

GABY INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**FOR THE THREE AND NINE MONTHS
ENDED SEPTEMBER 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)
		September 30,	December 31,
<i>In Canadian dollars</i>	Note	2021	2020
ASSETS			
Current			
Cash		3,563,241	102,808
Restricted cash		-	83,760
Accounts receivable	4	1,062,497	611,107
Inventories	5	1,541,234	642,883
Prepaid expenses		517,935	86,857
		6,684,907	1,527,415
Non-current			
Property, plant and equipment	6	8,179,153	1,095,090
Intangible assets and goodwill	7	46,753,789	2,392,042
Other assets	8	6,114,798	22,086
Total assets		67,732,647	5,036,633
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank indebtedness	10	-	155,370
Accounts payable and accrued liabilities	9,11	8,786,100	7,065,310
Income taxes payable	12	1,641,906	61,405
Deferred revenue	13	269,655	-
Short-term notes payable	14	19,029	89,264
Promissory notes payable	15	257,489	1,411,233
Convertible debentures	16	526,116	653,904
Current portion of lease liabilities	17	665,381	61,504
Current portion of long-term debt	18	765,698	85,400
		12,931,374	9,583,390
Non-current liabilities			
Lease liabilities	17	8,098,569	569,157
Long-term debt	18	32,930,182	207,196
Other long-term liabilities	19	6,800,498	16,729
Total liabilities		60,760,623	10,376,472
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share issuance obligation		-	119,947
Share capital	21	63,068,431	45,074,695
Contributed surplus	20,21	8,184,831	5,721,708
Deficit		(64,324,076)	(55,933,646)
Accumulated other comprehensive income (loss)		42,838	(322,543)
		6,972,024	(5,339,839)
Total liabilities and shareholders' equity (deficiency)		67,732,647	5,036,633
Going concern	1		
Subsequent events	30		

See accompanying notes to the condensed interim consolidated financial statements

GABY INC.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Unaudited)		Three months ended		Nine months ended	
		September 30,		September 30,	
<i>In Canadian dollars</i>	Note	2021	2020	2021	2020
CONTINUING OPERATIONS					
REVENUE		9,530,505	806,699	24,213,436	2,995,955
COST OF SALES					
Direct inventory costs	22	5,516,892	678,471	15,597,276	2,717,994
Variable gross profit		4,013,613	128,228	8,616,160	277,961
Allocated indirect costs	23	209,963	51,903	486,473	247,077
Distribution costs		61,942	53,828	206,956	210,220
Total cost of sales		5,788,797	784,202	16,290,705	3,175,291
Gross profit (loss)		3,741,708	22,497	7,922,731	(179,336)
Selling, general and administrative expenses	24	3,285,786	1,393,110	7,598,413	5,274,847
Share-based compensation and expenses	20	435,728	148,353	1,099,910	182,745
Depreciation of property, plant and equipment	6	215,098	28,044	436,865	282,211
Loss from operations before the following:		(194,904)	(1,547,010)	(1,212,457)	(5,919,139)
Foreign exchange gain (loss)		(718,716)	13,754	(493,286)	(22,919)
Interest expense		(1,081,476)	(72,549)	(2,272,449)	(446,438)
Interest income		452	-	1,033	-
Impairment recovery (loss)	7	(1,014,880)	-	(1,014,880)	12,338
Transaction costs	3	-	-	(1,213,046)	-
Other items of income (expense)	25	(472,516)	134,586	(574,391)	(37,453)
Total other income (expense)		(3,287,136)	75,791	(5,567,019)	(494,472)
Loss before income tax expense (recovery)		(3,482,040)	(1,471,219)	(6,779,476)	(6,413,611)
Current income tax expense		796,201	-	1,634,866	5,565
Deferred income tax expense (recovery)		16,094	(80,255)	(23,912)	(179,718)
Income tax expense (recovery)		812,295	(80,255)	1,610,954	(174,153)
Net loss from continuing operations		(4,294,335)	(1,390,964)	(8,390,430)	(6,239,458)
DISCONTINUED OPERATIONS					
Net loss from discontinued operations		-	(145,116)	-	(1,095,648)
Net loss		(4,294,335)	(1,536,080)	(8,390,430)	(7,335,106)
Other comprehensive income (loss)					
Items that may be reclassified to net profit in the future:					
Exchange difference on translation		948,619	(156,829)	365,381	556,937
Total comprehensive loss		(3,345,716)	(1,692,909)	(8,025,049)	(6,778,169)
Net loss per share:					
Basic and diluted	26	(\$0.01)	(\$0.01)	(\$0.02)	(\$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		-	-	-	(7,335,106)	556,937	(6,778,169)
Issuance of shares to settle debts		-	1,467,088	-	-	-	1,467,088
Issuance of subscription shares		-	250,000	-	-	-	250,000
Stock option and RSU expense	20	-	-	265,127	-	-	265,127
Other share-based compensation		-	-	(11,295)	-	-	(11,295)
Balance as at September 30, 2020		-	44,785,613	5,627,520	(49,278,138)	8,843	1,143,838
Balance as at December 31, 2020		119,947	45,074,695	5,721,708	(55,933,646)	(322,543)	(5,339,839)
Net and comprehensive loss		-	-	-	(8,390,430)	365,381	(8,025,049)
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	-	397,768	-	-	-	397,768
RSUs issued as shares	20	-	108,300	(108,300)	-	-	-
Equity issued as payment of debts	20	-	732,477	8,000	-	-	740,477
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	-	-	506,356	-	-	506,356
Stock option forfeitures	20	-	-	(34,123)	-	-	(34,123)
Balance as at September 30, 2021		-	63,068,431	8,184,831	(64,324,076)	42,838	6,972,024

