Gabriella's Kitchen Inc.

Management's Discussion & Analysis
December 31, 2018 and 2017

FORWARD

The following is Management's Discussion and Analysis ("**MD&A**") of the financial condition and results of operations of Gabriella's Kitchen Inc. ("**the Corporation**" or "**GABY**") for the years ended December 31, 2018 and 2017. 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, 2018 and 2017 (the "**Financial Statements**"). The Financial Statements, and the "SELECTED FINANCIAL INFORMATION" and "SELECTED QUARTERLY INFORMATION" sections of the MD&A have been prepared using International Financial Reporting Standards ("**IFRS**") and all amounts are reported in Canadian dollars unless otherwise noted. Additional information about the Corporation can be found on SEDAR at www.sedar.com and on GABYs corporate website at www.gabriellas-kitchen.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 28, 2019.

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

VARIABILITY OF CURRENT AND FUTURE PERFORMANCE

Readers should be aware that 2018 was a transition year for GABY. As a result of acquisitions closed in late 2018 and early 2019, as more fully described herein, the fundamental nature of GABY's business has evolved into a consumer packaged goods ("**CPG**") company operating in the cannabis industry focused on the United States ("**USA**"), from a company that previously operated in the mainstream CPG channel with GABY's offerings of traditional better-for-you foods. Fiscal 2018 involved much of the investment and work to seek out and close the strategic acquisitions which complemented GABY's CPG experience, and to obtain a public listing to provide share financing for those acquisitions. The associated increased costs contributed to GABY's net loss of $7.7 million in 2018 (compared to $3.8 million in 2017), whereas as the significant boost in gross revenue, revenue and operating synergies from these acquisitions will only start to benefit GABY's operations starting in Q2 of 2019. Accordingly, GABY's gross revenue, revenue and net loss in the current period will not be reflective of past results or future results. Readers should also refer to section titled "FOUNDATIONS FOR GROWTH", "ISSUERS WITH UNITED STATES CANNABIS-RELATED ACTIVITIES", "RISKS AND UNCERTAINTIES" and "CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS".

CORPORATE PROFILE

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

FOUNDATIONS FOR GROWTH

Fiscal 2018 was a year of building for GABY. Building from its foundation of a wellness CPG company with expertise in innovation, brand development and customer satisfaction, GABY layered on a cannabis wellness infrastructure with the announced acquisitions of The Oil Plant Corp. (**"TOP"**) and Sonoma Pacific Distribution ("**Sonoma Pac**"), which closed October 1, 2018 and April 1, 2019, respectively and augmented its executive team to support its growth strategy described below. As a result, pro forma gross revenue for the year ended December 31, 2018 was approximately $9 million[1] and is anticipated to grow to $35 million[1] in 2019. Loss from operations before the items listed on the Consolidated Statement of Loss and Comprehensive Loss grew to $6.6 million from $3.4 million in 2017 as GABY furthered its entry into the cannabis CPG market in the USA.

The U.S. cannabis CPG industry is dynamic and, accordingly, having an experienced and nimble team in place to execute on strategy is paramount. The key factors to seize upon opportunities in this industry are:

- access to capital;
- expertise in innovation, brand development and consumer satisfaction;
- access to licenced manufacturing facilities and licenced distribution to control quality and speed to market; and
- authenticity and credibility in the cannabis space to resonate with farmers, retailers and customers

The cannabis wellness industry is in its early stages, with most companies incurring significant operational losses as they grow their footprint while navigating numerous and complicated regulatory requirements and impediments, and it has, and will continue to undergo, significant consolidation and disruption. The emerging players will require extensive capital and mergers and acquisitions ("**M&A**") experience to acquire brands as the industry consolidates in its early stages. GABY is well equipped with a number of senior executives and board members having relevant experience in the capital markets and M&A activity.

The vision of GABY's expansion into Cannabis-infused CPGs looks beyond today's current regulatory environment and social acceptance, to what GABY sees as eventually becoming as mainstream as alcoholic beverages and organic foods. The industry has certainly been transitioning in this direction with the December 2018 passing of 2018 Farm Bill in the USA which decriminalized the agricultural production of hemp, one of the main sources of CBD, and now permits the sale and distribution of CBD products in mainstream channels. In anticipation of this, GABY developed a dual-channel sales strategy: 1) the mainstream non-licenced channel/segment; and 2) licenced (cannabis) channel/segment.

Previously, the mainstream channel was serviced by GABY's traditional better-for-you foods; however, GABY foresaw this same channel opening up to CBD infused products and could see it eventually opening up to THC-infused products. To accommodate this longer view, GABY ramped up its distribution and sales of its non-licenced CPGs, particularly in the larger market of the USA so that it would be well positioned to quickly introduce CBD-infused products when this channel opened up. Currently, this is a differentiator for GABY, as most cannabis-related businesses are solely entrenched in the licenced channel, and traditional CPGs have been waiting on the sidelines for regulations to change. In conjunction with this strategy, GABY increased its gross revenue by 92% and 81% to $2.4 million and $1.3 million in 2018 and 2017; respectively, and in the USA, grew it by 172% and 402% to $2.1 million and $0.8 million, respectively.

