

# **GABY INC.**

## **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**FOR THE THREE AND SIX MONTHS  
ENDED JUNE 30, 2021 AND 2020  
(in Canadian dollars)**

## **NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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

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

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

## GABY INC.

## Condensed Interim Consolidated Statements of Financial Position

		(Unaudited)	(Audited)
		June 30,	December 31,
<i>In Canadian dollars</i>	Note	2021	2020
<b>ASSETS</b>			
<b>Current</b>			
Cash		3,891,446	102,808
Restricted cash		-	83,760
Accounts receivable	4	1,254,245	611,107
Inventories	5	2,336,025	642,883
Prepaid expenses		389,844	86,857
		<b>7,871,560</b>	<b>1,527,415</b>
<b>Non-current</b>			
Property and equipment	6	8,992,397	1,095,090
Intangible assets and goodwill	7	46,718,104	2,392,042
Other assets	8	5,998,566	22,086
<b>Total assets</b>		<b>69,580,627</b>	<b>5,036,633</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Bank indebtedness	10	-	155,370
Accounts payable and accrued liabilities	9,11	8,634,465	7,065,310
Income taxes payable	12	1,568,442	61,405
Deferred revenue	13	306,370	-
Short-term notes payable	14	18,611	89,264
Promissory notes payable	15	265,075	1,411,233
Convertible debentures	16	526,116	653,904
Current portion of lease liabilities	17	640,845	61,504
Current portion of long-term debt	18	817,852	85,400
		<b>12,777,776</b>	<b>9,583,390</b>
<b>Non-current liabilities</b>			
Lease liabilities	17	8,628,449	569,157
Long-term debt	18	32,006,419	207,196
Other long-term liabilities	19	6,364,447	16,729
<b>Total liabilities</b>		<b>59,777,091</b>	<b>10,376,472</b>
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>			
Share issuance obligation		-	119,947
Share capital	21	62,740,684	45,074,695
Contributed surplus	20,21	7,998,374	5,721,708
Deficit		(60,029,741)	(55,933,646)
Accumulated other comprehensive loss		(905,781)	(322,543)
		<b>9,803,536</b>	<b>(5,339,839)</b>
<b>Total liabilities and shareholders' equity (deficiency)</b>		<b>69,580,627</b>	<b>5,036,633</b>
<b>Going concern</b>	1		
<b>Subsequent events</b>	29		

See accompanying notes to the condensed interim consolidated financial statements

## GABY INC.

## Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Unaudited)		Three months ended June 30,		Six months ended June 30,	
<i>In Canadian dollars</i>	Note	2021	2020	2021	2020
<b>CONTINUING OPERATIONS</b>					
<b>REVENUE, net</b>		<b>11,271,030</b>	740,202	<b>14,682,931</b>	2,189,256
<b>COST OF SALES</b>					
Direct inventory costs	22	<b>7,038,041</b>	571,794	<b>10,080,384</b>	2,039,523
<b>Variable gross profit</b>		<b>4,232,989</b>	168,408	<b>4,602,547</b>	149,733
Allocated indirect costs	23	<b>210,938</b>	61,745	<b>276,510</b>	195,174
Distribution costs		<b>76,268</b>	84,869	<b>145,014</b>	156,392
<b>Total cost of sales</b>		<b>7,325,247</b>	718,408	<b>10,501,908</b>	2,391,089
<b>Gross profit (loss)</b>		<b>3,945,783</b>	21,794	<b>4,181,023</b>	(201,833)
Selling, general and administrative expenses	24	<b>3,201,525</b>	1,612,054	<b>4,312,627</b>	3,881,737
Share-based compensation and expenses	20	<b>444,110</b>	(100,322)	<b>664,182</b>	34,392
Depreciation of plant and equipment	6	<b>211,004</b>	106,068	<b>221,767</b>	254,167
<b>Income (loss) from operations before the following:</b>		<b>89,144</b>	(1,596,006)	<b>(1,017,553)</b>	(4,372,129)
Foreign exchange gain (loss)		<b>395,314</b>	26,010	<b>225,430</b>	(36,673)
Gain (loss) on conversion of debt		<b>112,077</b>	(13,619)	<b>112,077</b>	61,255
Gain (loss) on disposal of assets		<b>(7,279)</b>	963	<b>(7,279)</b>	963
Gain on lease termination		-	-	-	543
Interest expense		<b>(1,055,712)</b>	(140,447)	<b>(1,190,973)</b>	(373,889)
Interest income		-	-	<b>581</b>	-
Recovery of impairment amount		-	3,580	-	12,338
Penalties and interest on past-due taxes		<b>(75,734)</b>	(3,578)	<b>(94,102)</b>	(234,800)
Transaction costs		<b>(115,537)</b>	-	<b>(1,213,046)</b>	-
Other expense		<b>(112,571)</b>	-	<b>(112,571)</b>	-
<b>Total other income (expense)</b>		<b>(859,442)</b>	(127,091)	<b>(2,279,883)</b>	(570,263)
<b>Loss before income tax expense (recovery)</b>		<b>(770,298)</b>	(1,723,097)	<b>(3,297,436)</b>	(4,942,392)
Current income tax expense		<b>838,665</b>	219	<b>838,665</b>	5,565
Deferred income tax recovery		<b>(32,698)</b>	(36,009)	<b>(40,006)</b>	(99,463)
<b>Income tax expense (recovery)</b>		<b>805,967</b>	(35,790)	<b>798,659</b>	(93,898)
<b>Net loss from continuing operations</b>		<b>(1,576,265)</b>	(1,687,307)	<b>(4,096,095)</b>	(4,848,494)
<b>DISCONTINUED OPERATIONS</b>					
<b>Net loss from discontinued operations</b>		-	(110,854)	-	(950,532)
<b>Net loss</b>		<b>(1,576,265)</b>	(1,798,161)	<b>(4,096,095)</b>	(5,799,026)
<b>Other comprehensive loss, net of tax</b>					
Items that may be reclassified to net					
Exchange difference on translation		<b>(583,676)</b>	(294,588)	<b>(583,238)</b>	713,766
<b>Total comprehensive loss</b>		<b>(2,159,941)</b>	(2,092,749)	<b>(4,679,333)</b>	(5,085,260)
<b>Net loss per share:</b>					
<b>Basic and diluted</b>	25	<b>(\$0.00)</b>	(\$0.01)	<b>(\$0.01)</b>	(\$0.03)

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 Canadian dollars</i>	Note	Share issuance obligation	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total
Balance as at December 31, 2019		-	43,068,525	5,373,688	(41,943,032)	(548,094)	5,951,087
Net and comprehensive loss		-	-	-	(5,799,026)	713,766	(5,085,260)
Issuance of shares to settle debts		-	1,347,952	-	-	-	1,347,952
Issuance of subscription shares		-	250,000	-	-	-	250,000
Stock option and RSU expense	20	-	-	2,819	-	-	2,819
Other share-based compensation		-	-	(11,295)	-	-	(11,295)
<b>Balance as at June 30, 2020</b>		-	44,666,477	5,365,212	(47,742,058)	165,672	2,455,303
<b>Balance as at December 31, 2020</b>		119,947	45,074,695	5,721,708	(55,933,646)	(322,543)	(5,339,839)
Net and comprehensive loss		-	-	-	(4,096,095)	(583,238)	(4,679,333)
Issuance of Units	21	(36,187)	3,446,039	560,983	-	-	3,970,835
Issuance costs	21	-	(916,274)	319,703	-	-	(596,571)
Shares for services agreements	20	-	186,038	-	-	-	186,038
RSUs issued as shares	20	-	66,821	(66,821)	-	-	-
Equity issued as payment of debts	20	-	657,939	8,000	-	-	665,939
Issuance of Subscription Receipts	21	8,562,696	-	-	-	-	8,562,696
Spin off of Subscription Receipts	21	(8,646,456)	7,435,952	1,210,504	-	-	-
Shares issued for business acquisition	21	-	6,789,474	-	-	-	6,789,474
Stock option and RSU expense	20	-	-	278,420	-	-	278,420
Stock option forfeitures	20	-	-	(34,123)	-	-	(34,123)
<b>Balance as at June 30, 2021</b>		-	62,740,684	7,998,374	(60,029,741)	(905,781)	9,803,536