See accompanying notes to the condensed interim consolidated financial statements

GABY INC.

Condensed Interim Consolidated Statements of Cash Flows

(Unaudited)		Three months ended		Nine months ended	
		September 30,		September 30,	
<i>In Canadian dollars</i>	Note	2021	2020	2021	2020
OPERATING ACTIVITIES					
Net loss		(4,294,335)	(1,536,080)	(8,390,430)	(7,335,106)
Adjustments to reconcile net loss to cash flow from operations:					
Deferred income tax expense (recovery)		16,094	(80,255)	(23,912)	(179,718)
Depreciation	6	311,361	60,982	695,222	403,964
Impairment loss (recovery)	7	1,014,880	-	1,014,880	(12,338)
Loss (gain) on conversion of debt		1,406	-	(110,671)	(61,255)
Loss (gain) on disposal of assets		153,513	(12,010)	160,792	(12,973)
Gain on lease termination		(91,359)	-	(91,359)	(8,261)
Interest expense		1,081,476	73,172	2,272,449	459,097
Non-cash government assistance		-	(262,167)	-	(262,167)
Share-based compensation	20	669,575	278,353	1,099,910	312,745
Unrealized foreign exchange loss		718,513	2,280	258,709	34,609
Cash used in operating activities before the following:		(418,876)	(1,475,725)	(3,114,410)	(6,661,403)
Net change in non-cash working capital related to operations		1,021,575	1,230,346	64,531	4,992,688
Cash generated (used) in operating activities		602,699	(245,379)	(3,049,879)	(1,668,715)
INVESTING ACTIVITIES					
Purchase of property and equipment	6	(19,001)	-	(29,838)	(6,565)
Proceeds from sale of property and equipment		91,598	24,434	92,826	109,895
Business acquisition – net cash outflow	3	-	-	(2,100,050)	-
Deposits received (paid), net		-	-	1,899	(1,747)
Cash generated (used) in investing activities		72,597	24,434	(2,035,163)	101,583
FINANCING ACTIVITIES					
Proceeds on promissory notes		-	-	-	705,788
Proceeds on long-term debt		-	336,091	-	376,091
Advances from (repayments to) related parties		-	6,000	(194,056)	6,000
Repayment of short-term notes payable	14	-	-	(68,055)	-
Repayment of long-term debt		(228,653)	(30,605)	(410,927)	(65,380)
Repayment of lease liabilities	17	(126,485)	(18,668)	(239,990)	(145,946)
Repayment of promissory notes, debentures		-	-	(1,210,992)	-
Issuance of Units	21	-	-	4,007,022	250,000
Issuance of Subscription Receipts	21	-	-	8,321,230	-
Interest paid		(717,800)	(9,928)	(1,690,248)	(291,081)
Cash generated (used) in financing activities		(1,072,938)	282,890	8,513,984	835,472
Foreign currency translation adjustment		69,437	(23,972)	31,491	3,681
Net change in cash		(328,205)	37,973	3,460,433	(727,979)
Cash (Bank indebtedness), beginning of period		3,891,446	(67,001)	102,808	698,951
Cash (Bank indebtedness), end of period		3,563,241	(29,028)	3,563,241	(29,028)

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Condensed Interim Consolidated Statements of Cash Flows - Continued

(Unaudited) <i>In Canadian dollars</i>	Note	As at September 30,	
		2021	2020
CASH (BANK INDEBTEDNESS) CONSISTS OF:			
Cash		3,563,241	123,052
Bank indebtedness		-	(152,080)
		3,563,241	(29,028)

See accompanying notes to the condensed interim consolidated financial statements

See Note 27 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 nine months ended September 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.

