Consolidated Financial Statements of

# HARRYS MANUFACTURING INC.

(Formerly Westridge Resources Inc.)
July 31, 2019 and 2018

*Expressed in Canadian Dollars*

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Harrys Manufacturing Inc. (formerly Westridge Resources Inc.)

**Opinion**

We have audited the consolidated financial statements of Harrys Manufacturing Inc. (formerly Westridge Resources Inc.) (the "Company"), which comprise the consolidated statements of financial position as at July 31, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

**Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Material Uncertainty Related to Going Concern**

We draw attention to Note 2 to the financial statements, which describes events or conditions that indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

**Other Information**

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is David Goertz.

**DALE MATHESON CARR-HILTON LABONTE LLP**
**CHARTERED PROFESSIONAL ACCOUNTANTS**
Vancouver, BC

November 28, 2019

MOORE

An independent firm
associated with Moore
Global Network Limited

**HARRYS MANUFACTURING INC.**
**(Formerly Westridge Resources Inc.)**
**Consolidated Statements of Financial Position**
Expressed in Canadian dollars

| As at | Note | July 31, 2019 | July 31, 2018 |
|---|---|---|---|
| | | $ | $ |
| **ASSETS** | | | |
| **Current** | | | |
| Cash | | 526,682 | 1,526,070 |
| Receivables | 7 | 6,707 | 70,782 |
| Loan receivable | 8 | – | 2,458,400 |
| Prepaid expenses | 6 | – | 31,250 |
| **Total current assets** | | 533,389 | 4,086,502 |
| Equipment | 9 | 812,856 | – |
| **Total assets** | | 1,346,245 | 4,086,502 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | 11 | 29,767 | 20,141 |
| Wages payable | 13 | 200,187 | – |
| **Total current liabilities** | | 229,954 | 20,141 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 14 | 19,490,552 | 9,497,915 |
| Reserves | 14 | 2,940,202 | 1,810,116 |
| Deficit | | (21,314,463) | (7,241,670) |
| **Total shareholders' equity** | | 1,116,291 | 4,066,361 |
| **Total liabilities and shareholders' equity** | | 1,346,245 | 4,086,502 |

**Nature and continuance of operations (Note 1)**
**Going concern (Note 2)**
**Commitments (Note 17)**
**Subsequent events (Notes 1 and 19)**

**On behalf of the Board of Directors:**

*"Kevin Kohanik"* Director *"Michael Young"* Director

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

**HARRYS MANUFACTURING INC.**
**(Formerly Westridge Resources Inc.)**
**Consolidated Statements of Loss and Comprehensive Loss**
Expressed in Canadian dollars

| | Note | **Year ended July 31, 2019** | **Year ended July 31, 2018** |
|---|---|---|---|
| | | $ | $ |
| **Revenue** | | 7,500 | – |
| **Cost of sales** | 9 | 193,344 | – |
| | | (185,844) | – |
| **Expenses** | | | |
| Consulting fees | | 121,750 | 195,487 |
| Interest expense | | 1,221 | 3,155 |
| Management fees | 13 | 388,234 | 150,000 |
| Office and administrative | | 58,055 | 38,387 |
| Professional fees | | 113,497 | 106,632 |
| Research and development | | 2,137 | - |
| Share-based payments | 13, 14 | 1,137,688 | 149,488 |
| Salaries and wages | 13 | 71,091 | - |
| Shareholder communications | | 4,000 | 1,250 |
| Transfer agent and filing fees | | 43,745 | 34,638 |
| | | (1,941,418) | (679,037) |
| **Net loss before other items** | | (2,127,262) | (679,037) |
| **Other items** | | | |
| Interest income | 8 | – | 63,954 |
| Impairment of mineral property | 10 | – | (50,000) |
| Impairment of goodwill | 5 | (11,945,531) | – |
| **Net and comprehensive loss** | | (14,072,793) | (665,083) |
| **Basic and diluted loss per common share** | | (0.19) | (0.02) |
| **Weighted average number of common shares outstanding, basic and diluted** | | 72,736,340 | 43,899,566 |