*See accompanying notes to the condensed interim consolidated financial statements*

## GABY INC.

## Condensed Interim Consolidated Statements of Cash Flows

<b>(Unaudited)</b>		<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
<i>In Canadian dollars</i>	Note	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
<b>OPERATING ACTIVITIES</b>					
Net loss		<b>(1,576,265)</b>	(1,798,161)	<b>(4,096,095)</b>	(5,799,026)
Adjustments to reconcile net loss to cash flow from operations:					
Deferred income tax recovery		<b>(32,698)</b>	(36,009)	<b>(40,006)</b>	(99,463)
Depreciation	6	<b>322,670</b>	119,706	<b>383,861</b>	342,982
Recovery of impairment		-	(3,580)	-	(12,338)
Loss (gain) on conversion of debt		<b>(112,077)</b>	13,619	<b>(112,077)</b>	(61,255)
Loss (gain) on disposal of assets		<b>7,279</b>	(963)	<b>7,279</b>	(963)
Gain on lease termination		-	-	-	(8,261)
Interest expense		<b>1,055,712</b>	141,269	<b>1,190,973</b>	385,925
Interest income		-	-	<b>(581)</b>	-
Share-based compensation	20	<b>306,513</b>	(100,322)	<b>430,335</b>	34,392
Unrealized foreign exchange loss (gain)		<b>(617,710)</b>	(2,040)	<b>(459,804)</b>	32,329
Cash used in operating activities before the following:		<b>(646,576)</b>	(1,666,481)	<b>(2,696,115)</b>	(5,185,678)
Net change in non-cash working capital related to operations		<b>(701,022)</b>	1,578,126	<b>(957,044)</b>	3,762,342
<b>Cash used in operating activities</b>		<b>(1,347,598)</b>	(88,355)	<b>(3,653,159)</b>	(1,423,336)
<b>INVESTING ACTIVITIES</b>					
Purchase of property and equipment	6	<b>(10,837)</b>	(3,446)	<b>(10,837)</b>	(6,565)
Proceeds from sale of property and equipment		<b>1,228</b>	71,461	<b>1,228</b>	85,461
Business acquisition – net cash outflow	3	<b>(2,100,050)</b>	-	<b>(2,100,050)</b>	-
Interest received		<b>581</b>	-	<b>581</b>	-
Deposits received (paid), net		-	(2,043)	<b>1,899</b>	(1,747)
<b>Cash generated (used) in investing activities</b>		<b>(2,109,078)</b>	65,972	<b>(2,107,179)</b>	77,149
<b>FINANCING ACTIVITIES</b>					
Proceeds on promissory notes		-	-	-	705,788
Proceeds on long-term debt		-	40,000	-	40,000
Repayments to related parties		-	-	<b>(194,056)</b>	-
Repayment of short-term notes payable	14	<b>(68,055)</b>	-	<b>(68,055)</b>	-
Repayment of long-term debt		<b>(162,166)</b>	(15,022)	<b>(182,274)</b>	(34,775)
Repayment of lease liabilities	17	<b>(96,455)</b>	(39,554)	<b>(113,505)</b>	(127,278)
Repayment of promissory notes, debentures		-	-	<b>(1,210,992)</b>	-
Issuance of Units	21	-	-	<b>4,007,022</b>	250,000
Issuance of Subscription Receipts	21	<b>8,321,230</b>	-	<b>8,321,230</b>	-
Interest paid		<b>(757,251)</b>	(83,857)	<b>(972,448)</b>	(281,153)
<b>Cash generated (used) in financing activities</b>		<b>7,237,303</b>	(98,433)	<b>9,586,922</b>	552,582
Foreign currency translation adjustment		<b>(35,920)</b>	(339)	<b>(37,946)</b>	27,653
Net change in cash		<b>3,744,707</b>	(121,155)	<b>3,788,638</b>	(765,952)
<b>Cash, beginning of period</b>		<b>146,739</b>	54,154	<b>102,808</b>	698,951
<b>Cash (Bank indebtedness), end of period</b>		<b>3,891,446</b>	(67,001)	<b>3,891,446</b>	(67,001)

GABY INC.

Condensed Interim Consolidated Statements of Cash Flows - Continued

<b>(Unaudited)</b> <i>In Canadian dollars</i>	Note	As at June 30,	
		2021	2020
<b>CASH (BANK INDEBTEDNESS) CONSISTS OF:</b>			
Cash		3,891,446	72,577
Bank indebtedness		-	(139,578)
		<b>3,891,446</b>	<b>(67,001)</b>

*See accompanying notes to the condensed interim consolidated financial statements*

*See Note 26 for detail of non-cash transactions and other cash flow disclosures*

## **GABY INC.**

### **Notes to the Condensed Interim Consolidated Financial Statements**

*In Canadian 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 200, 209 – 8th Avenue SW, Calgary, Alberta T2P 1B8, Canada and it trades on the Canadian Securities Exchange ("CSE") under the symbol GABY and on the OTCQB under the symbol GABLF. The Corporation is a holding company with USA subsidiaries, the most significant being Miramar Professional Services Inc. ("Miramar" or "MPS") and its subsidiary, Wild West Industries Inc. ("Wild West" or "WWI"). Miramar operates a dispensary called Mankind Dispensary, operating in San Diego, California. Through Mankind Dispensary, GABY curates and sells a diverse portfolio of products infused with cannabis, including its own proprietary brands, Kind Republic™ and Lulu's™, and resells third party brands. Through WWI, the Corporation manufactures certain of its proprietary brands as well as provides manufacturing services to third parties. WWI also provides distribution services to Mankind.

## **1) GOING CONCERN**

These condensed interim consolidated financial statements for the three and six months ended June 30, 2021 and 2020 ("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.

For the six months ended June 30, 2021 the Corporation had a net loss of \$4.1 million and negative cash flow from operations of \$3.7 million, in part due to operating two separate distribution and manufacturing facilities (in Santa Rosa and San Diego). For the year ended December 31, 2020 (prior to its expansion into retail), the Corporation had a net loss of \$14.0 million and negative cash flow from operations of \$1.7 million. As at June 30, 2021 the working capital deficit amounted to \$4.9 million. Management believes it will harvest further synergies from the acquisition of Miramar and WWI, the implementation of its consolidation strategy culminating in the recent closure of its Santa Rosa facilities, reaping of additional margins on its proprietary brands through its multi-vertical infrastructure which spans from manufacturing to retail, and streamlining of shared overhead costs. 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, negative cash flows from operations and working capital deficiencies. Whether, and when, the Corporation can attain profitability and positive cash flows from operations is uncertain. These uncertainties cast significant doubt upon the Corporation's ability to continue as a going concern.