While the Corporation anticipates becoming cashflow positive by the end of 2021, it has historically had operating losses, negative cash flows from operations, and working capital deficiencies. For the nine months ended September 30, 2021 the Corporation had a net loss of \$8.4 million and negative cash flow from operations of \$3.0 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 September 30, 2021 the working capital deficit amounted to \$6.2 million. Management believes it will harvest further synergies from the acquisition of Miramar and WWI, through the implementation of its consolidation strategy culminating in the recent closure of its Santa Rosa facilities, the cost cuts implemented in the third quarter of 2021 at Miramar and WWI, the shortening of inventory turns, and the reaping of additional margins on its proprietary brands through its self-manufacturing and self-distribution of its proprietary products and the sale of same into its proprietary retail channel, enhancing the performance of its omni-channel platforms, and continuing the 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 and to reach positive cash flow from operations by the fourth quarter of 2021.

Although these activities have been put in motion, unforeseen circumstances and uncertainties could cast doubt upon the Corporation's ability to continue as a going concern.

GABY may 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 and rights offerings to existing shareholders. The outcome of these matters

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Notes to the Condensed Interim Consolidated Financial Statements

In Canadian dollars, unless otherwise stated (Unaudited)

cannot be predicted at this time.

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

2) BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Statement of compliance

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

These Financial Statements were approved and authorized for issue by the Corporation’s audit committee on November 23, 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

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In Canadian dollars, unless otherwise stated (Unaudited)

to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

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

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

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

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

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

3) BUSINESS ACQUISITION

a) Description

Effective 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 of Mankind, the Corporation has secured a Type 10 retail license ("Type 10 License"), a Type 6 manufacturing license ("Type 6 License"), and a Type 11 distribution license ("Type 11 License") all issued by the Department of Cannabis Control in the state of California; 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 licenses), 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
		35,899,184	45,119,724
Purchase price adjustment – net working capital	b)	(763,059)	(959,547)
Total estimated consideration		35,136,125	44,160,177
The amounts recognized as of the acquisition date are as follows:			
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, plant and equipment	6	6,698,255	8,423,056
Security deposits		68,273	85,853
Intangibles – Type 6 and Type 11 Licenses	7	1,515,076	1,905,208
Intangibles – Type 10 License	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
		35,136,125	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 (CAD \$0.05) 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 (on an interest-free basis) 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.

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Notes to the Condensed Interim Consolidated Financial Statements

In Canadian dollars, unless otherwise stated (Unaudited)

The consideration is to be adjusted by the amount by which actual working capital (defined as working capital plus debt) is greater than (less than) target working capital of 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
Net cash outflow – investing activities	(1,688,708)	(2,100,050)

d) Goodwill

The composition of goodwill, if recognized, would include knowledge and experience of Mankind in respect of retail operations of cannabis products in the state of California; its established relationship with reputable cannabis manufacturers and distributors, as well as the expected synergies from the combination of Mankind's retail license with GABY's consumer packaged goods expertise in branding and retail operations. 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 September 30, 2021 were \$16,831,844 and \$1,243,374, respectively. The revenue and net loss of the Corporation for the nine months ended September 30, 2021 would have been \$32,525,124 and \$8,504,972, 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**

In \$, Balance comprised of:	Sep 30, 2021	Dec 31, 2020
Trade accounts receivable	749,301	888,369
GST receivable	13,713	68,055
Other accounts receivable	639,960	-
Sub-total before allowance	1,402,974	956,424
Allowance for doubtful accounts	(340,477)	(345,317)
	1,062,497	611,107
Aging of receivables:		
30 days	722,214	177,852
60 days	4,733	9,483
90 days	24,132	42,397
Over 90 days	651,895	726,692
	1,402,974	956,424

The balance of Other accounts receivable of \$639,960 as at September 30, 2021 primarily 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 generally allowed for at 100%. 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

In \$, Balance comprised of:	Sep 30, 2021	Dec 31, 2020
Raw and semi-finished materials	177,367	138,614
Packaging materials	23,433	170,174
Finished goods	1,340,434	334,095
	1,541,234	642,883

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

In \$	Three months ended		Nine months ended	
	September 30,		September 30,	
Inventories expensed:	2021	2020	2021	2020
Cost of sales	5,788,797	784,202	16,290,705	3,175,291
Discontinued operations	-	-	-	646,593
	5,788,797	784,202	16,290,705	3,821,884

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

In \$	Right-of use assets - facilities	Right-of use assets - equipment	All other property and equipment	Total
Balance as at December 31, 2019	6,471,210	56,579	857,159	7,384,948
Purchase	-	-	6,565	6,565
Disposals	(5,941,525)	(56,579)	(132,696)	(6,130,800)
Depreciation	(269,431)	-	(134,533)	(403,964)
Effect of foreign exchange ¹	311,701	-	37,789	349,490
Balance as at September 30, 2020	571,955	-	634,284	1,206,239
Balance as at December 31, 2020	527,930	-	567,160	1,095,090
Business acquisition	7,972,349	-	450,707	8,423,056
Additions	-	-	29,838	29,838
Disposals	(470,342)	-	(319,925)	(790,267)
Depreciation	(521,309)	-	(173,913)	(695,222)
Effect of foreign exchange ¹	54,660	-	61,998	116,658
Balance as at September 30, 2021	7,563,288	-	615,865	8,179,153

¹ Foreign exchange difference arising on translation of foreign operation into Canadian dollars.

