

HARRYS MANUFACTURING INC.

Condensed Interim Consolidated Financial Statements

October 31, 2023

Expressed in Canadian Dollars

(Unaudited – Prepared by Management)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim financial statements, they must be accompanied by a notice indicating that the condensed interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements of the Company have been prepared by and are the responsible of the Company's management. The unaudited condensed interim financial statements have been prepared using accounting policies in compliance with International Financial Reporting Standards for the preparation of unaudited condensed interim financial statements and are in accordance with International Accounting Standard 34 - Interim Financial Reporting.

The Company's independent auditor has not performed a review of these unaudited condensed interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

HARRYS MANUFACTURING INC.
Condensed Interim Consolidated Statements of Financial Position
Expressed in Canadian Dollars
(Unaudited – Prepared by Management)

	October 31, 2023 \$	July 31, 2023 \$
ASSETS		
Current assets		
Cash	51,433	16,869
Amounts receivable (Note 4)	19,091	15,855
Prepaid expenses (Note 5)	79,443	58,663
Inventory	-	346
Total current assets	149,967	91,733
Non-current assets		
Property and equipment (Note 6)	2,126	2,548
Total assets	152,093	94,281
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Notes 7 and 8)	281,664	284,045
Wages payable (Note 8)	-	53,016
Total liabilities	281,664	337,061
SHAREHOLDERS' DEFICIT		
Share capital (Note 10)	21,936,820	21,826,448
Reserves (Note 11)	4,040,056	4,035,256
Deficit	(26,106,447)	(26,104,484)
Total shareholders' deficit	(129,571)	(242,780)
Total liabilities and shareholders' deficit	152,093	94,281

Nature of operations and going concern (Notes 1 and 2)
Commitments (Note 14)

Approved and authorized for issue by the Board of Directors on December 27, 2023:

/s/ "Ken Storey"

Ken Storey, Director

/s/ "Byron Striloff"

Byron Striloff, 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 – Prepared by Management)*

	Three months ended October 31, 2023 \$	Three months ended October 31, 2022 \$
Revenue (Note 5)	7,292	-
Cost of Sales	(5,764)	-
Gross income	1,528	-
Expenses		
Amortization and depreciation (Note 6)	422	422
Management fees (Note 8)	15,000	82,500
Office and administrative	8,178	27,552
Professional fees (Note 8)	38,140	4,912
Share-based payments (Notes 8 and 10)	-	7,212
Shareholder communications	2,097	2,500
Transfer agent and filing fees	2,670	9,924
Total expenses	66,507	135,022
Net loss before other income	(64,979)	(135,022)
Other income (expense)		
Recovery of expenses (Note 6)	10,000	-
Interest income	-	1,189
Interest expense	-	(1,907)
Loss on conversion of convertible debt	-	(31,250)
Write-off of wages payables (Note 10)	53,016	-
Net loss and comprehensive loss	(1,963)	(166,990)
Loss per share, basic and diluted	(0.00)	(0.00)
Weighted average common shares outstanding	96,521,647	92,155,455

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

HARRYS MANUFACTURING INC.**Condensed Interim Consolidated Statements of Changes in Shareholders' Deficit***Expressed in Canadian Dollars*

(Unaudited – Prepared by Management)

	Share Capital		Reserves	Deficit	Total Shareholders' Deficit
	Number of shares	Amount			
		\$	\$	\$	\$
Balance, as at July 31, 2023	95,336,126	21,826,448	4,035,256	(26,104,484)	(242,780)
Units issued on private placements	3,998,999	119,970	–	–	119,970
Share issuance costs	–	(9,598)	4,800	–	(4,798)
Net loss for the period	–	–	–	(1,963)	(1,963)
Balance, as at October 31, 2023	99,335,125	21,936,820	4,040,056	(26,106,447)	(129,571)

	Share Capital		Reserves	Deficit	Total Shareholders' Deficit
	Number of shares	Amount			
		\$	\$	\$	\$
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 warrants	500,000	50,000	–	–	50,000
Share-based payments	–	–	7,212	–	7,212
Net loss for the period	–	–	–	(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 – Prepared by Management)

