

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Gala Pharmaceutical Inc.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 31, 2018

☐ TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission File Number: 333-172744

GALA PHARMACEUTICAL INC.
(Name of Small Business Issuer in its charter)

Nevada
(state or other jurisdiction of incorporation or organization)

42-1771014
(I.R.S. Employer I.D. No.)

2780 South Jones Blvd. #3725
Las Vegas, Nevada 89146
(Address of principal executive offices)

(775) 321-8238
Issuer's telephone number

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** ☒
No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer ☐

Non-accelerated filer ☐

Emerging growth company ☐

Accelerated filer ☐

Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). **Yes** ☐ **No** ☒

APPLICABLE ONLY TO CORPORATE ISSUERS

As of July 25, 2018, the registrant had 57,204,937 shares of common stock outstanding.

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GALA PHARMACEUTICAL INC.
(formerly Gala Global Inc.)

Condensed Consolidated Financial Statements
(unaudited)

For the Period Ended May 31, 2018

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GALA PHARMACEUTICAL INC.
(formerly Gala Global Inc.)
Condensed Consolidated Balance Sheets

	May 31, 2018 \$ (unaudited)	November 30, 2017 \$
ASSETS		
Current assets		
Cash	39,175	7,767
Inventory	2,241	2,241
Prepaid expenses	173,538	41,908
Prepaid expenses – related parties	10,000	10,000
Total current assets	224,954	61,916
Equipment, net of depreciation	40,607	46,060
Total assets	265,561	107,976
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable and accrued liabilities	61,458	34,556
Accounts payable and accrued liabilities – related party	62,506	61,475
Due to related parties	123,367	48,367
Loans payable	42,000	42,000
Loans payable - related parties	20,764	20,764
Convertible note	266,466	353,629
Derivative liabilities	390,894	453,005
Total liabilities	967,455	1,013,796
Commitments and Contingencies		
STOCKHOLDERS' DEFICIT		
Preferred stock		
Authorized: 10,000,000 shares with a par value of \$0.001 per share		
Issued and outstanding: 500,000 and 500,000 shares, respectively	500	500
Common stock		
Authorized: 500,000,000 shares with a par value of \$0.001 per share		
Issued and outstanding: 56,551,783 and 35,701,561 shares, respectively	56,553	35,702
Additional paid-in capital	3,492,107	2,417,400
Common stock issuable	–	25,000
Deferred compensation – related party	(51,087)	(165,853)
Deficit	(4,195,557)	(3,218,569)
Total shareholders' deficit attributable to Gala Pharmaceutical Inc.	(697,484)	(905,820)
Noncontrolling interest	(4,410)	–
Total stockholders' deficit	(701,894)	(905,820)
Total liabilities and stockholders' deficit	265,561	107,976

(The accompanying notes are an integral part of these consolidated financial statements)

GALA PHARMACEUTICAL INC.
(formerly Gala Global Inc.)
Consolidated Statements of Operations
(unaudited)

	Three months ended May 31, 2018 \$	Three months ended May 31, 2017 \$	Six months ended May 31, 2018 \$	Six months ended May 31, 2017 \$
Revenue	4,675	–	4,675	–
Cost of Revenue	3,216	–	3,216	–
Gross Profit	1,459	–	1,459	–
Operating expenses				
Consulting fees	135,235	–	250,578	–
Consulting fees – related party	101,840	46,109	422,032	46,109
Depreciation	2,724	–	5,454	–
General and administrative	109,068	14,601	145,331	25,253
General and administrative – related party	24,890	37,521	85,405	56,521
Rent	10,418	1,400	23,603	2,450
Total operating expense	384,175	99,631	932,403	130,333
Loss before other income (expense)	(382,716)	(99,631)	(930,944)	(130,333)
Other income (expense)				
Change in fair value of derivative liabilities	329	(10,032)	(111,190)	(10,032)
Interest expense	(15,769)	(175,101)	(34,007)	(175,774)
Gain / (loss) on settlement of debt	–	(88,334)	94,743	(88,334)
Total other expense	(15,440)	(273,467)	(50,454)	(274,140)
Net loss	(398,156)	(373,098)	(981,398)	(404,473)
Less: net loss attributed to non-controlling interest	4,410	–	4,410	–
Net loss attributable to Gala Pharmaceutical Inc.	(393,746)	(373,098)	(976,988)	(404,473)
Net loss per share, basic and diluted	(0.01)	(0.02)	(0.02)	(0.04)
Weighted average common shares outstanding	53,204,863	19,267,388	46,774,994	10,367,208

(The accompanying notes are an integral part of these consolidated financial statements)

GALA PHARMACEUTICAL INC.
(formerly Gala Global Inc.)
Consolidated Statements of Cash Flows
(unaudited)

