

HARRYS MANUFACTURING INC.
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE SIX MONTHS ENDED JANUARY 31, 2023

The following Management’s Discussion and Analysis (“MD&A”) is dated March 31, 2023 and should be read in conjunction with the condensed interim consolidated financial statements of Harrys Manufacturing Inc. (“Harrys” or the “Company”) for the six months ended January 31, 2023.

FORWARD-LOOKING INFORMATION

Statements herein that are not historical facts and are forward-looking statements that are subject to risks and uncertainties. Words such as “expects”, “intends”, “may”, “could”, “should”, “anticipates”, “likely”, “believes” and words of similar import also identify forward-looking statements. Forward-looking statements are based on current facts and analyses and other information that are based on forecasts of future results, estimates of amounts not yet determined and assumptions of management, including, but not limited to, the Company’s ability to raise additional debt and/or equity financing to fund operations and working capital requirements. Actual results may differ materially from those currently anticipated due to a number of factors including, but not limited to, general economic conditions, the Company’s ability to generate sufficient cash flows from operations and from financing to support general operating activities and capital expansion plans, and laws and regulations and changes thereto that may affect operations, and other factors beyond the reasonable control of the Company.

Management periodically reviews information reflected in forward-looking statements. The Company has and continues to disclose in its Management’s Discussion and Analysis and other publicly filed documents, changes to material factors or assumptions underlying the forward-looking statements and to the validity of the statements themselves, in the period the changes occur.

Historical results of operations and trends that may be inferred from the above discussions and analysis may not necessarily indicate future results from operations.

BUSINESS DESCRIPTION AND READER GUIDANCE

Harrys was incorporated under the laws of the Province of British Columbia in 2007, formerly under the name of Westridge Resources Inc. The Company had previously focused on the acquisition, evaluation and exploration of mineral resource properties.

On December 22, 2017, the Company entered into a Letter of Intent with Harrys International Manufacturing Inc. (“HIMI”) to acquire all of the issued and outstanding common shares of HIMI (the “HIMI Shares”) in exchange for the common shares of the Company. HIMI initially focused on international sales but is now entirely focused on establishing a presence in the Canadian tobacco market.

On January 22, 2018, the Company entered into a Share Exchange Agreement with HIMI. Pursuant to the agreement, the Company agreed to acquire all of the issued and outstanding shares of HIMI in exchange for the issuance of 28,500,100 shares of common stock of the Company to the shareholders of HIMI. The Acquisition closed on October 4, 2018. On October 4, 2018, the Company also changed its name from Westridge Resources Inc. to Harrys Manufacturing Inc. On October 17, 2018, the Company shares commenced trading on the CSE under the symbol “HARY”.

Tobacco Cigarette Sales

The Canadian cigarette market is dominated by a multinational oligopoly. As relentless tax increases drive many adult consumers out of the regulated market and into the unregulated market, the multinationals have responded to shrinking revenues by increasing their prices. This perpetual cycle, combined with rising taxes, has led to high cigarette prices in the marketplace.

Harrys® seeks to exploit this potential vulnerability by participating in a Sub Value-Priced category. We’re actively

pursuing wholesale and retail customers who are able to work with us, despite the dominant oligopoly. We promote quality at a good price, and one of the few Canadian-Made tobacco products. Management continues to meet with clients and potential clients to continue to further develop a robust retail network. We anticipate continued support from our trading partners to fuel our growth.

Reader Guidance

The Company's condensed interim consolidated financial statements were prepared in accordance with IFRS that are applicable to a going concern, which contemplate the realization of assets and the settlement of liabilities and commitments in the normal course of business. During the six months ended January 31, 2023, the Company had revenues of \$8,289, incurred a net loss of \$323,343 (2022 - \$668,860), and used \$60,297 (2022 - \$309,629) of cash for operating activities. At January 31, 2023, the Company had an accumulated deficit of \$25,777,683 (July 31, 2022 - \$25,454,340) since inception and net working capital deficit of \$164,775 (July 31, 2022 - \$111,765).

