GABRIELLA’S KITCHEN INC.

CONDENSED INTERIM CONSOLIDATED FINANICAL STATEMENTS

(UNAUDITED)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

(in Canadian dollars)

GABRIELLA'S KITCHEN INC.

CONTENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(in Canadian dollars)

GABRIELLA'S KITCHEN INC.

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 Gabriella's Kitchen 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.

Gabriella's Kitchen Inc.

Condensed Interim Consolidated Statements of Financial Position

($CDN)

As at

			(Unaudited) June 30, 2018		(Audited) December 31, 2017
ASSETS					
Current Assets					
Cash and cash equivalents		$	3,001,683	$	15,767
Accounts receivable	Note 14		238,087		302,536
Inventories	Note 3		297,398		169,041
Prepaid expenses and deferred costs			180,289		245,277
GST receivable			62,979		46,758
Short-term note receivable from a related party	Note 7		724,014		-
			4,504,450		779,379
Non-Current Assets					
Property and equipment	Note 4		341,967		336,334
Intangible assets			11,082		15,284
Security deposits			32,995		32,995
TOTAL ASSETS		$	4,890,494	$	1,163,992
LIABILITIES AND EQUITY					
Current Liabilities					
Bank indebtedness		$	-	$	167,611
Accounts payable and accrued liabilities	Note 5		640,866		748,617
Current portion of long-term debt			-		7,308
Current portion of finance lease obligation			26,525		15,496
Current liabilities before convertible debentures, callable debt, and amounts due to related parties			667,391		939,032
Convertible debentures	Note 7, 8		5,345,673		-
Callable debt	Note 6		150,000		3,978,897
Due to (from) related parties	Note 7		244,494		841,488
			6,407,558		5,759,417
Non-Current Liabilities					
Finance lease obligation			36,469		24,329
Deferred lease inducement			33,386		30,758
Share subscription liability	Note 9		32,888		239,500
Total Liabilities			6,510,301		6,054,004
Shareholders' Deficiency					
Share capital	Note 11		11,665,918		6,544,097
Contributed surplus	Note 11		998,257		-
Deficit			(14,283,982)		(11,434,109)
Total Deficiency			(1,619,807)		(4,890,012)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY		$	4,890,494	$	1,163,992

GOING CONCERN (Note 1)
SEGMENTED INFORMATION AND ECONOMIC DEPENDENCE (Note 17)

On behalf of the Board of Directors

(signed) , Director — *(signed)* , Director

Margot M. Micallef — Jackie L. Altwasser

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Gabriella's Kitchen Inc.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

($CDN) (Unaudited)

For the periods ended June 30

		Three months		*Six months*	
		2018	**2017**	**2018**	**2017**
Sales					
Gross sales		$ 560,952	$ 206,289	$ 1,222,251	$ 450,383
Promotional activity		(213,329)	(20,942)	(387,631)	(38,336)
Amortization of product listing fees		(27,886)	(21,251)	(57,564)	(42,501)
Total Sales		319,737	164,096	777,056	369,546
Cost of Sales					
Direct inventory costs		313,709	96,186	686,305	220,102
Variable gross profit		6,028	67,910	90,751	149,444
Allocated indirect costs		217,418	88,919	354,415	182,228
Distribution costs		53,217	28,289	114,023	76,246
Gross Profit After Distribution and Allocated Indirect Costs		(264,607)	(49,298)	(377,687)	(109,030)
Operating Expenses	Note 7	1,106,286	758,663	1,892,502	1,463,576
Loss from Operations		(1,370,893)	(807,961)	(2,270,189)	(1,572,606)
Other Income (Expense)					
Gain (loss) on foreign exchange transactions and translation		(93,421)	7,751	(100,035)	5,242
Gain on conversion of debt	Note 11	72,126	-	72,126	-
Interest expense	Note 7, 8	(146,396)	(50,641)	(154,874)	(99,891)
Interest income	Note 7	791	18	791	64
Contract termination payment	Note 10	(341,716)	-	(341,716)	-
Loss on inventory write-down	Note 3	-	(54,081)	(55,976)	(103,213)
Total Other Income (Expense)		(508,616)	(96,953)	(579,684)	(197,798)
Net Loss and Comprehensive Loss		$ (1,879,509)	$ (904,914)	$ (2,849,873)	$ (1,770,404)
Basic and Diluted Loss per Share	Note 12	$ (0.04)	$ (0.02)	$ (0.06)	$ (0.04)
Total Weighted Average Common Shares Outstanding	Note 12	50,829,106	43,391,393	48,084,983	42,000,986

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

		Shares	Share capital	Contributed Surplus	Deficit	Total
Balance, December 31, 2016	Note 11a	38,230,689	4,599,543	-	(7,673,850)	(3,074,307)
Issuance of shares	Note 11a	6,345,675	1,734,838	-	-	1,734,838
Net loss and comprehensive loss		-	-	-	(1,770,404)	(1,770,404)
Balance, June 30, 2017		44,576,364	6,334,381	-	(9,444,254)	(3,109,873)
Balance, December 31, 2017	Note 11a	45,310,370	6,544,097	-	(11,434,109)	(4,890,012)
Issuance of shares and warrants for cash	Note 11	2,245,712	548,104	93,520	-	641,624
Issuance of shares and warrants - debt conversion	Note 11	16,262,551	3,969,207	677,235	-	4,646,442
Issuance of warrants attached to convertible debentures	Note 11	-	-	102,616	-	102,616
Share-based compensation	Note 11	2,476,846	341,716	124,886	-	466,602
Net loss and comprehensive loss		-	-	-	(2,849,873)	(2,849,873)
Balance, June 30, 2018		66,295,479	11,403,124	998,257	(14,283,982)	(1,882,601)

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Gabriella's Kitchen Inc.