**HARRYS MANUFACTURING INC.**
**(Formerly Westridge Resources Inc.)**
**Consolidated Statements of Changes in Equity**
Expressed in Canadian dollars

| | 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 for cash upon the exercise of stock options | 775,000 | 260,053 | (125,553) | - | 134,500 |
| Shares issued for cash upon the exercise of warrants | 1,797,500 | 548,004 | (18,879) | - | 529,125 |
| Share units issued for cash at $0.35 per share | 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 year | - | - | - | (665,083) | (665,083) |
| **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 for cash upon the exercise of stock options | 100,000 | 17,602 | (7,602) | – | 10,000 |
| Share-based payments | – | – | 1,137,688 | – | 1,137,688 |
| Loss for the year | – | – | – | (14,072,793) | (14,072,793) |
| **July 31, 2019** | 77,916,358 | 19,490,552 | 2,940,202 | (21,314,463) | 1,116,291 |

**HARRYS MANUFACTURING INC.**
**(Formerly Westridge Resources Inc.)**
**Consolidated Statements of Cash Flows**
Expressed in Canadian dollars

| | Year ended July 31, 2019 | Year ended July 31, 2018 |
|---|---|---|
| | $ | $ |
| **Operating activities** | | |
| Net loss for the year | (14,072,793) | (665,083) |
| Adjustment for non-cash items | | |
| Share based payments | 1,137,688 | 149,488 |
| Depreciation | 193,344 | - |
| Impairment of evaluation and exploration assets | - | 50,000 |
| Impairment of goodwill | 11,945,331 | - |
| Changes in non-operating working capital items: | | |
| Receivables | 449,519 | (64,264) |
| Prepaid expenses | 31,250 | (31,250) |
| Accounts payable and accrued liabilities | (698,095) | (3,716) |
| Wages payable | (14,371) | - |
| **Net cash used in operating activities** | (1,027,937) | (564,825) |
| **Investing activities** | | |
| Cash acquired upon acquisition of HIMI | 18,549 | - |
| Loan receivable | - | (2,458,400) |
| **Net cash provided by (used in) investing activities** | 18,549 | (2,458,400) |
| **Financing activities** | | |
| Proceeds from loans payable | - | 50,000 |
| Repayment of loans payable | - | (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 |
| **NET CASH (OUTFLOW) INFLOW** | (999,388) | 1,328,944 |
| **Cash, beginning of year** | 1,526,070 | 197,126 |
| **Cash, end of year** | 526,682 | 1,526,070 |

| | | |
|---|---|---|
| **Non-cash investing and financing activities** | | |
| Value of shares issued for acquisition of HIMI | 9,975,035 | - |
| Issuance of warrants for finance fees | - | 290,031 |

## 1. Nature and continuance of operations

Harrys Manufacturing Inc. (formerly Westridge Resources Inc.) (the "Company") was incorporated under the laws of the Province of British Columbia on July 31, 2007. The Company's common shares are listed for trading on the Canadian Securities Exchange (the "CSE") under the symbol "HARY".

On January 22, 2018, and 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 exclusively to purchasers located outside of Canada and the United States. The Acquisition closed on October 4, 2018 and the Company also changed its name from Westridge Resources Inc. to Harrys Manufacturing Inc.

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

The consolidated financial statements were authorized for issuance on November 28, 2019, by the Board of Directors.

## 2. Basis of preparation

### *Going Concern*

These consolidated 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. To date the Company has incurred losses and further losses are expected in the 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 there from 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 consolidated 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.

## 3. Significant accounting policies

### *Statement of compliance and principals of consolidation*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, HIMI. All intercompany transactions and balances have been eliminated on consolidation.

The significant accounting policies that have been applied in the preparation of these consolidated financial statements are summarized below.

## 3. Significant accounting policies (continued)

These accounting policies have been used throughout all periods presented in the consolidated financial statements.

