

Condensed Interim Consolidated Financial Statements of

HARRYS MANUFACTURING INC.

October 31, 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 financial statements.

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

	Note	October 31, 2022 <i>(Unaudited)</i>	July 31, 2022
		\$	\$
ASSETS			
Current assets			
Cash		7,881	9,240
Restricted cash	4	201,189	200,000
Amounts receivable		10,289	8,261
Inventory	5	7,349	–
Prepaid expenses	6	71,233	67,386
Total current assets		297,941	284,887
Non-current assets			
Property and equipment	7	3,818	4,240
Total non-current assets		3,818	4,240
Total assets		301,759	289,127
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	8, 9	253,771	239,428
Wages payable	9	53,016	53,016
Convertible debenture	11	–	104,208
Total liabilities		306,787	396,652
SHAREHOLDERS' DEFICIT			
Share capital	12	21,682,477	21,420,202
Reserves	12	3,933,825	3,926,613
Deficit		(25,621,330)	(25,454,340)
Total shareholders' deficit		(5,028)	(107,525)
Total liabilities and shareholders' deficit		301,759	289,127

Going concern (Note 2)
Commitments (Note 15)

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)*

	Note	Three months ended October 31, 2022	Three months ended October 31, 2021
		\$	\$
Expenses			
Amortization and depreciation	7	422	10,182
Management fees	9	82,500	67,500
Office and administrative	16	27,552	69,739
Professional fees		4,912	12,652
Share-based payments	12	7,212	–
Shareholder communications		2,500	1,800
Transfer agent and filing fees		9,924	7,852
Total expenses		135,022	169,725
Net loss before other items		(135,022)	(169,725)
Other items			
Interest income	4	1,189	–
Interest expense	11	(1,907)	(32,403)
Loss on conversion of convertible debt	10	(31,250)	–
Net loss and comprehensive loss		(166,990)	(202,128)
Basic and diluted loss per common share		(0.00)	(0.00)
Weighted average number of common shares outstanding, basic and diluted		92,155,455	84,846,690

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		Reserves	Stock Subscriptions Received	Deficit	Shareholders' Deficit
	Number of Common shares	Amount				
		\$	\$		\$	\$
Balance, as at July 31, 2021	84,846,690	20,918,810	3,619,818	–	(24,198,313)	340,315
Share subscriptions received	–	–	–	222,188	–	222,188
Net loss for the period	–	–	–	–	(202,128)	(202,128)
Balance, as at October 31, 2021	84,846,690	20,918,810	3,619,818	222,188	(24,400,441)	360,375
Balance, as at July 31, 2022	90,770,007	21,420,202	3,926,613	–	(25,454,340)	(107,525)
Units issued on conversion of convertible debt	1,250,000	131,250	–	–	–	131,250
Units issued on settlement of debt	810,250	81,025	–	–	–	81,025
Shares issued upon the exercise of share purchase warrants	500,000	50,000	–	–	–	50,000
Share-based payments	–	–	7,212	–	–	7,212
Net loss for the year	–	–	–	–	(166,990)	(166,990)
Balance, as at October 31, 2022	93,330,257	21,682,477	3,933,825	–	(25,621,330)	(5,028)

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)

	Three months ended October 31, 2022	Three months ended October 31, 2021
	\$	\$
Operating activities		
Net loss for the period	(120,153)	(202,128)
Adjustment for non-cash items:		
Share-based payments	7,212	–
Amortization	422	10,182
Interest expense on lease liability	–	15,131
Interest income	(1,189)	–
Loss on conversion of convertible debt	31,250	–
Accretion and interest	1,908	14,271
Changes in non-cash operating working capital items:		
Amounts receivable	(2,028)	(581)
Inventory	(7,349)	–
Prepaid expenses	(3,847)	(23,513)
Accounts payable and accrued liabilities	95,368	18,261
Net cash used in operating activities	(45,243)	(168,377)
Financing activities		
Proceeds received from exercise of warrants	50,000	–
Repayment of convertible debt interest	(6,116)	–
Subscriptions received	–	222,188
Lease repayments	–	(17,625)
Net cash provided by financing activities	43,884	204,563
NET CASH INFLOW / (OUTFLOW)	(1,359)	36,186
Cash, beginning of period	9,240	363,796
Cash, end of period	7,881	399,982

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 three months ended October 31, 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 recently transitioned its efforts to focus on tobacco sales in Canada.

