

Condensed Interim Consolidated Financial Statements of

HARRYS MANUFACTURING INC.

April 30, 2019

Expressed in Canadian Dollars

(Unaudited)

**NOTICE OF NO AUDITOR REVIEW OF
INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements.

HARRYS MANUFACTURING INC.
Condensed Interim Consolidated Statements of Financial Position
Expressed in Canadian dollars

	Note	April 30, 2019 (Unaudited) \$	July 31, 2018 \$
ASSETS			
Current			
Cash		678,475	1,526,070
Receivables	6	10,237	70,782
Loan receivable	7	–	2,458,400
Prepaid expenses		–	31,250
Total current assets		688,712	4,086,502
Prepaid expenses	8	300,000	–
Equipment	9	1,340,660	–
Goodwill	5	11,138,232	–
Total assets		13,467,604	4,086,502
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	10	199,897	20,141
Total current liabilities		199,897	20,141
SHAREHOLDERS' EQUITY			
Share capital	12	19,490,552	9,497,915
Reserves	12	2,815,509	1,810,116
Deficit		(9,038,354)	(7,241,670)
Total shareholders' equity		13,267,707	4,066,361
Total liabilities and shareholders' equity		13,467,604	4,086,502

Going concern (Note 2)
Commitment (Note 15)

On behalf of the Board of Directors:

“Kevin Kohanik” Director “Michael Young” Director

HARRYS MANUFACTURING INC.**Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**

Expressed in Canadian dollars

(Unaudited)

	Note	Three months ended April 30, 2019	Three months ended April 30, 2018	Nine months ended April 30, 2019	Nine months ended April 30, 2018
		\$	\$	\$	\$
Revenue		7,500	–	7,500	–
Cost of sales	9	85,122	–	195,505	–
		(77,622)	–	(188,005)	–
Expenses					
Consulting fees		12,000	41,000	46,000	232,987
Finance charges		–	27	–	3,130
Management fees	11	38,550	31,000	109,650	121,000
Office and administrative		28,781	6,531	53,810	34,734
Professional fees		14,105	39,582	61,105	71,179
Share-based payments	12	–	–	1,012,995	149,488
Salaries and wages	11	96,468	–	306,198	–
Shareholder communications		–	–	4,000	1,250
Transfer agent and filing fees		6,367	5,554	36,811	32,017
Total expenses		196,271	123,694	1,630,569	645,785
Net loss before other items		(273,893)	(123,694)	(1,818,574)	(645,785)
Other items					
Interest income		–	29,260	21,890	33,452
Impairment of option on mineral property		–	–	–	(50,000)
Net and comprehensive loss		(273,893)	(94,434)	(1,796,684)	(662,333)
Basic and diluted loss per common share		(0.00)	(0.00)	(0.03)	(0.02)
Weighted average number of common shares outstanding, basic and diluted		77,916,358	49,290,742	70,990,693	42,074,161

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

HARRYS MANUFACTURING INC.
Condensed Interim Consolidated Statement of Changes in Equity
Expressed in Canadian dollars
(Unaudited)

	Number of Common shares	Amount \$	Reserves \$	Deficit \$	Shareholders' Equity \$
July 31, 2017	35,499,021	5,291,345	1,515,029	(6,576,587)	229,787
Shares issued upon the exercise of options	775,000	260,053	(125,553)	–	134,500
Shares issued upon the exercise of warrants	1,797,500	548,004	(18,879)	–	529,125
Shares issued for cash pursuant to private placements	11,244,737	3,935,658	–	–	3,935,658
Share issuance costs paid:					
- in cash	–	(247,114)	–	–	(247,114)
- in warrants	–	(290,031)	290,031	–	–
Share-based payments	–	–	149,488	–	149,488
Loss for the period	–	–	–	(662,333)	(662,333)
April 30, 2018	49,316,258	9,497,915	1,810,116	(7,238,920)	4,069,111
	Number of Common shares	Amount \$	Reserves \$	Deficit \$	Shareholders' Equity \$
July 31, 2018	49,316,258	9,497,915	1,810,116	(7,241,670)	4,066,361
Shares issued to acquire HIMI	28,500,100	9,975,035	–	–	9,975,035
Shares issued upon the exercise of options at \$0.10 per share	100,000	17,602	(7,602)	–	10,000
Share-based payments	–	–	1,012,995	–	1,012,995
Loss for the period	–	–	–	(1,796,684)	(1,796,684)
April 30, 2019	77,916,358	19,490,552	2,815,509	(9,038,354)	13,267,707

