

Condensed Interim Consolidated Financial Statements of

HARRYS MANUFACTURING INC.

April 30, 2020

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, 2020 (Unaudited) \$	July 31, 2019 \$
ASSETS			
Current			
Cash		371,080	526,682
Amounts receivable		10,676	6,707
Total current assets		381,756	533,389
Property and equipment	5	755,766	812,856
Right-of-use asset	6	272,821	–
Total assets		1,410,343	1,346,245
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	7	1,731	29,767
Wages payable	7	200,187	200,187
Current portion of lease liability	8	8,190	–
Total current liabilities		210,108	229,954
Lease liability	8	266,322	–
Total liabilities		476,430	–
SHAREHOLDERS' EQUITY			
Share capital	9	19,966,324	19,490,552
Reserves	9	3,305,068	2,940,202
Deficit		(22,337,479)	(21,314,463)
Total shareholders' equity		933,913	1,116,291
Total liabilities and shareholders' equity		1,410,343	1,346,245

Nature and continuance of operations (Note 1)

Going concern (Note 2)

Commitments (Note 12)

On behalf of the Board of Directors:

“Kevin Kohanik” Director “Michael Young” Director

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

Expressed in Canadian dollars

(Unaudited)

	Note	Three months ended April 30, 2020	Three months ended April 30, 2019	Nine months ended April 30, 2020	Nine months ended April 30, 2019
		\$	\$	\$	\$
Revenue		–	7,500	–	7,500
Cost of sales	5	58,662	85,122	175,984	195,505
		(58,662)	(77,622)	(175,984)	(188,005)
Expenses					
Amortization		3,573	–	4,020	–
Consulting fees		50,400	12,000	151,200	46,000
Management fees	7	38,550	38,550	114,150	109,650
Office and administrative		27,132	28,781	87,737	53,810
Professional fees		5,194	14,105	57,865	61,105
Research and development		–	–	250	–
Share-based payments	9	–	–	390,638	1,012,995
Salaries and wages	7	–	96,468	–	306,198
Shareholder communications		–	–	3,091	4,000
Transfer agent and filing fees		3,756	6,367	31,720	36,811
Total expenses		128,605	196,271	840,671	1,630,569
Net loss before other items		(187,267)	(273,893)	(1,016,655)	(1,818,574)
Other items					
Interest income		–	–	250	21,890
Interest expense		(6,611)	–	(6,611)	–
Net and comprehensive loss		(193,878)	(273,893)	(1,023,016)	(1,796,684)
Basic and diluted loss per common share					
		(0.00)	(0.00)	(0.01)	(0.03)
Weighted average number of common shares outstanding, basic and diluted					
		71,171,358	77,916,358	72,430,774	70,990,693

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 \$	Reserves \$	Deficit \$	Shareholders' Equity \$
July 31, 2018	49,316,258	9,497,915	1,810,116	(7,241,670)	4,066,361
Shares issued to acquire HIMI	28,500,100	9,975,035	–	–	9,975,035
Shares issued upon the exercise of options at \$0.10 per share	100,000	10,000	–	–	10,000
Reallocation of share-based payments on exercise of options	–	7,602	(7,602)	–	–
Share-based payments	–	–	1,012,995	–	1,012,995
Loss for the period	–	–	–	(1,796,684)	(1,796,684)
April 30, 2019	77,916,358	19,490,552	2,815,509	(9,038,354)	13,267,707
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)	–	–	–	–
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)
April 30, 2020	77,191,358	19,966,324	3,305,068	(22,337,479)	933,913

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, 2020	Nine months ended April 30, 2019
	\$	\$
Operating activities		
Net loss for the period	(1,023,016)	(1,796,684)
Adjustment for non-cash items:		
Share-based payments	390,638	1,012,995
Amortization	180,004	194,730
Interest expense on lease liability	5,273	–
Changes in non-cash operating working capital items:		
Amounts receivable	(3,969)	424,098
Prepaid expenses	–	31,250
Accounts payable and accrued liabilities	(28,036)	(742,533)
Net cash used in operating activities	(479,106)	(876,144)
Investing activities		
Cash acquired upon acquisition of HIMI	–	18,549
Purchase of property and equipment	(120,621)	–
Net cash provided by (used for) investing activities	(120,621)	18,549
Financing activities		
Lease repayments	(5,875)	–
Proceeds received from share issuances	450,000	10,000
Net cash provided by financing activities	444,125	10,000
Change in cash in the period	(155,602)	(847,595)
Cash, beginning of period	526,682	1,526,070
Cash, end of period	371,080	678,475
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 condensed interim consolidated financial statements.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2020

(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 to domestic and international purchasers. On October 4, 2018, the Company also changed its name from Westridge Resources Inc. to Harrys Manufacturing Inc.

