

Condensed Interim Consolidated Financial Statements of

HARRYS MANUFACTURING INC.

April 30, 2022

Expressed in Canadian Dollars

(Unaudited)

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

The accompanying unaudited condensed 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 condensed interim consolidated financial statements.

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

	Note	April 30, 2022 (Unaudited)	July 31, 2021
		\$	\$
ASSETS			
Current assets			
Cash		212,344	363,796
Amounts receivable		9,736	8,756
Prepaid expenses	4	313,210	329,593
Total current assets		535,290	702,145
Non-current assets			
Property and equipment	5	4,664	105,002
Right-of-use asset	6	–	238,432
Total non-current assets		4,664	343,434
Total assets		539,954	1,045,579
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	7	99,532	38,648
Wages payable	8	53,016	53,016
Current portion of lease liability	11	–	10,889
Loan payable	9	–	185,974
Total current liabilities		152,548	288,527
Non-current liabilities			
Convertible debenture	10	289,304	163,660
Lease liability	11	–	253,077
Total non-current liabilities		289,304	416,737
Total liabilities		441,852	705,264
SHAREHOLDERS' EQUITY			
Share capital	12	21,335,980	20,918,810
Reserves	12	3,794,495	3,619,818
Deficit		(25,032,373)	(24,198,313)
Total shareholders' equity		98,102	340,315
Total liabilities and shareholders' equity		539,954	1,045,579

Going concern (Note 2)
Commitments (Note 15)

On behalf of the Board of Directors:

"Daniel Polus" Director _____
"Michael Young" Director

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

Expressed in Canadian dollars

(Unaudited)

		Three months ended April 30, 2022	Three months ended April 30, 2021	Nine months ended April 30, 2022	Nine months ended April 30, 2021
	Note	\$	\$	\$	\$
Expenses					
Consulting fees		–	25,000	16,750	77,500
Amortization and depreciation	5, 6	424	10,181	21,097	30,545
Management fees	8	67,500	63,300	202,500	143,400
Office and administrative	16	73,069	44,326	232,864	98,876
Product marketing		–	–	720	–
Professional fees		4,549	25,570	33,049	63,191
Share-based payments		–	155,389	164,230	311,073
Shareholder communications		–	6,031	2,654	20,943
Transfer agent and filing fees		7,875	5,756	28,268	19,387
Total expenses		153,417	335,553	702,132	(764,915)
Net loss before other items		(153,417)	(335,553)	(702,132)	(764,915)
Other items					
Termination of lease liability		–	–	(58,843)	–
Interest income		–	2,842	–	2,842
Interest expense	8	(11,783)	(139,082)	(73,085)	(170,244)
Net loss and comprehensive loss		(165,200)	(471,793)	(834,060)	(932,317)
Loss per share, basic and diluted		(0.00)	(0.01)	(0.01)	(0.01)
Weighted average number of shares outstanding, basic and diluted					
		88,606,607	81,318,358	87,311,984	80,335,528

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)

	Share Capital		Subscriptions	Reserves	Deficit	Shareholders'
	Number of	Amount	Received			Equity
	shares	\$		\$	\$	\$
Balance, as at July 31, 2020	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
Net loss for the period	–	–	–	–	(932,317)	(932,317)
Balance, as at April 30, 2021	81,318,358	20,507,755	321,400	3,595,083	(23,930,634)	493,604
Balance, as at July 31, 2021	84,846,690	20,918,810	–	3,619,818	(24,198,313)	340,315
Units issued for cash for \$0.12 per unit	3,759,917	451,190	–	–	–	451,190
Share issuance costs	–	(34,020)	–	7,147	–	(26,873)
Share-based payments	–	–	–	164,230	–	164,230
Issuance of convertible debt	–	–	–	3,300	–	3,300
Net loss for the period	–	–	–	–	(834,060)	(834,060)
Balance, as at April 30, 2022	88,606,607	21,335,980	–	3,794,495	(25,032,373)	98,102

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
(Unaudited)