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

	Sep 30, 2021	Sep 30, 2020
Cost of sales	258,357	117,119
Depreciation of plant and equipment	436,865	282,211
Loss from discontinued operations	-	4,634
	695,222	403,964

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

In \$	Cannabis licenses and permits	Goodwill	Total
Balance as at December 31, 2019	2,804,303	4,413,571	7,217,874
Effect of foreign exchange ¹	77,440	372,916	450,356
Balance as at September 30, 2020	2,881,743	4,786,487	7,668,230
Balance as at December 31, 2020	1,020,160	1,371,882	2,392,042
Business acquisition (Note 3)	3,162,708	41,805,655	44,968,363
Impairment of Sonoma Pacific Distribution license on lease termination and facility abandonment (Notes 1, 17)	(1,014,880)	-	(1,014,880)
Effect of foreign exchange ¹	22,637	385,627	408,264
Balance as at September 30, 2021	3,190,625	43,563,164	46,753,789

¹ 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:	Sep 30, 2021	Dec 31, 2020
Deferred tax asset	60,815	-
Indemnification asset	5,967,373	-
Security deposits	86,610	22,086
	6,114,798	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 September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
a. Amounts included in Selling, general and administrative expenses:				
Compensation of key management personnel ("KMP") ¹				
Cash compensation ²	252,769	51,333	480,009	408,490
Share-based compensation, net of forfeitures	102,681	83,871	433,609	49,144
Total compensation of KMP	355,450	135,204	913,618	457,634
Consulting fees to a company controlled by close family of certain KMP ³	45,000	45,000	135,000	135,000
Contract service fees to a company controlled by close family of certain KMP ⁴	18,896	-	37,320	-
Rent paid to a company controlled by certain KMP	-	-	-	10,968
b. Amounts included in Interest expense:				
Interest on convertible debentures to KMP	-	3,771	1,274	11,230
Interest on promissory notes to KMP	-	17,969	5,598	50,566
Lease guarantee fee to KMP (see Note 17)	17,643	-	35,580	-

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

c. Related party amounts included in statement of financial position	Sep 30, 2021	Dec 31, 2020
Included in prepaid expenses:		
Prepaid lease guarantee fee to KMP	16,752	-
Prepaid consulting fees to close family member of certain KMP	60,000	-
Prepaid share-based compensation to KMP	12,500	-
Included in promissory notes payable:		
To directors and entities controlled by directors	-	780,903
Included in convertible debentures:		
To entity controlled by directors	-	100,000
Included in accounts payable and accrued liabilities		
Compensation payable to KMP or their separate management entities	142,796	302,305
Other amounts due to KMP (expense reimbursements, etc.)	26,188	222,449
Interest payable in respect of b) above	-	19,973
Rent payable to a company controlled by certain KMP	15,356	15,356
Consulting fees payable to a company controlled by a close family member of KMP ³	-	31,500

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

² Includes \$70,647 and \$211,191 paid to separate management entities for the three and nine months ended September 30, 2021 (three and nine months ended September 30, 2020 - \$30,000 and \$103,333).

³ 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

⁴ 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.

GABY INC.**Notes to the Condensed Interim Consolidated Financial Statements***In Canadian dollars, unless otherwise stated (Unaudited)***11) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	In \$	
Balance comprised of:	Sep 30, 2021	Dec 31, 2020
Trade accounts payable	4,868,843	4,902,030
Credit cards payable	11,338	11,170
Payroll liabilities	620,379	128,412
Accrued liabilities	729,279	671,862
Sales, excise, and use taxes payable	2,556,261	1,351,836
	8,786,100	7,065,310
Aging of trade accounts payable:		
30 days	1,204,026	524,296
60 days	244,126	277,739
90 days	341,979	167,250
Over 90 days	3,078,712	3,932,745
	4,868,843	4,902,030

12) INCOME TAXES PAYABLE

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

In \$	Sep 30, 2021	Dec 31, 2020
Federal income tax payable relating to the year 2018 or prior	31,895	54,760
Federal income tax payable relating to the year 2019	5,342	6,645
Federal income tax provision for Mankind stub period ¹	507,440	-
Federal income tax provision for 2021 to date	913,392	-
California income tax provision for 2021 to date	183,837	-
Total income tax payable	1,641,906	61,405

¹ Six months ended March 31, 2021, for cut-off 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 \$6,537,340 as at September 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, \$5,967,373 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:	Sep 30, 2021	Dec 31, 2020
Outstanding rewards points, net ¹	256,391	-
Outstanding gift cards	13,264	-
	269,655	-

¹ Net of estimate of points that will not be redeemed of \$680,952 as at September 30, 2021 (December 31, 2020 – n/a)

GABY INC.