The head office of the Company is located at Suite 1070 - 1055 West Hastings Street, Vancouver, BC V6E 2E9.

The condensed interim consolidated financial statements were authorized for issuance on June 26, 2020, 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 the United States and Canada, 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 supply chains for parts and sales channels for our products, and 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. We will continue to monitor the COVID-19 situation closely, and intend 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, 2020

(unaudited)

(Expressed in Canadian dollars)

2. Basis of preparation (continued)

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.

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, 2020

(unaudited)

(Expressed in Canadian dollars)

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. Property and Equipment

	Leasehold Improvements \$	Furniture and Fixtures \$	Manufacturing Equipment \$	Total \$
Cost:				
Balance, July 31, 2019	–	–	1,006,200	1,006,200
Additions	109,056	11,565	–	120,621
Balance, April 30, 2020	109,056	11,565	1,006,200	1,126,821
Accumulated depreciation:				
Balance, July 31, 2019	–	–	193,344	193,344
Depreciation	909	818	175,984	177,711
Balance, April 30, 2020	909	818	369,328	371,055
Carrying amounts:				
Balance, July 31, 2019	–	–	812,856	812,856
Balance, April 30, 2020	108,147	10,747	636,872	755,766

During the nine months ended April 30, 2020 and 2019, the Company recognized 100% of the depreciation of manufacturing equipment as cost of sales.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2020

(unaudited)

(Expressed in Canadian dollars)

6. Right-of-use Asset

	Building
	\$
Cost	
Balance at July 31, 2019	–
Additions	275,114
Balance at April 30, 2020	275,114
Accumulated amortization	
Balance at July 31, 2019	–
Additions	2,293
Balance at April 30, 2020	2,293
Carrying amount	
Balance at July 31, 2019	–
Balance at April 30, 2020	272,821

7. Related party transactions and balances

The Company incurred key management compensation as follows:

Nine months ended April 30,	2020	2019
Management fees accrued or paid to current CEO, CFO and directors	\$ 114,150	\$ 109,650
Salary accrued or paid to officers and directors	\$ -	\$ 193,136

On April 1, 2020, the Company entered into an agreement to lease a distribution warehouse facility with a company controlled by the President of the Company's family. Refer to Note 10.

During the nine months ended April 30, 2020, the Company received a \$66,884 loan from the President of the Company. As of April 30, 2020, the Company repaid the loan and \$1,338 of interest.

On January 16, 2020, the Company granted 500,000 stock options exercisable at \$0.16 per share for five years after the date of grant to the CFO of the Company.

Wages Payable

As at April 30, 2020, \$148,793 (July 31, 2019 - \$148,793) in wages payable and \$1,500 (July 31, 2019 - \$nil) in accounts 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 nine months ended April 30, 2020

(unaudited)

(Expressed in Canadian dollars)

8. Lease Liability

On May 1, 2018, the Company entered into a lease agreement with a company controlled the President of the Company's family 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 with 60 days notice. The base rent due under the lease agreement is \$5,875 per month during the first year.

	\$
Lease liability as at July 31, 2019	–
Lease liabilities incurred	275,114
Less: lease payments	(5,875)
Interest expense	5,273
Lease liability as at April 30, 2020	274,512
Less: current portion	(8,190)
Long-term portion	266,322

The lease liability was discounted using the Company's incremental borrowing rate of 23%. The Company's future minimum lease payments for the retail space lease is as follows:

	\$
Fiscal year ending July 31, 2020	17,625
Fiscal year ending July 31, 2021	70,500
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 years ended July 31, 2025 to 2030	399,500
Total lease payments	699,125
Amounts representing interest over the term of the lease	(424,613)
Present value of net lease payments	274,512

9. Share capital and reserves

(a) Authorized:

Unlimited number of common shares without nominal or par value.