	Nine months ended April 30, 2022	Nine months ended April 30, 2021
	\$	\$
Operating activities		
Net loss for the period	(834,060)	(932,317)
Adjustment for non-cash items:		
Accretion and interest	42,970	5,964
Amortization	21,096	30,545
Discount on loan receivable	–	115,719
Interest income	–	(2,842)
Interest expense on lease liability	30,115	46,561
Share-based payments	164,230	311,073
Termination of lease liability	58,843	–
Changes in non-cash operating working capital items:		
Amounts receivable	(980)	(2,411)
Prepaid expenses	16,383	(68,610)
Accounts payable and accrued liabilities	60,884	(3,737)
Net cash used in operating activities	(440,519)	(500,055)
Investing activities		
Loan receivable	–	(200,000)
Net cash used for investing activities	–	(200,000)
Financing activities		
Repayment of loans payable	(200,000)	–
Proceeds from loan payable	–	200,000
Proceeds from convertible debenture	100,000	200,000
Proceeds received from share issuances	451,190	472,040
Share issuance costs	(26,873)	–
Share subscriptions received	–	321,400
Debt issue costs	–	(4,768)
Lease repayments	(35,250)	(52,875)
Net cash provided by financing activities	289,067	1,135,797
Change in cash	(151,452)	435,742
Cash, beginning of period	363,796	239,121
Cash, end of period	212,344	674,863

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, 2022

(Expressed in Canadian dollars unless otherwise noted)

(Unaudited)

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 transitioned its efforts to focus on tobacco sales in Canada.

The registered and records office of the Company are located at Suite 1500 – 1055 West Georgia Street, Vancouver, BC V6E 4N7.

The condensed interim consolidated financial statements were authorized for issuance on June 29, 2022, 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, imposed unprecedented restrictions on travel, including some 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 effects of 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, 2022

(Expressed in Canadian dollars unless otherwise noted)

(Unaudited)

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. 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. These adjustments could be material.

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, 2021, 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 include the accounts of the Company and its wholly-owned subsidiary, HIMI. All intercompany transactions and balances have been eliminated on consolidation.

These condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. In addition, these condensed interim 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.

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

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 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 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, 2022

(Expressed in Canadian dollars unless otherwise noted)

(Unaudited)

4. Prepaids and Deposits

	April 30, 2022	July 31, 2021
	\$	\$
Inventory deposit	254,980	240,000
Provincial Tobacco Tax deposit	50,000	50,000
Source deductions recoverable	–	29,425
Prepaid expenses	8,230	10,168
	313,210	329,593

5. Property and Equipment

	Leasehold Improvements	Furniture and Fixtures	Total
	\$	\$	\$
Cost:			
Balance, July 31, 2021	109,056	14,657	123,713
Disposition	(109,056)	(6,205)	(115,261)
Balance, April 30, 2022	–	8,452	8,452
Accumulated depreciation:			
Balance, July 31, 2021	14,538	4,172	18,710
Depreciation	5,453	1,889	7,342
Disposition	(19,991)	(2,273)	(22,264)
Balance, April 30, 2022	–	3,788	3,788
Carrying amount:			
Balance, July 31, 2021	94,518	10,484	105,002
Balance, April 30, 2022	–	4,664	4,664

6. Right-of-use Asset

	Building \$
Cost:	
Balance, July 31, 2021	275,114
Disposition	(275,114)
Balance at April 30, 2022	–
Accumulated amortization:	
Balance at July 31, 2021	36,682
Amortization	13,756
Disposition	(50,438)
Balance at April 30, 2022	–
Carrying amount:	
Balance at July 31, 2021	238,432
Balance at April 30, 2022	–

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2022

(Expressed in Canadian dollars unless otherwise noted)

(Unaudited)

7. Accounts Payable and Accrued Liabilities

	April 30, 2022	July 31, 2021
	\$	\$
Accounts payable	83,532	3,257
Accrued liabilities	16,000	35,391
	99,532	38,648

8. Related Party Transactions and Balances

Related party transactions

The Company incurred key management compensation as follows:

	Nine months ended April 30, 2022	Nine months ended April 30, 2021
Management fees accrued or paid to the President and CEO, CFO and directors	\$ 202,500	\$ 143,400
Share-based payments	125,512	233,224
Total fees paid to related parties	\$ 328,012	\$ 376,624

As at April 30, 2022, \$4,500 (July 31, 2021 - \$3,000) was owed to a Director of the Company and a company owned by a Director of the Company.

As at April 30, 2022, \$1,922 (July 31, 2021 - \$nil) was owed to the CFO of the Company for reimbursement of expenses paid on behalf of the Company, which is included in accounts payable.