GABY then layered onto this foundation its licenced channel strategy through the October 1, 2018 acquisition of TOP, which has a Class 6 manufacturing licence, and the April 1, 2019 acquisition of Sonoma Pac, which has a cannabis

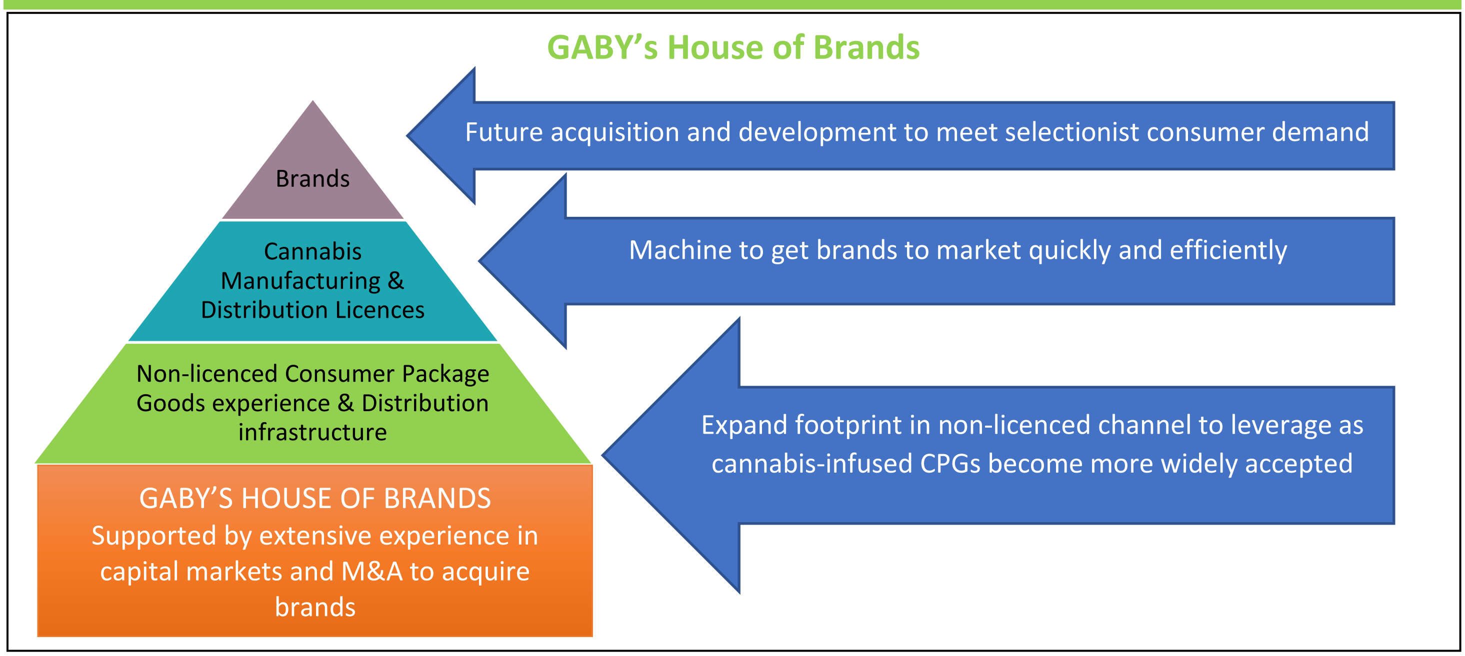
[1] Refer to NON-GAAP DISCLOSURE below for additional details

distribution licence. These acquisitions are the bricks and mortar of GABY's "House of Brands". Further, these acquisitions provide the infrastructure and expertise to enable GABY, through its manufacturing capabilities, to control the quality of its proprietary products, which builds brand strength, and through its distribution infrastructure, to get products to market quickly and efficiently. This infrastructure makes acquisition of brands attractive for GABY as it can accelerate proliferation of the brands. Innovation, speed to market and quality are becoming increasingly more important in the CPG industry as more than 30% of consumers are "selectionists". Selectionists seek greater variety and new tastes in the products they buy and are often concerned about origins of a product.

To augment GABY's brand strategy, the Corporation appointed Jamie Fay as President & COO of GABY and Maureen Putnam, as special advisor. Both are former executives of The Hain Celestial Group, Inc. (NASDAQ: HAIN), a global CPG powerhouse in the natural and organic channel. Both will be able to apply their organic and natural food industry success to the nascent cannabis CPG industry. Their consumer-centric and data-driven approach dovetails effectively with the experience and authenticity of the acquired cannabis expertise on GABY's recent acquisitions.

Further to the more tangible benefits described above, the acquisition of TOP and Sonoma Pac provide GABY with street credibility, or authenticity, in the cannabis wellness space. With the acquisition of TOP, its founder, Mara Gordon, became Chief Research Officer of GABY. Mara is a cannabis pioneer, and is renowned for her knowledge of dosing, associated health benefits of different cannabinoids and strains and a proprietary extraction methodology that allows TOP to effectively extract high grade oil extract from all parts of the cannabis plant, including the stem, leaves and less appealing parts of the plant that are often discarded. With the acquisition of Sonoma Pac, its founder Aaron Browe becomes GABY's Executive Vice-President and General Manager of GABY's cannabis operations. He and his team have over 100 years of combined experience in the cannabis industry. This team brings deep connections with appellation farmers growing quality cannabis in the Sonoma Valley and with many of the reputable dispensaries throughout California. These industry roots and authenticity are what the aforementioned selectionists seek out in the cannabis CPG space.

SELECTED ANNUAL FINANCIAL INFORMATION



Over the last three years, GABY has rapidly expanded its product lines, distribution network and marketing programs. In addition, in the fourth quarter of 2018, GABY acquired **TOP** as further described below. Finally, GABY's common shares qualified for listing on the CSE in 2018. Accordingly, the increasing trend of revenue growth reflect this rapid organic and acquisitions growth and likewise the increasing net loss, reflects the required investment in people and resources to expand sales, make strategic acquisitions and to obtain and maintain a public listing.