The registered and records office of the Company are located at Suite 1070 – 1055 West Georgia Street, Vancouver, BC V6E 4N7.

The condensed interim consolidated financial statements were authorized for issuance on **December XX, 2022**, by the Board of Directors.

2. Basis of Preparation

Going Concern

These condensed interim consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. To date the Company has incurred losses and further losses are expected in the future. Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Company’s ability to continue as a going concern, and therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business.

The Company’s continuation as a going concern is dependent upon its ability to attain profitable operations and generate funds 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 favorable 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.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2022

(Expressed in Canadian dollars unless otherwise noted)

(Unaudited)

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, 2022, 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.

4. Restricted Cash

The Company’s restricted cash consists of a Guaranteed Investment Certificate (“GIC”) in the amount of \$201,189 (July 31, 2022 - \$200,000) that is pledged as security for a non-revolving line of credit of \$200,000. As at October 31, 2022 the Company has \$nil drawings against the line of credit (July 31, 2022 - \$nil).

5. Inventory

At October 31, 2022, the Company held \$7,349 (July 31, 2022 - \$nil) in inventory, consisting of finished goods.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2022

*(Expressed in Canadian dollars unless otherwise noted)**(Unaudited)***6. Prepays and Deposits**

	October 31, 2022 \$	July 31, 2022 \$
Inventory deposit	14,980	14,980
Provincial Tobacco Tax deposit	50,000	50,000
Prepaid expenses	6,253	2,406
	71,233	67,386

7. Property and Equipment

	Furniture and Fixtures \$
Cost:	
Balance, July 31, 2022 and October 31, 2022	8,452
Accumulated depreciation:	
Balance, July 31, 2022	4,212
Depreciation	422
Balance, October 31, 2022	4,634
Carrying amounts:	
Balance, July 31, 2022	4,240
Balance, October 31, 2022	3,818

8. Accounts Payable and Accrued Liabilities

	October 31, 2022 \$	July 31, 2022 \$
Accounts payable	197,466	187,800
Accrued liabilities	56,305	51,628
	253,771	239,428

During the three months ended October 31, 2022, the Company issued 810,250 units at a price of \$0.10 per unit for the settlement of \$81,025 of accounts payable (Note 12 (c)).

9. Related Party Transactions and Balances***Related party transactions***

The Company incurred key management compensation as follows:

	2022 \$	2021 \$
Three months ended October 31,		
Management fees accrued or paid to the President and CEO, CFO and directors	82,500	67,500

As at October 31, 2022, \$48,565 (July 31, 2022 - \$37,065) was owed to a company owned by the President of the Company, which is included in accounts payable.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2022

(Expressed in Canadian dollars unless otherwise noted)

(Unaudited)

9. Related Party Transactions and Balances (continued)

Related party transactions (continued)

As at October 31, 2022, \$79,870 (July 31, 2022 - \$63,945) was owed to the CFO of the Company and a company owned by the CFO of the Company, which is included in accounts payable.

As at October 31, 2022, \$3,000 (July 31, 2022 - \$6,225) was owed to a Director of the Company and a company owned by a Director of the Company, which is included in accounts payable.

As at October 31, 2022, \$1,500 (July 31, 2022 - \$1,500) was owed to a Director 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 three months ended October 31, 2022, the Company incurred interest of \$nil (2021 - \$3,000). The note was repaid in full on January 31, 2022. Refer to Note 10.

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 three months October 31, 2022, the Company paid \$nil (2021 - \$17,625) in rent expense related to this lease agreement. The lease was terminated on February 28, 2022.

Wages Payable

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

10. Loan 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 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 three months ended October 31, 2022, the Company recorded accretion expense of \$nil (2021 - \$5,896), which is included in interest expense, and incurred interest of \$nil (2021 - \$3,000). On January 31, 2022, the Company repaid the promissory note in full.

11. 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 three months ended October 31, 2022, the Company recorded accretion interest of nil (2021 - \$5,351), which is included in interest expense, and recorded accrued interest of \$nil (2021 - \$3,025). On July 12, 2022, the \$200,000 principal and unpaid accrued interest of \$16,340 was converted into 2,163,400 units at a conversion price of \$0.10 per unit.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2022

(Expressed in Canadian dollars unless otherwise noted)

(Unaudited)

11. Convertible Debenture (continued)

- (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 three months ended October 31, 2022, the Company recorded accretion interest of \$724 (2021 - \$nil), which is included in interest expense, and recorded accrued interest of \$1,184 (2021 - \$nil). On September 5, 2022, the \$100,000 principal was converted into 1,250,000 common shares with a fair value of \$131,250 (Note 12 (c)), which resulted in a loss on conversion of convertible debt of \$31,250. The interest on the debenture was fully paid in cash.