	Three months ended October 31, 2023	Three months ended October 31, 2022
	\$	\$
Operating activities		
Net loss for the period	(1,963)	(166,990)
Adjustment for non-cash items:		
Accretion and interest	–	1,908
Amortization	422	422
Interest income	–	(1,189)
Share-based payments	–	7,212
Loss on conversion of convertible debt	–	31,250
Write-off of wages payable	(53,016)	–
Changes in non-cash operating working capital items:		
Amounts receivable	(3,236)	(2,028)
Inventory	346	(7,349)
Prepaid expenses	(20,780)	(3,847)
Accounts payable and accrued liabilities	(2,381)	95,368
Net cash used in operating activities	(80,608)	(45,243)
Financing activities		
Proceeds from exercise of warrants	–	50,000
Proceeds received from share issuances	119,970	–
Repayment of convertible debt interest	–	(6,116)
Share issuance costs	(4,798)	–
Net cash provided by financing activities	115,172	43,884
Change in cash	34,564	(1,359)
Cash, beginning of period	16,869	9,240
Cash, end of period	51,433	7,881
Supplementary cash flow information		
Fair value of brokers' warrants	4,800	–

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, 2023

Expressed in Canadian Dollars

(Unaudited – Prepared by Management)

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”. The Company’s principal business is tobacco sales in Canada.

The registered and records office of the Company is located at Suite 1605–1166 Alberni St, Vancouver, BC, V6E 3Z3.

The condensed interim consolidated financial statements were authorized for issuance on December 27, 2023, by the Board of Directors.

2. Basis of Preparation

Going Concern

These condensed interim consolidated financial statements have been prepared on the going concern basis, which assumes that the Company will be able to realize its asset and discharge its liabilities in the normal course of business. 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.

Statement of Compliance and Principles 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, 2023, 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, Harrys International Manufacturing Inc (“HIMI”). All intercompany transactions and balances have been eliminated on consolidation.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2023

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(Unaudited – Prepared by Management)

2. Basis of Preparation (continued)

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.

Significant judgements, estimates and assumptions:

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 condensed interim consolidated 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:

Share-based payments

Share-based payments are determined using the Black-Scholes Option Pricing Model based on estimated fair values of all share-based awards at the date of grant. The Black-Scholes Option Pricing Model utilizes assumptions such as expected price volatility, the expected life of the option and the number of options that may be forfeited. Changes in these input assumptions may affect the fair value estimate.

Useful life and recovery of long-lived assets

Management estimates the useful life of long-lived assets based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for depreciation for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of technical or commercial obsolescence, and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's long-lived assets in the future.

The assessment of any impairment of long-lived assets is dependent upon estimates of recoverable amounts that takes into account factors such as economic and market conditions, timing of cash flows, the useful lives of assets and their related salvage values.

Deferred taxes

The Company recognizes the deferred tax benefit of deferred tax assets to the extent their recovery is probable. Assessing the recoverability of deferred tax assets requires management to make significant estimates of future taxable profit. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions from deferred tax assets.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2023

Expressed in Canadian Dollars

(Unaudited – Prepared by Management)

2. Basis of Preparation (continued)

Going concern

These condensed interim consolidated financial statements have been prepared in accordance with IFRS on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business within the foreseeable future. Management uses judgment in determining assumptions for cash flow projections, such as anticipated financing, anticipated sales and future commitments to assess the Company's ability to continue as a going concern. A critical judgment is that the Company continues to raise funds going forward and satisfy their obligations as they become due.

Allowance for doubtful accounts

Accounts receivable are recorded at invoiced amount and generally do not bear interest. An allowance for doubtful accounts is established, as necessary, based on past experience and other factors which, in management's judgment, deserve current recognition in estimating bad debts. Such factors include growth and composition of accounts receivable, the relationship of the allowance for doubtful accounts to accounts receivable, and current economic conditions. The determination of the collectability of amounts due requires the Company to make judgments regarding future events and trends. Allowances for doubtful accounts are determined based on assessing the Company's portfolio on an individual customer and on an overall basis.