	Year ended December 31, In $ unless otherwise stated			% Change in year	
	2018	2017	2016	2018	2017
Gross revenue – Canada	**378,498**	516,352	553,511	(27)	(7)
Gross revenue – USA	**2,063,739**	758,165	150,979	172	402
Gross revenue	**2,442,236**	1,274,517	704,490	92	81
Revenue	**1,491,601**	952,525	524,401	57	82
Revenue as a % of gross revenue	**61%**	75%	74%		
Direct inventory costs	**1,340,960**	664,383	502,683	102	32
Direct inventory costs as % of gross revenue	**55%**	52%	71%		
Variable gross profit	**150,641**	288,142	21,718	(48)	1,227
Variable gross profit as % of gross revenue	**6%**	23%	3%		
Gross profit after distribution and allocated indirect costs	**(700,266)**	**(420,644)**	**(226,518)**	**66**	86
Net loss from operations	**(6,598,087)**	**(3,392,512)**	**(2,613,869)**	**94**	30
Net loss	**(7,720,514)**	**(3,760,259)**	**(3,044,374)**	**105**	24
Total comprehensive loss	**(7,595,133)**	**(3,760,259)**	**(3,044,374)**	**102**	24
Total assets	**4,614,142**	**1,163,992**	**938,359**	**296**	24
Total non-current financial liabilities	**458,629**	**294,587**	**42,879**	**56**	587
Loss per share, basic and diluted[1,2]	**(0.12)**	**(0.09)**	**(0.10)**	**37**	**(11)**
Weighted average number of common shares – basic and diluted[1]	**65,161,435**	**43,559,481**	**31,272,031**	**50**	39
Retail locations unlicenced channel, year end[3]	**3,217**	**3,093**	**2,237**	**6**	**36**
Retail facings unlicenced channel, year-end[4]	**11,613**	**11,799**	**3,966**	**(2)**	**198**

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

(2) Percentage change based on unrounded earnings per share

(3) Number of stores in which we stock and sell our products sold through the unlicenced channel

(4) Sum of each of the retail locations multiplied by the number of GABY products offered at that location in respect of our unlicenced channel

OVERALL PERFORMANCE AND RESULTS OF OPERATIONS

Gross revenue of $2,442,236 for the year ended December 31, 2018, comprised of $2,325,229 from the unlicenced channel and $117,007 from the licenced channel, increased from $1,274,517 the prior year (all from the unlicenced channel) or by 92% due to both organic and acquisition growth in the USA market, partially offset by a decline in sales in Canada. Gross revenue in the USA increased 172%, with 157% organic growth stemming from GABY's shifting its focus on the much larger USA market starting in late 2016 which resulted in GABY adding two sales reps in the USA, where it previously had only one sales rep in Canada; the expansion of its broker network in the USA; and robust promotional activity as described below. The remaining growth in the USA of 15% or $117,007 arose through the licenced channel from the acquisition of **TOP** effective October 1, 2018. The decrease in gross revenue in Canada of 27% over the prior year partially reflects the temporary loss of a retail chain account in Alberta during 2018; however, this account was recently renewed in February 2019 which will increase GABY's presence in that province.

Promotional activity in 2018, which includes price promotions such as couponing (previously referred to as merchant charge backs in GABY's 2017 Annual Financial Statements), increased by 254% to $838,831 which represents 34% of gross revenue, compared to 19% last year. Amortization of listing fees were $111,804, up 32% over last year, but at 5% of gross sales compared to 7% last year. Accordingly, revenue of $1,491,601 was 61% of gross revenue compared to 75% last year. The lower percentages in 2018 will likely continue into the first half of 2019 and reflect increased promotional activity to speed up trial of new products, and to further promote sales and brand awareness of GABY's products. As brand identity and experience with existing retailers continues to grow into 2019, we expect that we will taper promotional activity but reinforce our retailer presence through more targeted product development and marketing activities to directly engage the consumer. Further, product listing fees are a onetime cost as new items garner shelf space, they are not a cost that renews on an annual basis. As such, we expect product listing fees to also decline as percentage of gross revenue as the installed retail base continues to grow.

Direct inventory costs as a percentage of gross revenue were 55% and 52% for the years ended 2018 and 2017. This, along with the higher promotional activity, resulted in lower variable gross margin of 6% compared to 23% last year.

Gross profit after the allocation of indirect overhead costs and distribution costs was negative $700,266 or -29% of gross revenue compared to negative $420,644 or -33% of gross revenue last year. Allocated indirect overhead is generally non-variable in nature and we expect that such allocations will decline as a percentage of gross sales as volume increases past these early threshold targets. Allocated indirect overhead amounted to $646,711 or 26% of gross revenue in 2018 compared to $564,925 or 44% last year. Distribution costs of $204,196 and $143,861 for the 2018 and 2017; respectively, were 8% and 11% of gross revenue. The decreased percentages in 2018 reflect improved economy of scale on higher volume and reflect reduced factory management and administration on reconfiguration of factory duties as well as the contribution from the licenced channel of positive gross profit of $28,893 (2017 - $nil) on the acquisition of TOP.