Condensed Interim Consolidated Statements of Cash Flows

($CDN) (Unaudited)

For the periods ended June 30

	Three months		*Six months*	
	2018	**2017**	**2018**	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss	$ (1,879,509)	$ (904,914)	$ (2,849,873)	$ (1,770,404)
Add back (deduct) items not involving cash:				
Depreciation	37,665	32,417	74,083	62,848
Amortization of intangible assets	2,100	2,532	4,202	5,064
Interest expense	146,396	50,641	154,874	99,891
Interest income	(791)	(18)	(791)	(64)
Share-based payments	341,716	-	341,716	-
Gain on foreign exchange from non-cash transaction	-	(142)	-	(142)
Gain on conversion of debt	(72,126)	-	(72,126)	-
Increase in deferred lease inducement	(123)	2,752	2,628	8,378
	(1,424,672)	(816,732)	(2,345,287)	(1,594,429)
Changes in non-cash working capital items:				
Accounts receivable	(18,487)	(327,966)	153,545	(108,337)
Inventories	22,284	19,511	(128,357)	3,035
Prepaid expenses and deferred costs	32,811	1,557	64,988	25,535
GST	(6,743)	21,049	(16,221)	33,228
Accounts payable and accrued liabilities	(556,173)	(7,771)	(192,201)	(153,944)
Net cash used in operating activities	**(1,950,980)**	**(1,110,352)**	**(2,463,533)**	**(1,794,912)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property and equipment	(38,595)	(3,968)	(43,771)	(19,033)
Purchase of intangible assets	-	(2,494)	-	(11,491)
Issuance of notes receivable	(732,160)	-	(732,160)	-
Deposits returned	-	3,210	-	3,210
Interest received	-	18	-	64
Net cash used in investing activities	**(770,755)**	**(3,234)**	**(775,931)**	**(27,250)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds of callable debt	387,960	-	387,960	30,000
Proceeds of convertible debentures	6,049,288	-	6,049,288	-
Issuance costs paid - convertible debentures	(359,720)	-	(359,720)	-
Proceeds of warrants issued	102,616	-	102,616	-
Advances received on (repayment of) related party payables	(95,775)	104,012	-	206,013
Repayment of callable debt	(258,400)	-	(258,400)	-
Repayment of long-term debt	-	(7,485)	(7,308)	(14,891)
Repayment of finance lease obligation	(6,080)	(1,710)	(12,776)	(3,381)
Cash received for shares not yet issued	-	-	435,012	149,500
Interest paid	(11,027)	(2,786)	(19,505)	(5,926)
Issuance of share capital	-	1,017,500	-	1,730,750
Net cash generated by financing activities	**5,808,862**	**1,109,531**	**6,317,167**	**2,092,065**
Foreign currency translation adjustment	48,427	(7,646)	75,824	(11,349)
Net increase in cash and cash equivalents for the period	3,135,554	(11,701)	3,153,527	258,554
Cash and cash equivalents, beginning of the period	(133,871)	100,161	(151,844)	(170,094)
Cash and cash equivalents, end of the period	**$ 3,001,683**	**$ 88,460**	**$ 3,001,683**	**$ 88,460**
	$ -			

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

	June 30, 2018	June 30, 2017
Cash consists of:		
Cash	3,001,683	98,190
Bank indebtedness		
US dollar accounts (stated in Canadian dollars)	-	(9,730)
	3,001,683	**88,460**

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Gabriella's Kitchen Inc. was 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. The subsidiary, Gabriella's Kitchen LLC, was organized in the United States of America with the Delaware Secretary of State on September 16, 2014 and is wholly owned by the Corporation.

The Corporation is a producer and marketer of better-for-you food products in both Canada and the United States of America.

1. GOING CONCERN

These unaudited condensed interim consolidated financial statements have been prepared using International Financial Reporting Standards 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.

The Corporation is in the initial growth stage of the business life cycle and has not yet reached a profitable level of operations. Until the Corporation reaches profitability, its ability to continue as a going concern is dependent upon the availability of operating and long-term financing. Management is continuing to address the need to increase revenue, control costs, and obtain working capital and long-term financing. On June 13, 2018, the Corporation issued $6,350,000 convertible debentures (see Note 8) which subsequent to June 30, 2018 were converted to common shares of the Corporation (see Note 18), which along with anticipated proceeds from business operations, should enable it to fund its operational losses for one year and beyond.

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 CHANGES TO ACCOUNTING POLICIES

Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including IAS 34, Interim Financial Reporting ("IAS 34").