	Six months ended May 31, 2018 \$	Six months ended May 31, 2017 \$
Operating activities		
Net loss for the period	(981,398)	(404,473)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of discount on convertible note	—	9,340
Amortization of debt issuance costs	—	2,412
Change in fair value of derivative liability	111,190	10,032
Common shares issued for services and compensation – related party	200,000	80,630
Common shares issued for services	586,767	—
Depreciation	5,454	—
Derivative expense	—	161,353
Loss (gain) on settlement of debt	(94,743)	88,334
Changes in operating assets and liabilities:		
Prepaid expenses	(131,631)	—
Accounts payable and accrued liabilities	26,902	1,904
Accounts payable and accrued liabilities – related party	33,867	10,813
Net cash used in operating activities	(243,592)	(39,655)
Investing activities		
Loan issued to related party	—	(5,000)
Net cash used in investing activities	—	(5,000)
Financing activities		
Proceeds from related party operating advances	75,000	26,867
Proceeds from note payable - related party	—	8,500
Proceeds from convertible note	—	250,000
Proceeds from shares issuances	200,000	—
Net cash provided by financing activities	275,000	285,367
Increase (decrease) in cash	31,408	240,712
Cash, beginning of period	7,767	10,841
Cash, end of period	39,175	251,553
Supplemental disclosures (Note 11)		

(The accompanying notes are an integral part of these consolidated financial statements)

GALA PHARMACEUTICAL INC.

(formerly Gala Global Inc.)

Notes to the Condensed Consolidated Financial Statements

Six Months Ended May 31, 2018 and 2017

(unaudited)

1. Organization and Nature of Operations

Gala Pharmaceutical Inc. (formerly Gala Global Inc.) (the "Company") was incorporated in the State of Nevada on March 10, 2010. The Company provides Testing or Analytical Chemistry tools for chemical, plant, soil, and liquid composition analysis. The Company provides analysis of compositional traits for hemp and cannabis products (cannabinoid, terpenes, pesticides, residual solvents and microbial). The analysis is being done at certified labs with persistent results.

The Company also provides genetic "fingerprinting" and "sequencing" of various crop species. This fingerprinting allows for storing genetic fingerprint information into a proprietary database. Customers can access genetic fingerprint data which can be used for predictive breeding applications and for protecting intellectual property (IP). Additionally, the Company can develop new genetics by using state of the art breeding technology and provides tissue culture and cloning services. These clones are guaranteed to be disease free, chemical free and healthy and robust.

Additionally, the Company provides consulting on testing and manufacturing lab designs and standard operating procedures (SOPs). The Company provides services to customers for building turnkey labs, drug formulations and troubleshooting using highly qualified professionals to bring productivity and efficiency for our customers.

Going Concern

These condensed consolidated financial statements have been prepared on a going concern basis, which implies that the Company will continue to realize its assets and discharge its liabilities in the normal course of business. As at May 31, 2018, the Company has a working capital deficit of \$742,501, an accumulated deficit of \$4,195,557, and has a convertible debenture that is currently in default. Refer to Note 5. The continuation of the Company as a going concern is dependent upon the continued financial support from its management, and its ability to identify future investment opportunities and obtain the necessary debt or equity financing, and generating profitable operations from the Company's future operations. These factors raise substantial doubt regarding the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

2. Summary of Significant Accounting Policies**(a) Basis of Presentation**

These consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP") and are expressed in U.S. dollars. The Company's fiscal year end is November 30.

(b) Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Cannabis Ventures Inc. (USA) and Cannabis Ventures Inc. (Canada), from the date of their acquisition by the Company effective June 26, 2014, and CBD Life, Inc. from June 26, 2014 (date of acquisition) to December 30, 2016 (date of dissolution). In addition, the Company holds a 51% interest in Gala Pharmaceuticals California, Inc. from its date of incorporation on February 7, 2018. All inter-company transactions and balances have been eliminated on consolidation and the proportionate net income/loss on the 49% non-controlling interest has been deducted from the Company's net loss on the consolidated statement of operations commencing with a corresponding entry within stockholders' deficit.

GALA PHARMACEUTICAL INC.

(formerly Gala Global Inc.)

Notes to the Condensed Consolidated Financial Statements

Six Months Ended May 31, 2018 and 2017

(unaudited)

2. Summary of Significant Accounting Policies (continued)**(c) Interim Financial Statements**

The accompanying unaudited financial statements of the Company have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In management's opinion the financial statements include all adjustments (consisting of normal recurring accruals) necessary in order to make the financial statements not misleading. Operating results for the three and six months ended May 31, 2018 are not necessarily indicative of the results that may be expected for the year ended November 30, 2018. For more complete financial information, these unaudited financial statements should be read in conjunction with the audited financial statements for the year ended November 30, 2017 included in our Form 10-K filed with the SEC.

(d) Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company regularly evaluates estimates and assumptions related to the valuation of inventory, valuation of derivative liability and share-based compensation, and deferred income tax asset valuation allowances. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

(e) Basic and Diluted Net Loss per Share

The Company computes net income (loss) per share in accordance with ASC 260, *Earnings per Share*. ASC 260 requires presentation of both basic and diluted earnings per share ("EPS") on the face of the income statement. Basic EPS is computed by dividing net income (loss) available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS excludes all dilutive potential shares if their effect is anti dilutive. For the three and six months ended May 31, 2018, the Company had 4,374,958 and 4,651,920 (three and six months ended May 31, 2017 – 363,398 and 183,696, respectively) potentially issuable shares from an outstanding convertible note.