Selling, general and administrative expenses ("**SG&A**") increased to $5,024,538 in 2018 compared to $2,936,710 last year. The $2.1 million increase includes estimated initial costs of going public of approximately $0.4 million, as well as ongoing increases in legal, accounting, regulatory, investor relation and insurance costs to maintain its shares for listing on a public exchange of approximately $1.0 million, with the remaining increase mostly attributable to investment in personnel and related costs to build out its operating teams starting in late 2017 to support the substantial level of growth realized in 2018 and expected in 2019 onwards.

Share-based compensation and expenses were $803,295, compared to $nil last year, which includes stock option expense of $292,095 and share based payments as described in Note 17 of the Financial Statements.

The decrease in gross profit after distribution and allocated indirect costs, resulting primarily from higher promotional activity, higher SG&A expenses and the share-based compensation expense of $803,295, resulted in the loss from operations increasing by 94% to $6,598,087 from $3,392,512 last year.

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

Loss on foreign exchange transactions and translation

The foreign exchange gains (losses) were ($173,504) and $20,841 in 2018 and 2017, respectively. The gains and losses are in respect of settlement and translation of working capital balances (including the short-term receivables due from TOP prior to its acquisition October 1, 2018); prior to the third quarter of 2018, the callable debt denominated in U.S. currency; and in Q4 of 2018, includes the loss on translation of share-based contingent consideration of USD 1,184,000.

Gain on extinguishment of debt

In conjunction with the conversion of callable debt into Common Shares and Warrants in the second quarter of 2018, GABY recorded a gain of $72,126 being the difference between the fair value of the equity issued and the fair value of the debt converted. The gain arose as the foreign exchange rate on the date of conversion of the callable debt to equity was higher than the average exchange rate agreed to by noteholders to determine the number of Common Shares and Warrants issuable on exchange. This non-cash gain is considered non-recurring as management does not have any further foreign denominated debt.

Interest expense

Interest expense was $633,101 and $227,569 in 2018 and 2017; respectively. Interest in the prior periods included interest on all the callable debt whereas interest recorded in 2018 primarily relates to the non-cash interest accretion in respect of the convertible debentures.

Contract termination payment

A share-based payment of $341,716 was recorded as a cost of terminating a sponsorship agreement as described in Note 17 to the Financial Statements. The expense is a non-cash payment and is considered nonrecurring as the contract was unique to the Corporation and it does not foresee entering into similar contracts in the foreseeable future.

Loss on inventory write-down

Loss on inventory write-down was $55,976 in 2018 compared to $161,083 last year. The decrease reflects gained production efficiencies lowering spoilage and improved inventory management.

Net loss and comprehensive loss

As a result of the foregoing other income (expense) items netted against loss from operations, the net loss and total comprehensive loss essentially doubled to $7,720,514 and $7,595,133; respectively, compared to last year's net loss and comprehensive loss of $3,760,259. Other comprehensive loss includes $125,381 of foreign exchange difference arising on the translation of the assets and liabilities of TOP. Basic and diluted loss per share in 2018 only increased by 35% to $0.12 as the weighted average number of common shares increased by 50% to 65,164,311.

SELECTED QUATERLY FINANCIAL INFORMATION

GABY has experienced seasonal fluctuations in gross revenue, net revenue and net loss, with the first and fourth quarters (fall and winter) being typically stronger than the second and third quarters (spring and summer) for frozen food entrees. The seasonal variations are also dependent on numerous factors, including GABY's entry into new markets and offering of new products, weather, consumer behavior and overall industry dynamics, mostly in the USA. It is anticipated that results will be less susceptible to seasonal fluctuations with the bulk of GABY's future revenue coming from the licenced channel (cannabis) starting in Q2 of 2019.Fourth quarter results in 2018 include the acquisition of TOP effective October 1, 2018 as described below. In addition, the significant increase in the net loss starting in Q2 2018 onwards reflects non-cash share-based payments and compensation of $341,716, $99,843 and $703,452 from Q2 to Q4; respectively, as well as increased costs required to obtain and maintain public listing in 2018 and to support GABY's organic and acquisition growth.

	2018				2017			
In $	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Gross revenue	680,219	539,766	560,952	661,299	520,747	303,387	206,289	244,094
Revenue	425,453	289,092	319,737	457,319	343,242	239,737	164,096	205,450
Gross profit	(149,061)	(173,518)	(264,607)	(113,080)	(222,655)	(88,959)	(49,298)	(59,732)
Net loss	(2,763,274)	(2,107,367)	(1,879,509)	(970,364)	(1,065,325)	(924,530)	(904,914)	(865,490)
Loss per share	(0.03)	(0.03)	(0.03)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)

FOURTH QUARTER PERFORMANCE

Fourth quarter gross revenue of $680,219 increased by 31% or $159,472, of which the acquisition of TOP accounted for $117,007, with the remaining being organic growth of 8% on increased promotional activity and a wider distribution network. Revenue of $425,453 grew by 24% or $82,211 due to revenue from the TOP acquisition of $117,007 partially offset by the decline in revenue on higher promotional activity which expense is netted against gross revenue. Negative gross profit of $149,061 in the quarter was $73,594 lower than the same quarter last year, which reflects higher gross profit margin on higher volumes. The net loss of $2,763,274 in the quarter is $1.7 million higher than the same quarter last year and includes $0.7 million of non-cash share based payments and compensation and $129,308 on the acquisition of TOP, with the remaining increase due to increased investment in personnel and resources to obtain and maintain a public listing and to support GABY's cannabis acquisitions and organic growth.