The interim condensed financial statements do not include all the information and disclosures required in the annual audited financial statements, and should be read in conjunction with the Corporation's annual financial statements as at December 31, 2017.

The approval and authorization for issue of the condensed interim consolidated financial statements was delegated by the Board of Directors to the Corporation's audit committee, which provided its approval thereof on September 5, 2018.

2. BASIS OF PRESENTATION AND CHANGES TO ACCOUNTING POLICIES (continued)

New Standards, Interpretations and amendments adopted by the Corporation

The accounting policies adopted in the preparation of the condensed interim consolidated financial statements are consistent with those followed in the preparation of the Corporation's annual consolidated financial statements for the year ended 31 December 2017. The Corporation has not adopted or early adopted any other standard, interpretation or amendment that has been issued but is not yet effective other than the application of accounting policies to new transactions as follows:

Convertible debentures

Convertible debentures, where applicable, are separated into their liability and equity components using the effective interest rate method. The fair value of the liability component at the time of issue was determined based on an estimated interest rate of the debentures without the conversion feature. The fair value of the equity components is determined as the difference between the proceeds received on the issuance of convertible debentures and accompanying equity components and the fair value of the liability component and is apportioned to the equity components based on the relative fair values thereof on the date of issuance as determined using the Black-Scholes option pricing model.

New Critical Accounting Estimates, Judgments, and Measurement Uncertainty

Share-Based Payments – significant estimates and assumptions

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the share-based payment and the nature of services being provided. The Corporation measures share-based payment based on the fair value of the goods or services received unless that fair value cannot be estimated reliably, in which case the fair value of the equity instruments granted is used. In such cases, the Corporation uses the Black-Scholes option pricing model to fair value the equity instruments which requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. The assumptions used are outlined in Note 10.

Accounting Standards Issued and Not Applied

Certain new accounting standards and interpretations have been published that are not mandatory for June 30, 2018 reporting periods and have not been early adopted by the Corporation. The Corporation's assessment of the impact of these new standards and interpretations is set out below.

IFRS 16, Leases, was issued in January 2016 and applies to annual reporting periods beginning on or after January 1, 2019. IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standards provides a single lessee accounting model, requiring lessees to recognize an asset and a liability for all leases unless the term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The Corporation is in the process of evaluating the impact that IFRS 16 may have on the financial statements.

3. INVENTORIES

In $	30 June 2018	31 Dec 2017
Raw and semi-finished materials	**42,063**	23,538
Packaging materials	**64,393**	57,748
Finished goods	**190,942**	87,755
	297,398	169,041

Inventories expensed in cost of sales for the three and six months ended June 30, 2018 were $584,344 and $1,154,743, respectively, (June 30, 2017 - $213,394 and $478,576, respectively). Total respective write-downs of inventory amounted to $nil and $55,976 (June 30, 2017 - $54,081 and $103,213, respectively). The write-off amounts were excluded from cost of sales and expensed as an other expense item titled “Loss on inventory write-down”. This amount resulted from a significant and unusual write-off of inventory that expired and was no longer able to be sold, as well as a write-down of inventory to estimated net realizable value.

4. PROPERTY AND EQUIPMENT

During the three and six months ended June 30, 2018 the Corporation acquired assets with a cost of $38,595 and $43,771; respectively, **(**June 30, 2017 $3,968 and $19,033, respectively) and disposed of no assets (June 30, 2017 - $nil).

Depreciation charged to capital assets for the periods consists of the following:

	Three months ended		Six months ended	
June 30,	**2018**	**2017**	**2018**	**2017**
Included in operating expenses	**$ 9,556**	$ 3,260	**$ 17,867**	$ 5,583
Allocated to cost of sales	**29,069**	22,947	**48,218**	42,943
Inventory overhead allocation	**(960)**	6,210	**7,998**	14,322
Total depreciation recognized	**$ 37,665**	$ 32,417	**$ 74,083**	$ 62,848

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

In $	30 June 2018	31 Dec 2017
Trade accounts payable	**481,370**	690,914
Credit cards payable	**6,136**	9,600
Payroll liabilities	**21,983**	17,090
Accrued liabilities	**131,377**	31,013
	640,866	748,617

	30 June 2018	31 Dec 2017
30 days	**398,476**	290,683
60 days	**22,906**	217,906
90 days	**3,670**	32,786
Over 90 days	**56,318**	149,539
	481,370	690,914

In the current period, trade accounts payable includes $47,002 (December 31, 2017 - $53,424) due to shareholders, employees, and entities under common control.

6. CALLABLE DEBT

In $	30 Jun 18	31 Dec 17
Demand promissory note payable to a related party (family member of multiple shareholders). The note accrues interest at prime plus 5.00% and has no specified payment terms.	**150,000**	150,000
Demand promissory notes payable to various parties, converted to share capital and warrants in the current period.	**-**	3,828,897
	150,000	3,978,897

The Corporation settled all of the callable debt in 2018 through issuance of Common Shares and Warrants (see Note 11) with the exception of one promissory note of $150,000 which was repaid subsequent to June 30, 2018.