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, cash flow from operations and, if necessary, from loans from directors and companies controlled by directors and/or exercise of outstanding options and warrants and private placement of common shares. Management cannot provide assurance that the Company will ultimately achieve profitable operations or become cash flow positive, or raise additional debt and/or equity capital. Management believes that the Company's capital resources should be adequate to continue operating and maintaining its business strategy. However, if the Company is unable to raise additional capital or achieve profitability in the near term, 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. The 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.

SELECTED QUARTERLY FINANCIAL INFORMATION

The following information is derived from the Company's quarterly financial statements for the past eight quarters and has been prepared using IFRS:

	Three Months Ended January 31, 2023	Three Months Ended October 31, 2022	Three Months Ended July 31, 2022	Three Months Ended April 30, 2022
Revenue	\$ 8,289	\$ Nil	\$ Nil	\$ Nil
Loss for the period	(156,353)	(166,990)	(421,967)	(165,200)
Loss per share - basic and diluted	(0.00)	(0.00)	(0.00)	(0.00)
Total assets	294,417	301,759	289,127	539,954

	Three Months Ended January 31, 2022	Three Months Ended October 31, 2021	Three Months Ended July 31, 2021	Three Months Ended April 30, 2021
Revenue	\$ Nil	\$ Nil	\$ Nil	\$ Nil
Loss for the period	(466,732)	(202,128)	(267,679)	(471,793)
Loss per share - basic and diluted	(0.01)	(0.00)	(0.00)	(0.01)
Total assets	576,536	1,095,677	1,045,579	1,219,066

Fluctuations in the Company's expenditures reflect the variations in the timing of general operations, and the ability of the Company to raise capital for its projects, including share-based payments during certain quarters. For future tobacco cigarette sales in Canada the Company will rely on existing funds to cover the cost of manufacturing and the cost of the required Federal Excise Tax stamps, prior to receiving payment from its Canadian wholesale distributor.

Net loss decreased during the three-month period ended January 31, 2023 over the three months ended October 31, 2022, as a result of a decrease in office and administrative and transfer agent and filing fees and offset by an increase in professional fees and revenue in the three months ended January 31, 2023.

Net loss decreased during the three-month period ended January 31, 2023 over the three months ended January 31, 2022, as a result of a decrease in share-based payments, office and administrative and interest expenses.

Net loss decreased during the three-month period ended October 31, 2022 over the three months ended July 31, 2022, as a result of impairment of the deposit for future inventory in the three months July 31, 2022.

Net loss decreased during the three-month period ended October 31, 2022 over the three months October 31, 2021, as a result of a decrease in office and administrative and interest expenses.

Net loss increased during the three-month period ended July 31, 2022 over the three months April 30, 2022, as a result of impairment of the deposit for future inventory.

Net loss decreased during the three-month period ended July 31, 2022 over the three months July 31, 2021, as a result of a decrease in consulting expenses.

Net loss decreased during the three-month period ended April 30, 2022 over the three months January 31, 2022, as a result of a decrease in share-based payments.

Net loss decreased during the three-month period ended April 30, 2022 over the three months April 30, 2021, as a result of a decrease in share-based payments and interest expenses.

Net loss increased during the three-month period ended January 31, 2022 over the three months October 31, 2021, as a result of an increase in share-based payments.

Net loss decreased during the three-month period ended October 31, 2021 over the three months July 31, 2021, as a result of a decrease in professional fees and an impairment of note receivables recorded during the three months ended July 31, 2021.

Net loss decreased during the three-month period ended July 31, 2021 over the three months April 30, 2021, as a result of a decrease in share-based payments.

Net loss increased during the three-month period ended April 30, 2021 over the three months January 31, 2021, as a result of an increase in interest expense primarily relating to a discount on a loan receivable.

RESULTS OF OPERATIONS

During the six months ended January 31, 2023, the Company incurred operating expenses of \$295,148 compared to operating expenses of \$548,715 during the six months ended January 31, 2022. The decrease in operating expenses were mainly due to a decrease in amortization of \$19,827, office and administrative of \$111,769, and share-based payments of \$157,018, and partially offset by an increase in management fees of \$33,500 and professional fees of \$14,729.