(f) Recent Accounting Pronouncements

The Company has implemented all new accounting pronouncements that are in effect and that may impact its financial statements and does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial position or results of operations.

GALA PHARMACEUTICAL INC.

(formerly Gala Global Inc.)

Notes to the Condensed Consolidated Financial Statements

Six Months Ended May 31, 2018 and 2017

(unaudited)

3. Deferred Compensation

Deferred compensation is comprised of common shares issued to officers and directors of the Company for services. As at May 31, 2018, deferred compensation of \$51,087 (November 30, 2017 - \$165,853) was recorded within shareholders' equity. During the three months ended May 31, 2018, the Company recorded an additional \$60,000 (May 31, 2017 - \$490,000) of deferred compensation costs and recorded an expense of \$43,945 (May 31, 2017 - \$80,630). During the six months ended May 31, 2018, the Company recorded an additional \$60,000 (May 31, 2017 - \$490,000) of deferred compensation costs and recorded an expense of \$174,766 (May 31, 2017 - \$210,776) of deferred compensation costs to the consolidated statement of operations.

4. Equipment

	Cost \$	Accumulated amortization \$	May 31, 2018 \$	November 30, 2017 \$
Machinery	52,869	12,262	40,607	46,060

As at November 30, 2017, the Company had accumulated amortization of \$6,808. During the three months ended May 31, 2018, the Company recorded \$2,723 (May 31, 2017 - \$nil) of amortization expense. During the six months ended May 31, 2018, the Company recorded \$5,454 (May 31, 2017 - \$nil) of amortization expense.

5. Convertible Debenture

On May 15, 2017, the Company entered into a promissory note agreement with a non-related party for proceeds of \$280,000, net of an original issuance discount and legal fees of \$30,000 which were capitalized and amortized over the period of the convertible debenture. The promissory note is unsecured, bears interest at 10% per annum, and was due on November 30, 2017. The promissory note is convertible into common shares at the lesser of: (a) \$0.35; or (b) 65% of the average of the three lowest volume weighted average price of the Company's common shares in the 20 days preceding the notice of conversion limited by a conversion floor price of \$0.05 per share.

The embedded conversion option qualifies for derivative accounting under ASC 815-15, *Derivatives and Hedging*. The fair value of the derivative liability resulted in a full discount of the \$250,000 based on the net proceeds received from promissory note. The carrying value of the convertible debenture will be accreted over the term of the convertible debenture up to the face value of \$280,000. On November 30, 2017, a default penalty of \$73,629 was applied as the Company defaulted on the convertible debenture, and the debenture is currently in default. As at May 31, 2018, the carrying value of the convertible debenture was \$266,466 (November 30, 2017 - \$353,629).

6. Derivative Liability

The Company records the fair value of the conversion price of the convertible debentures, as disclosed in Note 5, in accordance with ASC 815, *Derivatives and Hedging*. The fair value of the derivative liability is revalued on each balance sheet date or upon conversion of the underlying convertible debenture into equity with corresponding gains and losses recorded in the consolidated statement of operations. The fair value of the derivative as of May 15, 2017 was \$305,957 calculated using the binomial option pricing model. \$250,000 was applied against the net proceeds received from promissory note as a conversion discount and the remaining \$55,957 was included in interest expense. During the three months ended May 31, 2018, the Company recorded a gain on the change in the fair value of derivative liability of \$329 (May 31, 2017 - loss of \$10,032). During the six months ended May 31, 2018, the Company recorded a loss on the change in fair value of the derivative liability of \$111,190 (May 31, 2017 - \$10,032). As at May 31, 2018, the Company had a derivative liability of \$390,894 (November 30, 2017 - \$453,005).

GALA PHARMACEUTICAL INC.

(formerly Gala Global Inc.)

Notes to the Condensed Consolidated Financial Statements

Six Months Ended May 31, 2018 and 2017

(unaudited)

6. Derivative Liability (continued)

Balance, November 30, 2017	\$	453,005
Adjustment for conversion		(173,301)
Change in fair value		<u>111,190</u>
Balance, May 31, 2018	\$	<u>390,894</u>

The following inputs and assumptions were used to value the convertible debentures outstanding during the period ended May 31, 2018:

	Expected Volatility	Risk-free Interest Rate	Expected Dividend Yield	Expected Life (in years)
<u>May 15, 2017 convertible debenture:</u>				
As at May 15, 2017 (date of issuance)	288%	1.02%	0%	0.50
As at December 7, 2017 (conversion)	294%	1.67%	0%	0.98
As at February 2, 2018 (conversion)	301%	1.88%	0%	0.83
As at February 13, 2018 (conversion)	304%	1.95%	0%	0.80
As at February 26, 2018 (conversion)	312%	2.03%	0%	0.76
As at February 28, 2018 (mark-to-market)	312%	2.07%	0%	0.75
As at May 31, 2018 (mark-to-market)	271%	2.07%	0%	0.50