Notes to the Condensed Interim Consolidated Financial Statements

In Canadian dollars, unless otherwise stated (Unaudited)

14) SHORT-TERM NOTES PAYABLE

	Note	In \$	
		Sep 30, 2021	Dec 31, 2020
Promissory notes payable of USD 15,000 (December 31, 2020 – USD 70,000)	a	19,029	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.

15) PROMISSORY NOTES PAYABLE

	Note	In \$	
		Sep 30, 2021	Dec 31, 2020
Due to related parties, repaid during the 2021 period	a	-	780,903
Due to others:			
Promissory notes repaid during the 2021 period	a	-	324,995
Note payable, including accrued interest of \$2,557 (Dec 31, 2020 - \$55,336)	b	257,489	305,335
		257,489	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 nine months ended September 30, 2021 and 2020:

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

	In \$	
	September 30, 2021	September 30, 2020
Beginning balance as at December 31, 2020 and 2019	653,904	635,255
Repayments	(202,008)	-
Accrued interest recharacterized as principal	71,116	-
Interest accretion expense on warrants and legal	3,104	13,987
Ending balance of convertible debentures	526,116	649,242

Total interest for the three and nine months ended September 30, 2021 relating to the convertible debentures, including coupon interest and accretion of issuance costs, is \$19,892 and \$62,950 (September 30, 2020 - \$29,434 and \$87,765).

17) LEASE LIABILITIES

The Corporation is obligated under various lease agreements, all of which require escalating payments. The current payments as of September 30, 2021 are shown in the summary below, and the future escalating payments are reflected in the estimated future payment tables below. Except as noted, management has determined that it is reasonably certain that GABY will exercise all options to extend the leases. Accordingly, the lease terms used to calculate the lease liabilities include the renewal periods where applicable. A summary of long-term lease obligations is set forth below.

Finance leases, all secured by asset financed, due:	Monthly instalments (CAD) including interest	Interest	In \$	
			Sep 30, 2021	Dec 31, 2020
California, USA facilities				
Sonoma Pacific Distribution				
Lease terminated in September 2021 ¹	n/a	n/a	-	624,949
Miramar Professional Services²				
May 2025 with extension to May 2030	56,006	8.00%	5,962,230	-
Feb 2023, five-year extension available but not included in the lease term	10,276	8.00%	170,276	-
Wild West Industries				
Jan 2025, with extension to Jan 2030	32,208	8.00%	2,631,444	-
			8,763,950	624,949
Production equipment – repaid in 2021			-	5,712
Total lease liabilities			8,763,950	630,661
Less current portion			(665,381)	(61,504)
Long-term lease liabilities			8,098,569	569,157

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)*

Estimated payments on finance leases are as follows	In \$
Remainder of 2021	295,470
2022	1,402,716
2023	1,333,549
2024	1,351,726
2025	1,392,399
Thereafter	6,493,307
Total future minimum lease payments	12,269,167
Less amount representing interest	(3,505,217)
Finance lease obligations	8,763,950

Estimated principal repayments are as follows	
Remainder of 2021	120,993
2022	737,616
2023	727,854
2024	806,362
2025	915,480
Thereafter	5,455,645
	8,763,950

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

	In \$	
	September 30, 2021	September 30, 2020
Beginning balance as at December 31, 2020 and 2019	630,661	6,748,329
Acquired on business acquisition	8,888,474	-
Divestitures ¹	(582,306)	(6,236,504)
Total cash outflows for leases	(785,162)	(538,738)
Variable lease payments not included in the measurement of lease liabilities	117,796	107,525
Portion of lease payments allocated to interest expense	393,518	286,766
Guarantee fee – GABY warrants	-	(10,505)
Guarantee fee for Mankind leases ²	35,580	-
Effect of foreign exchange	65,389	320,071
Balance, end of period	8,763,950	676,944
Current portion of lease liabilities	(665,381)	(66,449)
Non-current portion, end of period	8,098,569	610,495

- 1 Management made the decision to cease operations at Sonoma Pacific Distribution effective August 2021 and, accordingly, sought and obtained termination of the lease agreement effective September 1, 2021. All asset and liability balances relating to this lease were cleared as of that date, with the net difference being recorded to gain on lease termination.
- 2 The MPS leases are guaranteed personally by an officer and director of GABY, for which a guarantee fee of 2% per annum of the outstanding balance of the leases liabilities is accrued monthly and paid to the guarantor in GABY shares from time to time.

