23,888 | (1,403) | 112,228 | 88,431 |
| Loss on disposal of assets | | (2,172) | (122,592) | (8,292) | (128,453) |
| Gain on lease termination | | - | 72,999 | - | 72,999 |
| Impairment loss | | - | (800,000) | - | (800,000) |
| Penalties and interest on past-due taxes | | (115,436) | (131,936) | (150,962) | (213,066) |
| Settlement expenses | | - | - | (247,799) | - |
| Transaction costs | 3e | - | - | (43,056) | (972,304) |
| Other expense | | - | (188,707) | - | (278,937) |
| | | (93,720) | (1,171,639) | (337,881) | (2,231,330) |

21) LOSS PER SHARE

Basic loss per share is calculated by dividing the net loss by the weighted average number of shares outstanding during the period. The potentially dilutive common shares issuable on the outstanding Warrants, Broker Warrants, Stock Options, and RSUs are non-dilutive and are therefore excluded from the diluted loss per share for the periods in which they were outstanding. The weighted average numbers of shares outstanding for the three and nine months ended September 30, 2022 was 716,567,534 and 701,855,185, respectively (three and nine months ended September 30, 2021 – 662,093,055 and 493,426,437).

GABY INC.**Notes to the Condensed Interim Consolidated Financial Statements***In United States dollars, unless otherwise stated (Unaudited)***22) OTHER ADJUSTMENTS TO ARRIVE AT CASH FLOW FROM OPERATIONS**

| In \$ | Note | Three months ended September 30, | | Nine months ended September 30, | |
|-----------------------------------|------|-------------------------------------|----------|------------------------------------|----------|
| | | 2022 | 2021 | 2022 | 2021 |
| Balance comprised of: | | | | | |
| Impairment loss | | - | 800,000 | - | 800,000 |
| Loss (gain) on conversion of debt | | (23,888) | 1,403 | (112,228) | (88,431) |
| Loss on disposal of assets | | 2,172 | 122,592 | 8,292 | 128,453 |
| Gain on lease termination | | - | (72,999) | - | (72,999) |
| Non-cash settlement expense | | - | - | 239,799 | - |
| | | (21,716) | 850,996 | 135,863 | 767,023 |

23) NON-CASH TRANSACTIONS AND CASH FLOW DISCLOSURES

The Corporation paid \$nil and \$638,576 in income taxes for the three and nine months ended September 30, 2022 (three and nine months ended September 30, 2021 - \$384,806 and \$915,395).

Non-cash transactions took place during the three and nine months ended September 30, 2022 and 2021 as follows:

| September 30, 2022, In \$ | | 3 months | 9 months |
|---------------------------|--|---------------|------------------|
| 1 | Settlement of vested RSUs with common shares: | | |
| | Increase in share capital | 30,802 | 243,760 |
| | Decrease in contributed surplus | 30,802 | 243,760 |
| 2 | Payment of accounts payable through issuance of common shares: | | |
| | Increase in share capital | 921 | 46,186 |
| | Increase in contributed surplus | - | 13,498 |
| | Decrease in accounts payable | 921 | 59,684 |
| 3 | Remeasurement of lease liability: | | |
| | Decrease in lease liability | - | 1,228,967 |
| | Decrease in right-of-use asset | - | 1,228,967 |

| September 30, 2021, In \$ | | 3 months | 9 months |
|---------------------------|--|----------|------------------|
| 1 | Non-cash equity issuance costs: | | |
| | Increase in accounts payable | - | 66,360 |
| | Increase in contributed surplus | - | 249,145 |
| | Decrease in share capital (equity issuance costs recorded) | - | 315,505 |
| 2 | Assumption of bank indebtedness by certain KMP | | |
| | Increase in accounts payable to related party | - | 121,840 |
| | Decrease in bank indebtedness | - | 121,840 |
| 3 | Business acquisition (nets to cash paid amount): | | |
| | Increase in share capital | - | 5,399,184 |
| | Increase in accounts receivable | - | 763,059 |