For the six months ended January 31, 2023, the Company recorded net loss of \$323,343 (\$0.00 loss per share) compared to a net loss of \$668,860 (\$0.01 loss per share) for the six months ended January 31, 2022. The loss is mainly comprised of management fees of \$168,500 (2022 - \$135,000), office and administrative of \$48,026 (2022 - \$159,795), professional fees of \$43,229 (2022 - \$28,500), share-based payments of \$7,212 (2022 - \$164,230), transfer agent and filing fees of \$21,830 (2022 - \$20,393), interest expense of \$2,044 (2022 - \$61,302) and loss on conversion of convertible debt of \$31,250 (2022 - \$nil).

LIQUIDITY AND CAPITAL RESOURCES

As at January 31, 2023, the Company had cash of \$2,827 (July 31, 2022 - \$9,240) and total assets of \$294,417 (July 31, 2022 - \$289,127). The decrease in cash was due to cash used in operating activities of \$60,297 during the six months ended January 31, 2023, partially offset by cash provided by financing activities of \$53,884, as the Company obtained necessary federal and provincial licenses for sales and distribution of tobacco cigarettes. The increase in total assets was primarily due to the increase in amounts receivable and offset by a decrease in cash.

The Company had a working capital deficit of \$164,775 at January 31, 2023 compared to working capital of \$111,765 at July 31, 2022. The decrease in working capital was primarily due to an increase in accounts payable and accrued liabilities and loan payable, which was partially offset by an increase in restricted cash and amounts receivable.

For the six months ended January 31, 2023, the Company's cash flow activity was as follows:

Operating Cash Flows

During the six months ended January 31, 2023, net cash used in operations was \$60,297 (2022 - \$309,629).

Financing Cash Flows

Financing activities during the six months ended January 31, 2023 includes proceeds received from share issuances of \$50,000, proceeds received from loan payable of \$10,000, less repayment of convertible debt interest of \$6,116. Financing activities during the six months ended January 31, 2022 includes receipt of \$451,190 from share subscriptions less loan repayments of \$200,000, share issuance costs of \$26,873 and lease repayments of \$35,250.

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements and exercise of stock options and warrants, and loans from related parties. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

The following is an analysis of the contractual maturities of the Company's non-derivative financial liabilities as at January 31, 2023:

	Within one year \$	Between one and five years \$	More than five years \$
Accounts payable and accrued liabilities	392,782	—	—
Wages payable	53,016	—	—
Loan payable	10,000	—	—
	455,798	—	—

BUSINESS RISKS

In the normal course of business, the Company is exposed to a variety of risks and uncertainties. In addition to the risks associated with liquidity and capital resources, critical accounting estimates, financial instruments, credit risk and market risk described in this MD&A, the Company is exposed to various operational, technical, financial and regulatory risks and uncertainties, many of which are beyond its control and may significantly affect future results. Operations may be unsuccessful or delayed as a result of competition for products and services, supplies and equipment, mechanical and technical difficulties, the ability to attract and retain employees and contractors on a cost-effective basis, commodity and marketing risk and seasonality.

The Company is exposed to considerable risks and uncertainties including, but not limited to;

- financial risks including access to debt or equity markets which the Company is dependent upon in order to meet obligations and liabilities as they fall due;
- obtaining timely regulatory and license approvals;

- fluctuations in commodity prices;
- adverse factors including climate, geographical and weather conditions, pandemics and labor disputes;
- timing of future debt and other obligations;
- regulatory legislation and policies, including the fulfilment of contractual minimum work programs, the compliance with which may require significant expenditures and non-compliance with which may result in fines, penalties, production restrictions, suspensions or revocations of contracts;
- changes to taxation policies, laws and interpretations thereof; and,
- obtaining comprehensive and appropriate insurance coverage at reasonable rates;

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

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.

CHANGE IN ACCOUNTING POLICY AND NEW ACCOUNTING STANDARDS

During the six months ended January 31, 2023, there were no changes in accounting policies and no new accounting standards were adopted.

FINANCIAL INSTRUMENTS

Financial instruments are accounted for in accordance with IFRS 9 Financial Instruments: Classification and Measurement. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Company’s financial instruments consist of cash, restricted cash, amounts receivables, accounts payable and wages payable. Accounts receivables are initially recognized when they are originated. All other financial assets and liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument.