7. Related Party Transactions

- a) As at May 31, 2018, the Company owed \$123,367 (November 30, 2017 - \$48,367) to a company controlled by a significant shareholder of the Company to fund payment of operating expenditures. In December 2017, the Company received an additional \$75,000 of financing. The amount owed is unsecured, non-interest bearing, and due on demand.
- b) As at May 31, 2018, the Company owed \$43,000 (November 30, 2017 - \$25,000) to a significant shareholder of the Company, which has been recorded in accounts payable and accrued liabilities - related parties. The amount owed is unsecured, non-interest bearing, and due on demand. During the three and six months ended May 31, 2018, the Company incurred \$9,000 and \$18,000, respectively (May 31, 2017 - \$19,000 and \$56,521 respectively) of consulting expense relating to services provided to the Company.
- c) As at May 31, 2018, the Company owed \$5,625 (November 30, 2017 - \$5,625) to an officer of the Company, which has been recorded in accounts payable and accrued liabilities - related parties. The amount owing is unsecured, non-interest bearing, and due on demand.
- d) As at May 31, 2018, the Company owed \$18,500 (November 30, 2017 - \$18,500) to a company controlled by a significant shareholder of the Company. The amount owed is unsecured, non-interest bearing, and due on demand.
- e) As at May 31, 2018, the Company owed \$2,064 (November 30, 2017 - \$2,064) to a significant shareholder of the Company. The amount is unsecured, bears interest at 3% per annum, and due 180 days from the date of issuance. As at May 31, 2018, accrued interest of \$113 (November 30, 2017 - \$82) has been included in accounts payable and accrued liabilities, related parties.
- f) As at May 31, 2018, the Company owed \$1,195 (November 30, 2017 - \$1,195) to the Chief Executive Officer of the Company. During the period ended May 31, 2018, the Company issued 5,000,000 common shares with a fair value of \$200,000 as bonus compensation.

GALA PHARMACEUTICAL INC.

(formerly Gala Global Inc.)

Notes to the Condensed Consolidated Financial Statements

Six Months Ended May 31, 2018 and 2017

(unaudited)

7. Related Party Transactions (continued)

- g) In May 2018, the Company issued 1,500,000 common shares with a fair value of \$60,000 to a director of the Company for compensation of services for a period of one year. As at May 31, 2018, the Company recorded \$51,087 (November 30, 2017 - \$165,853) as deferred compensation within shareholders' equity.

8. Loans Payable

- (a) On April 22, 2016, the Company issued a \$22,000 promissory note to an unrelated party. Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and is due 180 days from the date of issuance. As at May 31, 2018, the promissory note is in default and the outstanding balance of the promissory note was \$22,000 (November 30, 2017 - \$22,000).
- (b) On June 3, 2016, the Company issued a \$20,000 promissory note to an unrelated party. Under the terms of the note, the amount due is unsecured, bears interest at 3% per annum, and is due 180 days from the date of issuance. As at May 31, 2018, the promissory note is in default and the outstanding balance of the promissory note was \$20,000 (November 30, 2017 - \$20,000).

9. Common Shares

- (a) On December 7, 2017, the Company issued 209,727 common shares with a fair value of \$56,773 to settle convertible debentures of \$30,000 and derivative liability of \$50,993 resulting in a gain on settlement of debt of \$24,220.
- (b) On January 11, 2018, the Company issued 5,000,000 common shares with a fair value of \$200,000 to the Chief Executive Officer of the Company as a performance bonus.
- (c) On February 1, 2018, the Company issued 1,500,000 common shares with a fair value of \$60,000 for consulting services for a period twelve months from the date of issuance.
- (d) On February 2, 2018, the Company issued 3,000,000 common shares, which were issuable at November 30, 2017, for consulting services with a fair value of \$300,000.
- (e) On February 2, 2018, the Company issued 618,684 common shares with a fair value of \$49,495 to settle convertible debentures of \$30,000 and derivative liability of \$43,021 resulting in a gain on settlement of debt of \$23,526.
- (f) On February 13, 2018, the Company issued 758,284 common shares with a fair value of \$41,478 to settle convertible debentures of \$30,000 and derivative liability of \$35,246 resulting in a gain on settlement of debt of \$23,768.
- (g) On February 26, 2018, the Company issued 846,860 common shares with a fair value of \$50,812 to settle convertible debentures of \$30,000 and derivative liability of \$44,041 resulting in a gain on settlement of debt of \$23,229.
- (h) On April 6, 2018 the Company cancelled 583,333 common shares which was returned by the former Chief Executive Officer of the Company.
- (i) On April 18, 2018, the Company issued 5,000,000 common shares for proceeds of \$200,000.
- (j) On May 14, 2018, the Company issued 1,500,000 common shares with a fair value of \$60,000 to a director of the Company for consulting services for a period of one year.
- (k) On May 14, 2018, the Company issued 1,500,000 common shares with a fair value of \$60,000 for consulting services to a non-related party.