7. RELATED PARTY TRANSACTIONS

Transactions

These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties, with the exception of the Compensation Warrants which were valued in accordance with share-based payments as described in Note 10. No amounts are owing to or owing from the related parties in respect of the transactions unless otherwise referenced in the table below.

June 30,	Three months ended		Six months ended	
In $	2018	2017	2018	2017
Amounts included in Operating Expenses:				
Consulting fees to corporate shareholders, see c) in table below for balances outstanding	**74,999**	74,999	**149,998**	149,998
Other expenses on behalf of the Corporation by a corporate shareholder and an entity related by common ownership (see Note 5 for balances outstanding)	**31,360**	93,602	**72,574**	112,244
Amount included in Interest expense:				
Interest on callable debt to shareholders and an entity related by common ownership	**7,086**	49,738	**10,119**	97,732
Convertible debentures issued (netted as issue cost of convertible debenture):				
Finder's fees paid to a company significantly influenced by a controlling owner of a corporate shareholder and who is a family member of multiple shareholders – included in total Issue costs – professional fees and commissions of $649,400 as per Note 8 with balance outstanding in a) below	**(205,230)**	-	**(205,230)**	-
285 Compensation Warrants for finder's fees issued to the same company above, in connection with issuance of convertible debentures – included in $80,045 fair value of Compensation Warrants as per Note 8 and Note 10	**(47,330)**	-	**(47,330**	-
Convertible debentures issued to same corporate shareholder referred to above with balance outstanding in b) below	**125,000**	-	**125,000**	-

7. RELATED PARTY TRANSACTIONS - CONTINUED

Due to (from) related parties

	In $	**30 June 2018**	**31 Dec 2017**
a.	Company significantly influenced by a controlling owner of a corporate shareholder and who is a family member of multiple shareholders, paid after June 30, 2018	**205,230**	-
b.	Corporate shareholder as referred to in a. above, received after June 30, 2018	**(109,000)**	-
c.	Corporate shareholder, controlled by a director	**148,264**	845,774
d.	Shareholder and director	**-**	(4,286)
		244,494	841,488

The balances due to related parties are unsecured, non-interest bearing with no specific terms of repayment. On June 13, 2018, $693,224 of the $845,774 amount to the corporate shareholder above was converted to Common Shares and Warrants as described in Note 11.

Trade accounts payable due to related parties are included with accounts payable in the statement of financial position and are noted separately in the related note to the financial statements.

As at June 30, 2018, the Corporation's director, Margot Micallef, controlled 37.1% (December 31, 2017 – 42.68%) of the voting shares of the Corporation through various entities.

Short-term note receivable

On June 22, 2018, the Corporation loaned $550,000 USD to The Oil Plant, Inc. a company of which a director of the Corporation is President and founder. The loan, plus interest of 5%, is repayable on June 22, 2019. Interest income of $791 has been recorded in the statement of loss and comprehensive loss and is included in the short-term note receivable of $724,014 as at June 30, 2018.

8. CONVERTIBLE DEBENTURES

A total of 6,350 convertible debentures with a face value of $1,000 and 22,225,000 warrants ("**Warrants**") (See Note 11) were issued by the Corporation on June 13, 2018 for total gross proceeds of $6,350,000. The convertible debentures were contingently convertible as explained below. The convertible debentures would have otherwise matured December 13, 2018 at their face value plus accrued interest a rate of 10% per annum. The convertible debentures were convertible into Class A common shares of the Corporation ("**Common Shares**") at a price of $0.2857 per Common Share at the holder's option anytime up to the maturity date; however pursuant to certain events (**"Conversion Event"**), one of which included the Corporation's shares being trading on a recognized exchange, resulted in the automatic conversion of the convertible debentures into Common Shares at a rate of $0.2857 per Common Share for no additional considerations. As described in Note 18, a Conversion Event occurred subsequent to June 30th, 2018 and the convertible debentures were automatically converted into 22,226,092 Common Shares for no additional consideration in August 2018.

Had a Conversion Event not occurred by December 13, 2018, then on that date, the aggregate of the face value of the convertible debentures together with all accrued and unpaid interest thereon would have been payable in cash, or the holders of the convertible debentures could have elected to convert such amount otherwise payable into Common Shares at a price of $0.2597 per Common Share.

For accounting purposes, the convertible debentures are separated into their liability and equity components using the effective interest method. The fair value of the liability component at the time of issue was determined based on an estimated rate of 13.2% for Convertible Debentures without the conversion feature. The fair value of the equity components of the

8. CONVERTIBLE DEBENTURES - CONTINUED

Warrants and the conversion feature was determined as the difference between the face value of the Convertible Debentures and the fair value of the liability component and apportioned to each based on their relative values using the Black-Scholes option pricing model.