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

3. Significant accounting policies

These accounting policies have been used throughout all periods presented in the condensed interim consolidated financial statements.

Foreign currency translation

The functional currency of the Company is the Canadian dollar, and the condensed interim consolidated financial statements are presented in Canadian dollars.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the consolidated statement of loss and comprehensive loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2023

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(Unaudited – Prepared by Management)

3. Significant accounting policies (continued)

Inventory

Inventory is valued at the lower of cost and net realizable value with the cost being determined on a first-in, first-out basis.

Property and Equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Company and the costs of the item can be reliably measured. All other repairs and maintenance are charged to the consolidated statement of loss and comprehensive loss during the financial period in which they are incurred.

Depreciation of property and equipment is based on the estimated useful lives of the assets using the following rates:

<u>Asset</u>	<u>Rate</u>	<u>Method</u>
Furniture and fixture	5 years	Straight-line

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the consolidated statement of loss and comprehensive loss.

Revenue Recognition

The Company follows IFRS 15 *Revenue from Contracts with Customers*, which establishes a five-step model to account for revenue arising from contracts with customers:

- identify the contract with a customer;
- identify the performance obligations in the contract;
- determine the transaction price, which is the total consideration provided by the customer;
- allocate the transaction price among the performance obligations in the contract based on their relative fair values; and
- recognize revenue when the relevant criteria are met for each performance obligation.

The Company generates revenue principally from the sale and distribution of tobacco cigarettes. Revenue is recognized at a point of time when the control of the products has transferred to an external party, when all significant contractual obligations have been satisfied and there is no unfulfilled obligation that could affect the customer's acceptance of the products. These are generally met when products are shipped to the customer, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales order, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

Revenue is measured based on the price specified and provided to the customer.

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(Unaudited – Prepared by Management)

3. Significant accounting policies (continued)

Share-based payments

The Company operates an employee stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined that the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to contributed surplus. The fair value of options is determined using a Black-Scholes Option Pricing Model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Valuation of Equity Units Issued in Private Placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the most easily measured component based on fair value and then the residual value, if any, to the less easily measurable component

The fair value of the common shares issued in a private placement is determined to be the more easily measurable component and are valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as reserves

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.

(i) Recognition and classification

The Company's financial instruments consist of cash, receivables, accounts payable, wages payable and convertible debentures. 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.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

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(Unaudited – Prepared by Management)

3. Significant accounting policies (continued)

Financial instruments (continued)

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 assets / liabilities	Classification
Cash	FVTPL
Amounts receivable	Amortized cost
Accounts payable	Amortized cost
Wages payable	Amortized cost

(ii) Measurement

Financial assets: Initial measurement

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: Subsequent measurement and gains and losses

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 consolidated statement of loss and comprehensive loss. Any gain or loss on derecognition is recognized in the consolidated statement of loss and comprehensive loss.

Financial liabilities

Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in the consolidated statement 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 consolidated statement of loss and comprehensive loss. Any gain or loss on derecognition is also recognized in the consolidated statement of loss and comprehensive loss.

(iii) Derecognition

Financial assets

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 consolidated statement 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.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2023

Expressed in Canadian Dollars

(Unaudited – Prepared by Management)

3. Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities

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 consolidated statement of loss or comprehensive loss.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses.

The Company shall recognize in the statements of loss and comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Comprehensive loss

Comprehensive loss is the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources, such as any unrealized gains and losses in financial assets classified as FVOCI. The Company had no comprehensive loss transactions during the period ended October 31, 2023 and year ended July 31, 2023.

Income taxes

Current tax:

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2023

Expressed in Canadian Dollars

(Unaudited – Prepared by Management)

3. Significant accounting policies (continued)

Income taxes (continued)

Current tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax:

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Loss per share

The Company presents basic and diluted loss per share data for its common shares. Basic earnings per share is calculated by dividing the profit or loss attributable to the common shareholders of the Company by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share is calculated by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise share options granted.