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

HARRYS MANUFACTURING INC.
Condensed Interim Consolidated Statement of Cash Flows
Expressed in Canadian dollars
(Unaudited)

	Nine months ended April 30, 2019	Nine months ended April 30, 2018
	\$	\$
Operating activities		
Net loss for the period	(1,796,684)	(662,333)
Adjustment for non-cash items		
Share based payments	1,012,995	149,488
Impairment of option on mineral property	–	50,000
Depreciation	194,730	–
Changes in non-cash operating working capital items:		
Receivables	424,098	(30,938)
Prepaid expenses	31,250	–
Accounts payable and accrued liabilities – unrelated	(742,533)	(12,086)
Accounts payable and accrued liabilities – related	–	(642)
Net cash used in operating activities	(876,144)	(506,511)
Investing activities		
Cash acquired upon acquisition of HIMI	18,549	–
Loan receivable	–	(2,400,000)
Net cash provided by (used for) investing activities	18,549	(2,400,000)
Financing activities		
Subscription advances	–	–
Proceeds from loans – related	–	50,000
Repayment of loans – related	–	(50,000)
Proceeds received from share issuances	10,000	4,599,283
Share issuance costs	–	(247,114)
Net cash provided by financing activities	10,000	4,352,169
(Decrease) Increase in cash in the period	(847,595)	1,445,658
Cash, beginning of period	1,526,070	197,126
Cash, end of period	678,475	1,642,784
Non-cash investing and financing activities		
Issuance of warrants for finance fees	–	290,031
Value of shares issued for acquisition of HIMI	9,975,035	–

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

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2019

(Expressed in Canadian dollars)

(Unaudited)

1. Nature and continuance of operations

Harrys Manufacturing Inc. (the “Company”) was incorporated under the laws of the Province of British Columbia on July 31, 2007. On October 4, 2018, the Company changed its name from Westridge Resources Inc. to Harrys Manufacturing Inc. The Company’s principal business is the distribution of tobacco products to international customers.

On January 22, 2018, as amended on March 30, 2018, the Company entered into a definitive agreement with Harrys International Manufacturing Inc. (“HIMI”) (the “Share Exchange Agreement”). Pursuant to the Share Exchange Agreement, the Company acquired all of the issued and outstanding common shares of HIMI in exchange for the issuance of 28,500,100 common shares of the Company (the “Acquisition”). HIMI’s principal business is the sale and distribution of tobacco products to purchasers located outside of Canada and the United States. Completion of the Acquisition resulted in a fundamental change under the policies of the Canadian Securities Exchange (“CSE”). The Acquisition closed on October 4, 2018. As a result of the Acquisition, HIMI became a wholly-owned subsidiary of the Company.

The head office, principal and registered address and records office of the Company are located at Suite 1518 - 800 West Pender Street, Vancouver, B.C V6C 2V6.

The financial statements were authorized for issue on June 28, 2019, by the Board of Directors of the Company.

2. Basis of preparation

Going Concern

These condensed interim financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Company’s ability to continue as a going concern, and therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business.

The Company’s continuation as a going concern is dependent upon its ability to attain profitable operations and generate funds therefrom and/or raise equity capital or borrowings sufficient to meet current and future obligations. Management intends to finance operating costs over the next twelve months from working capital and if necessary from loans from directors and companies controlled by directors and/or private placement of common shares. Management cannot provide assurance that the Company will ultimately achieve profitable operations or become cash flow positive, or raise additional debt and/or equity capital. Management believes that the Company’s capital resources should be adequate to continue operating and maintaining its business strategy. However, if the Company is unable to raise additional capital, management expects that the Company may need to curtail operations, liquidate assets, seek additional capital on less favourable terms and/or pursue other remedial measures. These condensed interim financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

As at April 30, 2019, the Company had cash of \$678,475, net working capital of \$488,815 and an accumulated deficit of \$9,038,354 since inception and expects to incur further losses.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2019

(Expressed in Canadian dollars)

(Unaudited)

3. Significant accounting policies

Statement of compliance

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim consolidated financial statements, including IAS 34, *Interim Financial Reporting*. The interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended July 31, 2018, which have been prepared in accordance with IFRS as issued by the IASB. The Company uses the same accounting policies and methods of computation as in the annual financial statements.