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 former director of the Company. During the nine months ended April 30, 2022, the Company incurred interest of \$7,000 (2021 - \$2,000) and repaid the note in full. Refer to Note 9.

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 former director of the Company. During the nine months ended April 30, 2022, the Company paid \$35,250 (2021 - \$52,875) in rent expense related to this lease agreement. Refer to Note 11.

Wages Payable

As at April 30, 2022, \$53,016 (July 31, 2021 - \$53,016) in wages payable is outstanding in relation to transactions with related parties, which are non-interest bearing, unsecured and due on demand.

9. 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. The promissory note was discounted at issuance to a fair value of \$176,667, using a discount rate of 20%, which is the estimated interest rate the Company would pay on a similar debt instrument. During the year ended July 31, 2021, the Company recorded accretion expense of \$9,307 and incurred interest of \$5,000. During the nine months ended April 30, 2022, the Company recorded accretion expense of \$14,026, which is included in interest expense, and incurred interest of \$7,000. On January 31, 2022, the Company repaid the promissory note in full.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2022

(Expressed in Canadian dollars unless otherwise noted)

(Unaudited)

10. Convertible Debenture

- (a) 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 \$155,556, using a discount rate of 20%, which is the estimated interest rate the Company would pay on a similar debt instrument without a conversion option or warrants, with the residual value of \$44,445 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 \$49,213 will be recognized over the term of the loan using the effective interest rate method. During the year ended July 31, 2021, the Company recorded accretion interest of \$7,908 and recorded accrued interest of \$4,964. During the nine months ended April 30, 2022, the Company recorded accretion interest of \$17,118, which is included in interest expense, and recorded accrued interest of \$8,975. As at April 30, 2022, the carrying value of the convertible debenture was \$189,753.

- (b) On March 3, 2022, the Company issued an unsecured convertible debenture with a principal amount of \$100,000. The note bears interest at a rate of 12% per annum and is repayable on September 5, 2022. The principal amount of the note is convertible into common shares of the Company at a convertible rate of \$0.08 per share prior to maturity. Any interest will be paid in cash and is not eligible for conversion.

The present value of the convertible debenture at issuance was \$96,700, using a discount rate of 20%, which is the estimated interest rate the Company would pay on a similar debt instrument without a conversion option, with the residual value of \$3,300 being allocated to the equity component. The discount of \$3,300 will be recognized over the term of the loan using the effective interest rate method. During the nine months ended April 30, 2022, the Company recorded accretion interest of \$945, which is included in interest expense, and recorded accrued interest of \$1,906. As at April 30, 2022, the carrying value of the convertible debenture was \$99,551.

11. 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 8) 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 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%.

On January 31, 2022, the Company terminated the lease with an effective termination date of February 28, 2022. The Company negotiated a waiver of the final month's rent in exchange for the landlord to keep the leasehold improvements and office furniture located in the warehouse space. As a result, the Company recognized a loss on termination of lease liability of \$58,843.

	\$
Lease liabilities as at July 31, 2021	263,966
Less: lease payments	(35,250)
Interest expense	30,115
Disposition	(258,831)
Lease liability as at April 30, 2022	-

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2022

(Expressed in Canadian dollars unless otherwise noted)

(Unaudited)

12. Share Capital and Reserves

(a) Authorized

Unlimited number of common shares without nominal or par value.

(b) Issued

As at April 30, 2022, there were 88,606,607 (July 31, 2021 – 84,846,690) issued and outstanding common shares.

As at April 30, 2022, there were no shares remaining in escrow (July 31, 2021 – 2,687,015). Escrow releases were scheduled as follows, 10% 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 three months ended October 31, 2021, the final 2,687,015 shares were released from escrow.

(c) Share transactions

During the nine months ended April 30, 2022

On November 2, 2021, the Company completed a non-brokered private placement of 3,759,917 units at \$0.12 per unit for proceeds of \$451,190. Each unit consisted of one common share and one share purchase warrant, which is exercisable into one additional common share at an exercise price of \$0.20 per share on or before November 2, 2023. No value was attributed to the warrants as a component of the units. In connection with the issuance, the Company paid a cash finder's fee of \$26,873, and issued 112,668 compensation warrants with a fair value of \$7,147, which were allocated to share capital as share issuance costs.

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 the shares issued.