12. Share Capital and Reserves

- (a) Authorized:

Unlimited number of common shares without nominal or par value.

- (b) Issued

As at October 31, 2022, there were 93,330,257 (July 31, 2022 – 90,770,007) issued and outstanding common shares.

- (c) Share transactions

During the three months ended October 31, 2022

On September 5, 2022, the Company issued 1,250,000 common shares with a fair value of \$131,250 upon the conversion of \$100,000 of principal of a convertible debenture (Note 11 (b)).

On September 16, 2022, the Company issued 810,250 units at a price of \$0.10 per unit for the settlement of \$81,025 of accounts payable (Note 8). Each unit consisted of one common share and one full share purchase warrant, which is exercisable into one additional common share at an exercise price of \$0.12 per share until September 16, 2023. No value was attributed to the warrants as a component of the units.

On September 19, 2022, the Company issued 500,000 shares upon the exercise of warrants at \$0.10 per share for proceeds of \$50,000.

During the three months ended October 31, 2021

During the three months ended October 31, 2021, the Company received \$222,188 proceeds relating to a private placement that completed on November 2, 2021.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2022

*(Expressed in Canadian dollars unless otherwise noted)**(Unaudited)***12. Share Capital and Reserves (continued)****(d) Share purchase warrants**

The changes in warrants during the three months ended October 31, 2022 and the year ended July 31, 2022 were as follows:

	October 31, 2022		July 31, 2022	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding, beginning of the period	10,108,317	\$ 0.18	4,072,332	\$ 0.19
Issued	810,250	0.12	6,035,985	0.17
Exercised	(500,000)	0.10	–	–
Outstanding, end of the period	10,418,567	\$ 0.18	10,108,317	\$ 0.18

A summary of the Company's outstanding warrants as at October 31, 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
1,663,400	\$ 0.10	July 11, 2024
810,250	\$ 0.12	September 16, 2023
10,418,567		

* *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.

A summary of stock option transactions during the three months ended October 31, 2022 and the year ended July 31, 2022 were as follows:

	October 31, 2022		July 31, 2022	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Outstanding and exercisable, beginning of the period / year	5,690,000	\$ 0.15	4,380,000	\$ 0.17
Granted	–	–	1,750,000	0.11
Expired	–	–	(440,000)	0.23
Outstanding and exercisable, end of the period / year	5,690,000	\$ 0.15	5,690,000	\$ 0.15

No options were exercised during the three months ended October 31, 2022 and the year ended July 31, 2022.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 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 October 31, 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.

On September 16, 2022, the Company amended the exercise price of 2,163,400 warrants from \$0.12 per share to \$0.10 per share. All other terms of the warrants remained unchanged. The warrants were valued immediately before and after the modification using the Black-Scholes option pricing model. The increase in value of \$7,212 was recognized as a share-based payment expense.

Share-based payments recognized and expensed during the three months ended October 31, 2022 was \$7,212 (2021 - \$nil).

The following weighted average assumptions were used for the Black-Scholes valuation of modified warrants and stock options granted or vested during the three months ended October 31, 2022 and the year ended July 31, 2022:

	October 31, 2022	July 31, 2022
Risk-free interest rate	3.75%	1.44%
Expected life of options	1.82 years	4.14 years
Annualized volatility	145%	150%
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 three months ended October 31, 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 October 31, 2022, the Company's current liabilities consisted of accounts payable and accrued liabilities of \$253,771 (July 31, 2022 - \$239,428) and wages payable of \$53,016 (July 31, 2022 - \$53,016). The Company's cash was \$7,881 (July 31, 2022 - \$9,240) at October 31, 2022 and was not 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.

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.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2022

(Expressed in Canadian dollars unless otherwise noted)

(Unaudited)

14. Capital Disclosures (continued)

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 October 31, 2022	Three months ended October 31, 2021
Administrative	6,000	6,000
Insurance	5,320	9,370
Interest and bank charges	631	139
Miscellaneous expenses	–	5,707
Office expenses	382	1,257
Product packaging	–	29,233
Rent	11,400	12,750
Travel	1,302	3,862
Utilities	2,517	1,421
Office and administrative	<u>27,552</u>	<u>69,739</u>