FINANCIAL CONDITION

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

The following chart highlights significant changes in the Consolidated Statements of Financial Position from December 31, 2017 to December 31, 2018.

Line item	Increase (decrease) in $	Primary factors explaining change during 2018
Current assets	470,899	Acquisition of TOP which had $383,584 of current assets at December 31, 2018, including $203,675 in inventory, plus increase in inventory of $220,055 on organic growth
Property and equipment	197,694	Acquisition of TOP of $140,828 plus addition of capital assets of $218,035 during the year, less depreciation of $170,132
Intangibles and goodwill	2,760,358	Acquisition of TOP intangibles and goodwill
Current liabilities before callable debt, due to related parties and contingent consideration payable	630,358	Acquisition of TOP which had current liabilities of $103,764 at December 31, 2018 plus an increase in accounts payable while the Corporation arranged for short term and long term financing subsequent to year-end (See "Liquidity and Capital Resources" discussion below)
Callable debt	(3,978,897)	Conversion of callable debt to share capital in Q2
Due to related parties	841,488	Conversion of due to related parties to share capital in Q2 and Q4, plus net repayment of $150,000 in Q3
Contingent consideration payable	1,615,392	Due to contingent share consideration payable recorded on acquisition of TOP
Deferred tax liability	332,600	Acquisition of TOP
Share issuance liability	(239,500)	December 2017 balance settled during year with issuance of shares
Equity (deficiency)	5,860,743	Issuances of warrants and shares of $11,465,293 in respect of: share issuance liability as above; subscriptions during the year; conversion of convertible debentures and callable and related party debt; and warrant exercises; plus shares issued on TOP acquisition of $457,892; plus issuance of stock options and share-based compensation paid or payable totaling $1,532,691; all net of comprehensive loss of $7,595,133. See Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

LIQUIDITY AND CAPITAL RESOURCES

Going Concern

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

Increased cash demands to meet planned growth

As outlined in the analysis of cash flows below, GABY's cash outflows from ongoing operations have increased by $1.7 million or almost 50% over last year to $5.1 million. The increase reflects two main requirements: 1) increased corporate costs to acquire and maintain public listing to provide GABY with greater access to capital markets to fund growth; and 2) GABY's required investment in high caliber people and resources to implement its growth strategies.

Operations in 2018 were primarily funded by proceeds of $5,700,600, net of cash-based issue costs of $649,400, on the convertible debentures as described in Note 15 of the Financial Statements. GABY used the net proceeds to provide loans totaling (CAD 732,160 at time of advance) to TOP (USD $550,000) and to fund working capital deficit and ongoing operating losses.

With the increased demand on cash resources to fund growth and development, as at December 31, 2018, GABY had a working capital deficiency of $319,112 (excluding contingent consideration payable which will be settled in GABY's common shares). Subsequent to year end, GABY financed this short-term deficiency and ongoing operations through the issuance of $1,300,000 of debentures and $650,000 in promissory notes and arranged for a USD 10 million equity line of credit as more fully described in Note 32 of the Financial Statements. These subsequent financings plus a $150,000 demand operating loan facility should enable GABY to fund operations for the next year while GABY finalizes plans for long-term financing to fund future growth plans towards sustainable growth and positive cash flow. To achieve this, management is focused on acceleration of revenue growth alongside a roadmap to sustainable gross profit as described in "Outlook and Strategy" below.

While the Corporation has funding in place to fund operating losses over the next year and has undertaken measures to achieve eventual positive cash flow from operations, there are number of unforeseen circumstances such as economic downturns and or changes in regulations which may require the Corporation to alter growth plans and/or find additional sources of financing.

Analysis of Cash Flows

In $	Year ended December 31,		
Summary of Cash Flows from:	**2018**	**2017**	**Increase (decrease) in cash over prior year**
Operating activities	(5,145,907)	(3,464,959)	(1,680,948)
Investing activities	(707,814)	(60,462)	(647,352)
Financing activities	6,111,680	3,591,559	2,520,121
Foreign currency translation adjustment	(52,457)	(47,888)	(4,569)
Increase in cash	205,502	18,250	187,252
Bank indebtedness, beginning of year	(151,844)	(170,094)	18,250
Cash (bank indebtedness), end of year	53,658	(151,844)	205,502

The decrease in cash flow from operating activities by $1,680,948 in fiscal 2018 reflects changes as follows:

Net loss	($4.0 million)
Interest expense/income	$0.4 million
Non-cash items	$1.3 million
Cash operating loss	($2.3 million)
Non-cash working capital changes	$0.6 million
Cash flow from operating activities	($1.7 million)

The increase in cash operating losses of $2.3 million is due to: lower gross margin of $0.3 million mostly on higher promotional activity; and higher SG&A expenses mostly in respect of one-time and ongoing costs of becoming a publicly traded company and increased investment in personnel to grow the business both organically and through acquisitions. The increase in cash flow from working capital changes of $0.6 million mostly reflects an increase in accounts payable as GABY arranged for financing subsequent to year-end to service immediate working capital requirements.

The increase in investing activities in 2018 of $647,352 mostly reflects the investment in the short-term receivable of TOP for $0.7 million (USD 550,000).

Operating losses and investing activities in 2018 were supported by financing activities of $6,111,680 primarily by net proceeds on the convertible debentures and warrants of $5.7 million and share subscription proceeds of $0.4 million.

OUTLOOK AND STRATEGY

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

FINANCIAL INSTRUMENTS

The Corporation's financial instruments include cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, finance lease obligation, deferred lease inducement, share subscription liability and contingent consideration payable and are measured at amortized cost. The carrying value of these instruments approximates their fair value due to their short-term maturities or their ability for liquidation at comparable amounts.