GALA PHARMACEUTICAL INC.

(formerly Gala Global Inc.)

Notes to the Condensed Consolidated Financial Statements

Six Months Ended May 31, 2018 and 2017

(unaudited)

10. Contingency

In April 2018, the Company received notice of a pending lawsuit, filed in the State of California for which the Company was one of several defendants named, citing breach of contract, conspiracy to commit fraud, and specific performance. The Company's position is that the claims are without merit and intends to defend itself and its position in a court of law. As of the date of the filing, the likelihood of loss and the amount of loss cannot be quantified and as such, no accrual has been made as of May 31, 2018.

11. Supplemental Disclosures

	Six months ended May 31, 2018 \$	Six months ended May 31, 2017 \$
Non-cash investing and financing activities:		
Common shares issued for consulting services – related party	200,000	80,630
Common shares issued for consulting services	420,000	–
Common shares issued for deferred compensation	60,000	409,370
Common shares issued for settlement of related party debt	–	426,501
Common shares issued to settle third party debt	198,557	–
Common shares issued for deposit on intangible assets	–	100,000
Expenses paid by related parties that increased related party debt	–	4,500
Supplemental disclosures:		
Interest paid	–	–
Income tax paid	–	–

12. Subsequent Events

- (a) On June 4, 2018, the Company issued a callable secured convertible note for \$15,000. Under the terms of the note, the amount owing is unsecured, bears interest at 12% per annum, and is due on June 1, 2019. The note is also convertible into common shares of the Company at the lesser of: (a) \$0.04; or (b) 50% of the lowest 3 trading prices during the 20 trading days prior to the date of conversion. Upon default of the note, the interest rate will increase to 15% per annum. In addition to the note, the Company also issued 30,000 share purchase warrants which entitles the note holder to acquire 30,000 common shares at \$0.01 per common share for a period of seven years.
- (b) On June 4, 2018, the Company issued a callable secured convertible note for \$15,000. Under the terms of the note, the amount owing is unsecured, bears interest at 12% per annum, and is due on June 1, 2019. The note is also convertible into common shares of the Company at the lesser of: (a) \$0.04; or (b) 50% of the lowest 3 trading prices during the 20 trading days prior to the date of conversion. Upon default of the note, the interest rate will increase to 15% per annum. In addition to the note, the Company also issued 30,000 share purchase warrants which entitles the note holder to acquire 30,000 common shares at \$0.01 per common share for a period of seven years.
- (c) On June 20, 2018, the Company approved the sale of its wholly-owned subsidiaries, Cannabis Ventures, Inc. (USA) and Cannabis Ventures, Inc. (Canada) including any and all of its rights, title and interest in exchange for 2,000,000 common shares of Greengro Technologies Inc. ("Greengro"), a company with common shareholders. The Company holds less than 1% ownership of Greengro.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Safe Harbor Statement

This report on Form 10-Q contains certain forward-looking statements. All statements other than statements of historical fact are "forward-looking statements" for purposes of these provisions, including any projections of earnings, revenues, or other financial items; any statements of the plans, strategies, and objectives of management for future operation; any statements concerning proposed new products, services, or developments; any statements regarding future economic conditions or performance; statements of belief; and any statement of assumptions underlying any of the foregoing. Such forward-looking statements are subject to inherent risks and uncertainties, and actual results could differ materially from those anticipated by the forward-looking statements.

These forward-looking statements involve significant risks and uncertainties, including, but not limited to, the following: competition, promotional costs, and risk of declining revenues. Our actual results could differ materially from those anticipated in such forward-looking statements as a result of a number of factors. These forward-looking statements are made as of the date of this filing, and we assume no obligation to update such forward-looking statements. The following discusses our financial condition and results of operations based upon our financial statements which have been prepared in conformity with accounting principles generally accepted in the United States. It should be read in conjunction with our financial statements and the notes thereto included elsewhere herein.

The following discussion should be read in conjunction with our financial statements, including the notes thereto, appearing elsewhere in this Form 10-Q. The discussions of results, causes and trends should not be construed to imply any conclusion that these results or trends will necessarily continue into the future.

RESULTS OF OPERATIONS

Working Capital

	May 31, 2018 \$	November 30, 2017 \$
Current Assets	224,954	61,916
Current Liabilities	(967,455)	(1,013,796)
Working Capital (Deficit)	(742,501)	(951,880)

Cash Flows

	Six months ended May 31, 2018 \$	Six months ended May 31, 2017 \$
Cash Flows from (used in) Operating Activities	(243,592)	(39,655)
Cash Flows from (used in) Investing Activities	—	(5,000)
Cash Flows from (used in) Financing Activities	275,000	285,367
Net Increase (decrease) in Cash During Period	31,408	240,712

Revenues

During the three and six months ended May 31, 2018, the Company earned revenues of \$4,675 from the sale of parts and equipment with a cost of sales of \$3,216. The Company had no revenues during the three and six months ended May 31, 2017.