Basis of measurement

These condensed interim consolidated financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, which is also the Company’s functional currency.

The preparation of the Company’s condensed interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates by a material amount. Matters that require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to: assumptions used in estimating share-based payments; the recoverability of deferred tax assets; the going concern assumption; the useful lives of long-lived assets; and the recoverability of long-lived assets and goodwill.

4. Adoption of new accounting pronouncements and recent developments

The Company has adopted new accounting standard IFRS 9 *Financial Instruments*, effective for annual periods beginning on or after January 1, 2018. The adoption of IFRS 9 did not result in any changes to the classification, measurement or carrying amounts of the Company’s existing financial instruments on transition date. The new standard brings together the classification and measurement, impairment and hedge accounting phases of the IASB’s project to replace IAS 39 *Financial instruments: recognition and measurement*. The standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The Company continues to classify and measure its financial instruments at fair value through profit or loss with changes in fair value recognized in profit or loss as they arise (“FVTPL”), unless restrictive criteria regarding the objective and contractual cash flows of the instrument are met for classifying and measuring at either amortized cost or fair value through other comprehensive income. Cash and cash equivalents, and trade receivables continue to be recorded at FVTPL. Trade and other payables are classified and measured as financial liabilities, initially at FVTPL, and subsequently at amortized cost using the effective interest rate method.

The Company has adopted new accounting standard IFRS 15 *Revenue from Contracts with Customers*, effective for annual periods beginning on or after January 1, 2018 using the cumulative effective basis, with no restatement of the comparative period. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers.

The Company principally generates revenue from the sale and distribution of affordable, high quality, organically grown tobacco cigarettes to international customers. The Company has reviewed its sources of revenue using the guidance found in IFRS 15 and determined that there are no material changes to the timing and measurement of the Company’s revenue from these sources as compared to the previous standards.

The following new standards, and amendments to standards and interpretations, are not yet effective for the current period and have not been applied in preparing these financial statements. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below:

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2019

(Expressed in Canadian dollars)

(Unaudited)

4. Adoption of new accounting pronouncements and recent developments (continued)

i) IFRS 16 - Leases

Will replace IAS 17 *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard is effective for annual periods beginning on or after January 1, 2019, but earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. The Company is assessing the impact of this new standard, if any, on the financial statements, but does not believe its adoption will have a material effect on these condensed interim financial statements.

5. Acquisition of HIMI

On January 22, 2018, the Company entered into a Share Exchange Agreement (the "Agreement") with Harrys International Manufacturing Inc. ("HIMI"), a company incorporated under the laws of British Columbia. Pursuant to the terms the Agreement, the Company issued 28,500,100 common shares at \$0.35 per share in exchange for 28,500,100 Class A shares of HIMI, which represented 100% of the issued and outstanding shares of HIMI.

In addition, as a condition precedent to the closing of the Agreement, the Company advanced to HIMI an aggregate amount of \$2,400,000 pursuant to a loan agreement entered on January 4, 2018 between the Company and HIMI. The transaction closed on October 4, 2018.

In accordance with IFRS 3, *Business Combinations*, the purchase agreement was deemed a business combination for accounting purposes. Assets acquired and liabilities assumed are reported at their fair values as at the closing date.

The assets acquired and liabilities of HIMI assumed are as follows:

	\$
Cash	18,549
Amounts receivable	449,397
Prepaid expenses	300,000
Equipment	1,535,390
Goodwill	11,138,232
Accounts payable and accrued liabilities	(922,289)
Loan payable	(2,544,244)
Total purchase price	9,975,035

6. Receivables

	April 30, 2019	July 31, 2018
Recoverable sales taxes	\$ 10,237	\$ 6,828
Accrued interest (Note 7)	-	63,954
	\$ 10,237	\$ 70,782