In $	**13 June 2018**
Convertible debenture fair value	6,247,384
Embedded option to convert the liability into equity	45,529
22,225,000 Warrants	57,087
Total proceeds received	6,350,000

In conjunction with the issuance, the Corporation also issued 1,076,776 Common Shares, 1,076,776 Warrants and 482 "Compensation Warrants" as compensation to broker and advisory agents. Each Compensation Warrant entitles the holder thereof to acquire 3,500 Common Shares and 3,500 Warrants for $1,000, or effectively one Common Shares and one Warrant at a combined price of $0.2857 per share up to June 13, 2020. As detailed in Note 10, this share-based compensation was valued at $387,680. This, plus legal, commission and advisory fees of $649,400 paid in connection with the issuance, were netted against the convertible debentures and will be accreted as interest expense up to August 28, 2018 (see Note 18). The interest for the three and six month period ended June 30, 2018 is $135,369 (June 30, 2017 - $nil).

The following table summarizes the outstanding balance and changes in the amounts recognized in the components of the convertible debentures during the periods ended June 30, 2018:

In $	**30 June 2018**	**31 Dec 2017**
Beginning balance	**-**	**-**
Gross proceeds received	**6,350,000**	**-**
Issue costs – 1,076,776 Common Shares issued to agents	(262,794)	-
Issue costs – 1,076,776 Warrants issued to agents	(44,841)	-
Issue costs – 482 Compensations Warrants issued to agents	(80,045)	-
Total of share-based compensation to agents	**(387,680)**	
Issue costs - professional fees and commissions	**(649,400)**	**-**
Equity component – 22,225,000 warrants	**(57,087)**	**-**
Equity component – conversion feature	**(45,529)**	**-**
Liability component initially recognized	**5,210,304**	-
Interest accretion expense on share-based compensation	36,014	
Interest accretion expense on remaining	99,355	
Total interest accretion expense	135,369	-
Ending balance	**5,345,673**	**-**

9. SHARE SUBSCRIPTION LIABILITY

As of June 30, 2018, the Corporation has received $32,888 (December 31, 2017 - $239,500) in cash from investors for shares of the Corporation, for which the shares had not yet been issued. This amount is included as a liability until the share capital issuance occurs. The changes in the subscription liability are detailed in the table below:

In $	30 June 2018	31 Dec 2017
Opening balance	**239,500**	-
Subscription proceeds received	**435,012**	239,500
April 23, 2018 issuance of Common Shares and Warrants (Note 11)	**(641,624)**	-
Ending balance	**32,888**	239,500

10. SHARE-BASED PAYMENTS

In conjunction with the convertible debenture offering (see Note 8), the Corporation issued 1,076,776 Common Shares,1,076,776 Warrants and 482 Compensation Warrants as compensation to the broker and advisory agents engaged for the offering. Each Compensation Warrant entitles the holder thereof to acquire 3,500 Common Shares and 3,500 Warrants for $1,000, or effectively one Common Share and one Warrant at a combined price of $0.2857 per share up to June 13, 2020. The aggregate fair value of this share-based payment was determined to be $387,680 based on an estimated fair value of $875,000 for broker and advisory fees customarily paid on an offering of comparable size less cash consideration paid of $487,320. The fair value of the share-based payment was apportioned as $262,794 for the 1,076,776 Common Shares, $44,841 for the 1,076,776 Warrants and the residual amount of $80,045 to the 482 Compensation Warrants. The combined fair value of the Common Shares and Warrants was based on the Common Shares and Warrants issued April 23, 2018 and June 13, 2018 (see Note 11), at a cash cost or value of $0.2857 for one Common Share and one Warrant, with $0.04164 of fair value being attributable to the Warrant based on the Black-Scholes option pricing model. As described in Note 8, the foregoing amounts were recorded against the value of the convertible debentures and will be accreted as interest expense up to August 28, 2018 (see Note 18).

On June 30, 2018, the Stem for Life Foundation (**"SFL")** was issued 1,400,070 Common Shares of the Corporation in exchange for terminating a sponsorship agreement with the Corporation. Under the sponsorship agreement, the Corporation received certain sponsorship and promotional rights and opportunities provided by SFL, in exchange for a future donation should the Corporation undergo a form of liquidity event a defined in the agreement, with such amount determined in varying amounts depending on the value of the Corporation. Due to the unique nature of the contract and given that the promotional services received to date are difficult to fair value, the fair value of the payment was determined in reference to the fair value of the 1,400,700 Common Shares issued at $0.24407 per share based on the aforementioned share issuances during 2018, for a total $341,716, recorded as "Contract termination payment" on the statement of loss and comprehensive loss.

In the year ended December 31, 2017, the Corporation issued shares with a book value of $4,088 in exchange for services. The related expenses for the services were accrued in previous years and were valued at $4,230 in accounts payable at December 31, 2016. As a result, the Corporation recognized a foreign exchange gain on this transaction of $142. The fair value of the equity instruments was determined to be the invoice amount of the services received, which is considered to be the market value of the services.

The fair value of the Warrants granted during the six months ended June 30, 2018 was estimated on the date of grant using the following assumptions:

Dividend yield	0%
Expected volatility	49%
Risk-free interest	1.75%
Expected life	2 years
Weighted average share price	$0.2478

Assumed no Conversion Event such that the Warrants entitled holder to acquired 1.1 Common Share per Warrant.

The weighted average fair value of the warrants granted during the six-month period was $0.04164 (June 30, 2017 – not applicable).

11. SHARE CAPITAL AND CONTRIBUTED SURPLUS

Authorized share capital – unlimited number of shares without nominal or par value:

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

A reconciliation of the Corporation's Common Shares is as follows:

	Share Capital		Contributed Surplus						Total transac-tion
	Class A common voting shares		Warrants		Compensation Warrants		Conversion feature debentures	Total	
	Number	$	Number	$	Number	$	$	$	$
Opening, Jan 1, 2017[a]	38,230,689	4,599,543	-	-	-	-	-	-	4,599,543
Issued for cash[a]	7,079,681	2,023,804	-	-	-	-	-	-	2,023,804
Share issue costs[b]		(79,250)	-	-	-	-	-	-	(79,250)
Closing, Dec 31, 2017[a]	**45,310,370**	**6,544,097**	-	-	-	-	-	-	**6,544,097**
Issued with application of Subscription Liability Proceeds (Note 9)	2,245,712	548,104	2,245,712	93,520	-	-	-	93,520	641,624
Issued on callable debt and due to related party balance conversion [c]	16,262,551	3,969,207	16,262,551	677,235	-	-	-	677,235	4,646,442
Issued with convertible debentures (Note 8)	-	-	22,225,000	57,087	-	-	45,529	102,616	102,616
Issued to agents on convertible debenture issue (see note 8 & 10)	1,076,776	262,794	1,076,776	44,841	482	80,045	-	124,886	387,680
Issued to Stem for Life (note 10)	1,400,070	341,716	-	-	-	-	-	-	341,716
Closing, June 30, 2018	**66,295,479**	**11,665,918**	**41,810,039**	**872,683**	**482**	**80,045**	**45,529**	**998,257**	**12,664,175**

a. Class A common voting shares stock split

On April 18, 2018, the shareholders of the Corporation authorized a 7 for 1 stock split of the Corporation's Common Shares. All share, and loss per share information have been retroactively adjusted to reflect the increase in the number of common shares, and SARS from the stock split.

b. Share issue costs

During the year ended December 31, 2017, the Corporation paid finders' fees of $79,250 related to issuance of shares with a book value of $1,585,000.

c. Callable debt and due to related party conversion

Callable debt with a fair value of $4,025,344, based on the foreign exchange rates in effect on the dates of conversion, and $693,224 of amounts due to a corporate shareholder, controlled by a director (see Note 7), for a total of $4,718,568 in fair value were converted into 16,262,551 Common Shares and 16,262,551 Warrants with a fair value of $4,646,442 resulting in a gain on the conversion of debt of $72,126 as reported in the statement of loss and comprehensive loss.

11. SHARE CAPITAL AND CONTRIBUTED SURPLUS - CONTINUED

Warrants

	Number of Warrants	Exercisable into one Common Share (subject to conditions below) at price per Warrant of:	Weighted average remaining contractual life in years (subject to conditions below)
Outstanding, December 31, 2017	-	n/a	n/a
Issued	41,810,039	$0.37	4.00
Outstanding and unvested, June 30, 2018	41,810,039	$0.37	1,95

Each Warrant entitled the holder to acquire one Common Share at a price of $0.37 for a period two years following a Conversion Event but no later than June 13, 2022, which reflects the four years on issuance in the table above. A Conversion Event occurred August 28, 2018, and therefore the Warrants are exercisable up to August 28, 2020, reducing the contractual life to 1.95 years at June 30, 2018. If, during the exercise period, the volume weighted average price of the Common Shares for any 20 consecutive trading days on the facilities of a recognized stock exchange equals or exceeds $0.50 per Common Share, the Corporation may, accelerate the expiry date of the Warrants to the date that is 30 days following the date the Corporation provides written notice to the holders. In the event that a Conversion Event was not completed by December 13, 2018, each Warrant would have entitled the holder thereof to acquire 1.1 Common Shares at $0.37.

Compensation Warrants

	Number of Warrants	Exercisable into 3,500 Common Shares and 3,500 Warrants at a price per Compensation Warrant of:	Weighted average remaining contractual life in years (subject to conditions below)
Outstanding and exercisable, December 31, 2017	-	n/a	n/a
Issued	482	$1,000	2.00
Outstanding and exercisable, June 30, 2018	482	$1,000	1.96

Each Compensation Warrant entitles the holder thereof to acquire 3,500 Common Shares and 3,500 Warrants for $1,000, or effectively one Common Share and one Warrant at a combined price of $0.2857 per share up to June 13, 2020. The Warrants issuable pursuant to the exercise are subject to the same conditions and terms of the Warrants described above.

12. LOSS PER SHARE

Basic loss per share is calculated by dividing the net loss by the weighted average number of shares outstanding during the year. The potentially dilutive Common Shares issuable on the outstanding Warrants, Compensation Warrants and convertible debentures are non-dilutive and are therefore excluded form the diluted loss per share for the periods in which they were outstanding. The weighted average numbers of shares outstanding are disclosed on the statement of loss and comprehensive loss.

13. NON-CASH TRANSACTIONS

The following non-cash transactions took place during the periods:

	June 30,	Three months ended		Six months ended	
	In $	**2018**	**2017**	**2018**	**2017**
1	Assets under finance lease and finance lease obligations were recognized in equal and offsetting amounts of	**-**	-	**35,945**	-
2	Conversion of callable debt to share capital and warrants:				
	Decrease in callable debt	**4,718,568**	-	**4,718,568**	-
	Increase in share capital	**3,969,207**	-	**3,969,207**	-
	Increase in contributed surplus	**677,235**	-	**677,235**	-
	Recognition of gain on conversion of debt	**72,126**	-	**72,126**	
3	Issuance of shares and warrants previously paid for:				
	Decrease in share issuance liability	**641,624**	-	**641,624**	-
	Increase in share capital	**548,104**	-	**548,104**	-
	Increase in contributed surplus	**93,520**	-	**93,520**	-
4	Convertible debentures issued in exchange for receivables (cash not received by June 30):				
	Increase in convertible debentures	**198,096**	-	**198,096**	-
	Increase in accounts receivable	**89,096**	-	**89,096**	-
	Increase in due from related party	**109,000**	-	**109,000**	-
5	Deferred costs of issuance of convertible debentures which were not paid in cash by June 30:				
	Decrease in convertible debentures	**677,360**	-	**677,360**	-
	Increase in accounts payable	**84,450**	-	**84,450**	-
	Increase in due to related party	**205,230**	-	**205,230**	-
	Increase in share capital	**262,794**	-	**262,794**	-
	Increase in contributed surplus	**124,886**	-	**124,886**	-
6	Accounts payable settled by share issuance	**-**	4,088	**-**	4,088

14. FINANCIAL INSTRUMENTS RISKS AND UNCERTAINTIES

The Corporation's financial instruments include cash and cash equivalents, accounts receivable, short-term note receivable from a related party, bank indebtedness, accounts payable and accrued liabilities, callable debt, convertible debentures and obligations under finance lease. The carrying value of these instruments approximates their fair value due to their short-term maturities.

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

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

Interest rate risk

The Corporation currently has no exposure to interest rate fluctuations as it has repaid its line of credit and subsequent to June 30, 2018, the remaining callable debt of $150,000.

14. FINANCIAL INSTRUMENTS RISKS AND UNCERTAINTIES - CONTINUED

Credit risk

The Corporation is exposed to credit risk in the event of non-performance by customers, but does not anticipate such non-performance due to the nature of its customers. The maximum credit risk is the fair value of the accounts receivable. The allowance for doubtful accounts and past due receivables is reviewed by management at each balance sheet reporting date. The Corporation updates its estimate of the allowance for doubtful accounts based on the evaluation of the recoverability of accounts receivable balances of each customer, taking into account historic collection trends, the contractual relationship with the customer and the nature of the customer. The following table outlines the Corporation's exposure to credit risk for trade receivables by the aging of the accounts and by geographic area:

In $	30 June 2018	31 Dec 2017
Trade accounts receivable	**165,639**	309,296
Accrued promotional activity	**(8,317)**	(23,299)
Other accounts receivable	**132,630**	68,404
	289,952	354,401
Allowance for doubtful accounts	**(41,865)**	(41,865)
Allowance for promotional activity	**(10,000)**	(10,000)
	(51,865)	(51,865)
	238,087	302,536

In $	30 June 2018	31 Dec 2017
30 days	**145,625**	129,435
60 days	**55,055**	65,465
90 days	**24,608**	59,836
Over 90 days	**64,664**	99,665
	289,952	354,401

In $	30 June 2018	31 Dec 2017
Canada	**193,756**	116,753
United States	**96,195**	237,648
	289,952	354,401

Accounts receivable from one major customer amounted to 27% of gross accounts receivable as at June 30, 2018 (December 31, 2017 – three major customers amounted to 84%).

In addition, the Corporation is exposed to credit risk in respect of its short-term note receivable of USD $550,000 to The Oil Plant (see Note 7) in the event of non-payment. The maximum credit risk is the fair value of the note. The payment of the obligations pursuant to the note is secured by a general security agreement with interest in present and after-acquired property of The Oil Plant and ranks senior in respect of all other indebtedness of The Oil Plant.

14. FINANCIAL INSTRUMENTS RISKS AND UNCERTAINTIES - CONTINUED

Foreign currency risk

The Corporation conducts certain of its operations in United States dollars. As at June 30, 2018, the following balances were included in the consolidated financial statements.

	$USD Receivable (Payable)	$CAD equivalent
Gabriella's Kitchen Inc. USD cash account	138,327	181,893
Gabriella's Kitchen LLC USD cash accounts	14,761	19,410
Trade accounts receivable – USD	73,025	96,195
Short-term note receivable – USD	550,000	724,014
Total USD denominated current assets	776,113	1,021,512
Trade accounts payable – USD	(58,917)	(77,459)
Accrued liabilities of subsidiary, held in USD	(16,322)	(21,463)
Net exposure – assets (liabilities)	700,874	922,590

As at the balance sheet date, each one cent strengthening (weakening) in the USD relative to the CAD dollar, would decrease (increase) the Corporation's net loss by $7,009.