Operating Expenses

Three Months Ended May 31, 2018 and 2017

During the three months ended May 31, 2018, the Company incurred operating expenses of \$384,175 compared to operating expenses of \$99,631 during the three months ended May 31, 2017. The increase in operating expenses was due to \$237,075 of consulting expenses including \$101,840 to related parties for consulting services. These amounts included 1,500,000 common shares issued to a director of the Company as compensation of services with a fair value of \$60,000, of which \$50,000 was recorded as deferred compensation, as well as the recognition of \$53,945 of deferred compensation for shares which were previously issued. The Company also utilized more consultants during the current period as compared to the prior period as the Company continues to increase its day-to-day operating expenditures as part of the ongoing growth and development of the Company's business objectives and strategies. The Company also had general and administrative expenses of \$133,958 including \$24,890 to related parties for legal and other services incurred to a significant shareholder of the Company compared to general and administrative expense of \$14,601 and related party expenditures of \$37,521 during the three months ended May 31, 2017. The overall increase in general and administrative expense was due to an overall increase in operating activity during the period as the Company had minimal operations in the prior year.

The Company incurred a net loss of \$398,156 during the three months ended May 31, 2018 compared to a net loss of \$373,098 during the three months ended May 31, 2017. In addition to operating expenses, the Company recorded interest expense of \$15,769 and a net loss attributed to non-controlling interest in Gala Pharmaceuticals (California) of \$4,410. During the three months ended May 31, 2017, the Company incurred interest expense of \$175,101 and a loss on settlement of debt of \$88,334 along with a loss on the change in fair value of derivative liability of \$10,032.

Six Months Ended May 31, 2018 and 2017

During the six months ended May 31, 2018, the Company incurred operating expenses of \$932,403 compared to operating expenses of \$130,333 during the six months ended May 31, 2017. The increase in operating expenses was due to \$672,610 of consulting expenses including \$422,032 to related parties for consulting services. These amounts included 5,000,000 common shares issued to the Company's Chief Executive Officer as a compensation bonus with a fair value of \$200,000, issuance of 1,500,000 common shares to a director with a fair value of \$60,000, of which \$50,000 was recorded as deferred compensation, as well as the recognition of \$174,766 of deferred compensation for shares which were previously issued. The Company also had an increase in general and administrative expenses of \$148,962, which included an increase of \$28,884 of consulting expenses to related parties for legal and other services incurred to a significant shareholder of the Company. The overall increase in general and administrative expense was due to an overall increase in operating activity during the period as the Company had minimal operations in the prior year. Furthermore, the Company incurred more professional fees related to accounting and audit services as the amount of transactions in the Company and overall operations increased compared to prior year, and an increase in rent expense of \$21,153 as the Company has a new head office space which is larger than the previous head office location.

The Company incurred a net loss of \$976,988 during the six months ended May 31, 2018 compared to a net loss of \$404,473 during the six months ended May 31, 2017. In addition to operating expenses, the Company recorded interest expense of \$34,007, a loss on the change in fair value of \$111,190, and a gain on settlement of debt of \$94,743, as well as a net loss attributed to non-controlling interest in Gala Pharmaceuticals (California) of \$4,410. During the six months ended May 31, 2017, the Company incurred interest expense of \$175,774, a loss on settlement of debt of \$88,334 along with a loss on the change in fair value of derivative liability of \$10,032. Overall, interest expense decreased as the Company had less accretion expense for the beneficial conversion feature of the convertibility terms on the outstanding notes payable, but experienced a greater loss on the change in the fair value of the derivative liability as the Company had more fluctuations and volatility in their share price during fiscal 2018 compared to fiscal 2017.

Net Loss

The Company incurred a net loss of \$393,746, or \$0.01 loss per share during the three months ended May 31, 2018 compared to a net loss of \$373,098 or \$0.02 loss per share during the three months ended May 31, 2017. During the six months ended May 31, 2018, the Company incurred a net loss of \$976,988 or \$0.02 loss per share compared to a net loss of \$404,473 and loss per share of \$0.04 during the six months ended May 31, 2017. The increase in the net loss and loss per share amounts were due to greater expenditures relating to consulting expenses and general and administrative expenses that were incurred during the current year.

Liquidity and Capital Resources

As of May 31, 2018, the Company has working capital deficit of \$742,501 and an accumulated deficit of \$4,195,557 compared to a working capital deficit of \$951,880 and an accumulated deficit of \$3,218,569 as at November 30, 2017. The decrease in working capital deficit was due to the settlement of outstanding convertible notes with the issuance of common shares, which also led to a decrease in the derivative liability balance outstanding at May 31, 2018. Furthermore, the Company issued common shares to management and consultants of the Company which was recorded as prepaid expense as the fair value of the common shares issued were for services over a period of 12 months from the date of the agreements.