7. Loan receivable

On January 4, 2018, the Company entered into a loan agreement with HIMI. The loan bore interest at 5% per annum and matured on the earlier of January 4, 2019 or the termination of the Share Exchange Agreement described in Note 5. At July 31, 2018, the Company had advanced \$2,458,400 and accrued interest receivable of \$63,954. On October 4, 2018, the Acquisition closed, and the loan was eliminated on consolidation.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2019

(Expressed in Canadian dollars)

(Unaudited)

8. Prepaid expenses

On January 2, 2018, HIMI executed an agreement (the "Distribution Agreement") for purchasing, manufacturing and reselling tobacco products for a period of 5 years, with automatic renewals for additional successive 1-year terms. Per the Distribution Agreement, HIMI will purchase supplies from the supplier, provide use of their equipment, and sell the manufactured goods back to the supplier. In relation to the Distribution Agreement, HIMI has prepaid \$300,000 as a security deposit for supplies required for the manufacturing of the tobacco products until the term of the Distribution Agreement ends. All of HIMI's sales, which represent the consideration received from the supplier for allowing the supplier to use its machinery and for providing sales management services, are pursuant to this agreement. As at April 30, 2019, \$300,000 (July 31, 2018 – \$nil) was still outstanding as a prepaid.

9. Equipment

	Manufacturing Equipment \$	Total \$
Cost:		
Balance, July 31, 2018	–	–
Additions (Note 5)	1,535,390	1,535,390
Balance, April 30, 2019	1,535,390	1,535,390
Accumulated depreciation:		
Balance, July 31, 2018	–	–
Depreciation	194,730	194,730
Balance, April 30, 2019	194,730	194,730
Carrying amounts:		
Balance, July 31, 2018	–	–
Balance, April 30, 2019	1,340,660	1,340,660

During the nine months ended April 30, 2019, the Company recognized 100% of the depreciation as cost of sales.

10. Accounts payable and accrued liabilities

	April 30, 2019	July 31, 2018
Accounts payable	\$ 199,897	\$ 12,141
Accrued liabilities	–	8,000
	\$ 199,897	\$ 20,141

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2019

(Expressed in Canadian dollars)

(Unaudited)

11. Related party transactions and balances

The Company incurred key management compensation as follows:

Nine months ended April 30,	2019	2018
Management fees accrued or paid to current CFO	\$ 106,650	\$ 121,000
Management fees paid to directors	3,000	–
Salary accrued or paid to current President and CEO	96,568	–
Salary accrued or paid to a director, VP Corporate Development	96,568	–
Total fees paid to related parties	\$ 109,787	\$ 121,000

On January 10, 2017, the Company entered into a consulting agreement with the CFO of the Company for \$120,000 per year for consulting services. The term of the agreement is for an initial period of one year and renews automatically for additional one-year periods unless either the Company or the CFO provide notice of non-renewal 30 days prior to the expiry of the term of the agreement.

On October 20, 2017, the Company granted 175,000 stock options exercisable at \$0.35 per share for five years after the date of grant to the CFO of the Company.

On October 20, 2017, the Company granted 100,000 stock options exercisable at \$0.35 per share for five years after the date of grant to a director of the Company.

On November 16, 2018, the Company granted 750,000 stock options exercisable at \$0.30 per share for five years after the date of grant to the CFO of the Company.

On November 16, 2018, the Company granted 750,000 stock options exercisable at \$0.30 per share for five years after the date of grant to the President and CEO of the Company.

On November 16, 2018, the Company granted 750,000 stock options exercisable at \$0.30 per share for five years after the date of grant to the VP Corporate Development of the Company.

On November 16, 2018, the Company granted a total of 400,000 stock options exercisable at \$0.30 per share for five years after the date of grant to two Directors of the Company. Each Director was granted 200,000 stock options.

12. Share capital and reserves

(a) Authorized:

Unlimited number of common shares without nominal or par value.

(b) Issued

As at April 30, 2019, there are 77,916,358 (July 31, 2018 – 49,316,258) issued and outstanding common shares.

(c) Share transactions

During the nine months ended April 30, 2019:

On October 4, 2018, the Company issued 28,500,100 common shares at \$0.35 per share in exchange for 28,500,100 Class A shares of HIMI pursuant to the acquisition described in Note 5.

On November 5, 2018, the Company issued 100,000 shares of common stock upon the exercise of 100,000 stock options at \$0.10 per share for proceeds of \$10,000.