Other price risk

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

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit lines. The Corporation's trade payables, other liabilities, and bank loan payable are due within one year and the Corporation's line of credit is close to its limit. The degree to which the Corporation is leveraged may reduce its ability to obtain additional financing for working capital and to finance investments to improve cash flows from operations.

The Corporation manages its liquidity risk through the management of its capital structure and financial leverage as outlined in Note 15. It also manages liquidity risk by continuously monitoring actual cash flows. Up to June 13, 2018, the Corporation had been primarily financed by demand promissory notes from shareholders, which have been converted to Common Shares and Warrants as described in Note 11. On that date, the Corporation raised proceeds of $5,700,600, net of paid, or payable, issue costs on the issuance of convertible debentures as described in Note 8. To the end of June 30, 2018, the Corporation used a portion of the net proceeds to provide a loan for USD 550,000 (CAD 732,160 at time of advance) to The Oil Plant and to fund working capital deficit of approximately $1,799,000, leaving it with net working capital of $3,016,815, excluding the aforementioned loan to The Oil Plant of $724,014, the convertible debentures of $5,345,673, and a portion of due to related parties of $148,264 that remains outstanding subsequent to June 30, 2018.

Of the amount due to related parties of $244,494, a net of $96,230 has been repaid subsequent to June 30th, leaving a balance owing of $148,264. It is management's intention to either convert this to share capital or to repay only upon a future raise of capital, and therefore, its repayment is not payable from existing working capital. The loan to The Oil Plant is almost one-year out, and therefore is not considered immediately available to the Corporation. Management anticipates that the working capital as defined above, as well as access to a demand operating loan of $150,000, will be sufficient to meet the Corporation's operational losses as well as finance expansion of non-Infused Products and the launch of its Infused Products.

The Corporation is also exposed to liquidity risk as a result of its economic dependence on revenues coming from a few major customers, as outlined in Note 17.

15. CAPITAL DISCLOSURE

The Corporation's objectives when managing capital are:

- to ensure sufficient liquidity to enable the internal financing of capital projects;
- to develop a strong capital base to increase investor, creditor and market confidence; and
- to ultimately provide an adequate return to shareholders.

The Corporation's capital is composed of convertible debentures, bank indebtedness, and callable debt. The Corporation's primary uses of capital in the past have been to finance its operations, growth, and property and equipment purchases. The Corporation maintains a secured operating line of credit with a chartered bank that it uses for its business activities. The board of directors does not establish quantitative return on capital criteria for management. The Corporation is not subject to any externally imposed capital requirements.

16. STOCK APPRECIATION RIGHTS ("SARs")

The SARs hold no value until a liquidity event occurs, defined in the SARs Plan as either the sale of all or substantially all of the assets or shares of the corporation, or an initial public offering of the Corporation's common shares. As of June 30, 2018, no liquidity event has occurred. The Corporation's shares be listed on the Canadian Stock Exchange, is not a liquidity even under the SARs Plan. Below is a summary of the outstanding number of SARS.

	Number outstanding (see Note 11 a))
Opening, January 1, 2017	2,403,338
Issued during the year	2,599,331
Closing December 31, 2017	**5,002,669**
Issued during the period	2,296,000
Closing, June 30, 2018	**7,298,669**

17. SEGMENTED INFORMATION AND ECONOMIC DEPENDENCE

The Corporation operates in one industry, food manufacturing, and all of the Corporation's assets other than cash are in Canada. Gabriella's Kitchen LLC, the wholly-owned subsidiary of the Corporation, operates as an extension of the parent company for administrative purposes and does not produce revenue or incur significant expenses. The Corporation does not have any operating segments other than the operation as a whole.

Gross revenue, attributed to a geographic region based on the location of the customer, was earned as follows:

June 30,	**Three months ended**		**Six months ended**	
In $	**2018**	**2017**	**2018**	**2017**
Canada	**96,107**	123,789	**178,055**	227,437
United States	**464,845**	82,500	**1,044,196**	222,946
Total	**560,952**	206,289	**1,222,251**	**450,383**

For the three and six month periods ended June 30, 2018, the Corporation has recorded revenue of $392,829 and $953,957 from two major customers, representing 70% and 78% of total revenue, respectively (Three and six month periods ended June 30, 2017 revenue of $102,327 and $277,520 from 3 major customers representing 50% and 62%).

18. SUBSEQUENT EVENTS

On August 28, 2018 the Corporation's Common Shares were approved for listing on the Canadian Securities Exchange which triggered a Conversion Event as described in Note 8. As a result, the convertible debentures with a face value of $6,350,000 automatically converted into 22,226,092 Common Shares. The estimated financial effect is that the convertible debentures will be reduced by $5,815,760 (including interest accretion accruals up to that date); share capital will increase by $5,861,289 and contributed surplus will decrease by $45,530.

On September 5, 2018, the Corporation granted 1,775,000 stock options to certain directors and officers of the Company. The stock options are exercisable at a price of $0.2857 per share, expire September 5, 2023 and vest one-third each immediately, September 5, 2019 and September 5, 2020. The Corporation is still in the process of determining the value of the share-based compensation; but expects that it will result in compensation expense (included in operating expenses) of approximately $100,000 in the third quarter, with a corresponding increase in contributed surplus.