**Significant judgments, estimates and assumptions**

The preparation of the Company's consolidated 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 consolidated 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:

*Share-based payments*

Share-based payments are determined using the Black-Scholes Option Pricing Model based on estimated fair values of all share-based awards at the date of grant. The Black-Scholes Option Pricing Model utilizes assumptions such as expected price volatility, the expected life of the option and the number of options that may be forfeited. Changes in these input assumptions may affect the fair value estimate.

*Useful life and recovery of long-lived assets*

Management estimates the useful life of long-lived assets based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for depreciation for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of technical or commercial obsolescence, and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's long-lived assets in the future.

The assessment of any impairment of long-lived assets, including intangible assets, is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions, timing of cash flows, the useful lives of assets, and their related salvage values.

*Deferred taxes*

The Company recognizes the deferred tax benefit of deferred tax assets to the extent their recovery is probable. Assessing the recoverability of deferred tax assets requires management to make significant estimates of future taxable profit. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions from deferred tax assets.

*Going concern*

These consolidated financial statements have been prepared in accordance with IFRS on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business within the foreseeable future. Management uses judgment in determining assumptions for cash flow projections, such as anticipated financing, anticipated sales and future commitments to assess the Company's ability to continue as a going concern. A critical judgment is that the Company continues to raise funds going forward and satisfy their obligations as they become due.

## 3. Significant accounting policies (continued)

*Business Combinations*

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. Management exercises judgment in estimating the probability and timing of when earn-outs are expected to be achieved which is used as the basis for estimating fair value. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied.

The determination of whether a set of assets acquired and liabilities assumed constitute a business may require the Company to make certain judgments, taking into account all facts and circumstances. A business is presumed to be an integrated set of activities and assets capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or economic benefits. The acquisition of HIMI is determined to constitute a business combination (Note 5).

### Foreign currency translation

The functional currency of the Company is the Canadian dollar, and the consolidated financial statements are presented in Canadian dollars.

*Transactions and balances*

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the consolidated statement of comprehensive loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

### Equipment

Equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. All other repairs and maintenance are charged to the consolidated statement of comprehensive loss during the financial period in which they are incurred. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the consolidated statement of comprehensive loss. Depreciation for the equipment is 20% using the straight-line method over its estimated useful life.

**3. Significant accounting policies (continued)**

**Revenue Recognition**

Effective August 1, 2018, the Company has adopted new accounting standard IFRS 15 *Revenue from Contracts with Customers*, 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.

- identify the contract with a customer;
- identify the performance obligations in the contract;
- determine the transaction price, which is the total consideration provided by the customer;
- allocate the transaction price among the performance obligations in the contract based on their relative fair values; and
- recognize revenue when the relevant criteria are met for each performance obligation.

The Company principally generates revenue from the sale and distribution of tobacco cigarettes to international customers. Revenue is recognized when title passes to an external party and is measured at the fair value of the consideration received or receivable. 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.

**Share-based payments**

The Company operates an employee stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to contributed surplus. The fair value of options is determined using a Black-Scholes Option Pricing Model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

**Share purchase warrants**

The Company bifurcates units consisting of common shares and share purchase warrants using the residual value approach whereby it measures the common share component of the unit at fair value using market prices. The difference between this value and the unit value is then allocated to the warrant with the value of the warrant component being credited to reserves. When warrants are exercised, the corresponding residual value, if any, is transferred from reserves to share capital.

**Financial instruments**

Effective August 1, 2018, the Company has adopted new accounting standard IFRS 9 – *Financial Instruments*. 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.

Financial assets were originally classified as Loans and Receivables in accordance with IAS 39 are classified as amortized cost in accordance with IFRS 9. Financial liabilities were originally classified as Other Liabilities in accordance with IAS 39 are classified as amortized cost in accordance with IFRS 9.

**3. Significant accounting policies (continued)**

(i) Recognition and initial measurement

The Company's financial instruments consist of cash, receivables, loan receivable, accounts payable and accrued liabilities, and wages payable.

