

Condensed Interim Consolidated Financial Statements of

HARRYS MANUFACTURING INC.

October 31, 2019

Expressed in Canadian Dollars

(Unaudited)

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

As at	Note	October 31, 2019 (Unaudited) \$	July 31, 2019 \$
ASSETS			
Current			
Cash		383,322	526,682
Receivables	5	5,546	6,707
Total current assets		388,868	533,389
Equipment	6	759,376	812,856
Total assets		1,148,244	1,346,245
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	7	50,873	29,767
Wages payable	8	200,187	200,187
Total current liabilities		251,060	229,954
SHAREHOLDERS' EQUITY			
Share capital	9	19,490,552	19,490,552
Reserves	9	3,023,991	2,940,202
Deficit		(21,617,359)	(21,314,463)
Total shareholders' equity		897,184	1,116,291
Total liabilities and shareholders' equity		1,148,244	1,346,245

Nature and continuance of operations (Note 1)
Going concern (Note 2)
Commitments (Note 12)
Subsequent events (Notes 13)

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 October 31, 2019	Three months ended October 31, 2018
		\$	\$
Revenue		–	–
Cost of sales	6	58,660	25,262
		(58,660)	(25,262)
Expenses			
Depreciation		179	–
Consulting fees		45,000	31,250
Management fees	8	35,550	35,550
Office and administrative		24,988	9,077
Professional fees		31,887	25,263
Research and development		250	–
Share-based payments	9	83,789	–
Salaries and wages		–	52,939
Shareholder communications		3,091	–
Transfer agent and filing fees		19,502	12,976
		(244,236)	(167,055)
Net loss before other items		(302,896)	(192,317)
Other items			
Interest income		–	21,890
Net and comprehensive loss		(302,896)	(170,427)
Basic and diluted loss per common share		(0.00)	(0.00)
Weighted average number of common shares outstanding, basic and diluted		76,177,228	57,370,634

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

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

	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
Loss for the period	–	–	–	(170,427)	(170,427)
October 31, 2018	77,816,358	19,472,950	1,810,116	(7,412,097)	13,870,969
July 31, 2019	77,916,358	19,490,552	2,940,202	(21,314,463)	1,116,291
Shares returned for cancellation	(8,000,000)	–	–	–	–
Share-based payments	–	–	83,789	–	83,789
Loss for the period	–	–	–	(302,896)	(302,896)
October 31, 2019	69,916,358	19,490,552	3,023,991	(21,617,359)	897,184

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

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

	Three months ended October 31, 2019	Three months ended October 31, 2018
	\$	\$
Operating activities		
Net loss for the period	(302,896)	(170,427)
Adjustment for non-cash items		
Share based payments	83,789	–
Depreciation	58,839	24,487
Changes in non-operating working capital items:		
Receivables	1,161	411,602
Prepaid expenses	–	31,250
Accounts payable and accrued liabilities	21,106	(877,848)
Net cash used in operating activities	(138,001)	(580,936)
Investing activities		
Cash acquired upon acquisition of HIMI	–	18,549
Purchase of equipment	(5,359)	–
Net cash provided by (used in) investing activities	(5,359)	18,549
NET CASH (OUTFLOW) INFLOW	(143,360)	(562,387)
Cash, beginning of period	526,682	1,526,070
Cash, end of period	383,322	963,683
Non-cash investing and financing activities		
Value of shares issued for acquisition of HIMI	–	9,975,035

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

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2019

(unaudited)

(Expressed in Canadian dollars)

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. The Company’s common shares are listed for trading on the Canadian Securities Exchange (the “CSE”) under the symbol “HARY”.

On October 4, 2018, the Company acquired all of the issued and outstanding common shares of Harrys International Manufacturing Inc. (“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. On October 4, 2018, 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 1070 - 1055 West Hastings Street, Vancouver, BC V6E 2E9.

The condensed interim consolidated financial statements were authorized for issuance on December 20, 2019, by the Board of Directors.

2. Basis of preparation

Going Concern

These condensed interim 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 condensed interim 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 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, 2019, 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

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2019

(unaudited)

(Expressed in Canadian dollars)

3. Significant accounting policies (continued)

These condensed interim 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.

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.

4. Adoption of new accounting pronouncements and recent developments

The Company has adopted new accounting standard IFRS 16 *Leases*, effective for annual periods beginning on or after January 1, 2019. 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. As the Company did not have any leases, the adoption of IFRS 16 did not have a material effect on the consolidated financial statements.

Certain pronouncements have been issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning on or after January 1, 2020 or later years. Management does not believe the adoption of these future standards will have a material impact on the Company's consolidated financial statements.

5. Receivables

	October 31, 2019	July 31, 2019
Recoverable sales taxes	\$ 5,546	\$ 6,707
	\$ 5,546	\$ 6,707

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2019

(unaudited)

(Expressed in Canadian dollars)

6. Equipment

	Furniture and Fixtures \$	Manufacturing Equipment \$	Total \$
Cost:			
Balance, July 31, 2019	–	1,006,200	1,006,200
Additions	5,359	–	5,359
Balance, October 31, 2019	5,359	1,006,200	1,011,559
Accumulated depreciation:			
Balance, July 31, 2019	–	193,344	193,344
Depreciation	179	58,660	58,839
Balance, October 31, 2019	179	252,004	252,183
Carrying amounts:			
Balance, July 31, 2019	–	812,856	812,856
Balance, October 31, 2019	5,180	754,196	759,376

During the three months ended October 31, 2019 and 2018, the Company recognized 100% of the depreciation of manufacturing equipment as cost of sales.