During the six months ended May 31, 2018, the Company issued the following common shares:

- Issuance of 2,433,555 common shares to settle outstanding convertible note balances of \$120,000 and recorded derivative liabilities of \$173,301;
- Issuance of 5,000,000 common shares to the Chief Executive Officer of the Company with a fair value of \$200,000 pursuant to bonus compensation;
- Issuance of 1,500,000 common shares to a consultant with a fair value of \$60,000 for consulting services over a one year period;
- Issuance of 1,500,000 common shares to a non-related party with a fair value of \$60,000 for consulting service;
- Issuance of 4,500,000 common shares to consultants with a fair value of \$360,000 for consulting services over a one-year period;
- Issuance of 5,000,000 common shares for proceeds of \$200,000; and
- Return and cancellation of 583,333 common shares from the former Chief Executive Officer of the Company.

Cash flow from Operating Activities

During the six months ended May 31, 2018, the Company used cash of \$243,592 for operating activities compared to \$39,655 during the six months ended May 31, 2017. The increase in the cash used for operating activities was due to higher operating expenditures compared to the prior year.

Cash flow from Investing Activities

During the six months ended May 31, 2018, the Company did not have any investing activities compared to use of \$5,000 during the six months ended May 31, 2017 for a loan issued to a related party.

Cash flow from Financing Activities

During the six months ended May 31, 2018, the Company received \$275,000 from financing activities, which included \$75,000 from related party advances and \$200,000 from the issuance of common shares. During the six months ended May 31, 2017, the Company received \$285,367 from financing activities which included \$250,000 from the issuance of a convertible note and \$35,367 from related party advances and loans.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Subsequent Events

- (a) On June 4, 2018, the Company issued a callable secured convertible note for \$15,000. Under the terms of the note, the amount owing is unsecured, bears interest at 12% per annum, and is due on June 1, 2019. The note is also convertible into common shares of the Company at the lesser of: (a) \$0.04; or (b) 50% of the lowest 3 trading prices during the 20 trading days prior to the date of conversion. Upon default of the note, the interest rate will increase to 15% per annum. In addition to the note, the Company also issued 30,000 share purchase warrants which entitles the note holder to acquire 30,000 common shares at \$0.01 per common share for a period of seven years.
- (b) On June 4, 2018, the Company issued a callable secured convertible note for \$15,000. Under the terms of the note, the amount owing is unsecured, bears interest at 12% per annum, and is due on June 1, 2019. The note is also convertible into common shares of the Company at the lesser of: (a) \$0.04; or (b) 50% of the lowest 3 trading prices during the 20 trading days prior to the date of conversion. Upon default of the note, the interest rate will increase to 15% per annum. In addition to the note, the Company also issued 30,000 share purchase warrants which entitles the note holder to acquire 30,000 common shares at \$0.01 per common share for a period of seven years.

- (c) On June 20, 2018, the Company approved the sale of its wholly-owned subsidiaries, Cannabis Ventures, Inc. (USA) and Cannabis Ventures, Inc. (Canada) including any and all of its rights, title and interest in exchange for 2,000,000 common shares of Greengro Technologies Inc., a company with common shareholders.

Going Concern

The continuation of the Company as a going concern is dependent upon the continued financial support from its management, and its ability to identify future investment opportunities and obtain the necessary debt or equity financing, and generating profitable operations from the Company's future operations. These factors raise substantial doubt regarding the Company's ability to continue as a going concern. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Future Financings

We will continue to rely on equity sales of our common shares in order to continue to fund our business operations. Issuances of additional shares will result in dilution to existing stockholders. There is no assurance that we will achieve any additional sales of the equity securities or arrange for debt or other financing to fund planned acquisitions and activities.

Critical Accounting Policies

Our financial statements and accompanying notes have been prepared in accordance with United States generally accepted accounting principles applied on a consistent basis. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

We regularly evaluate the accounting policies and estimates that we use to prepare our financial statements. A complete summary of these policies is included in note (1) of the notes to our financial statements. In general, management's estimates are based on historical experience, on information from third party professionals, and on various other assumptions that are believed to be reasonable under the facts and circumstances. Actual results could differ from those estimates made by management.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes for the reporting period. Significant areas requiring the use of management estimates relate to the valuation of its mineral leases and claims and our ability to obtain final government permission to complete the project.

Stock-Based Compensation

The Company records stock-based compensation in accordance with ASC 718, *Compensation – Stock Compensation*, using the fair value method. All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. Equity instruments issued to employees and the cost of the services received as consideration are measured and recognized based on the fair value of the equity instruments issued.

Derivative Liability

From time to time, the Company may issue equity instruments that may contain an embedded derivative instrument which may result in a derivative liability. A derivative liability exists on the date the equity instrument is issued when there is a contingent exercise provision. The derivative liability is recorded at its fair value calculated by using an option pricing model such as a multi-nominal lattice model. The fair value of the derivative liability is then calculated on each balance sheet date with the corresponding gains and losses recorded in the consolidated statement of operations.