Trade receivables are initially recognized when they are originated. All other financial assets and liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

*Financial assets*

On initial recognition, a financial asset is classified as measured at: amortized cost; fair value through other comprehensive income ("FVOCI") – debt investment; FVOCI - equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

*Financial assets: Subsequent measurement and gains and losses*

Financial assets at amortized cost: These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in the statement of operations. Any gain or loss on derecognition is recognized in the statement of operations

*Financial liabilities*

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in the statement of operations. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in the statement of operations. Any gain or loss on derecognition is also recognized in the statement of operations.

**Financial instruments**

(iii) Derecognition

*Financial assets*

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. The Company enters into transactions whereby it transfers assets recognized in its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

**3. Significant accounting policies (continued)**

*Financial liabilities*

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in the statement of operations.

*Write-off*

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

*Comprehensive loss*

Comprehensive loss is the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources, such as any unrealized gains and losses in financial assets classified as FVOCI. The Company had no comprehensive loss transactions during the years ended July 31, 2019 and 2018.

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been impacted.

*For all financial assets objective evidence of impairment could include:*

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

**Financial instruments**

For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

## 3. Significant accounting policies (continued)

### Income taxes

*Current tax:*

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

*Deferred tax:*

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### Loss per share

The Company presents basic and diluted loss per share data for its common shares. Basic earnings per share is calculated by dividing the profit or loss attributable to the common shareholders of the Company by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share is calculated by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise share options granted.

### Related party transactions

Parties are considered related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

## 3. Significant accounting policies (continued)

### Business Combinations

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses and is accounted for using the acquisition method. The total consideration paid for the acquisition is the aggregate of the fair values of assets acquired, liabilities assumed, and equity instruments issued in exchange for control of the acquire at the acquisition date. The acquisition date is the date when the Company obtains control of the acquiree. The identifiable assets acquired and liabilities assumed are recognized at their acquisition date fair values, except for deferred taxes and share-based payment awards where IFRS provides exceptions to recording the amounts at fair value. Goodwill represents the difference between total consideration paid and the fair value of the net identifiable assets acquired. Acquisition costs incurred are expensed to profit or loss.

Contingent consideration is measured at its acquisition date fair value and is included as part of the consideration transferred in a business combination, subject to the applicable terms and conditions. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9 with the corresponding gain or loss recognized in profit or loss.

Based on the facts and circumstances that existed at the acquisition date, management will perform a valuation analysis to allocate the purchase price based on the fair values of the identifiable assets acquired and liabilities assumed on the acquisition date. Management has one year from the acquisition date to confirm and finalize the facts and circumstances that support the finalized fair value analysis and related purchase price allocation. Until such time, these values are provisionally reported and are subject to change. Changes to fair values and allocations are retrospectively adjusted in subsequent periods.

In determining the fair value of all identifiable assets acquired and liabilities assumed, the most significant estimates generally relate to contingent consideration and intangible assets. Management exercises judgment in estimating the probability and timing of when earn-outs are expected to be achieved, which is used as the basis for estimating fair value. Identified intangible assets are fair valued using appropriate valuation techniques which are generally based on a forecast of the total expected future net cash flows of the acquiree. Valuations are highly dependent on the inputs used and assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied.

Acquisitions that do not meet the definition of a business combination are accounted for as asset acquisitions. Consideration paid for an asset acquisition is allocated to the individual identifiable assets acquired and liabilities assumed based on their relative fair values. Asset acquisitions do not give rise to goodwill.

### Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of a business over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the cash-generating unit (“CGU”) or CGUs which are expected to benefit from the synergies of the combination.

*Impairment of Goodwill and Indefinite Life Intangibles*

Goodwill and indefinite life intangibles are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

Impairment is determined for goodwill and indefinite life intangibles by assessing if the carrying value of a CGU or group of CGUs, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs of disposal and the value-in-use. Impairment losses recognized in respect of a CGU or group of CGUs are first allocated to the carrying value of goodwill and indefinite life intangibles and any excess is allocated to the carrying amount of assets in the CGU. Any impairment loss is recognized in the consolidated statements of loss and comprehensive loss in the period in which the impairment is identified. Impairment losses on goodwill and indefinite life intangibles are not subsequently reversed.