(d) Share purchase warrants

The changes in warrants during the nine months ended April 30, 2022 and the year ended July 31, 2021 were as follows:

	April 30, 2022		July 31, 2021	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Warrants outstanding, beginning of the period	4,072,332	\$ 0.19	18,244,737	\$ 0.29
Issued	3,872,585	0.20	4,072,332	0.19
Exercised	–	–	(3,767,000)	0.12
Expired	–	–	(14,477,737)	0.33
Warrants outstanding, end of the period	7,944,917	\$ 0.20	4,072,332	\$ 0.19

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

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(Unaudited)

12. Share Capital and Reserves (continued)

(d) Share purchase warrants (continued)

A summary of the Company's outstanding warrants as at April 30, 2022 is as follows:

Number of warrants	Exercise price	Expiry date
500,000	\$ 0.15	November 19, 2025
3,528,332	\$ 0.20	May 13, 2023
* 44,000	\$ 0.20	May 13, 2023
3,759,917	\$ 0.20	November 2, 2023
* 112,668	\$ 0.20	November 2, 2023
7,944,917		

* *Finder warrants*

(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 January 14, 2022, the Company granted 500,000 stock options to a consultant exercisable at \$0.11 per share until January 14, 2024. The options vested upon grant.

On January 14, 2022, the Company granted 1,250,000 stock options to directors and officers of the Company exercisable at \$0.11 per share until January 14, 2027. The options vested upon grant.

A summary of stock option transactions during the nine months ended April 30, 2022 and the year ended July 31, 2021 were as follows:

	April 30, 2022		July 31, 2021	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Outstanding and exercisable, beginning of the period	4,380,000	\$ 0.17	3,540,000	\$ 0.17
Granted	1,750,000	0.11	1,500,000	0.16
Cancelled	(440,000)	0.23	(500,000)	0.13
Exercised	—	—	(160,000)	0.13
Outstanding and exercisable, end of the period	5,690,000	\$ 0.15	4,380,000	\$ 0.17

No options were exercised during the nine months ended April 30, 2022. During the year ended July 31, 2021, the weighted average trading price of the Company's shares at the time of exercise was \$0.11.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2022

(Expressed in Canadian dollars unless otherwise noted)

(Unaudited)

12. Share Capital and Reserves (continued)

(e) Stock Options (continued)

The following stock options were outstanding and exercisable as at April 30, 2022:

Number of Options	Exercise price	Expiry date
500,000	0.11	January 14, 2024
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
1,250,000	0.11	January 14, 2027
5,690,000	\$ 0.15	

(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, 2022 was \$164,230 (2021 - \$311,073).

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, 2022 and the year ended July 31, 2021:

	April 30, 2022	July 31, 2021
Risk-free interest rate	1.44%	0.66%
Expected life of options	4.14 years	5 years
Annualized volatility	150%	195%
Forfeiture rate	0%	0%
Dividend rate	0%	0%

13. Financial Risk Management

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

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

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2022

(Expressed in Canadian dollars unless otherwise noted)

(Unaudited)

13. Financial Risk Management (continued)

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. The majority of cash is deposited in bank accounts held with 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, 2022, the Company's current liabilities consisted of accounts payable and accrued liabilities of \$99,532 (July 31, 2021 - \$38,648) and wages payable of \$53,016 (July 31, 2021 - \$53,016). The Company's cash was \$212,344 (July 31, 2021 - \$363,796) at April 30, 2022 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.

(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.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2022

(Expressed in Canadian dollars unless otherwise noted)

(Unaudited)

14. Capital Disclosures

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

The Company's objectives when managing capital are 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 periods.

15. 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. During the year ended July 31, 2021, as future sales volumes were not readily determinable, the Company impaired the carrying value of the loan to \$Nil.

16. Office and Administrative

Office and administrative expenses were comprised as follows:

	Three months ended April 30, 2022	Three months ended April 30, 2021	Nine months ended April 30, 2022	Nine months ended April 30, 2021
Administrative	6,000	–	18,000	5,000
Insurance	5,441	8,089	28,817	12,011
Interest and bank charges	2,687	475	10,000	1,011
Miscellaneous expenses	–	10,117	35,164	10,207
Office expenses	424	9,618	3,696	25,365
Product packaging	37,252	–	79,972	–
Rent	16,156	11,400	41,656	34,200
Travel	2,460	1,311	8,635	3,934
Utilities	2,649	3,316	6,924	7,148
Office and administrative	73,069	44,326	232,864	98,876