During the nine months ended April 30, 2018:

On September 7, 2017, the Company issued 25,000 shares of common stock upon the exercise of 25,000 stock options at \$0.10 per share for proceeds of \$2,500.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2019

(Expressed in Canadian dollars)

(Unaudited)

12. Share capital and reserves (continued)

On October 17, 2017, the Company issued 100,000 shares of common stock upon the exercise of 100,000 stock options at \$0.17 per share for proceeds of \$17,000.

On November 28, 2017, the Company issued 400,000 shares of common stock upon the exercise of 400,000 stock options at \$0.17 per share for proceeds of \$68,000.

On December 4, 2017, the Company completed the first tranche of a non-brokered private placement of 3,082,165 units at a price of \$0.35 per unit for gross proceeds of \$1,078,758. Each Unit consists of one common share of the Company and one full share purchase warrant, each warrant entitling the holder thereof to purchase, for a period of 24 months from the date of issuance, one additional common share of the Company at a price of \$0.50 per share. No value was attributed to the warrants as a component of the units. The Company paid cash finder's fees of \$86,301 and issued 246,573 warrants with the same terms as the private placement as a finder's fee. The brokers' warrants were valued at \$96,847 using a Black Scholes option pricing model, as the value of the services performed was not readily verifiable. The assumptions used in the model were as follows: risk free interest rate – 1.53%; expected life – 24 months; dividend nil and annualized volatility – 246%.

On December 6, 2017, the Company issued 40,000 shares of common stock upon the exercise of 40,000 share purchase warrants at \$0.35 per share for proceeds of \$14,000.

On December 8, 2017, the Company issued 50,000 shares of common stock upon the exercise of 50,000 share purchase warrants at \$0.35 per share for proceeds of \$17,500.

On December 11, 2017, the Company issued 50,000 shares of common stock upon the exercise of 50,000 share purchase warrants at \$0.35 per share for proceeds of \$17,500.

On December 11, 2017, the Company issued 50,000 shares of common stock upon the exercise of 50,000 stock options at \$0.10 per share for proceeds of \$5,000.

On December 18, 2017, the Company issued 100,000 shares of common stock upon the exercise of 100,000 share purchase warrants at \$0.35 per share for proceeds of \$35,000.

On December 19, 2017, the Company completed the second tranche of a non-brokered private placement of 6,289,072 units at a price of \$0.35 per unit for gross proceeds of \$2,201,175. Each Unit consists of one common share of the Company and one full share purchase warrant, each warrant entitling the holder thereof to purchase, for a period of 24 months from the date of issuance, one additional common share of the Company at a price of \$0.50 per share. No value was attributed to the warrants as a component of the units. The Company paid cash finder's fees of \$131,294 and issued 375,125 warrants with the same terms as the private placement as a finder's fee. The brokers' warrants were valued at \$164,359 using a Black Scholes option pricing model, as the value of the services performed was not readily verifiable. The assumptions used in the model were as follows: risk free interest rate – 1.58%; expected life – 24 months; dividend nil and annualized volatility – 242%.

On December 19, 2018, the Company issued 50,000 shares of common stock upon the exercise of 50,000 share purchase warrants at \$0.35 per share for proceeds of \$17,500.

On December 21, 2017, the Company issued 5,000 shares of common stock upon the exercise of 5,000 share purchase warrants at \$0.35 per share for proceeds of \$1,750.

On January 2, 2018, the Company issued 27,000 shares of common stock upon the exercise of 27,000 share purchase warrants at \$0.35 per share for proceeds of \$9,450.

On January 2, 2018, the Company issued 100,000 shares of common stock upon the exercise of 100,000 stock options at \$0.25 per share for proceeds of \$25,000.

On January 4, 2018, the Company issued 100,000 shares of common stock upon the exercise of 100,000 stock options at \$0.17 per share for proceeds of \$17,000.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2019

(Expressed in Canadian dollars)

(Unaudited)

12. Share capital and reserves (continued)

On January 5, 2018, the Company issued 100,000 shares of common stock upon the exercise of 100,000 share purchase warrants at \$0.35 per share for proceeds of \$35,000.