GABY INC.**Notes to the Condensed Interim Consolidated Financial Statements***In Canadian dollars, unless otherwise stated (Unaudited)***18) LONG-TERM DEBT**

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

Repayable in monthly instalments, including interest, of:	Interest	Maturity	In \$	
			Sep 30, 2021	Dec 31, 2020
Mankind acquisition note payable (Note a)	10.00%	Apr 2028	32,349,300	-
Vehicle finance loans secured by the vehicles financed:				
USD 875	1.90%	Apr 2023	19,633	29,414
USD 1,150	5.24%	Sep 2022	16,944	29,322
USD 1,150	5.24%	Sep 2022	16,944	29,322
Loans repaid during 2021 to period end date			-	83,801
			53,521	171,859
Long-term debts held by Mankind on acquisition:				
WWI acquisition note payable (Note b)	6.00%	Jan 2022	324,762	-
WWI loan agreement (Note c)	18.50%	Dec 2022	473,354	-
			798,116	-
Government assistance loans, net of discount:				
Canada Emergency Business Account ("CEBA") loan, interest free and eligible for 25% debt forgiveness if 75% repaid by December 31, 2022. Otherwise, the loan converts on that date into a 3-year note bearing interest at 5% per annum			32,491	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			102,265	92,469
			134,756	120,737
Long-term settlement payable (Note d)			360,187	-
Total long-term debt			33,695,880	292,596
Less: current portion			(765,698)	(85,400)
			32,930,182	207,196

- a) 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.
- b) 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.
- c) 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 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

GABY INC.

Notes to the Condensed Interim Consolidated Financial Statements

In Canadian dollars, unless otherwise stated (Unaudited)

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 is also 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.

- d) Effective August 2021, the Corporation entered a settlement agreement with a former vendor for payment of outstanding amounts plus interest over a period of 3 years. The agreement requires blended interest and principal payments of USD 2,500 per month in year one, USD 3,500 per month in year two, and USD 4,500 per month in year three, with a balloon payment of the remaining principal and accrued interest due following the 3-year payment period. Interest is incurred on the outstanding balance at an annual rate of 6.00% in year one, US prime rate + 4.00 % in year two, and US prime rate + 6.00 % in year three.

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

Remainder of 2021	171,205
2022	732,989
2023	6,378,257
2024	301,455
2025	6,342,499
Thereafter	19,769,475
	33,695,880

19) OTHER LONG-TERM LIABILITIES

In \$, Balance comprised of:	Sep 30, 2021	Dec 31, 2020
Deferred tax liability	263,158	16,729
Estimated liability for uncertain tax positions ¹	6,537,340	-
	6,800,498	16,729

¹ 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 are as follows:

In \$	Note	Three months ended September 30,		Nine months ended September 30,	
		2021	2020	2021	2020
Included in operating expenses:					
Stock option plan compensation	a	22,927	79,865	99,195	437,086
Consulting fees settled through issuance of warrants		-	-	-	4,000
RSU plan compensation	b	205,008	52,443	407,161	97,019
Forfeiture of options		-	-	(34,123)	(398,978)
Amortization of prepaid share-based payment		-	16,045	-	43,618
Shares for services – KMP and other related party		99,167	-	239,167	-
Shares for services – other		108,626	-	388,510	-
Total share-based payments included in operating income (loss)		435,728	148,353	1,099,910	182,745
Lease guarantee fee paid or accrued to be paid in shares issued to certain KMP		17,643	-	35,580	-
RSU plan expense included in loss from discontinued operations		-	130,000	-	130,000
Total share-based payments included in net loss		453,371	278,353	1,135,490	312,745
Settlement of accounts payable in lieu of cash	c	74,537	119,136	740,476	337,505
Settlement of amounts due to a director in lieu of cash payment		-	-	-	33,898
Total share-based payments		527,908	397,489	1,875,966	684,148

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:

	September 30, 2021		September 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	\$0.30	3,675,001	\$0.30	2,896,666

Share options outstanding as at September 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	September 30, 2021		December 31, 2020	
	Number	Weighted average contractual life in years	Number	Weighted average contractual life in years
\$0.125	150,000	3.14	150,000	3.88
\$0.270	1,450,000	3.02	2,740,000	3.76
\$0.286	1,250,000	1.93	1,250,000	2.67
\$0.350	25,000	2.57	25,000	3.32
\$0.360	2,000,000	2.85	2,000,000	3.59
	4,875,000	2.67	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 nine months ended September 30, 2021 is \$22,927 and \$65,072 (September 30, 2020 – \$79,865 and \$38,108) and is classified as contributed surplus on the Corporation's consolidated statement of financial position. Of the foregoing amounts, \$18,462 and \$76,357 was in respect of KMP for the three and nine months ended September 30, 2021 (September 30, 2020 – \$52,700 and negative \$13,992).