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

Should the Corporation be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they come due. These Financial Statements do not reflect adjustments to the carrying



## **GABY INC.**

### **Notes to the Condensed Interim Consolidated Financial Statements**

*In Canadian dollars, unless otherwise stated (Unaudited)*

values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Corporation was unable to realize its assets and settle its liabilities as a going concern in the normal course of operation. These adjustments could be material.

## **2) BASIS OF PRESENTATION AND ACCOUNTING POLICIES**

### **Statement of compliance**

These Financial Statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee.

These Financial Statements were approved and authorized for issue by the Corporation’s audit committee on August 30, 2021.

### **Basis of presentation**

These Financial Statements have been prepared under the historical cost convention, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value, and are expressed in Canadian dollars unless otherwise indicated. Other measurement bases used are detailed in the Corporation’s annual consolidated financial statements (“Annual Financial Statements”).

Certain comparative figures have been reclassified to conform to the current 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 due to applicability of additional items as a result of the Mankind acquisition:

### **Deferred revenue**

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

### **Income taxes**

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

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

## **GABY INC.**

### **Notes to the Condensed Interim Consolidated Financial Statements**

*In Canadian dollars, unless otherwise stated (Unaudited)*

Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rate and laws that have been enacted or substantively enacted at the statement of financial statement date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred income tax assets and liabilities are presented as non-current.

As the Corporation operates in the cannabis industry, it is subject to the limits of IRC Section 280E under which the Corporation is only allowed to deduct expenses directly related to the cost of producing the products or cost of production.

The Corporation applies IFRIC 23, *Uncertainty over income tax treatments*, which is reflected in the following accounting policy.

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

## **3) BUSINESS ACQUISITION**

### **a) Description**

On, April 1, 2021, the Corporation acquired 100% of the issued and outstanding equity of Miramar, a cannabis retailer, which owns 100% of the issued and outstanding equity of Wild West, a cannabis manufacturing and distribution company (together, "Mankind").

Through the acquisition, the Corporation has secured a Type 10 retail licence ("Type 10 Licence"), a Type 6 manufacturing licence ("Type 6 Licence"), and a Type 11 distribution licence ("Type 11 Licence") all issued by the Bureau of Cannabis Control in the state of California; the retail and distribution facilities and related assets located in San Diego, California; and the Kind Republic brand recently launched by WWI.

The Corporation is in the process of obtaining a valuation of the underlying assets of Mankind including its property, plant and equipment, intangibles (including the licences), the Kind Republic brand, customer lists and goodwill, and is also determining Mankind's final working capital balances. The acquisition-date fair value of the total consideration is estimated as follows:

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

	Note	USD	CAD
Cash consideration	b)	5,000,000	6,264,000
Share consideration	b)	5,399,184	6,789,474
Debt consideration	b)	25,500,000	32,066,250
		<b>35,899,184</b>	45,119,724
Purchase price adjustment – net working capital	b)	(763,059)	(959,547)
<b>Total estimated consideration</b>		<b>35,136,125</b>	44,160,177
<b>The amounts recognized as of the acquisition date are as follows:</b>			
Cash	c)	3,311,292	4,163,950
Accounts receivable – fair and gross value, estimate 100% recoverable		21,299	26,783
Inventory		1,242,056	1,561,885
Prepaid expenses and deposits		157,601	198,183
Property and equipment	6	6,698,255	8,423,056
Security deposits		68,273	85,853
Intangibles – Type 6 and Type 11 Licences	7	1,515,076	1,905,208
Intangibles – Type 10 Licence	7	1,000,000	1,257,500
Net deferred tax liabilities		(165,525)	(208,148)
Accounts payable and accrued liabilities		(2,550,335)	(3,207,046)
Income taxes payable		(1,296,595)	(1,630,468)
Deferred revenue		(196,644)	(247,280)
Lease liabilities	17	(7,068,369)	(8,888,474)
Long-term debt	18	(864,000)	(1,086,480)
Uncertain tax position liability	19	(4,703,904)	(5,915,159)
Indemnification asset - Uncertain tax position liability	8	4,703,904	5,915,159
Net identifiable assets acquired		1,872,384	2,354,522
Add: Goodwill	d)	33,263,741	41,805,655
		<b>35,136,125</b>	44,160,177

**b) Consideration**

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

- (i) the payment of USD 5.0 million in cash;
- (ii) the issuance of 157,894,737 common shares with a deemed value of USD 0.038 per share, constituting USD 6.0 million of the consideration; and
- (iii) the issuance of a secured non-convertible promissory note for USD 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 USD 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: USD 5 million at the end of years two, four, and six, with the remaining USD 10.5 million due at the end of year seven.

The consideration is to be adjusted by the amount by which actual working capital (defined as working capital plus debt)

## GABY INC.

### Notes to the Condensed Interim Consolidated Financial Statements

*In Canadian dollars, unless otherwise stated (Unaudited)*

is greater than (less than) target working capital of USD 587,733. The estimated purchase price adjustment is a reduction of the purchase price by USD 763,059, to be transacted through a reduction of quarterly interest payments on the promissory note of no more than USD 150,000 per quarter until the total purchase price adjustment has been satisfied.

#### c) Acquisition cash flows

In \$	USD	CAD
Cash consideration	(5,000,000)	(6,264,000)
Less cash acquired on acquisition	3,311,292	4,163,950
<b>Net cash outflow – investing activities</b>	<b>(1,688,708)</b>	<b>(2,100,050)</b>

#### 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 licence with GABY's consumer packaged goods expertise in branding. Any goodwill recognized would have \$nil tax value.

#### e) Acquisition costs

Acquisition-related costs of \$1,213,046 that were 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.

#### 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 June 30, 2021 were \$8,490,694 and \$469,567, respectively. The revenue and net loss of the Corporation for the six months ended June 30, 2021 would have been \$22,994,619 and \$4,210,637, respectively, had the acquisition of Mankind occurred on January 1, 2021.

As of the date of these consolidated financial statements, the determination of fair value of assets and liabilities acquired is based on preliminary estimates and has not been finalized.

**GABY INC.****Notes to the Condensed Interim Consolidated Financial Statements***In Canadian dollars, unless otherwise stated (Unaudited)***4) ACCOUNTS RECEIVABLE**

<b>In \$, Balance comprised of:</b>	<b>Jun 30, 2021</b>	<b>Dec 31, 2020</b>
Trade accounts receivable	<b>791,173</b>	888,369
GST receivable	<b>62,476</b>	68,055
Other accounts receivable	<b>760,622</b>	-
Sub-total before allowance	<b>1,614,271</b>	956,424
Allowance for doubtful accounts	<b>(360,026)</b>	(345,317)
	<b>1,254,245</b>	611,107
<b>Aging of receivables:</b>		
30 days	<b>914,375</b>	177,852
60 days	<b>29,850</b>	9,483
90 days	<b>13,657</b>	42,397
Over 90 days	<b>656,389</b>	726,692
	<b>1,614,271</b>	956,424

The balance of Other accounts receivable of \$760,622 as at June 30, 2021 consists of the amount receivable under the Mankind purchase agreement relating to the net working capital adjustment, which will be applied against future quarterly interest payments on the note payable to the former shareholders of MPS, subject to a limit of USD 150,000 per quarter.

The allowance for doubtful accounts is recorded based on an estimated percentage of each aging bucket that will not ultimately be collected. Accounts that have no activity for one year or more are allowed for at 100%, with the exception of about \$400,000 in the over 90 days bucket where the Corporation has arranged with the two customers to reduce the balance by those customers providing products and/or services to the Corporation. The remaining amount in the over 90 days bucket after removing amounts allowed for at 100% is then allowed for at 25%, along with varying smaller percentages being applied to the other aging buckets.