On January 9, 2018, the Company issued 440,000 shares of common stock upon the exercise of 400,000 share purchase warrants at \$0.10 per share and 40,000 share purchase warrants at \$0.35 per share for proceeds of \$54,000.

On January 11, 2018, the Company issued 40,000 shares of common stock upon the exercise of 40,000 share purchase warrants at \$0.35 per share for proceeds of \$14,000.

On January 12, 2018, the Company completed the third tranche of a non-brokered private placement of 1,873,500 units at a price of \$0.35 per unit for gross proceeds of \$655,725. Each Unit consists of one common share of the Company and one full share purchase warrant, each warrant entitling the holder thereof to purchase, for a period of 24 months from the date of issuance, one additional common share of the Company at a price of \$0.50 per share. No value was attributed to the warrants as a component of the units. The Company paid cash finder's fees of \$21,098 and issued 60,280 warrants with the same terms as the private placement as a finder's fee. The brokers' warrants were valued at \$28,825 using a Black Scholes option pricing model, as the value of the services performed was not readily verifiable. The assumptions used in the model were as follows: risk free interest rate – 1.71%; expected life – 24 months; dividend nil and annualized volatility – 245%. The Company incurred \$8,421 in legal fees associated with the private placement, which have been charged to share capital and included as cost of issuance.

On January 16, 2018, the Company issued 50,000 shares of common stock upon the exercise of 50,000 share purchase warrants at \$0.35 per share for proceeds of \$17,500.

On January 17, 2018, the Company issued 130,000 shares of common stock upon the exercise of 130,000 share purchase warrants at \$0.35 per share for proceeds of \$45,500.

On January 22, 2018, the Company issued 200,000 shares of common stock upon the exercise of 200,000 share purchase warrants at \$0.35 per share for proceeds of \$70,000.

On January 24, 2018, the Company issued 300,000 shares of common stock upon the exercise of 300,000 share purchase warrants at \$0.35 per share for proceeds of \$105,000.

On January 29, 2018, the Company issued 10,000 shares of common stock upon the exercise of 10,000 share purchase warrants at \$0.35 per share for proceeds of \$3,500.

On January 31, 2018, the Company issued 100,000 shares of common stock upon the exercise of 100,000 share purchase warrants at \$0.35 per share for proceeds of \$35,000.

On February 2, 2018, the Company issued 5,500 shares of common stock upon the exercise of 5,500 warrants at \$0.35 per share for proceeds of \$1,925. At the time of issue, the warrants were issued to brokers as finders' fees for a private placement and were valued at \$1,065 and credited to reserves. Upon exercise, this amount was taken out of reserves and added to the value received for shares issued.

On February 24, 2018, the Company issued 100,000 shares of common stock upon the exercise of 100,000 share purchase warrants at \$0.35 per share for proceeds of \$35,000.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2019

(Expressed in Canadian dollars)

(Unaudited)

12. Share capital and reserves (continued)

(d) Share purchase warrants

The changes in warrants during the nine months ended April 30, 2019 and year ended July 31, 2018 were as follows:

	April 30, 2019		July 31, 2018	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding, beginning of the period	11,926,715	\$ 0.50	2,304,000	\$ 0.31
Issued	–	–	11,926,715	0.50
Exercised	–	–	(2,197,500)	0.30
Expired	–	–	(106,500)	0.35
Outstanding, end of the period	11,926,715	\$ 0.50	11,926,715	\$ 0.50

A summary of the Company's outstanding warrants as at April 30, 2019 is as follows:

Number of warrants	Exercise price	Expiry date
3,328,738	\$ 0.50	December 4, 2019
6,664,197	0.50	December 19, 2019
1,933,780	0.50	January 12, 2020
11,926,715	\$ 0.50	

(e) Stock options

The Company has a stock option plan under which it is authorized to grant options to the Company's officers, directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option equals the market price of the Company's stock, less applicable discount, as calculated on the date of grant. The options can be granted for a maximum term of 10 years with vesting determined by the board of directors.

On November 16, 2018, the Company granted options to acquire 4,525,000 shares of common stock upon the exercise of 4,525,000 stock options at \$0.30 per share for five years.