## 3. Significant accounting policies (continued)

**Impairment of non-financial assets**

At each financial position reporting date the carrying amounts of the Company's long-lived assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use, which is the present value of future cash flows expected to be derived from the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the year.

For the purposes of impairment testing, individual assets are allocated to cash-generating units. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

**Provisions**

Liabilities are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. A provision is a liability of uncertain timing or amount.

Provisions are measured as the expenditure expected to be required to settle the obligation at the reporting date. In cases where it is determined that the effects of the time value of money are significant, the provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the obligation.

## 4. Adoption of new accounting pronouncements and recent developments

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 consolidated financial statements. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below:

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 will be 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 consolidated financial statements, but does not believe its adoption will have a material effect on these consolidated financial statements.

*(Expressed in Canadian dollars)*

## 5. Acquisition of HIMI

Pursuant to the terms the Share Exchange 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 Share Exchange 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 purchase price allocation ("PPA") is as follows:

| | | |
|---|---|---|
| **Purchase Price** | | |
| Common share issued to acquire HIMI | | 28,500,100 |
| Closing price of HMI on October 4, 2018 | $ | 0.35 |
| Total | $ | 9,975,035 |
| | | |
| **Value of assets less liabilities** | | |
| Cash | $ | 18,549 |
| Amounts receivable | | 449,398 |
| Equipment | | 1,006,200 |
| Accounts payable and accrued liabilities | | (707,721) |
| Wages payable | | (214,568) |
| Loan payable | | (2,522,354) |
| | | (1,670,496) |
| | | |
| Goodwill | | 11,945,531 |
| Reconciliation to Purchase Price | $ | 9,975,035 |

The Company estimated the fair value of HIMI's equipment to be USD 780,000 ($1,006,200). The excess of the consideration paid over the fair value of the identifiable assets (liabilities) acquired were recognized as goodwill, which primarily consisted of the assembled workforce.

From the date of the acquisition to July 31, 2019, the acquired business contributed $7,500 of revenue and a net loss of $565,231.

As at July 31, 2019, management determined that there existed significant uncertainty as to whether the Company would derive future positive cash flows from this CGU; therefore, the Company recognized an impairment charge of $11,945,531.

## 6. Prepaid expenses

On October 17, 2017, the Company executed a business development and consulting agreement with a term of one year. Pursuant to the agreement, the Company prepaid $150,000 as consideration for the consulting services to be performed over a year. As at July 31, 2019 $nil (2018 - $31,250) is still outstanding as a prepaid.

*(Expressed in Canadian dollars)*

## 7. Receivables

| | | July 31, 2019 | | July 31, 2018 |
|---|---|---|---|---|
| Recoverable sales taxes | $ | 6,707 | $ | 6,828 |
| Accrued interest (Note 8) | | - | | 63,954 |
| | $ | 6,707 | $ | 70,782 |

## 8. 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.

## 9. Equipment

| | Manufacturing Equipment $ | Total $ |
|---|---|---|
| Cost: | | |
| Balance, July 31, 2018 | – | – |
| Additions (Note 5) | 1,006,200 | 1,006,200 |
| Balance, July 31, 2019 | 1,006,200 | 1,006,200 |
| Accumulated depreciation: | | |
| Balance, July 31, 2018 | – | – |
| Depreciation | 193,344 | 193,344 |
| Balance, July 31, 2019 | 193,344 | 193,344 |
| Carrying amounts: | | |
| Balance, July 31, 2018 | – | – |
| Balance, January 31, 2019 | 812,856 | 812,856 |

During the year ended July 31, 2019, the Company recognized 100% of the depreciation as cost of sales.

## 10. Exploration and evaluation assets

On May 4, 2017, the Company entered into an option agreement (the "Agreement") to acquire a 100% right, title and interest in certain mineral claims located in the Kenora mining division of Ontario.

During the year ended July 31, 2018, the Company decided not to exercise the option and recorded an impairment charge of $50,000.