b. Restricted share units ("RSUs")

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

Number of RSUs	September 30, 2021	September 30, 2020
Opening	16,375,000	-
Granted	31,600,000	13,395,000
Forfeited	-	(895,000)
Issued as common shares	(2,513,336)	-
Closing	45,461,664	12,500,000
Vested at period end	1,466,667	-

The amount included in share-based compensation and expenses for directors', officers', employees', and consulting services received for the three and nine months ended September 30, 2021 is \$205,008 and \$407,161 (September 30, 2020 - \$52,443 and \$97,019) 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 nine months ended September 30, 2021 (September 30, 2020 - \$31,171 and \$63,136). Expense of \$130,000 was included in loss from discontinued operations for the three and nine months ended September 30, 2020.

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*

Nine months ended: Shares issued in respect of:	September 30, 2021		September 30, 2020	
	Number	\$	Number	\$
Consulting service fees payable	2,357,914	244,125	2,676,809	141,750
Consulting services fees payable to related party	-	-	2,864,324	171,119
Corporate service fees payable	1,322,800	58,727	550,291	24,636
Legal fees payable	4,575,803	437,624	-	-
Total common shares issued	8,256,517	740,476	6,091,424	337,505

- 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) Various legal firms 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 \$0.10 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	\$		
Balance as at December 31, 2019		205,775,825	43,068,525	5,373,688	48,442,213
Issuance of shares to settle indebtedness to company controlled by director and officer		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	-	-	437,086	437,086
RSU expense	20	-	-	227,019	227,019
Stock option forfeitures	20	-	-	(398,978)	(398,978)
Warrant forfeitures	b	-	-	(25,490)	(25,490)
Share-based payments	20	6,091,424	337,505	14,195	351,700
Issuance of shares to settle short-term notes payable		462,497	46,250	-	46,250
Closing balance, September 30, 2020		231,999,415	44,785,613	5,627,520	50,413,133
Balance as at December 31, 2020		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	14,635,056	1,130,245	8,000	1,138,245
RSUs issued as common shares	20b	2,513,336	108,300	(108,300)	-
Equity issuance costs	a	-	(916,274)	319,703	(596,571)
Stock option expense	20	-	-	65,072	65,072
RSU expense	20	-	-	407,161	407,161
Closing balance, September 30, 2021		665,906,104	63,068,431	8,184,831	71,253,262

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

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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 nine months ended September 30, 2021 and 2020:

	September 30, 2021		September 30, 2020	
	Average exercise price per warrant	Number of warrants	Average exercise price per warrant	Number of warrants
Opening ¹	\$0.38	38,404,193	\$0.38	78,590,766
Granted	\$0.09	253,269,567	\$0.28	2,000,000
Expired	\$0.38	(34,804,193)	\$0.37	(41,686,573)
Forfeited	-	-	\$0.54	(500,000)
Closing	\$0.09	256,869,567	\$0.38	38,404,193
Vested and exercisable at period end	\$0.09	254,269,567	\$0.38	35,804,193

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

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

Exercise price	September 30, 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	1.58	-	-
\$0.15	200,000	0.56	-	-
\$0.20 - \$0.35	2,000,000	1.58	2,000,000	2.33
\$0.37	-	-	650,000	0.16
\$0.375 - 0.38	300,000	2.84	34,104,193	0.47
\$0.42 - \$0.65	1,300,000	0.63	1,650,000	1.34
	256,869,567	1.57	38,404,193	0.60

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:

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

¹ 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 1.68 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 September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Balance comprised of:				
Salaries and benefits	420,691	139,444	1,161,029	650,980
Direct material	4,755,832	527,710	13,619,995	2,008,007
Other direct costs	340,369	11,317	816,252	59,007
	5,516,892	678,471	15,597,276	2,717,994

23) ALLOCATED INDIRECT COSTS

In \$	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Balance comprised of:				
Salaries and benefits	16,869	-	57,306	-
Production licenses and permits	19,213	1,456	38,270	83,344
Production facility costs	94,470	26,822	205,981	83,913
Depreciation of production equipment	71,370	13,389	159,706	40,279
Other overhead costs	8,041	10,236	25,210	39,541
	209,963	51,903	486,473	247,077

24) SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

In \$	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Balance comprised of:				
Salaries and benefits	1,705,939	405,925	3,745,803	2,607,801
Consulting fees	110,807	203,622	452,339	916,030
Administrative costs	821,371	472,494	1,858,478	987,356
Advertising and promotion	275,183	30,925	703,620	102,049
Professional fees	372,486	280,144	838,173	661,611
	3,285,786	1,393,110	7,598,413	5,274,847