A summary of stock option transactions during the nine months ended April 30, 2019 and year ended July 31, 2018 were as follows:

	April 30, 2019		July 31, 2018	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of the period	2,490,000	\$ 0.28	2,790,000	\$ 0.23
Granted	4,525,000	0.30	475,000	0.37
Cancelled	(400,000)	0.28	-	-
Exercised	(100,000)	0.10	(775,000)	0.17
Outstanding, end of the period	6,515,000	\$ 0.30	2,490,000	\$ 0.28

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2019

(Expressed in Canadian dollars)

(Unaudited)

12. Share capital and reserves (continued)

The following stock options were outstanding and exercisable as at April 30, 2019:

Number of options	Exercise price	Expiry date
175,000	\$ 0.10	January 16, 2022
240,000	0.17	January 17, 2022
500,000	0.25	January 18, 2022
300,000	0.30	February 3, 2022
500,000	0.37	February 6, 2022
375,000	0.35	October 20, 2022
100,000	0.43	December 1, 2022
4,325,000	0.30	November 16, 2023
6,515,000	\$ 0.30	

(e) Reserves

Reserves relates to stock options, agent's unit options, and compensatory warrants that have been issued by the Company. The Company uses the Black-Scholes valuation model to value stock options.

Share-based payments recognized and expensed during the nine months ending April 30, 2019 was \$1,012,995 (2018 - \$149,488).

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted or vested during the nine months ending April 30, 2019 and 2018:

	April 30, 2019	April 30, 2018
Risk-free interest rate	2.29%	1.70% - 1.72%
Expected life of options	5 years	5 years
Annualized volatility	201%	219%
Dividend rate	-	-

(g) Loss per share

The calculation of basic and diluted loss per share for the three and nine month periods ended April 30, 2019 was based on the weighted average number of common shares outstanding of 77,916,358 (2018 - 49,290,742) and 70,990,693 (2018 - 42,074,161), respectively.

13. Financial risk management

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors has established the Audit and Risk Management Committee, which is responsible for developing and monitoring the Company's compliance with risk management policies and procedures. The committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2019

(Expressed in Canadian dollars)

(Unaudited)

13. Financial risk management (continued)

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. The majority of cash is deposited in bank accounts held with a major bank in Canada. As most of the Company's cash is held by one bank there is a concentration of credit risk. This risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies. The Company's secondary exposure to this risk is on its receivables. The Company also has minimal risk relating to a small amount of refundable sales taxes.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents.

As at April 30, 2019, the Company's liabilities consisted of accounts payable and accrued liabilities of \$199,897. The Company's cash was \$678,475 at April 30, 2019 and was sufficient to pay these liabilities.

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements, and loans from related parties. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant funding.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market price risk is comprised of three types of market price changes: foreign currency exchange rates, interest rates and commodity prices.

(i) Foreign currency exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company's risk to foreign exchange is limited since it holds only Canadian dollars and transacts all sales in Canadian dollars.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity. Accordingly, the Company is not subjected to interest rate risk.

(iii) Commodity price risk

The Company does not hold any financial instruments that have direct exposure to other price risks.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2019

(Expressed in Canadian dollars)

(Unaudited)

14. Capital disclosures

The Company manages its capital in a manner consistent with the risk characteristics of the assets it holds. All financing, including equity and debt, are analyzed by management and approved by the Board of Directors.

The Company's objectives when managing capital are:

- (a) to safeguard the Company's ability to continue as a going concern and provide returns for shareholders; and
- (b) to facilitate the acquisition or development of projects in Canada consistent with the growth strategy of the Company.

The Company is meeting its objective of managing capital through its detailed review and performance of due diligence on all potential acquisitions, preparing short-term and long-term cash flow analysis to ensure an adequate amount of liquidity and monthly review of financial results. The Company considers cash and shareholders' equity to be capital. The Company does not have any externally imposed requirements on its capital. There have been no changes in the Company's approach to capital management from the previous year.

15. Commitment

On November 16, 2018, the Company entered into a sales and distribution agreement. Pursuant to the agreement, the Company granted distribution rights to sell products manufactured by the Company in Asia and Europe for a term of two years.

16. Subsequent Event

On May 31, 2019 the Company announced it cancelled a total of 5,900,000 incentive stock options. The cancelled stock options were voluntarily surrendered by the holders thereof for no consideration.