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

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

Interest rate risk

The Corporation's exposure to interest rate fluctuations is with respect to the use of its bank revolving credits which bears interest at floating rates. The rates are tied to the prime rate of interest. Rate changes are likely to be minimal. A 1.00% change in interest rates would change annual interest expense by approximately $550.

Credit risk

The Corporation is exposed to credit risk in the event of non-performance by customers but does not anticipate such non-performance due to the nature of its customers. 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. Management believes that the risk associated with concentrations of credit risk with respect to accounts receivable is limited due to the nature of the customers. See Note 4 for detail of the Corporation's exposure to credit risk for trade receivables by aging of the accounts and by geographic area. With the acquisition of Sonoma Pac effective April 1, 2019, the Corporation's exposure to credit risk may change based on segmenting of its customers, historical credit loss experience and forward-looking information that may be specific to its business.

Accounts receivable from 3 major customers amounted to 84% of gross trade accounts receivable as at December 31, 2018 (2017 – three major customers amounted to 84%).

Foreign currency risk

As the Corporation's operations are located in Canada and the USA, it is subject to currency transaction and translation risks in respect of its USD denominated working capital which amounted to a net deficit of USD 15,868 (CAD 21,408). In addition, the Corporation has foreign exchange exposure with regards to the contingent consideration payable in relation to the acquisition of TOP of USD 1,184,000 (CAD 1,615,392). As at December 31, 2018, each one cent strengthening (weakening) in the USD relative to the CAD dollar, would decrease (increase) the Corporation's net loss by $12,000. The

Corporation's net exposure to foreign currency risk is minor and, accordingly, the foreign currency exposure above has not been hedged.

Other price risk

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

Liquidity risk and capital management

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

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

Off-Balance Sheet Arrangements

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

SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES

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

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

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Corporation and/or its subsidiaries, directly or indirectly, including any non-executive director of the Corporation. Certain services of C-suite executives of GABY were provided through companies controlled by certain shareholders ("**Management Entities**") and amounted to $430,000 and $299,996 in 2018 and 2017; respectively. In 2018, certain C-suite services were provided directly by individuals and amounted to $29,685. The directors do not receive cash compensation, but along with C-suite executives, received share-based compensation of $226,833 and $nil in 2018 and 2017; respectively.

Other SG&A 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. Total reimbursement of expenses amounted to $185,738 and $224,487 in 2018 and 2017; respectively.

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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. Rent amounted to $10,565 in 2018 and is included in SG&A expenses.

Royalties included in cost of sales

TOP pays royalty fees to two entities which own rights to the underlying intellectual property and which are controlled by a close family member of an officer and director of GABY. The royalties are payable on sale of products using the Aunt Zelda's trademark or that were developed using proprietary information from a database. The access to the database provides GABY with extensive data on formulations and other associated health benefits to help it create proprietary and white-label products that offer a wide range of health benefits. The royalty fees paid by TOP to these related parties since GABY's acquisition of it on October 1, 2018 amounted to $7,544.

Interest on callable debt

GABY paid interest on callable debt owed to shareholders and an entity related by common ownership. GABY entered into this related party transaction because alternate sources of financing were unavailable, and it had not yet reached a profitable level of operations due to GABY being in the initial growth stage of the business life cycle. All the callable debt, apart from $150,000 which was repaid July 2018, as well as $841,488 of a related party payable, was converted to share capital.

Transactions in respect of convertible debentures

Finder's fees in connection with the issuance of convertible debentures were paid to a company significantly influenced by a controlling owner of a corporate shareholder who is also a family member of multiple shareholders. The fees included a cash payment of $205,230 and the issuance of Compensation Warrants fair valued at $47,330. The total compensation paid was comparable to other agents involved in the issuance of the convertible debentures. The aforementioned corporate shareholder also subscribed for $125,000 of convertible debentures.

The Oil Plant – short term receivable and business acquisition

As described in Note 3 to the Financial Statements, GABY acquired 100% of the common shares of TOP from a Director of the Corporation, Mara Gordon. Prior to the acquisition, the Corporation provided a short-term interest-bearing note of $550,000 USD to TOP and in addition to interest receivable thereon, had provided a non-interest-bearing advance, which total amounts aggregated to USD 631,151 (CAD 860,303). Pursuant to the acquisition, the non-interest-bearing note, short term note receivable and interest receivable thereon was eliminated with the consolidation of TOP.

The loans and advances were made in anticipation of GABY's eventual acquisition of TOP.

These related party transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties, apart from the Compensation Warrants, which were valued in accordance with share-based payments as described in Note 17 to the Financial Statements.

Refer to Note 8 to the Financial Statements for further related party transaction detail.

PROPOSED TRANSACTION

Effective April 1, 2019, GABY acquired all the issued and outstanding shares of Sonoma Pac, a cannabis distribution company in California. With the closing of the acquisition, GABY gains an expansive distribution reach across the state of California, as well as a cannabis distribution licence issued by the CBCC and the County of Santa Rosa. The acquisition complements GABY's extensive experience in CPG and its cannabis manufacturing licence and facility acquired from TOP in October 2018. The combined experience and asset mix allows GABY to develop high quality Cannabis products through the proprietary manufacturing process of TOP and to bring them efficiently and quickly to market with its newly-acquired cannabis distribution licence. Sonoma Pac will sell proprietary and third party licenced products into the licenced dispensary channel in California, as well as CBD-infused products into the mainstream independent, natural and organic channels in California.

The terms of the acquisition are more fully described in Note 32 to the Financial Statements.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

The Financial Statements have been prepared using the IFRS standards and interpretations currently issued. The Corporation has not yet adopted certain standards and interpretations that have been issued but are not yet effective as follows:

IFRS 16 Leases was issued January 2016 and replaces IAS 17 Leases. The new standard requires entities to recognize lease assets and lease obligations on the balance sheet. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. Certain shorter-term leases (less than 12 months) and leases of low-value are exempt from the requirements and may continue to be treated as operating leases. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The standard may be applied retroactively or using a modified retrospective approach for annual periods commencing January 1, 2019.

The Corporation is in the process of completing its review and analysis of IFRS 16 and will apply IFRS 16 using the modified retrospective approach where the additional right-of-use assets and lease liabilities will be recorded from that date forward and will not require restatement of prior years' comparative information. As the Corporation has contractual obligations currently being recorded as operating leases, we anticipate that the application of IFRS 16 will result in a potentially material increase to both assets and liabilities and also to changes to the timing of the recognition of expenses associated with the lease arrangements. The Corporation will provide the quantitative impact of adopting IFRS 16 in its first quarter 2019 unaudited condensed consolidated interim financial statements.

VOTING SECURITIES AND SECURITIES CONVERTIBLE INTO VOTING SECURITIES OUTSTANDING

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

	Securities exercisable or convertible into Class A voting Common Shares			
	Warrants[2]	Stock Options[3]	Compensation Warrants[2]	Class A voting Common Shares
Outstanding as of the date of the MD&A[1]	**42,884,073**	**9,185,000**	**482**	**109,114,583**
Number of Class A voting Common Shares issuable on the conversion or exercise of outstanding security	**42,884,073**	**9,185,000**	**3,374,000**	**55.443,073**
				164,557,656
Cash payable on exercise	$15,867,107	$2,967,035	$1,106,190	$19,940,332

(1) Class A voting Common Shares outstanding at the date of MD&A reflects the issuance of: 1,383,000 to settle the share issuance obligation; and 17,250,000 issued in escrow on the Sonoma-Pac acquisition as further described in Note 32 of the Financial Statements.
(2) Warrants outstanding at the date of the MD&A reflect 650,000 warrants issued in conjunction with the convertible debenture issued in March 2019. Refer to Notes 18 and 32 of the Financial Statements for the exercise provisions, including strike price and exercise period.
(3) Stock options outstanding as at the date of the MD&A reflect the issuance of 5,810,000 stock options in January 2019. Refer to Notes 17 and 32 of the Financial Statements for the exercise provisions, including strike price and exercise period.

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 state's regulatory framework.

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

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

As of December 31, 2018, the Corporation had direct involvement in USA cannabis-related activities through its 100% owned subsidiary TOP, a manufacturer of cannabis-infused oils and tinctures in California. Previously, the Corporation had ancillary involvement through Bertram Capital Finance, Inc., a Colorado-based company that provided financing for companies directly related in the cannabis industry in various legal state jurisdictions, through the issuance of a short-term loan that has subsequently been repaid. Pursuant to the Sonoma Pac Acquisition effective April 1, 2019, the Corporation will hold a cannabis distribution licence for the State of California issued by the CBCC. The Corporation anticipates that it will derive a substantial portion of future revenues from the cannabis industry in certain states. The disclosure contained herein reflects the Corporation's direct involvement with the USA cannabis industry with the acquisition of TOP effective October 1, 2018 and acquisition of Sonoma-Pac April 1, 2019.

USA Federal Law and Enforcement

Pursuant to the above-mentioned acquisitions, the Corporation anticipates that it will derive a substantial portion of its revenues from the cannabis industry in certain states, 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.

On January 4, 2018, former USA Attorney General Jeff Sessions issued a memorandum to USA district attorneys (the "Sessions Memorandum") which rescinded previous guidance from the USA Department of Justice specific to cannabis enforcement in the USA, including the memorandum dated August 29, 2013, addressed to "All United States Attorneys" from James M. Cole, Deputy Attorney General of the USA (the "Cole Memorandum"). With the Cole Memorandum rescinded, USA federal prosecutors no longer have guidance relating to the exercise of their discretion in determining whether to prosecute cannabis-related violations of USA federal law. In response to the Sessions Memorandum, on April 13, 2018, the USA President Donald Trump promised Colorado Senator Cory Gardner that he will support efforts to protect states that have legalized cannabis.

Mr. Sessions resigned as USA Attorney General on November 7, 2018 and his replacement, William Barr was confirmed by the Senate on February 14, 2019. William Barr has stated in front of the Senate Judiciary Committee that he doesn't plan on using federal resources to "go after" companies if they are complying with state law; which is a reversal of the approach taken by his predecessor Jeff Sessions. Nevertheless, a significant change in the federal government's enforcement policy with respect to current federal laws applicable to the cannabis industry could cause significant financial damage to the Corporation. That is, the Corporation may be irreparably harmed by a change in the cannabis enforcement policies of the federal government depending on the nature of such change.

Given the current illegality of cannabis under USA federal law, the Corporation's ability to access both public and private capital may still be hindered by its indirect involvement in the cannabis industry since the majority of financial institutions are regulated by the USA federal government and thus may not provide financing to companies directly or indirectly engaged in cannabis-related activities, notwithstanding the guidance provided in February of 2014 by the Financial Crimes Enforcement Network Bureau of the USA Treasury Department (which mirrors the enforcement priorities of the Cole Memorandum and subjects cannabis-industry-related accounts to enhanced scrutiny). Therefore, the Corporation's ability to access public capital markets in the USA is directly hindered as a result.

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

In addition, third party service providers could suspend or withdraw services and there is a risk that certain regulatory bodies could impose certain restrictions on the Corporation's ability to operate in the USA.

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

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

Dollar value and proportion of Applicable Financial Statement Line Items which relates to USA cannabis-related activities for the year December 31, 2018		
Consolidated Statement of Financial Position	**$**	**%**
Cash	21,764	41
Accounts receivable	136,946	37
Inventories	203,675	34
Property and equipment	141,366	26
Intangible assets and goodwill	2,732,998	98
Security deposits	21,199	39
Total assets	3,257,948	71
Accounts payable and accrued liabilities	89,960	6
Deferred lease inducement	13,804	29
Deferred tax liability	332,500	100
Total liabilities	436,364	12
Consolidated Statement of Loss and Comprehensive Loss	**$**	**%**
Gross revenue	117,007	5
Total revenue	117,007	8
Loss from operations[1]	129,309	2

[1] Before line items as described in the Consolidated Statement of Loss and Comprehensive Loss

Compliance with State Licensing and Regulatory Frameworks

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

Program for Monitoring Compliance and Disclosure of Material Non-Compliance

The following sections present an overview of market and regulatory conditions for the cannabis industry in USA. states in which the Corporation is directly involved and is presented as of December 31, 2018, unless otherwise indicated. Although the Corporation's activities are compliant with applicable USA state and local law, strict compliance with state and local laws with respect to cannabis would neither absolve the Corporation of liability under USA federal law, nor provide a defense to any federal proceeding which may be brought against the Corporation.

California

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

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

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

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

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

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

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

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

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

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

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

Type 10: authorized to sell cannabis goods to customers.

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

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

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

Sonoma Pac has applied for an annual licence and currently holds a temporary Type 11 Licence (distribution licence) M11-18-0000125-TEMP which expires August 15, 2019. A temporary licence is a conditional licence that allows a business to engage in commercial cannabis activity for a period of 120 days and may be given 90-day extensions if the licencee has applied for an annual licence with the respective licensing authority. Persons holding a temporary licence are subject to the same rules and regulations as those holding annual licences. Given the approval of Sonoma Pac's local licence by Sonoma County in March 2019, as described below, it is anticipated that Sonoma Pac will receive its annual licence on or before the expiry of the current temporary licence.

Local Licensure, Zoning and Land Use Requirements

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

Record-Keeping and Continuous Reporting Requirements

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

Operating Procedure Requirements

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

Site Visits & Inspections

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

Compliance Procedures

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

NON-GAAP DISCLOSURE

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

Pro forma gross revenue for the year ended December 31, 2018 is calculated as if the October 1, 2018 acquisition of TOP and the April 1, 2019 acquisition of Sonoma Pac had both occurred January 1, 2018 and is calculated as follows:

Gross revenue for year ended December 31, 2018	In $millions as Estimated	In $millions Actual
Non-licenced	2.4	2.3
Licenced segment – TOP[1]	0.3	0.1
Total as reported in Financial Statements	2.7	2.4
Licenced segment - Sonoma Pac[2,]	6.5	6.1
Total pro forma gross revenue[2,3]	9.2	8.5

[1] The gross revenue for TOP for the period prior to the acquisition date of October 1, 2018 includes only two months; due to TOP being a start-up operation and is therefore less than $0.1 million.

[2] Gross revenue for the Sonoma PAC is calculated as USD 4.7 million multiplied by an average exchange rate for the year of 1.2965 Canadian dollars for each U.S. dollar and is based on the internal accounting records of the company as provided by its management. The numbers have not been reviewed or audited by an independent accounting firm and may be subject to adjustments.

[3] Estimate of pro forma gross revenue was within 8% of actual

Estimated pro forma gross revenue for 2019

For year ended December 31, 2019	In $millions as Estimated
Gross revenue - Non-licenced segment[1]	3
Gross revenue - Licenced segment [1,2]	32
Total estimated pro forma gross revenue[1]	**35**

[1]See Cautionary Note Regarding Forward Looking statements below

[2]Assumes that the acquisition of Sonoma Pac was effective January 1, 2019 and assumes gross revenue of USD 32 million, based on Sonoma Pac's Q1 2019 run rate of USD 6.5 million plus anticipated further organic growth, translated at an estimated foreign exchange rate of 1.30. The Q1 2018 gross revenue of USD 6.5 million is based on the internal accounting records of Sonoma Pac as provide by its management. The numbers have not been reviewed or audited by an independent accounting firm and may be subject to adjustments.

RISKS AND UNCERTAINTIES

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

For a more detailed discussion of risk factors that could materially affect GABY's results of operations and financial condition, please refer to the Risk Factors section of the Corporation's Annual Information For that is available on www.sedar.com.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain statements contained in this MD&A constitute "forward-looking statements." These statements, identified by words such as "plan," "anticipate," "believe," "estimate," "should," "expect" and similar expressions include GABY's expectations and objectives regarding its future financial position, operating results and business strategy. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, performance or achievements of GABY to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. For a comprehensive list of the risks and uncertainties applicable to GABY, please refer to the section titled "Risk Factors" in GABY's AIF for the fiscal year ended December 31, 2018.