**5) INVENTORIES**

<b>In \$, Balance comprised of:</b>	<b>Jun 30, 2021</b>	<b>Dec 31, 2020</b>
Raw and semi-finished materials	<b>68,625</b>	138,614
Packaging materials	<b>103,802</b>	170,174
Finished goods	<b>2,163,598</b>	334,095
	<b>2,336,025</b>	642,883

Inventories expensed for the three and six months ended June 30, 2021 and 2020 are as follows:

<b>In \$</b>	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Inventories expensed – cost of sales	<b>7,325,247</b>	718,408	<b>10,501,908</b>	2,391,089
Inventories expensed – discontinued operations	-	12,612	-	646,593
	<b>7,325,247</b>	731,020	<b>10,501,908</b>	3,037,682

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

<b>In \$</b>	<b>Right-of use assets - facilities</b>	<b>Right-of use assets - equipment</b>	<b>All other property and equipment</b>	<b>Total</b>
Balance as at December 31, 2019	6,471,210	56,579	857,159	7,384,948
Purchase	-	-	6,565	6,565
Disposals	(5,638,437)	(53,579)	(132,696)	(5,824,712)
Depreciation	(250,517)	-	(92,465)	(342,982)
Effect of foreign exchange <sup>1</sup>	326,711	-	52,526	379,237
Balance as at June 30, 2020	908,967	3,000	691,089	1,603,056
Balance as at December 31, 2020	<b>527,930</b>	-	<b>567,160</b>	<b>1,095,090</b>
Business acquisition	<b>7,972,349</b>	-	<b>450,707</b>	<b>8,423,056</b>
Additions	-	-	<b>10,837</b>	<b>10,837</b>
Disposals	-	-	<b>(8,507)</b>	<b>(8,507)</b>
Depreciation	<b>(270,361)</b>	-	<b>(113,500)</b>	<b>(383,861)</b>
Effect of foreign exchange <sup>1</sup>	<b>(122,924)</b>	-	<b>(21,294)</b>	<b>(144,218)</b>
Balance as at June 30, 2021	<b>8,106,994</b>	-	<b>885,403</b>	<b>8,992,397</b>

<sup>1</sup>Foreign exchange difference arising on translation of foreign operation into Canadian dollars.

Depreciation recognized was allocated to the following line items for the six months ended June 30, 2021 and 2020:

	<b>June 30, 2021</b>	June 30, 2020
Cost of sales	<b>162,094</b>	84,181
Depreciation of plant and equipment	<b>221,767</b>	254,167
Loss from discontinued operations	-	4,634
	<b>383,861</b>	342,982

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

<b>In \$</b>	<b>Cannabis licences and permits</b>	<b>Goodwill</b>	<b>Total</b>
Balance as at December 31, 2019	2,804,303	4,413,571	7,217,874
Effect of foreign exchange <sup>1</sup>	139,955	478,180	618,135
Balance as at June 30, 2020	2,944,258	4,891,751	7,836,009
Balance as at December 31, 2020	<b>1,020,160</b>	<b>1,371,882</b>	<b>2,392,042</b>
Business acquisition (Note 3)	<b>3,162,708</b>	<b>41,805,655</b>	<b>44,968,363</b>
Effect of foreign exchange <sup>1</sup>	<b>(69,853)</b>	<b>(572,448)</b>	<b>(642,301)</b>
Balance as at June 30, 2021	<b>4,113,015</b>	<b>42,605,089</b>	<b>46,718,104</b>

<sup>1</sup>Foreign exchange difference arising on translation of foreign operation into Canadian dollars.

## GABY INC.

### Notes to the Condensed Interim Consolidated Financial Statements

In Canadian dollars, unless otherwise stated (Unaudited)

## 8) OTHER ASSETS

In \$, Balance comprised of:	Jun 30, 2021	Dec 31, 2020
Deferred tax asset	58,098	-
Indemnification asset	5,836,134	-
Security deposits	104,334	22,086
	5,998,566	22,086

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		Six months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
<b>a. Amounts included in Selling, general and administrative expenses:</b>				
Compensation of key management personnel ("KMP") <sup>1</sup>				
Cash compensation <sup>2</sup>	155,808	56,667	227,240	357,157
Share-based compensation, net of forfeitures	249,201	(107,475)	330,928	(34,727)
Total compensation of KMP	405,009	(50,808)	558,168	322,430
Consulting fees to a company controlled by close family of certain KMP <sup>3</sup>	45,000	45,000	90,000	90,000
Contract service fees to a company controlled by close family of certain KMP <sup>4</sup>	18,425	-	18,425	-
Rent paid to a company controlled by certain KMP	-	-	-	10,968
<b>b. Amounts included in Interest expense:</b>				
Interest on convertible debentures to KMP	-	3,730	1,274	7,459
Interest on promissory notes to KMP	-	17,936	5,598	32,597
<b>c. Due to related parties included in statement of financial position</b>			Jun 30, 2021	Dec 31, 2020
<b>Included in promissory notes payable:</b>				
To directors and entities controlled by directors			-	780,903
<b>Included in convertible debentures:</b>				
To entity controlled by directors			-	100,000
<b>Included in accounts payable and accrued liabilities</b>				
Compensation payable to KMP or their separate management entities			231,569	302,305
Other amounts due to KMP (expense reimbursements, etc)			16,647	222,449
Interest payable in respect of b) above			-	19,973
Rent payable to a company controlled certain KMP			15,356	15,356
Consulting fees payable to a company controlled by a close family member of KMP <sup>3</sup>			-	31,500

<sup>1</sup> KMP consist of those that have the authority and responsibility for planning, directing and controlling the activities of the

## GABY INC.

### Notes to the Condensed Interim Consolidated Financial Statements

*In Canadian dollars, unless otherwise stated (Unaudited)*

Corporation, which includes the most senior executive team (C-suite executives) and the Corporation's board of directors ("Board").

<sup>2</sup> Includes \$49,760 and \$79,760 paid to separate management entities for the three and six months ended June 30, 2021 (three and six months ended June 30, 2020 - \$30,000 and \$73,333).

<sup>3</sup> The Corporation has a month-to-month agreement with this related party for \$15,000 per month for provision of investor relations and consulting services. The party was selected to perform these services based on expertise in its field

<sup>4</sup> The Corporation has a month-to-month agreement with this related party for USD 5,000 per month for provision of marketing and other corporate services. The party was selected to perform these services based on expertise in its field

## 10) BANK INDEBTEDNESS

The demand operating loan that was closed with an outstanding balance in September 2020 as described in the Annual Financial Statements, and which had a balance of \$155,370 as at December 31, 2020 including interest up to that date, was assumed by certain KMP effective January 1, 2021. The KMP was compensated for assuming this debt through a corresponding amount receivable from the Corporation, which was later paid in conjunction with the Non-brokered Private Placement.