On initial recognition, a financial asset is classified as measured at: amortized cost; fair value through other comprehensive income (“FVOCI”) – debt investment; FVOCI - equity investment; or fair value through profit or loss (“FVTPL”). Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial assets at amortized cost: These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in the condensed interim consolidated statements of loss and comprehensive loss. Any gain or loss on derecognition is recognized in the condensed interim consolidated statements of loss and comprehensive loss.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor

retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. The Company enters into transactions whereby it transfers assets recognized in its condensed interim consolidated statements of financial position but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in the condensed interim consolidated statements of loss and comprehensive loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in the condensed interim consolidated statements of loss and comprehensive loss. Any gain or loss on derecognition is also recognized in the condensed interim consolidated statements of loss and comprehensive loss.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in the condensed interim consolidated statements of loss or comprehensive loss.

RISKS

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.

The Company is exposed to the following risks:

(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's secondary exposure to this risk is on its receivables. The Company also has minimal risk relating to a 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 January 31, 2023, the Company's current liabilities consisted of accounts payable and accrued liabilities of \$392,782 (July 31, 2022 - \$239,428), wages payable of \$53,016 (July 31, 2022 - \$53,016) and loan payable of \$10,000 (July 31, 2022 - \$nil). The Company's cash was \$2,827 (July 31, 2022 - \$9,240) at January 31, 2023

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.

OFF-BALANCE SHEET ARRANGEMENTS

Disclosure is required of all off-balance sheet arrangements that are reasonably likely to have a current or future effect on the results of operations or financial condition of the Company. Harrys does not have such off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

The Company incurred key management compensation as follows:

	2023	2022
Six months ended January 31,	\$	\$
Management fees accrued or paid to the President and CEO, CFO and directors	168,500	135,000
Share-based payments	–	125,512
Total fees paid to related parties	168,500	260,512

As at January 31, 2023, \$80,065 (July 31, 2022 - \$37,065) was owed to a company owned by the President of the Company, which is included in accounts payable.

As at January 31, 2023, \$143,745 (July 31, 2022 - \$63,945) was owed to the former CFO of the Company and a company owned by the former CFO of the Company, which is included in accounts payable.

As at January 31, 2023, \$8,000 (July 31, 2022 - \$6,225) was owed to a company owned by a Director of the Company, which is included in accounts payable.

As at January 31, 2023, \$3,000 (July 31, 2022 - \$1,500) was owed to a former 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 six months ended January 31, 2023,

the Company incurred interest of \$nil (2022 - \$7,000). The note was repaid in full on January 31, 2022.

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 six months ended January 31, 2023, the Company paid \$nil (2022 - \$35,250) in rent expense related to this lease agreement. The lease was terminated on February 28, 2022.

Wages Payable

As at January 31, 2023, \$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.

OUTSTANDING SHARE DATA

Common shares

The following table sets forth the Company's outstanding share data as at March 31, 2023:

Total common shares	95,136,126
Total outstanding warrants	10,418,567
Total outstanding stock options	7,440,000
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Total diluted common shares	112,994,693

CONTROLS AND PROCEDURES

Disclosure controls and procedures ('DC&P') are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting ('ICFR') are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. TSX Venture listed companies are not required to provide representations in filings relating to the establishment and maintenance of DC&P and ICFR, as defined in Multinational Instrument MI- 52-109. In particular, the CEO and CFO certifying officers do not make any representations relating to the establishment and maintenance of (a) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and (b) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP. The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in their certificates regarding absence of misrepresentations and fair disclosures of financial information. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost-effective basis DC&P and ICFR as defined in MI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUES

During the six months ended January 31, 2023, the material components of office and administrative expenses included administrative of \$7,692 (2022 - \$12,000), insurance of \$10,643 (2022 - \$23,377), interest and bank charges of \$1,471 (2022 - \$7,313), rent of \$22,800 (2022 - \$25,500), travel of \$1,302 (2022 - \$6,175) and utilities of \$3,082 (2022 - \$4,275).

ADDITIONAL INFORMATION

Additional information about the Company is available under the Company's profile on SEDAR at www.sedar.com.