(b) Issued

As at April 30, 2020, there were 77,191,358 (July 31, 2019 - 77,916,358) issued and outstanding common shares.

As at April 30, 2020, there were 8,061,045 (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 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, 2020, 5,374,030 shares were released from escrow.

(c) Share transactions

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.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2020

(unaudited)

(Expressed in Canadian dollars)

9. Share capital and reserves (continued)

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.

During the nine months ended April 30, 2019:

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

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

(d) Share purchase warrants

The changes in warrants during the nine months ended April 30, 2020 and year ended July 31, 2019 were as follows:

	April 30, 2020		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	7,000,000	0.12	-	-
Expired	(681,978)	0.50	-	-
Warrants outstanding, end of the period	18,244,737	\$ 0.29	11,926,715	\$ 0.50

A summary of the Company's outstanding warrants as at April 30, 2020 is as follows:

Number of warrants	Exercise price *	Expiry date *
3,082,165	\$ 0.39	January 21, 2021
6,289,072	0.39	January 21, 2021
1,873,500	0.39	January 21, 2021
7,000,000	0.12	October 18, 2020
18,244,737	\$ 0.29	

*On November 15, 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 was re-priced to \$0.39 from \$0.50 and the term was extended to January 12, 2021. Finder's Warrants issued in connection with the Offerings were not amended.

(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.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2020

(unaudited)

(Expressed in Canadian dollars)

9. Share capital and reserves (continued)

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. The options vested upon grant.

On January 16, 2020, the Company granted 500,000 stock options to the CFO of the Company and 750,000 stock options to a consultant of the Company. The stock options are exercisable at \$0.16 per share for five years after the date of grant. The options vested upon grant.

A summary of stock option transactions during the nine months ended April 30, 2020 and year ended July 31, 2019 were as follows:

	April 30, 2020		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	2,400,000	0.17	5,525,000	0.27
Cancelled	–	–	(6,300,000)	0.31
Exercised	(275,000)	0.11	(100,000)	0.10
Outstanding, end of the period	3,740,000	\$ 0.16	1,615,000	\$ 0.15
Exercisable, end of the period	3,740,000	\$ 0.16	1,615,000	\$ 0.15

The weighted average trading price of the Company's shares at the time of exercise was \$0.18. 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 April 30, 2020:

Number of Options	Exercise price	Expiry date
240,000	0.17	January 17, 2022
200,000	0.30	February 3, 2022
1,000,000	0.125	July 5, 2024
600,000	0.125	September 4, 2024
450,000	0.25	December 18, 2024
1,250,000	0.16	January 16, 2025
3,740,000	\$ 0.16	

(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 nine months ended April 30, 2020 was \$390,638 (2019 - \$1,012,995).

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2020

(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 nine months ended April 30, 2020 and 2019:

	April 30, 2020	April 30, 2019
Risk-free interest rate	1.47%	1.67%
Expected life of options	5 years	5 years
Annualized volatility	261%	257%
Forfeiture rate	0%	0%
Dividend rate	0%	0%

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 April 30, 2020, the Company's liabilities consisted of accounts payable and accrued liabilities of \$1,731 and wages payable of \$200,187. The Company's cash was \$371,080 at April 30, 2020 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 nine months ended April 30, 2020

(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.
- (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"). This agreement was terminated during the nine months ended April 30, 2020.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2020

(unaudited)

(Expressed in Canadian dollars)

12. Commitments (continued)

- (d) 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.
- (e) On December 18, 2019, the Company signed and announced an Independent Sales Agreement (the “Agreement”) with a consultant (the “Consultant”) who will act as the Company’s exclusive distributor and sales agent in Canadian retail markets for a term of one year. Pursuant to the Agreement, the Company granted the Consultant 250,000 stock options exercisable at \$0.25 per share until December 18, 2024. In addition, the Company agreed to pay the Consultant \$5,000 per month for three months.
- (f) On April 21, 2020, the Company entered into an exclusive distribution agreement with an initial term of 10 years. Pursuant to the agreement, the Company appointed an 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.