GABY INC.**Notes to the Condensed Interim Consolidated Financial Statements***In United States dollars, unless otherwise stated (Unaudited)*

| | | | |
|---|---|---------|------------|
| | Increase in goodwill and intangible assets | - | 35,778,817 |
| | Increase in deferred tax liability | - | 298,400 |
| | Increase in long-term debt | - | 25,500,000 |
| | Increase in indemnification asset | - | 4,703,904 |
| | Increase in assets (from Mankind) | - | 11,631,650 |
| | Increase in liabilities (from Mankind) | - | 16,679,846 |
| 4 | Payment of accounts payable through issuance of common shares: | | |
| | Increase in share capital | 57,833 | 585,199 |
| | Increase in contributed surplus | - | 6,410 |
| | Decrease in accounts payable | 57,833 | 571,919 |
| | Loss on settlement of debts | - | 19,690 |
| 5 | Extinguishment of debts through issuance of equity securities: | | |
| | Increase in accounts receivable | - | 8,766 |
| | Increase in prepaid expenses | - | 189,955 |
| | Decrease in promissory notes | - | 920,447 |
| | Decrease in accounts payable and amounts due to related parties | - | 1,567,322 |
| | Decrease in convertible debentures | - | 174,236 |
| | Decrease in share issuance obligation | - | 29,824 |
| | Increase in common shares | - | 2,485,873 |
| | Increase in contributed surplus | - | 404,677 |
| 6 | Spin off of Subscription Receipts: | | |
| | Decrease in share issuance obligation | - | 6,738,785 |
| | Increase in common shares | - | 5,795,437 |
| | Increase in contributed surplus | - | 943,348 |
| 7 | Issuance of RSUs as common shares | | |
| | Increase in common shares | 33,006 | 88,376 |
| | Decrease in contributed surplus | 33,006 | 88,376 |
| 8 | The following adjustments were recorded as a result of a lease termination: | | |
| | Decrease in property, plant and equipment | 373,109 | 373,109 |
| | Decrease in security deposits | 15,820 | 15,820 |
| | Decrease in lease liabilities | 461,928 | 461,928 |
| | Gain on lease termination | 72,999 | 72,999 |
| 9 | Accounts payable converted to long-term debt (settlement agreement) | | |
| | Decrease in accounts payable | 285,342 | 285,342 |
| | Increase in long-term debt | 285,342 | 285,342 |

24) FAIR VALUE OF FINANCIAL INSTRUMENTS

The Corporation's current financial instruments include cash, accounts receivable, other current asset, accounts payable and accrued liabilities, short-term note payable, promissory note payable, and convertible debentures and are measured at amortized cost. The carrying values of these instruments approximate their fair value due to their short-term maturities. The Corporation's non-current financial instruments include lease liabilities and long-term debt, which are measured at amortized cost.

GABY INC.**Notes to the Condensed Interim Consolidated Financial Statements***In United States dollars, unless otherwise stated (Unaudited)***25) SUBSEQUENT EVENTS****WWI held for sale**

Subsequent to September 30, 2022, management committed to a plan to sell Wild West Industries to an unrelated third party for total consideration of \$330,000 paid over two years in triannual installments of \$55,000. The sale is being structured as a sale of shares, and the net assets of WWI being sold with the entity primarily include the licenses held by WWI, the lease asset and liability, and various remaining items of property and equipment. The sale is a result of management's decision to exit manufacturing and distribution to focus on its core retail business. The manufacturing processes previously performed by WWI for its parent company, MPS, have been outsourced to unrelated third parties. The final sale agreement is expected to be executed in December 2022.

RSU program modification

Subsequent to September 30, 2022, management made the decision to terminate the RSU program for the majority of employees. The RSU program itself will remain in place and will continue to be used to compensate upper-level management and the board of directors, but will no longer be a benefit provided to all employees of the Corporation. With this change, all unvested RSUs of those to whom the program will no longer apply will be cancelled, and those employees will receive the option for their vested RSUs to either convert to common shares or to be forfeited to avoid taxation. Management is in the process of determining the scope and financial impact of these changes.