GABY INC.**Notes to the Condensed Interim Consolidated Financial Statements***In Canadian dollars, unless otherwise stated (Unaudited)***25) OTHER ITEMS OF INCOME (EXPENSE)**

In \$	Note	Three months ended		Nine months ended	
		September 30,		September 30,	
Balance comprised of:		2021	2020	2021	2020
Gain (loss) on settlement of debts		(1,406)	-	110,671	61,255
Gain (loss) on disposal of assets		(153,514)	-	(160,793)	963
Gain on lease termination		91,359	-	91,359	543
Government assistance income		-	267,579	-	267,579
Penalties and interest on past-due taxes		(172,567)	(133,240)	(266,669)	(368,040)
Other income (expense)		(236,388)	247	(348,959)	247
		(472,516)	134,586	(574,391)	(37,453)

26) LOSS PER SHARE

Basic loss per share is calculated by dividing the net loss by the weighted average number of shares outstanding during the period. The potentially dilutive common shares issuable on the outstanding Warrants, Broker Warrants, Stock Options, and RSUs are non-dilutive and are therefore excluded from the diluted loss per share for the periods in which they were outstanding. The weighted average numbers of shares outstanding for the three and nine months ended September 30, 2021 was 662,093,055 and 493,426,437 (three and nine months ended September 30, 2020 – 230,330,565 and 227,236,571).

27) NON-CASH TRANSACTIONS AND CASH FLOW DISCLOSURES

The Corporation paid \$486,107 and \$1,139,532 in income taxes for the three and nine months ended September 30, 2021 (2020 - \$nil both periods).

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

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

September 30, 2021, in \$	3 months	9 months
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
Increase in accounts receivable (see Note 4)	-	959,547
Increase in goodwill and intangible assets	-	44,968,363
Increase in deferred tax liability	-	375,238
Increase in long-term debt	-	32,066,250
Increase in indemnification asset	-	5,915,159
Increase in assets (from Mankind)	-	14,626,800
Increase in liabilities (from Mankind)	-	20,974,907
4 Payment of accounts payable through issuance of common shares:		
Increase in share capital	74,537	732,476
Increase in contributed surplus	-	8,000
Decrease in accounts payable	74,479	715,853
Loss on settlement of debts	58	24,623
5 Spin off of Subscription Receipts:		
Decrease in share issuance obligation	-	8,646,456
Increase in common shares	-	7,435,952
Increase in contributed surplus	-	1,210,504
6 Issuance of RSUs as common shares		
Increase in common shares	41,479	108,300
Decrease in contributed surplus	41,479	108,300
7 The following adjustments were recorded as a result of a lease termination:		
Decrease in property, plant and equipment	466,946	466,946
Decrease in security deposits	19,798	19,798
Decrease in lease liabilities	578,103	578,103
Gain on lease termination	91,359	91,359
8 Accounts payable converted to long-term debt (settlement agreement)		
Decrease in accounts payable	357,105	357,105
Increase in long-term debt	357,105	357,105

GABY INC.

Notes to the Condensed Interim Consolidated Financial Statements

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September 30, 2020, in \$		3 months	9 months
1	The following adjustments were recorded as a result of lease terminations:		
	Increase in accounts receivable	-	16,500
	Decrease in property, plant and equipment	259,612	5,891,727
	Decrease in security deposits	18,156	202,931
	Decrease in lease liabilities	277,942	6,088,618
	Increase in accrued liabilities	174	2,199
	Gain on lease terminations	-	8,261
2	Payment of consulting fees through issuance of common shares:		
	Increase in common shares	119,136	337,505
	Decrease in accounts payable	119,136	323,886
	Loss on settlement of debts	-	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

28) 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.

29) 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 consumer products. The licensed channel includes cannabis-related products to which the manufacturing, sale and distribution are subject to regulation. The unlicensed channel includes all other non-THC products, including CBD-infused 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

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30) SUBSEQUENT EVENTS

Equity issuances

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

- A total of 542,850 common shares valued at \$21,714 to consultants and others for services provided
- 12,500,000 common shares and 6,250,000 common share purchase warrants in exchange for cash of \$616,250 from an investor. The common share purchase warrants have an exercise price of \$0.09 and life of 24 months

New equipment lease

In October 2021, the Corporation entered into a new lease agreement for warehouse equipment at the manufacturing and distribution facility. The lease has a term of 5 years and requires monthly payments of USD 583 per month, which includes interest at an implicit rate of 2.14% per annum as well as routine maintenance services. The agreement includes an option to buy the equipment for fair market value at the end of the lease term. As a result of entering this agreement, the Corporation recorded a lease liability and right-of-use asset of approximately USD 30,000 on the commencement date of the lease.