*(Expressed in Canadian dollars)*

## 11. Accounts payable and accrued liabilities

| | | July 31, 2019 | | July 31, 2018 |
|---|---|---|---|---|
| Accounts payable | $ | 4,500 | $ | 12,141 |
| Accrued liabilities | | 25,267 | | 8,000 |
| | $ | 29,767 | $ | 20,141 |

## 12. Loans payable

During the year ended July 31, 2018, the Company received a loan payable from a shareholder of $50,000. The advance was unsecured, non-interest bearing and payable on demand. The loan was repaid on December 4, 2017.

## 13. Related party transactions and balances

The Company incurred key management compensation as follows:

| Year ended July 31, | 2019 | 2018 |
|---|---|---|
| Management fees accrued or paid to current CEO, CFO and directors | $ 386,734 | $ 150,000 |
| Management fees accrued or paid to former directors | 1,500 | - |
| Share-based payments | 655,593 | 78,530 |
| Total fees paid to related parties | $ 1,043,827 | $ 228,530 |

During the year ended July 31, 2018, the Company received a loan payable from a shareholder of $50,000. The loan was repaid on December 4, 2017.

On January 10, 2017, the Company entered into a consulting agreement with the President and CEO 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 CEO provide notice of non-renewal 30 days prior to the expiry of the term of the agreement. During the year ended July 31, 2018, the Company paid a bonus of $30,000.

During the year ended July 31, 2019, the Company recorded $655,593 (July 31, 2018 - $78,530) in share-based payments to related parties.

**Wages Payable**

As at July 31, 2019, $148,793 in wages payable is outstanding in relation to transactions with related parties, which are non-interest bearing, unsecured and due on demand.

## 14. Share capital and reserves

(a) Authorized:

Unlimited number of common shares without nominal or par value.

(b) Issued

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

As at July 31, 2019, there were 21,435,075 (July 31, 2018 – nil) held in escrow. Escrow releases will be scheduled as follows, 10% will be released upon completion of the Acquisition followed by six subsequent releases of 15% each every six months thereafter.

**14. Share capital and reserves (continued)**

Subsequent to the year ended July 31, 2019, the Company cancelled 8,000,000 held in escrow.

(c) Share transactions

*During the year ended July 31, 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. At the time of issue, the options were valued at $7,602 and credited to reserves. Upon exercise, this amount was taken out of reserves and added to the value received for shares issued.

*During the year ended July 31, 2018*

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 consisted 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 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 consisted 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 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 consisted 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.

During the year ended July 31, 2018, the Company issued 75,000 shares of common stock upon the exercise of 75,000 stock options at $0.10 per share for proceeds of $7,500. At the time of issue, the options were valued at $5,701 and credited to reserves. Upon exercise, this amount was taken out of reserves and added to the value received for shares issued.

*(Expressed in Canadian dollars)*

**14. Share capital and reserves (continued)**

During the year ended July 31, 2018, the Company issued 600,000 shares of common stock upon the exercise of 600,000 stock options at $0.17 per share for proceeds of $102,000. At the time of issue, the options were valued at $96,972 and credited to reserves. Upon exercise, this amount was taken out of reserves and added to the value received for shares issued.

During the year ended July 31, 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. At the time of issue, the options were valued at $22,880 and credited to reserves. Upon exercise, this amount was taken out of reserves and added to the value received for shares issued.

During the year ended July 31, 2018, the Company issued 400,000 shares of common stock upon the exercise of 400,000 share purchase warrants at $0.10 per share for proceeds of $40,000.

During the year ended July 31, 2018, the Company issued 97,500 shares of common stock upon the exercise of 97,500 warrants at $0.35 per share for proceeds of $34,125. At the time of issue, the warrants were issued to brokers as finders' fees for a private placement and were valued at $18,879 and credited to reserves. Upon exercise, this amount was taken out of reserves and added to the value received for shares issued.
During the year ended July 31, 2018, the Company issued 1,300,000 shares of common stock upon the exercise of 1,300,000 share purchase warrants at $0.35 per share for proceeds of $455,000.

(d) Share purchase warrants

The changes in warrants during the years ended July 31, 2019 and 2018 were as follows:

| | July 31, 2019 | | July 31, 2018 | |
|---|---|---|---|---|
| | Number of warrants | Weighted average exercise price | Number of warrants | Weighted average exercise price |
| Warrants outstanding, beginning of the year | 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 |
| Warrants outstanding, end of the year | 11,926,715 | $ 0.50 | 11,926,715 | $ 0.50 |

A summary of the Company's outstanding warrants as at July 31, 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.

*(Expressed in Canadian dollars)*

**14. Share capital and reserves (continued)**

On July 5, 2019, the Company granted 1,000,000 stock options exercisable at $0.125 per share for five years after the date of grant. The options vested upon grant.

On November 16, 2018, the Company granted 4,525,000 stock options exercisable at $0.30 per share for five years after the date of grant. The options vested upon grant.

On December 4, 2017, the Company granted 100,000 stock options to a consultant of the Company. The stock options are exercisable at $0.43 per share for five years after the date of grant. The options vested upon grant.

On October 17, 2017, the Company granted 375,000 stock options exercisable at $0.35 per share for five years after the date of grant. The options vested upon grant.

A summary of stock option transactions during the years ended July 31, 2019 and 2018 were as follows:

| | July 31, 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 | 5,525,000 | 0.27 | 475,000 | 0.37 |
| Cancelled | (6,300,000) | 0.31 | - | - |
| Exercised | (100,000) | 0.10 | (775,000) | 0.17 |
| Outstanding, end of the period | 1,615,000 | $ 0.15 | 2,490,000 | $ 0.28 |
| Exercisable, end of the period | 1,615,000 | $ 0.15 | 2,490,000 | $ 0.28 |

The weighted average trading price of the Company's shares at the time of exercise was $0.31 (2018 - $0.46).

The following stock options were outstanding and exercisable as at July 31, 2019:

| Number of Options | Exercise price | Expiry date |
|---|---|---|
| 175,000 | $ 0.10 | January 16, 2022 |
| 240,000 | 0.17 | January 17, 2022 |
| 200,000 | 0.30 | February 3, 2022 |
| 1,000,000 | 0.125 | July 5, 2024 |
| 1,615,000 | $ 0.15 | |

(f) 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 year ending July 31, 2019 was $1,137,688 (2018 - $149,488).

*(Expressed in Canadian dollars)*

## 14. Share capital and reserves (continued)

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted or vested during the year ending July 31, 2019 and 2018:

| | July 31, 2019 | July 31, 2018 |
|---|---|---|
| Risk-free interest rate | 1.67% | 1.70% |
| Expected life of options | 5 years | 5 years |
| Annualized volatility | 257% | 219% |
| Forfeiture rate | 0% | 0% |
| Dividend rate | 0% | 0% |

(g) Loss per share

The calculation of basic and diluted loss per share for the year ended July 31, 2019 was based on the weighted average number of common shares outstanding of 72,736,340 (2018 – 43,899,566).

## 15. 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.

(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 major banks in Canada. As most of the Company's cash is held by one banks 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 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 July 31, 2019, the Company's liabilities consisted of accounts payable and accrued liabilities of $29,767 and wages payable of $200,187. The Company's cash was $526,682 at July 31, 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.

## 15. Financial risk management (continued)

(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.

(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 is exposed to interest rate risk on its cash equivalents as these instruments have original maturities of six months or less and are therefore exposed to interest rate fluctuations on renewal. 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.

## 16. 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 to safeguard the Company's ability to continue as a going concern and provide returns for shareholder. 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, shareholder loans and shareholders' equity (deficiency) 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 years.

## 17. Commitments

(a) 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.

(b) On July 5, 2019 the Company entered into a Consulting Agreement with Aboriginal Import Export Ltd. (the "Consultant") to provide consulting services for a term of 7 months. As per the terms of the agreement, the Company granted 500,000 stock options to the Consultant. In addition, the Company agreed to pay the Consultant $60,000 (paid) and $15,000 per month starting August 1, 2019 for the balance of the term of the agreement. Either party may terminate the agreement by giving 30 days' notice and upon expiration of the 30 days, all obligations between the parties shall be terminated.

*(Expressed in Canadian dollars)*

## 18. Income taxes

Income tax expense varies from the amount that would be computed by applying the expected basic federal and provincial income tax rates for Canada at July 31, 2019 at 27% (2018 – 26%) to income before income taxes.

| | July 31, 2019 | July 31, 2018 |
|---|---|---|
| Net loss for the year | $ (14,072,793) | $ (665,083) |
| Expected income recovery | $ (3,800,000) | $ (173,000) |
| Non-deductible expenditures | 3,452,000 | 39,000 |
| Effect of change in tax rates | 131,000 | - |
| Items deductible for income tax purposes | - | (142,000) |
| Change in unrecognized deductible temporary differences | 217,000 | 276,000 |
| Deferred income tax expense | $ - | $ - |

The significant components of the Company's unrecognized deferred tax assets and liabilities are as follows:

| | July 31, 2019 | July 31, 2018 |
|---|---|---|
| Deferred tax assets: | | |
| Share issue costs | $ 87,000 | $ 122,000 |
| Equipment | (16,000) | - |
| Non-capital losses available for future periods | 1,139,000 | 871,000 |
| Unrecognized deferred tax assets | 1,210,000 | 993,000 |
| Change in unrecognized deductible temporary differences | (1,210,000) | (993,000) |
| Deferred income tax expense | $ - | $ - |

The significant components of the Company's unrecognized temporary differences and tax losses are as follows:

| | July 31, 2019 | Expiry Dates | July 31, 2018 | Expiry Dates |
|---|---|---|---|---|
| Share issue costs | $ 347,000 | 2020-2022 | $ 466,000 | 2019-2022 |
| Equipment | (64,000) | | - | |
| Non-capital losses available for future periods | 4,556,000 | 2020-2039 | 3,347,000 | 2019-2037 |
| | $ 4,839,000 | | $ 3,813,000 | |

## 19. Subsequent Events

(a) On September 3, 2019 the Company signed and announced a Strategic Production Agreement (the "Strategic Agreement") with Sopatyk Seed Farms Ltd. (the "Sopatyk Farms") for the operation of hemp cultivation facilities in Canada (the "Transaction").

Pursuant to the terms of the Strategic Agreement, the Company and Sopatyk Farms intend to jointly manage a facility on Sopatyk Farms property (the "Facility") located in Saskatoon, Saskatchewan for the cultivation of hemp. Under the terms of the Strategic Agreement, the Company will fund the operation of the Facility and Sopatyk Farms will provide its farming expertise to cultivate and grow hemp.

Pursuant to the terms of the Strategic Agreement, Sopatyk Farms will initially plant a test plot of 50 acres upon receipt of the requisite licenses required under the Cannabis Act (Canada) and other applicable laws, with the option to increase up to 2,000 acres. The Company is responsible for engaging a licensed processor to process the hemp using the Company's rolling technology.

The continuation of the Strategic Agreement is subject to the satisfaction of a number of conditions, including but not limited to: receipt of all licenses required to cultivate and grow hemp and hemp related products; the parties obtaining all consents, waivers and corporate and third party approvals necessary, including any required approval of the Canadian Securities Exchange; finding a suitable licensed third party processor to produce the hemp cigarettes; and receipt of all permits, licenses, zoning approvals and any other related approvals required for the Facility.

(b) On September 4, 2019, the Company granted 700,000 stock options exercisable at $0.125 per share for five years after the date of grant. The options vested upon grant.

(c) On September 4, 2019, the Company entered in a consulting agreement with Sopatyk Farms for consulting services in cultivating and growing hemp. In consideration, the Company will grant 500,000 stock options exercisable at $0.125 per share for five years after the date of grant.

(d) Subsequent to the year ended July 31, 2019, the Company cancelled 8,000,000 held in escrow.