7. Accounts payable and accrued liabilities

	October 31, 2019	July 31, 2019
Accounts payable	\$ 25,373	\$ 4,500
Accrued liabilities	25,500	25,267
	\$ 50,873	\$ 29,767

8. Related party transactions and balances

The Company incurred key management compensation as follows:

Three months ended October 31,	2019	2018
Management fees accrued or paid to current CEO, CFO and directors	\$ 35,550	\$ 59,250

On January 10, 2017, the Company entered into a consulting agreement with the Chief Financial Officer 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.

Wages Payable

As at October 31, 2019 and 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.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2019

(unaudited)

(Expressed in Canadian dollars)

9. Share capital and reserves

(a) Authorized:

Unlimited number of common shares without nominal or par value.

(b) Issued

As at October 31, 2019, there were 69,916,358 (July 31, 2019 - 77,916,358) issued and outstanding common shares.

As at October 31, 2019, there were 11,419,813 (July 31, 2019 – 21,435,075) shares 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% every six months thereafter. On October 11, 2019, 8,000,000 common shares held in escrow were returned to the Company and cancelled. On October 18, 2019, 2,015,262 shares were released from escrow.

(c) Share transactions

During the three months ended October 31, 2019

On October 11, 2019, the Company cancelled 8,000,000 held in escrow for no consideration.

During the three months ended October 31, 2018

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.

(d) Share purchase warrants

The changes in warrants during the three months ended October 31, 2019 and year ended July 31, 2019 were as follows:

	October 31, 2019		July 31, 2019	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Warrants outstanding, beginning of the period	11,926,715	\$ 0.50	11,926,715	\$ 0.50
Issued	-	-	-	-
Expired	-	-	-	-
Warrants 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 October 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	

* Refer to Note 13

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2019

(unaudited)

(Expressed in Canadian dollars)

9. Share capital and reserves (continued)

(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 September 4, 2019, the Company granted 700,000 stock options exercisable at \$0.125 per share for five years after the date of grant pursuant to a consulting agreement. The options vested upon grant.

A summary of stock option transactions during the three months ended October 31, 2019 and year ended July 31, 2019 were as follows:

	October 31, 2019		July 31, 2019	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Outstanding, beginning of the period	1,615,000	\$ 0.15	2,490,000	\$ 0.28
Granted	700,000	0.125	5,525,000	0.27
Cancelled	-	-	(6,300,000)	0.31
Exercised	-	-	(100,000)	0.10
Outstanding, end of the period	2,315,000	\$ 0.14	1,615,000	\$ 0.15
Exercisable, end of the period	2,315,000	\$ 0.14	1,615,000	\$ 0.15

No options were exercised during the three months ended October 31, 2019. The weighted average trading price of the Company's shares at the time of exercise was \$0.31 during the year ended July 31, 2019.

The following stock options were outstanding and exercisable as at October 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
700,000	0.125	September 4, 2024
2,315,000	\$ 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 three months ended October 31, 2019 was \$83,789 (2018 - \$Nil).

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2019

(unaudited)

(Expressed in Canadian dollars)

9. 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 three months ended October 31, 2019 and 2018:

	October 31, 2019	October 31, 2018
Risk-free interest rate	1.15%	–
Expected life of options	5 years	–
Annualized volatility	270%	–
Forfeiture rate	0%	–
Dividend rate	0%	–

(g) Loss per share

The calculation of basic and diluted loss per share for the quarter ended October 31, 2019 was based on the weighted average number of common shares outstanding of 76,177,228 (2018 – 57,370,634).

10. 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 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 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 October 31, 2019, the Company's liabilities consisted of accounts payable and accrued liabilities of \$50,873 and wages payable of \$200,187. The Company's cash was \$383,322 at October 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.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2019

(unaudited)

(Expressed in Canadian dollars)

10. 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.

11. 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.

12. 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.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2019

(unaudited)

(Expressed in Canadian dollars)

12. Commitments (continued)

- (c) 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.

The Company also entered in a consulting agreement with Sopatyk Farms for consulting services in cultivating and growing hemp. In consideration, the Company granted 500,000 stock options exercisable at \$0.125 per share for five years after the date of grant.

13. Subsequent Events

- a) On November 18, 2019, the Company amended the exercise price and term of an aggregate of 11,244,737 common share purchase warrants issued in connection with the non-brokered private placements that closed on December 4, 2017, December 19, 2017 and January 12, 2018. The exercise price of the Warrants is being re-priced to \$0.39 from \$0.50 and the term is being extended to January 12, 2021. Finder's Warrants issued in connection with the Offerings were not amended.
- b) On December 18, 2019, the Company entered into a sales agreement with a consultant. Pursuant to the agreement the Company will pay the consultant \$5,000 per month for three months and issue the consultant 250,000 stock options exercisable at \$0.25 per share. The Company issued the consultant 250,000 stock options as part of the option grant described in Note 13(c).
- c) On December 18, 2019, the Company granted 450,000 stock options exercisable at \$0.25 per share for five years after the date of grant to consultants. The options vested upon grant.