Beneficial Conversion Features

From time to time, the Company may issue convertible notes that may contain an embedded beneficial conversion feature. A beneficial conversion feature exists on the date a convertible note is issued when the fair value of the underlying common stock to which the note is convertible into is in excess of the remaining unallocated proceeds of the note after first considering the allocation of a portion of the note proceeds to the fair value of the warrants, if related warrants have been granted. The intrinsic value of the beneficial conversion feature is recorded as a debt discount with a corresponding amount to additional paid in capital. The debt discount is amortized to interest expense over the life of the note using the effective interest method.

Recently Issued Accounting Pronouncements

The Company has reviewed all the recently issued, but not yet effective, accounting pronouncements and does not believe that the future adoption of any such pronouncements may be expected to cause a material impact on its financial condition or the results of its operations as reported in its financial statements.

Contractual Obligations

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

ITEM 4. CONTROLS AND PROCEDURES

Management's Report on Internal Control over Financial Reporting.

Our Internal control over financial reporting is a process that, under the supervision of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, was designed to provide reasonable assurances regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and our trustees; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that our controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Evaluation of disclosure controls and procedures.

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act as of the end of the period covered by this Quarterly Report on Form 10-Q. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on that evaluation, our chief executive officer and chief financial officer concluded that, as of May 31, 2018, our disclosure controls and procedures were not effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules, regulations and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in internal controls.

Our management, with the participation of the chief executive officer and chief financial officer, has concluded there were no significant changes in our internal controls over financial reporting that occurred during our last quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In April 2018, the Company received notice of a pending lawsuit, filed in the State of California for which the Company was one of several defendants named, citing several complaints including breach of contract, conspiracy to commit fraud, and specific performance. The Company's position is that the claims are without merit and intends to defend itself and its position in a court of law. As of the date of the filing, the likelihood of loss and the amount of loss cannot be quantified and as such, no accrual has been made as of May 31, 2018.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS SECURITIES

For the six months ended May 31, 2018, there were the following equity transactions.

- (l) On December 7, 2017, the Company issued 209,727 common shares with a fair value of \$56,773 to settle convertible debentures of \$30,000 and derivative liability of \$50,993 resulting in a gain on settlement of debt of \$24,220.
- (m) On January 11, 2018, the Company issued 5,000,000 common shares with a fair value of \$200,000 to the Chief Executive Officer of the Company as a performance bonus.
- (n) On February 1, 2018, the Company issued 1,500,000 common shares with a fair value of \$60,000 for consulting services for a period twelve months from the date of issuance.
- (o) On February 2, 2018, the Company issued 3,000,000 common shares, which were issuable at November 30, 2017, for consulting services with a fair value of \$300,000.
- (p) On February 2, 2018, the Company issued 618,684 common shares with a fair value of \$49,495 to settle convertible debentures of \$30,000 and derivative liability of \$43,021 resulting in a gain on settlement of debt of \$23,526.
- (q) On February 13, 2018, the Company issued 758,284 common shares with a fair value of \$41,478 to settle convertible debentures of \$30,000 and derivative liability of \$35,246 resulting in a gain on settlement of debt of \$23,768.
- (r) On February 26, 2018, the Company issued 846,860 common shares with a fair value of \$50,812 to settle convertible debentures of \$30,000 and derivative liability of \$44,041 resulting in a gain on settlement of debt of \$23,229.
- (s) On April 6, 2018 the Company cancelled 583,333 common shares which was returned by the former Chief Executive Officer of the Company.
- (t) On April 18, 2018, the Company issued 5,000,000 common shares for proceeds of \$200,000.
- (u) On May 14, 2018, the Company issued 1,500,000 common shares with a fair value of \$60,000 to a director of the Company for consulting services for a period of one year.
- (v) On May 14, 2018, the Company issued 1,500,000 common shares with a fair value of \$60,000 for consulting services to a non-related party.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None noted

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable to our Company.

ITEM 5. OTHER INFORMATION

None noted

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
31.1	Certification of the Chief Executive Officer and Chief Financial Officer Pursuant to Rule 13a-14 or 15d-14 of the Exchange Act pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on our behalf by the undersigned thereunto duly authorized.

GALA PHARMACEUTICAL INC.
(REGISTRANT)

Date: August 1, 2018

/s/ Maqsood Rehman

Maqsood Rehman
Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 USC, ss 1350, AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES OXLEY ACT OF 2002**

I, Maqsood Rehman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gala Pharmaceutical Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedure to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 1, 2018

/s/ Maqsood Rehman

Maqsood Rehman

President, Chief Financial Officer, and Director

(Principal Executive Officer, Principal Financial Officer
and Principal Accounting Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Maqsood Rehman, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Quarter Report on Form 10-Q of Gala Pharmaceutical Inc. for the quarter ended May 31, 2018 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Gala Pharmaceutical Inc.

Dated: August 1, 2018

/s/ Maqsood Rehman

Maqsood Rehman

President, Chief Financial Officer, and Director

(Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer)