

Condensed Interim Consolidated Financial Statements of

**HARRYS MANUFACTURING INC.**

April 30, 2021

*Expressed in Canadian Dollars*

*(Unaudited)*

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

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

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

As at	Note	April 30, 2021 (Unaudited) \$	July 31, 2020 \$
<b>ASSETS</b>			
<b>Current</b>			
Cash		674,863	239,121
Amounts receivable	4	8,056	5,645
Prepaid expense		98,035	29,425
<b>Total current assets</b>		<b>780,954</b>	<b>274,191</b>
Property and equipment	5	105,679	115,591
Right-of-use asset	6	245,310	265,943
Loan receivable	7	87,123	–
<b>Total assets</b>		<b>1,219,066</b>	<b>655,725</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	8	28,261	31,998
Wages payable	9	53,016	53,016
Current portion of lease liability	12	10,286	8,670
Loan payable	10	200,000	–
<b>Total current liabilities</b>		<b>291,563</b>	<b>93,684</b>
Convertible debenture	11	177,863	–
Lease liability	12	256,036	263,966
<b>Total liabilities</b>		<b>725,462</b>	<b>357,650</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	13	20,507,755	20,015,764
Subscriptions received	13	321,400	–
Reserves	13	3,595,083	3,280,628
Deficit		(23,930,634)	(22,998,317)
<b>Total shareholders' equity</b>		<b>493,604</b>	<b>298,075</b>
<b>Total liabilities and shareholders' equity</b>		<b>1,219,066</b>	<b>655,725</b>

**Nature and continuance of operations (Note 1)**

**Going concern (Note 2)**

**Commitments (Note 16)**

**Subsequent events (Note 17)**

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

\_\_\_\_\_  
*"Daniel Polus"* Director      \_\_\_\_\_  
*"Michael Young"* Director

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

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

Expressed in Canadian dollars

(Unaudited)

		<b>Three months ended April 30, 2021</b>	<b>Three months ended April 30, 2020</b>	<b>Nine months ended April 30, 2021</b>	<b>Nine months ended April 30, 2020</b>
	Note				
		\$	\$	\$	\$
<b>Revenue</b>		–	–	–	–
<b>Cost of sales</b>		–	58,662	–	175,984
		–	(58,662)	–	(175,984)
<b>Expenses</b>					
Amortization		10,181	3,573	30,545	4,020
Consulting fees		25,000	50,400	77,500	151,200
Management fees	9	63,300	38,550	143,400	114,150
Office and administrative		44,326	27,132	98,876	87,737
Professional fees		25,570	5,194	63,191	57,865
Research and development		–	–	–	250
Share-based payments	13	155,389	–	311,073	390,638
Shareholder communications		6,031	–	20,943	3,091
Transfer agent and filing fees		5,756	3,756	19,387	31,720
<b>Total expenses</b>		<b>335,553</b>	<b>128,605</b>	<b>764,915</b>	<b>840,671</b>
<b>Net loss before other items</b>		<b>(335,553)</b>	<b>(187,267)</b>	<b>(764,915)</b>	<b>(1,016,655)</b>
<b>Other items</b>					
Interest income		2,842	–	2,842	250
Interest expense		(139,082)	(6,611)	(170,244)	(6,611)
<b>Net and comprehensive loss</b>		<b>(471,793)</b>	<b>(193,878)</b>	<b>(932,317)</b>	<b>(1,023,016)</b>
<b>Basic and diluted loss per common share</b>					
		(0.01)	(0.00)	(0.01)	(0.01)
<b>Weighted average number of common shares outstanding, basic and diluted</b>					
		81,318,358	71,171,358	80,335,528	72,430,774

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

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

	Number of Common shares	Amount	Subscriptions Received	Reserves	Deficit	Shareholders' Equity
		\$	\$	\$	\$	\$
<b>July 31, 2019</b>	77,916,358	19,490,552	–	2,940,202	(21,314,463)	1,116,291
Shares returned for cancellation	(8,000,000)	–	–	–	–	–
Shares issued upon the exercise of options	275,000	55,772	–	(25,772)	–	30,000
Units issued for cash at \$0.06 per unit	7,000,000	420,000	–	–	–	420,000
Share-based payments	–	–	–	390,638	–	390,638
Loss for the period	–	–	–	–	(1,023,016)	(1,023,016)
<b>April 30, 2020</b>	77,191,358	19,966,324	–	3,305,068	(22,337,479)	933,913
<b>July 31, 2020</b>	77,391,358	20,015,764	–	3,280,628	(22,998,317)	298,075
Shares issued upon the exercise of warrants	3,767,000	452,040	–	–	–	452,040
Shares issued upon the exercise of options	160,000	39,951	–	(19,951)	–	20,000
Issuance of convertible debt	–	–	–	23,333	–	23,333
Share-based payments	–	–	–	311,073	–	311,073
Share subscriptions received	–	–	321,400	–	–	321,400
Loss for the period	–	–	–	–	(932,317)	(932,317)
<b>April 30, 2021</b>	81,318,358	20,507,755	321,400	3,595,083	(23,930,634)	493,604

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

**HARRYS MANUFACTURING INC.**  
**Condensed Interim Consolidated Statements of Cash Flows**  
Expressed in Canadian dollars

	Nine months ended April 30, 2021	Nine months ended April 30, 2020
	\$	\$
<b>Operating activities</b>		
Net loss for the period	(932,317)	(1,023,016)
Adjustment for non-cash items:		
Share-based payments	311,073	390,638
Amortization	30,545	180,004
Discount on loan receivable	115,719	–
Interest income	(2,842)	–
Interest expense on lease liability	46,561	5,273
Accretion	5,964	–
Changes in non-cash operating working capital items:		
Amounts receivable	(2,411)	(3,969)
Prepaid expenses	(68,610)	–
Accounts payable and accrued liabilities	(3,737)	(28,036)
<b>Net cash used in operating activities</b>	<b>(500,055)</b>	<b>(479,106)</b>
<b>Investing activities</b>		
Loan receivable	(200,000)	–
Purchase of property and equipment	–	(120,621)
<b>Net cash used for investing activities</b>	<b>(200,000)</b>	<b>(120,621)</b>
<b>Financing activities</b>		
Lease repayments	(52,875)	(5,875)
Proceeds from loan payable	200,000	–
Proceeds from convertible debenture	200,000	–
Debt issue costs	(4,768)	–
Share subscriptions received	321,400	–
Proceeds received from share issuances	472,040	450,000
<b>Net cash provided by financing activities</b>	<b>1,135,797</b>	<b>444,125</b>
<b>Change in cash in the period</b>	<b>435,742</b>	<b>(155,602)</b>
<b>Cash, beginning of period</b>	<b>239,121</b>	<b>526,682</b>
<b>Cash, end of period</b>	<b>674,863</b>	<b>371,080</b>

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

# HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2021

(unaudited)

(Expressed in Canadian dollars)

---

## 1. Nature of Operations

Harrys Manufacturing Inc. (the “Company”) was incorporated under the laws of the Province of British Columbia on July 31, 2007, formerly under the name of Westridge Resources Inc. (“Westridge”). 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 common shares of the Company (the “Acquisition”). HIMI’s principal business was 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 changed its name from Westridge Resources Inc. to Harrys Manufacturing Inc. The Company has recently transitioned its efforts to focus on tobacco sales in Canada.

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 June 29, 2021, by the Board of Directors.

### *Impact of COVID-19 on the Financial Position of the Company*

In December 2019, a strain of novel coronavirus (now commonly known as “COVID-19”) was reported to have surfaced in Wuhan, China. COVID-19 has since spread rapidly throughout many countries, and, on March 11, 2020, the World Health Organization declared COVID-19 to be a pandemic. In an effort to contain and mitigate the spread of COVID-19, many countries, including Canada and the United States, have imposed unprecedented restrictions on travel, and there have been business closures and a substantial reduction in economic activity in countries that have had significant outbreaks of COVID-19.

At this time, the Company remains open for business; however, significant uncertainty remains as to the potential impact of the COVID-19 pandemic on our operations, and on the global economy as a whole. Government-imposed restrictions on travel and other “social-distancing” measures such as restrictions on assembly of groups of persons, have the potential to disrupt government agencies who the Company does business with, supply chains for materials used to manufacture products and sales channels for our products, as well as may result in labor shortages.

It is currently not possible to predict how long the pandemic will last or the time that it will take for economic activity to return to prior levels. Management continues to monitor the COVID-19 situation closely and intends to follow health and safety guidelines as they evolve.

## 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.

# HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2021

(unaudited)

(Expressed in Canadian dollars)

---

## 2. Basis of Preparation (continued)

### *Going Concern (continued)*

The Company's continuation as a going concern is dependent upon its ability to attain profitable operations and generate funds from there and/or raise equity capital or borrowings sufficient to meet its current and future obligations. Management intends to finance operating costs over the next twelve months from working capital, cash flow from operations and, if necessary, from loans from directors and companies controlled by directors and/or exercise of outstanding options and warrants and 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 operation and maintaining its business strategy. However, if the Company is unable to achieve profitability or 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 condensed 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. These condensed interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended July 31, 2020, 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

These condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. In addition, these consolidated financial statements are prepared on a historical cost basis except for financial instruments classified as fair value through profit or loss ("FVTPL"), which are stated at their fair value.

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; inputs used to determine the present value of right-of-use asset, and the recoverability of long-lived assets.

## HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2021

(unaudited)

(Expressed in Canadian dollars)

### 4. Amounts Receivable

	April 30, 2021	July 31, 2020
	\$	\$
Recoverable sales taxes	8,056	5,645

### 5. Property and Equipment

	Leasehold Improvements \$	Furniture and Fixtures \$	Manufacturing Equipment \$	Total \$
Cost:				
Balance, July 31, 2020 and April 30, 2021	109,056	11,565	1,006,200	1,126,821
Accumulated depreciation:				
Balance, July 31, 2020	3,634	1,396	1,006,200	1,011,230
Depreciation	8,179	1,733	-	9,912
Balance, April 30, 2021	11,813	3,129	1,006,200	1,021,142
Carrying amounts:				
Balance, July 31, 2020	105,422	10,169	-	115,591
Balance, April 30, 2021	97,243	8,436	-	105,679

### 6. Right-of-use Asset

	Building \$
Cost	
Balance at July 31, 2020 and April 30, 2021	275,114
Accumulated amortization	
Balance at July 31, 2020	9,171
Addition	20,633
Balance at April 30, 2021	29,804
Carrying amount	
Balance at July 31, 2020	265,943
Balance at April 30, 2021	245,310

### 7. Loan Receivable

On February 23, 2021, the Company advanced \$200,000 in exchange for a promissory note. The note is unsecured, non-interest bearing and due upon termination of the manufacturing agreement as described in Note 16(b). The note may be repaid through agreed upon installment payments. The present value of the note at issuance was \$84,282. The resulting discount of \$115,719 was recognized as interest expense and will be recognized over the term of the loan using the effective interest rate method. During the nine months ended April 30, 2021, the Company recorded interest income of \$2,842. As at April 30, 2021, the carrying value of the note was \$87,123.



## HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2021

(unaudited)

(Expressed in Canadian dollars)

### 8. Accounts Payable and Accrued Liabilities

	April 30, 2021	July 31, 2020
	\$	\$
Accounts payable	6,125	15,998
Accrued liabilities	22,136	16,000
	28,261	31,998

### 9. Related Party Transactions and Balances

#### *Related party transactions*

The Company incurred key management compensation as follows:

Nine months ended April 30,	2021	2020
Management fees accrued or paid to the President and CEO, CFO and directors	\$ 143,400	\$ 114,150
Share-based payments	233,224	79,700
Total fees paid to related parties	\$ 376,624	\$ 193,850

On April 1, 2020, the Company entered into an agreement to lease a distribution warehouse facility with a company controlled by the family of a director of the Company. Refer to Note 12.

#### *Wages Payable*

As at April 30, 2021, \$33,794 (July 31, 2020 - \$33,794) in wages payable is outstanding in relation to transactions with related parties, which are non-interest bearing, unsecured and due on demand.

#### *Stock Options*

On December 2, 2020, the Company granted 500,000 stock options exercisable at \$0.16 per share for five years after the date of grant to two directors of the Company. The Company recorded \$77,835 in share-based payments related to the grant of these stock options.

On February 26, 2021, the Company granted 1,000,000 stock options exercisable at \$0.16 per share for five years after the date of grant to two officers of the Company. The Company recorded \$155,389 in share-based payments related to the grant of these stock options.

### 10. Promissory Note

On March 1, 2021, the Company issued an unsecured promissory note with a principal amount of \$200,000 to a company controlled by the family of a director of the Company. The note bears interest at a rate of 6% per annum and is repayable on March 1, 2022. Interest on the note is payable monthly. During the nine months ended April 30, 2021, the Company incurred interest of \$2,000.

## HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2021

(unaudited)

(Expressed in Canadian dollars)

### 11. Convertible Debenture

On March 2, 2021, the Company issued an unsecured convertible debenture with a principal amount of \$200,000. The debenture bears interest at a rate of 6% per annum and is repayable on March 2, 2023. The debenture is convertible at \$0.10 per unit prior to March 2, 2022 and at \$0.12 per unit after March 2, 2022 and prior to maturity. Each unit will consist of one common share and one common share purchase warrant. Each warrant will be exercisable into one additional common share at an exercise price of \$0.12 per warrant for two years.

The present value of the convertible debenture at issuance was \$176,666, with the residual value of \$23,333 being allocated to the equity component. The Company also incurred debt issuance costs of \$4,768, which are included as a discount on the debenture. The resulting combined discount of \$28,101 will be recognized over the term of the loan using the effective interest rate method. During the nine months ended April 30, 2021, the Company recorded accretion interest of \$4,025, which is included in interest expense, and recorded accrued interest of \$1,940. As at April 30, 2021, the carrying value of the convertible debenture was \$177,863.

### 12. Lease Liability

On April 1, 2020, the Company entered into a lease agreement with a company controlled by the family of a related party (Note 9) for inventory warehouse space located at 30445 Progressive Way, Abbotsford, British Columbia. The lease is for a 10-year term, expiring on March 31, 2030, with one 5-year renewal option and an option for the Company to terminate the lease anytime with 60 days' notice. The base rent is \$5,875 plus tax per month during the term of the lease.

Management has determined the lease is enforceable for the Company as lessee because there is more than insignificant economic penalty if to terminate the lease and therefore recognized the underlying right-of-use asset and lease liability on the consolidated statements of the financial position. The lease liability was discounted using the Company's estimated incremental borrowing rate of 23%.

	\$
Lease liabilities as at July 31, 2019	272,636
Less: lease payments	(52,875)
Interest expense	46,561
Lease liability as at April 30, 2021	266,322
Less: current portion of lease liability	(10,286)
Lease liability	256,036

The Company's future minimum lease payments for the leased space are as follows:

	\$
Fiscal year ending July 31, 2021	17,625
Fiscal year ending July 31, 2022	70,500
Fiscal year ending July 31, 2023	70,500
Fiscal year ending July 31, 2024	70,500
Fiscal year ending July 31, 2025	70,500
Fiscal years ended July 31, 2026 to 2030	329,000
Total lease payments	628,625
Amounts representing interest over the term of the lease	(361,303)
Present value of net lease payments	266,322

## HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2021

(unaudited)

(Expressed in Canadian dollars)

---

### 13. Share Capital and Reserves

(a) Authorized:

Unlimited number of common shares without nominal or par value.

(b) Issued

As at April 30, 2021, there were 81,318,358 (July 31, 2020 – 77,391,358) issued and outstanding common shares.

As at April 30, 2021, there were 2,687,015 (July 31, 2020 – 8,061,045) 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 nine months thereafter. On October 11, 2019, 8,000,000 common shares held in escrow were returned to the Company and cancelled. During the nine months ended April 30, 2021, 5,374,030 shares were released from escrow.

(c) Share transactions

*During the nine months ended April 30, 2021*

During the nine months ended April 30, 2021, the Company issued 3,767,000 shares upon the exercise of warrants at \$0.12 per share for proceeds of \$452,040.

During the nine months ended April 30, 2021, the Company issued 160,000 shares upon the exercise of options at \$0.125 per share for proceeds of \$20,000. At the time of issue, the options were valued at \$19,951 and credited to reserves. Upon exercise, this amount was taken out of reserves and added to the value received for shares issued.

*During the nine months ended April 30, 2020:*

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

On February 4, 2020, the Company issued 175,000 common shares upon the exercise of 175,000 stock options at \$0.10 per share to the CFO of the Company for proceeds of \$17,500.

On February 24, 2020, the Company issued 100,000 shares of common stock upon the exercise of 100,000 stock options at \$0.125 per share for proceeds of \$12,500.

On April 17, 2020, the Company completed a non-brokered private placement of 7,000,000 units at a price of \$0.06 per unit for proceeds of \$420,000. Each Unit consisted of one common share and one full share purchase warrant, each warrant entitling the holder thereof to purchase one additional common share at a price of \$0.12 per share until October 18, 2020. No value was attributed to the warrants as a component of the units.

## HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2021

(unaudited)

(Expressed in Canadian dollars)

### 13. Share Capital and Reserves (continued)

#### (d) Share purchase warrants

The changes in warrants during the nine months ended April 30, 2021 and year ended July 31, 2020 were as follows:

	April 30, 2021		July 31, 2020	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Warrants outstanding, beginning of the period	18,244,737	\$ 0.29	11,926,715	\$ 0.40
Issued	500,000	0.15	–	–
Exercised	(3,767,000)	0.12	7,000,000	0.12
Expired	(14,477,737)	0.33	(681,978)	0.50
Warrants outstanding, end of the period	500,000	\$ 0.15	18,244,737	\$ 0.29

On November 19, 2020, the Company issued 500,000 share purchase warrants exercisable at \$0.15 per share for five years after the date of issue pursuant to an exclusive manufacturing agreement (Note 16(b)). The warrants vested upon issuance. The Company recognized the fair value of the warrants of \$77,849 as share based compensation.

A summary of the Company's outstanding warrants as at April 30, 2021 is as follows:

Number of warrants	Exercise price	Expiry date
500,000	\$ 0.15	November 19, 2025

#### (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 shares of the Company. Under the plan, the exercise price of each option equals the market price of the Company's shares, 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 December 2, 2020, the Company granted 500,000 stock options to directors of the Company exercisable at \$0.16 per share until December 2, 2025. The options vested upon grant.

On February 26, 2021, the Company granted 1,000,000 stock options to officers of the Company exercisable at \$0.16 per share until February 26, 2026. The options vested upon grant.

## HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2021

(unaudited)

(Expressed in Canadian dollars)

### 13. Share Capital and Reserves (continued)

A summary of stock option transactions during the nine months ended April 30, 2021 and year ended July 31, 2020 were as follows:

	April 30, 2021		July 31, 2020	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Outstanding, beginning of the period	3,540,000	\$ 0.17	1,615,000	\$ 0.15
Granted	1,500,000	0.16	2,400,000	0.17
Cancelled	(500,000)	0.13	–	–
Exercised	(160,000)	0.13	(475,000)	0.12
Outstanding, end of the period	4,380,000	0.17	3,540,000	\$ 0.17
Exercisable, end of the period	4,380,000	0.17	3,540,000	\$ 0.17

During the nine months ended April 30, 2021, the weighted average trading price of the Company's shares at the time of exercise was \$0.11. During the year ended July 31, 2020, the weighted average trading price of the Company's shares at the time of exercise was \$0.22.

The following stock options were outstanding and exercisable as at April 30, 2021:

Number of Options	Exercise price	Expiry date
240,000	\$ 0.17	January 17, 2022
200,000	0.30	February 3, 2022
640,000	0.125	July 5, 2024
100,000	0.125	September 4, 2024
450,000	0.25	December 18, 2024
1,250,000	0.16	January 16, 2025
500,000	0.16	December 2, 2025
1,000,000	0.16	February 26, 2026
4,380,000	\$ 0.17	

#### (f) Reserves

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

Share-based payments recognized and expensed during the nine months ended April 30, 2021 was \$311,073 (2020 - \$390,638).

## HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2021

(unaudited)

(Expressed in Canadian dollars)

---

### 13. 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 nine months ended April 30, 2021 and 2020:

	April 30, 2021	April 30, 2020
Risk-free interest rate	0.67%	1.47%
Expected life of options	5 years	5 years
Annualized volatility	196%	261%
Forfeiture rate	0%	0%
Dividend rate	0%	0%

### 14. 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 smaller amounts 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 similar source.

As at April 30, 2021, the Company's current liabilities consisted of accounts payable and accrued liabilities of \$28,261, wages payable of \$53,016, promissory note of \$200,000 and current portion of lease liability of \$10,286. The Company's cash was \$674,863 at April 30, 2021 and was sufficient to fulfil 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 nine months ended April 30, 2021

(unaudited)

*(Expressed in Canadian dollars)*

---

### **14. 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 does not carry significant financial instruments that are exposed to interest rate risk. In addition, 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 commodity or other price risks.

### **15. 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 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.

### **16. Commitments**

- (a) On April 21, 2020, the Company entered into an exclusive distribution agreement with a distributor for an initial term of 10 years. Pursuant to the agreement, the Company appointed the party as the exclusive agent to distribute, market sell and supply tobacco products manufactured by the Company for sale in Canada and granted the agent a non-exclusive, non-transferable, royalty-free license to use any all trademarks and trade names owned by the Company.
- (b) On November 19, 2020, the Company entered into an exclusive manufacturing agreement with an initial term of five years that will automatically renew on a yearly basis subject to earlier termination. Pursuant to the agreement, the Company issued to the exclusive manufacturer 500,000 share purchase warrants exercisable for five years at \$0.15 per share. On February 23, 2021, the Company advanced \$200,000 to the manufacturer providing services in exchange for a promissory note. The note is unsecured, non-interest bearing and due upon termination of the manufacturing agreement. The note may be repaid through agreed upon installment payments. The sole purpose of the advance is to pay an additional security deposit to the Canada Revenue Agency for the purchase of federal excise tax stamps, to enable the manufacturer to manufacture tobacco cigarettes. Refer to Note 7.

## **HARRYS MANUFACTURING INC.**

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2021

(unaudited)

*(Expressed in Canadian dollars)*

---

### **17. Subsequent Events**

- (a) On May 13, 2021, the Company closed a non-brokered private placement comprised of 3,528,332 units at a purchase price of \$0.12 per unit for gross proceeds of \$423,400. Each unit consists of one common share and one transferable common share purchase warrant. Each warrant is exercisable into one additional common share at an exercise price of \$0.20 per warrant on or before May 13, 2023. In connection with the offering, the Company paid finders fees of \$5,280 and issued 44,000 Finders Warrants. Each Finders Warrant is exercisable into one common share at an exercise price of \$0.20 per share on or before May 13, 2023.