## 11) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	In \$	
	Jun 30, 2021	Dec 31, 2020
<b>Balance comprised of:</b>		
Trade accounts payable	5,301,091	4,902,030
Credit cards payable	11,338	11,170
Payroll liabilities	369,170	128,412
Accrued liabilities	658,662	671,862
Sales, excise, and use taxes payable	2,294,204	1,351,836
	<b>8,634,465</b>	<b>7,065,310</b>
<b>Aging of trade accounts payable:</b>		
30 days	2,104,560	524,296
60 days	209,224	277,739
90 days	121,060	167,250
Over 90 days	2,866,247	3,932,745
	<b>5,301,091</b>	<b>4,902,030</b>



## GABY INC.

### Notes to the Condensed Interim Consolidated Financial Statements

In Canadian dollars, unless otherwise stated (Unaudited)

## 12) INCOME TAXES PAYABLE

Income tax payable is comprised of the following, based on filed income tax returns or current income tax provisions:

In \$	Jun 30, 2021	Dec 31, 2020
Federal income tax payable relating to the year 2018 or prior	31,194	54,760
Federal income tax payable relating to the year 2019	6,465	6,645
Federal income tax provision for Mankind stub period <sup>1</sup>	749,362	-
California income tax provision for Mankind stub period <sup>1</sup>	223,106	-
	972,468	-
Federal income tax provision for 2021 to date	446,652	-
California income tax provision for 2021 to date	111,663	-
	558,315	-
Total income tax payable	1,568,442	61,405

<sup>1</sup> Six months ended March 31, 2021, for cutoff between previous ownership and GABY ownership

The Corporation has recorded a provision for uncertain tax positions relating to the application of IRC Section 280E of \$6,124,950 as at June 30, 2021 (\$nil as at December 31, 2020) which is included in Other long-term liabilities in the Condensed Interim Consolidated Statements of Financial Position. The amounts recorded relate to federal income tax for the current and prior open tax years. Of the amount recorded, \$5,836,134 is covered by an indemnification agreement in the Mankind purchase agreement as it relates to tax periods before the acquisition date. An indemnification asset of that amount has been recognized in consolidation and is included in Other assets.

## 13) DEFERRED REVENUE

In \$, Balance comprised of:	Jun 30, 2021	Dec 31, 2020
Outstanding rewards points, net <sup>1</sup>	236,346	-
Outstanding gift cards	21,091	-
Payments received in advance	48,933	-
	306,370	-

<sup>1</sup> Net of estimate of points that will not be redeemed of \$665,976 as at June 30, 2021 (December 31, 2020 – n/a)

## 14) SHORT-TERM NOTES PAYABLE

		In \$	
	Note	Jun 30, 2021	Dec 31, 2020
Promissory notes payable of USD 15,000 (December 31, 2020 – USD 70,000)	a	18,611	89,264

- a) Consisted of three non-interest-bearing short-term notes payable due on closing of next financing transaction undertaken by the Corporation generating proceeds of at least \$500,000, which occurred in February 2021. Two of the notes payable were repaid in the current period, leaving one note payable of USD 15,000 due on demand.

**GABY INC.****Notes to the Condensed Interim Consolidated Financial Statements***In Canadian dollars, unless otherwise stated (Unaudited)***15) PROMISSORY NOTES PAYABLE**

	Note	In \$	
		Jun 30, 2021	Dec 31, 2020
<b>Due to related parties, repaid during the 2021 period</b>	a	-	780,903
<b>Due to others:</b>			
Promissory notes repaid during the 2021 period	a	-	324,995
Note payable, including accrued interest of \$10,143 (Dec 31, 2020 - \$55,336)	b	<b>265,075</b>	305,335
		<b>265,075</b>	1,411,233

- a) These promissory notes, along with accrued interest up to the repayment date, were repaid in February 2021 in conjunction with the Non-brokered Private Placement.
- b) This promissory note accrues interest at a rate of 12% per annum compounded annually. Until March 1, 2021, this promissory note was payable on demand. Effective March 1, 2021, the terms of the promissory note were modified to recharacterize \$4,932 of accrued interest to principal and to extend the maturity date to April 1, 2022.

**16) CONVERTIBLE DEBENTURES**

The Debentures accrue interest at a rate of 15% per annum and originally matured March 1, 2021. The remaining convertible debentures outstanding were modified effective March 1, 2021 to recharacterize a portion of the accrued interest payable to convertible debenture principal on the same terms as the original convertible debentures, and to extend the maturity date to April 1, 2022.

The principal of the Debentures, plus any accrued and unpaid interest thereon, are redeemable by the Corporation and retractable by the holder of the Debenture, at the option of such party. The holder of the Debenture also has the option to convert the principal amount of the Debentures, plus any accrued and unpaid interest thereon, at the greater of: (i) \$0.37; or (ii) the last closing price of the Corporation's common shares. The debentures are secured by a general security agreement granted by the Corporation.

The following table summarizes the outstanding balance and changes in the amounts recognized in the components of the convertible debentures during the six months ended June 30, 2021 and 2020:

	In \$	
	June 30, 2021	June 30, 2020
<b>Beginning balance as at December 31, 2020 and 2019</b>	<b>653,904</b>	635,255
Repayments	<b>(202,008)</b>	-
Accrued interest recharacterized as principal	<b>71,116</b>	-
Interest accretion expense on warrants and legal	<b>3,104</b>	9,325
<b>Ending balance of convertible debentures</b>	<b>526,116</b>	644,580

Total interest for the three and six months ended June 30, 2021 relating to the convertible debentures, including coupon interest and accretion of issuance costs, is \$19,676 and \$43,059 (June 30, 2020 - \$29,165 and \$58,331).

**GABY INC.****Notes to the Condensed Interim Consolidated Financial Statements***In Canadian dollars, unless otherwise stated (Unaudited)***17) LEASE LIABILITIES**

The Corporation is obligated under various lease agreements, all of which require escalating payments. The current payment as of June 30, 2021 is shown in the summary below, and the future escalating payments are reflected in the estimated future payment tables below. Except as noted below, 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 (CAD) including interest	Interest	In \$	
			Jun 30, 2021	Dec 31, 2020
<b>California, USA facilities</b>				
<b>Sonoma Pacific Distribution</b>				
Sept 2022 with extension to Sept 2027	9,883	11.17%	582,092	624,949
<b>Miramar Professional Services</b>				
May 2025 with extension to May 2030	54,774	8.00%	5,878,174	-
Feb 2023, five-year extension available but not included in the lease term	10,050	8.00%	192,996	-
<b>Wild West Industries</b>				
Jan 2025, with extension to Jan 2030	31,500	8.00%	2,616,032	-
			9,269,294	624,949
<b>Production equipment – repaid in 2021</b>			-	5,712
<b>Total lease liabilities</b>			9,269,294	630,661
Less current portion			(640,845)	(61,504)
<b>Long-term lease liabilities</b>			8,628,449	569,157

Estimated payments on finance leases are as follows	In \$
Remainder of 2021	638,133
2022	1,494,940
2023	1,430,988
2024	1,452,568
2025	1,496,263
Thereafter	6,595,234
Total future minimum lease payments	13,108,126
Less amount representing interest	(3,838,832)
Finance lease obligations	9,269,294

Estimated principal repayments are as follows	In \$
Remainder of 2021	262,660
2022	785,830
2023	787,744
2024	877,449
2025	998,730
Thereafter	5,556,881
	9,269,294

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

A reconciliation of the balance of lease liabilities for the six months ended June 30, 2021 and 2020 is as follows:

	In \$	
	June 30, 2021	June 30, 2020
<b>Beginning balance as at December 31, 2020 and 2019</b>	<b>630,661</b>	6,748,329
Acquired on business acquisition	<b>8,888,474</b>	-
Divestitures	-	(5,913,531)
Total cash outflows for leases	<b>(390,781)</b>	(490,221)
Variable lease payments not included in the measurement of lease liabilities	<b>54,180</b>	95,113
Portion of lease payments allocated to interest expense	<b>206,880</b>	269,088
Guarantee fee – GABY warrants	-	(10,591)
Guarantee fee for Mankind leases – share-based compensation to KMP	<b>17,937</b>	-
Effect of foreign exchange	<b>(138,057)</b>	336,294
<b>Balance, end of period</b>	<b>9,269,294</b>	1,034,481
Current portion of lease liabilities	<b>(640,845)</b>	(117,893)
<b>Non-current portion, end of period</b>	<b>8,628,449</b>	916,588

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 Canadian dollars, unless otherwise stated (Unaudited)***18) LONG-TERM DEBT**

Long-term debt consists of the following at June 30, 2021 and December 31, 2020:

<b>Repayable in monthly instalments, including interest, of:</b>	<b>Interest</b>	<b>Maturity</b>	<b>In \$</b>	
			<b>Jun 30, 2021</b>	<b>Dec 31, 2020</b>
Mankind acquisition note payable – Note a	10.00%	Apr 2028	<b>31,637,850</b>	-
<b>Vehicle finance loans secured by the vehicles financed:</b>				
USD 448	4.90%	Sep 2023	<b>14,153</b>	17,586
USD 875	1.90%	Apr 2023	<b>22,355</b>	29,414
USD 707	1.90%	Apr 2023	<b>18,922</b>	24,646
USD 743	2.90%	Jun 2023	<b>20,582</b>	26,497
USD 620	5.24%	Sep 2022	<b>10,380</b>	15,072
USD 1,150	5.24%	Sep 2022	<b>20,610</b>	29,322
USD 1,150	5.24%	Sep 2022	<b>20,610</b>	29,322
			<b>127,612</b>	171,859
<b>Long-term debts held by Mankind on acquisition:</b>				
WWI acquisition note payable (Note b)	6.00%	Jan 2022	<b>384,617</b>	-
WWI loan agreement (Note c)	18.50%	Dec 2022	<b>543,452</b>	-
			<b>928,069</b>	-
<b>Government assistance loans, net of discount:</b>				
Canada Emergency Business Account (“CEBA”) loan, interest free and eligible for 25% debt forgiveness if 75% repaid by December 31, 2022. Otherwise, the loan converts on that date into a 3-year note bearing interest at 5% per annum			<b>31,084</b>	28,268
US government assistance loans, bearing interest at 3.75% per annum, repayable over a term of 30 years with payments being deferred until July 2021, after which the loans will require aggregate payments of USD 1,212 per month			<b>99,656</b>	92,469
			<b>130,740</b>	120,737
Total long-term debt			<b>32,824,271</b>	292,596
Less: current portion			<b>(817,852)</b>	(85,400)
			<b>32,006,419</b>	207,196

- The Corporation issued a secured non-convertible promissory note for USD 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 USD 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: USD 5 million at the end of years two, four, and six, with the remaining USD 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 MPS.
- Upon acquisition of Mankind, MPS held a note payable to the former shareholders of WWI that bears interest at a rate of 6% per annum and requires principal payments of USD 18,000 plus interest due monthly thereafter through November 2021, USD 20,000 plus interest due in December 2021, and a final balloon payment of USD 200,000 plus interest due in January 2022. The note payable is secured by a pledge of 25,000 shares of MPS.
- Upon acquisition of Mankind, WWI held a note payable to a private lender for USD 500,000, the proceeds of which were used for the development and growth of the Kind Republic brand. The loan is secured by substantially all

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

assets of Mankind. The loan accrues interest at a rate of 18.5% per annum and requires blended monthly principal and interest payments of USD 28,053. All amounts advanced shall bear interest for not less than 12 months; if the advance is repaid before that time, the interest for the remainder of the one-year period will be payable at that time. The loan will be fully due and payable two years after the date of the first required interest payment. In addition to making the required payments, the Corporation also will be required to meet various covenants to avoid an event of default. In the event of a continuing default under the terms of the loan agreement, all amounts owing would become due on demand and interest of an additional 10% per annum could be charged on the outstanding principal balance at the option of the lender.

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

Remainder of 2021	<b>338,182</b>
2022	<b>730,668</b>
2023	<b>6,218,470</b>
2024	<b>(749)</b>
2025	<b>6,203,010</b>
Thereafter	<b>19,334,690</b>
	<b>32,824,271</b>

**19) OTHER LONG-TERM LIABILITIES**

<b>In \$, Balance comprised of:</b>	<b>Jun 30, 2021</b>	Dec 31, 2020
Deferred tax liability	<b>239,497</b>	16,729
Estimated liability for uncertain tax positions <sup>1</sup>	<b>6,124,950</b>	-
	<b>6,364,447</b>	16,729

<sup>1</sup> See description of this liability in Note 12 and description of the related indemnification asset in Note 8

**GABY INC.**

**Notes to the Condensed Interim Consolidated Financial Statements**

*In Canadian dollars, unless otherwise stated (Unaudited)*

**20) SHARE-BASED COMPENSATION AND PAYMENTS**

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

In \$	Note	Three months ended		Six months ended	
		June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
<b>Included in operating expenses:</b>					
Stock option plan employee compensation and consulting fees	a	37,150	156,607	76,268	357,221
Consulting fees settled through issuance of warrants		-	4,000	-	4,000
RSU plan employee compensation	b	117,449	40,086	202,153	44,576
Forfeiture of options		(34,123)	(301,015)	(34,123)	(398,978)
Amortization of prepaid share-based payment		-	-	-	27,573
Shares for services – KMP		95,000	-	140,000	-
Shares for services – other		228,634	-	279,884	-
<b>Total share-based payments included in operating income (loss)</b>		<b>444,110</b>	<b>(100,322)</b>	<b>664,182</b>	<b>34,392</b>
Lease guarantee fee paid or accrued to be paid in shares issued to certain KMP		17,937	-	17,937	-
<b>Total share-based payments included in net loss</b>		<b>462,047</b>	<b>(100,322)</b>	<b>682,119</b>	<b>34,392</b>
Settlement of accounts payable in lieu of cash	c	665,939	119,369	665,939	218,369
Settlement of amounts due to a director in lieu of cash payment		-	-	-	33,898
<b>Total share-based payments</b>		<b>1,127,986</b>	<b>19,047</b>	<b>1,348,058</b>	<b>286,659</b>

**a. Stock option plan**

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

	June 30, 2021		June 30, 2020	
	Average exercise price per option	Number of options	Average exercise price per option	Number of options
Opening	\$0.30	6,165,000	\$0.30	11,790,000
Forfeited	\$0.27	(1,290,000)	\$0.30	(5,625,000)
Closing	\$0.31	4,875,000	\$0.30	6,165,000
Vested and exercisable at period end	\$0.29	3,008,334	\$0.27	1,813,333

Share options outstanding as at June 30, 2021 and December 31, 2020 have the following range of exercise prices and weighted average remaining contractual life:

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

Exercise price	June 30, 2021		December 31, 2020	
	Number	Weighted average contractual life in years	Number	Weighted average contractual life in years
\$0.125	150,000	3.39	150,000	3.88
\$0.270	1,450,000	3.27	2,740,000	3.76
\$0.286	1,250,000	2.18	1,250,000	2.67
\$0.350	25,000	2.82	25,000	3.32
\$0.360	2,000,000	3.10	2,000,000	3.59
	<b>4,875,000</b>	<b>2.92</b>	6,165,000	3.49

The amount included in operating expenses for directors', officers' and consulting services received, net of forfeitures, for the three and six months ended June 30, 2021 is \$3,027 and \$42,145 (June 30, 2020 – negative \$144,408 and negative \$41,757) and is classified as contributed surplus on the Corporation's consolidated statement of financial position. Of the foregoing amounts, \$28,175 and \$57,895 was in respect of KMP for the three and six months ended June 30, 2021 (June 30, 2020 – negative \$138,102 and negative \$66,692).

**b. Restricted share units ("RSUs")**

Set out below is a summary of RSUs activity for the six months ended June 30, 2021 and 2020:

Number of RSUs	June 30, 2021	June 30, 2020
Opening	16,375,000	-
Granted	7,250,000	8,995,000
Forfeited	-	(655,000)
Issued as common shares	(1,573,334)	-
Closing	22,051,666	8,340,000
Vested at period end	940,002	-

The amount included in operating expenses for directors', officers' and consulting services received for the three and six months ended June 30, 2021 is \$117,449 and \$202,153 (June 30, 2020 - \$40,086 and \$44,576) and is classified as contributed surplus on the Corporation's consolidated statement of financial position. Of the foregoing amounts, \$81,026 and \$133,033 was in respect of KMP for the three and six months ended June 30, 2021 (June 30, 2020 - \$30,627 and \$31,965).



**GABY INC.****Notes to the Condensed Interim Consolidated Financial Statements***In Canadian dollars, unless otherwise stated (Unaudited)**c. Shares issued for settlement of accounts payable*

Six months ended:		June 30, 2021		June 30, 2020	
Shares issued in respect of:		Number	\$	Number	\$
Consulting service fees payable	i	2,748,703	275,565	1,646,695	94,500
Consulting services fees payable to related party	ii	-	-	1,834,210	123,869
Legal fees payable	iii	3,394,553	390,374	-	-
<b>Total common shares issued</b>		<b>6,143,256</b>	<b>665,939</b>	3,480,905	218,369

- i) Various consultants agreed to receive payment for consulting fees in shares rather than cash. The Corporation measured the fair value of services received as invoiced, as measured when such services were previously paid in cash. The common shares were measured using five-day weighted-average share price on date of issuance at an average of \$0.10 per share. The 2021 amount includes \$8,000 related to 200,000 warrants issued along with the shares to one of the consultants.
- ii) A consultant agreed to receive payment for current and future consulting fees in shares rather than cash. The Corporation measured the fair value of services received as invoiced as measured when such services were previously paid in cash. The common shares were measured using five-day weighted-average share price on date of issuance at an average of \$0.07 per share.
- iii) 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 five-day weighted-average share price on date of issuance at an average of \$0.12 per share.

**GABY INC.****Notes to the Condensed Interim Consolidated Financial Statements***In Canadian dollars, unless otherwise stated (Unaudited)***21) 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	\$		
<b>Balance as at December 31, 2019</b>		205,775,825	43,068,525	5,373,688	48,442,213
Issuance of shares to settle indebtedness to company controlled by director and officer		16,666,666	1,083,333	-	1,083,333
Issuance of shares to director from treasury		3,003,003	250,000	-	250,000
Stock option expense	20	-	-	357,221	357,221
RSU expense	20	-	-	44,576	44,576
Stock option forfeitures	20	-	-	(398,978)	(398,978)
Warrant forfeitures	b	-	-	(25,490)	(25,490)
Share-based payments	20	3,480,905	218,369	14,195	232,564
Issuance of shares to settle short-term notes payable		462,497	46,250	-	46,250
<b>Closing balance, June 30, 2020</b>		<b>229,388,896</b>	<b>44,666,477</b>	<b>5,365,212</b>	<b>50,031,689</b>
<b>Balance as at December 31, 2020</b>		237,793,408	45,074,695	5,721,708	50,796,403
Issuance of Units	a	80,140,444	3,446,039	560,983	4,007,022
Issuance of shares for business acquisition	3	157,894,737	6,789,474	-	6,789,474
Spin off of Subscription Receipts	a	172,929,123	7,435,952	1,210,504	8,646,456
Share-based payments	20	8,264,710	843,977	8,000	851,977
RSUs issued as common shares	20b	1,573,334	66,821	(66,821)	-
Equity issuance costs	a	-	(916,274)	319,703	(596,571)
Stock option expense	20	-	-	42,144	42,144
RSU expense	20	-	-	202,153	202,153
<b>Closing balance, June 30, 2021</b>		<b>658,595,756</b>	<b>62,740,684</b>	<b>7,998,374</b>	<b>70,739,058</b>

**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 of \$12.7 million.

Pursuant to the Brokered Private Placement, the Corporation issued 172,929,123 subscription receipts of the Corporation ("Subscription Receipts") at a price of \$0.05 per Subscription Receipt. The total value of \$8,646,456 was bifurcated between share capital and contributed surplus when the Subscription Receipts were converted to Units in June 2021 based

## GABY INC.

### Notes to the Condensed Interim Consolidated Financial Statements

*In Canadian dollars, unless otherwise stated (Unaudited)*

on the relative fair value of the common shares and Warrants issued.

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") upon the later of: (i) the satisfaction of certain escrow release conditions; and (ii) the date that is the earlier of: (A) June 5, 2021; and (B) the second business day following the filing of a qualifying prospectus.

Each Unit consists of: (i) one GABY Share; and (ii) one GABY Share purchase warrant (each, a "Warrant"). Each Warrant will entitle the holder to purchase a GABY Share at an exercise price of \$0.09, at any time up to 24 months following the date of issuance; provided that if, at any time prior to the expiry date of the Warrants, the volume weighted average trading price of the common shares on the CSE, or other principal exchange on which the GABY Shares are listed, is greater than \$0.18 for 5 consecutive trading days, the Corporation may, within 10 business days of the occurrence of such event, deliver a notice to the holders of the Warrants (the "Acceleration Right") accelerating the expiry date of the Warrants to the date that is 30 days following the date of such notice (the "Accelerated Exercise Period"). Any unexercised Warrants will automatically expire at the end of the Accelerated Exercise Period.

The Corporation issued Broker Warrants valued at \$319,703 (see Note 21c) and paid other fees and expenses of \$596,571, for aggregate equity issuance costs of \$916,274 which was offset against share capital.

Pursuant to the Non-Brokered Private Placement, the Corporation issued 80,140,444 Units at a price of \$0.05 per Unit. The total value of \$4,007,022 has been bifurcated between share capital and contributed surplus based on the relative fair value of the common shares and Warrants.

#### *b. Warrants*

Set out below are summaries of warrants activity for the six months ended June 30, 2021 and 2020:

	June 30, 2021		June 30, 2020	
	Average exercise price per warrant	Number of warrants	Average exercise price per warrant	Number of warrants
Opening <sup>1</sup>	\$0.38	38,404,193	\$0.38	78,590,766
Granted	\$0.09	253,269,567	\$0.28	2,000,000
Expired	\$0.38	(34,254,193)	-	-
Forfeited	-	-	\$0.54	(500,000)
Closing	\$0.12	257,419,567	\$0.37	80,090,766
Vested and exercisable at period end	\$0.12	254,819,567	\$0.37	79,490,766

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

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

Exercise price	June 30, 2021		December 31, 2020	
	Number of warrants	Weighted average contractual life in years	Number of warrants	Weighted average contractual life in years
\$0.09	253,069,567	1.83	-	-
\$0.15	200,000	0.81	-	-
\$0.20 - \$0.35	2,000,000	1.83	2,000,000	2.33
\$0.37	-	-	650,000	0.16
\$0.375 - 0.38	500,000	1.86	34,104,193	0.47
\$0.42 - \$0.65	1,650,000	0.85	1,650,000	1.34
	<b>257,419,567</b>	<b>2.44</b>	<b>38,404,193</b>	<b>0.60</b>

**c. Broker Warrants**

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

	June 30, 2021		December 31, 2020	
	Number	\$	Number	\$
Broker Warrants – February 2021	7,992,569	319,703	-	-
Broker Warrants – June 2019 <sup>1</sup>	-	-	4,522,634	927,140
		<b>319,703</b>		<b>927,140</b>

<sup>1</sup> Reflects expiration of these broker warrants in June 2021

**i. Broker Warrants – February 2021**

The Corporation issued Broker Warrants to the brokers in the February 2021 Brokered Private Placement. Each Broker Warrant entitles the holder to acquire one common share and one warrant at a combined price of \$0.05 for a period of 24 months following the Escrow Release Date of June 5, 2021. Each warrant acquired through exercise of the Broker Warrants entitles the holder to acquire one common share at a price of \$0.09 per share for a period of 24 months from the Escrow Release Date. The weighted average remaining life of the Broker Warrants is 1.93 years.

If at any time after the date of issuance, the volume weighted average trading price per common share is equal to or greater than \$0.18 for any five consecutive trading days, the Corporation shall be entitled, at the sole option of the Corporation, within ten business days of such event, to accelerate the Expiration Date to the date that is thirty days following the delivery of a written notice of acceleration to the holder.

**GABY INC.****Notes to the Condensed Interim Consolidated Financial Statements***In Canadian dollars, unless otherwise stated (Unaudited)***22) DIRECT INVENTORY COSTS**

In \$	Three months ended June 30,		Six months ended June 30,	
Balance comprised of:	2021	2020	2021	2020
Salaries and benefits	521,486	74,485	740,338	511,536
Direct material	6,068,989	486,741	8,864,163	1,480,297
Other direct costs	447,566	10,568	475,883	47,690
	<b>7,038,041</b>	571,794	<b>10,080,384</b>	2,039,523

**23) ALLOCATED INDIRECT COSTS**

In \$	Three months ended June 30,		Six months ended June 30,	
Balance comprised of:	2021	2020	2021	2020
Salaries and benefits	24,802	-	40,437	-
Production licences and permits	11,934	41,568	19,057	81,888
Production facility costs	90,912	7,086	111,511	57,091
Depreciation of production equipment	74,425	13,906	88,336	26,890
Other overhead costs	8,865	(815)	17,169	29,305
	<b>210,938</b>	61,745	<b>276,510</b>	195,174

**24) SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

In \$	Three months ended June 30,		Six months ended June 30,	
Balance comprised of:	2021	2020	2021	2020
Salaries and benefits	1,618,067	888,690	2,039,864	2,201,876
Consulting fees	129,656	317,155	341,532	712,408
Administrative costs	791,077	164,633	1,037,107	514,862
Advertising and promotion	332,402	36,290	428,437	71,124
Professional fees	330,323	205,286	465,687	381,467
	<b>3,201,525</b>	1,612,054	<b>4,312,627</b>	3,881,737

**25) 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 six months ended June 30, 2021 was 526,413,019 and 407,695,339 (three and six months ended June 30, 2020 – 228,398,710 and 225,672,574).

**GABY INC.****Notes to the Condensed Interim Consolidated Financial Statements***In Canadian dollars, unless otherwise stated (Unaudited)***26) NON-CASH TRANSACTIONS AND CASH FLOW DISCLOSURES**

The Corporation paid \$653,425 in income taxes for the three and six months ended June 30, 2021 (2020 - \$nil both periods).

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

<b>June 30, 2021, In \$</b>	<b>3 months</b>	<b>6 months</b>
1 Non-cash equity issuance costs:		
Decrease in restricted cash	-	325,226
Increase in accounts receivable	-	13,623
Increase in accounts payable	-	284,968
Increase in contributed surplus	-	319,703
Decrease in share capital (equity issuance costs recorded)	-	916,274
2 Assumption of bank indebtedness by certain KMP		
Increase in accounts payable to related party	-	155,370
Decrease in bank indebtedness	-	155,370
3 Business acquisition (nets to cash paid amount):		
Increase in share capital	6,789,474	6,789,474
Increase in accounts receivable (see Note 4)	959,547	959,547
Increase in goodwill and intangible assets	44,968,363	44,991,862
Increase in deferred tax liability	375,238	375,238
Increase in long-term debt	32,066,250	32,066,250
Increase in indemnification asset	5,915,159	5,915,159
Increase in assets (from Mankind)	14,626,800	14,626,800
Increase in liabilities (from Mankind)	20,974,907	20,974,907
4 Payment of accounts payable through issuance of common shares:		
Increase in share capital	657,939	657,939
Increase in contributed surplus	8,000	8,000
Decrease in accounts payable	641,374	641,374
Loss on settlement of debts	24,565	24,565
5 Spin off of Subscription Receipts:		
Decrease in share issuance obligation	8,646,456	8,646,456
Increase in common shares	7,435,952	7,435,952
Increase in contributed surplus	1,210,504	1,210,504
6 Issuance of RSUs as common shares		
Increase in common shares	66,821	66,821
Decrease in contributed surplus	66,821	66,821

## GABY INC.

### Notes to the Condensed Interim Consolidated Financial Statements

*In Canadian dollars, unless otherwise stated (Unaudited)*

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

## 27) FAIR VALUE OF FINANCIAL INSTRUMENTS

The Corporation's current financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, short-term notes payable, promissory notes 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.

## 28) SEGMENTED INFORMATION

The Corporation's chief operating decision makers are the Chief Executive Officer, the President and the Chief Financial Officer. They review the operating performance of the Corporation by two segments comprised of licensed and unlicensed channels, both of which are or were in the manufacturing, distribution, and marketing of cannabis or CBD products to address a variety of recreational and medical purposes including dietary and health concerns. The licensed channel includes cannabis-related products to which the manufacturing, sale and distribution are subject to regulation. The unlicensed channel includes all other wellness products not subject to the licensing requirements in respect of cannabis. The accounting policies of the segments are the same as those described in the summary of significant accounting policies contained in the Annual Financial Statements. The chief operating decision makers utilize gross profit as a key measure in making operating decisions and assessing performance. With the acquisition of Mankind, the Unlicensed segment is immaterial and, accordingly, segmented figures are not presented.

## **GABY INC.**

### **Notes to the Condensed Interim Consolidated Financial Statements**

*In Canadian dollars, unless otherwise stated (Unaudited)*

## **29) SUBSEQUENT EVENTS**

### **Closure of Sonoma Pacific Distribution**

In August 2021, management made the decision to shutter operations at Sonoma Pacific Distribution (“SPD”) and consolidate its manufacturing and distribution operations in San Diego, California at Wild West Industries. Management is in the process of terminating or relocating all SPD employees and arranging for termination of leases and other considerations resulting from the closure of SPD. Management expects to shed significant costs going forward and enable further synergies with Mankind as a result of this decision.

### **Equity issuances**

Subsequent to June 30, 2021, the Corporation has issued the following:

- A total of 4,630,415 common shares valued at \$196,424 to consultants and others for past and future services
- A total of 17,850,000 RSUs valued at \$538,178 based on a share price on date of grant of \$0.045 and a forfeiture rate of 33%, which will be recorded as an expense over the three years in which services are received with a corresponding amount recorded as contributed surplus