Related party transactions

Parties are considered related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Impairment of non-financial assets

Impairment is determined for goodwill and indefinite life intangibles by assessing if the carrying value of a CGU or group of CGUs, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs of disposal and the value-in-use. Impairment losses recognized in respect of a CGU or group of CGUs are first allocated to the carrying value of goodwill and indefinite life intangibles and any excess is allocated to the carrying amount of assets in the CGU. Any impairment loss is recognized in the consolidated statements of loss and comprehensive loss in the period in which the impairment is identified. Impairment losses on goodwill and indefinite life intangibles are not subsequently reversed.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

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Expressed in Canadian Dollars

(Unaudited – Prepared by Management)

3. Significant accounting policies (continued)

Impairment of non-financial assets (continued)

At each financial position reporting date the carrying amounts of the Company's long-lived assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use, which is the present value of future cash flows expected to be derived from the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the year.

For the purposes of impairment testing, individual assets are allocated to cash-generating units. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Provisions

Liabilities are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. A provision is a liability of uncertain timing or amount.

Provisions are measured as the expenditure expected to be required to settle the obligation at the reporting date. In cases where it is determined that the effects of the time value of money are significant, the provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the obligation.

New accounting standards and interpretations

The Company has performed an assessment of new standards issued by the IASB that are not yet effective. The Company has assessed that the impact of adopting these accounting standards on its financial statements would not be significant.

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2023

Expressed in Canadian Dollars

(Unaudited – Prepared by Management)

4. Amounts Receivable

	October 31, 2023	July 31, 2023
	\$	\$
Sales tax receivable	13,297	10,660
Accounts receivable*	5,794	5,195
	19,091	15,855

* The Company's revenue consists of sales of Harrys cigarette cartons. During the period ended October 31, 2023, the Company had sales of \$7,292 (2022 – \$Nil). During year ended July 31, 2022, the Company determined that the \$13,300 of amounts receivable was uncollectible and recorded as bad debt because the customer went into credit protection.

During the period ended October 31, 2023 and year ended July 31, 2023, one customer individually accounted for 55% of the Company's total revenue.

5. Prepaid Expenses

	October 31, 2023	July 31, 2023
	\$	\$
Inventory deposit	6,943	6,943
Provincial Tobacco Tax deposit	50,000	50,000
Prepaid expenses	22,500	1,720
	79,443	58,663

During the year ended July 31, 2022, the Company recognized a loss on impairment of inventory deposit of \$240,000. During the year ended July 31, 2023, a settlement agreement was signed to recoup the previous deposit and note receivable to a third party, which was impaired during the year ended July 31, 2022. During the period ended October 31, 2023, the Company recovered \$10,000 (2022 - \$Nil) of previously expensed amounts.

6. Property and Equipment

	Furniture and Fixtures
	\$
Cost:	
Balance, July 31, 2022, July 31, 2023 and October 31, 2023	8,452
Accumulated depreciation:	
Balance, July 31, 2022	4,212
Depreciation	1,692
Balance, July 31, 2023	5,904
Depreciation	422
Balance, October 31, 2023	6,326
Carrying amounts:	
Balance, July 31, 2023	2,548
Balance, October 31, 2023	2,126

HARRYS MANUFACTURING INC.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2023

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(Unaudited – Prepared by Management)

7. Accounts Payable and Accrued Liabilities

	October 31, 2023	July 31, 2023
	\$	\$
Accounts payable	242,018	242,276
Accrued liabilities	39,646	41,769
	281,664	284,045

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.

8. Related Party Transactions and Balances

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers.

Related party transactions

The Company incurred key management compensation as follows:

	Three months ended October 31, 2023	Three months ended October 31, 2022
	\$	\$
Management fees accrued or paid to the President and CEO, CFO, directors and former officers and directors	15,000	82,500
	15,000	82,500

As at October 31, 2023, \$3,048 (July 31, 2023 - \$3,048) was owed to a company owned by the former CFO of the Company, which is included in accounts payable and accrued liabilities.

As at October 31, 2023, \$Nil (July 31, 2023 - \$1,353) 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, 2023, \$1,233 (July 31, 2023 - \$1,233) was owed to a former Director of the Company, which is included in accounts payable and accrued liabilities.

As at October 31, 2023, \$74,600 (July 31, 2023 - \$87,846) was owed to the President of the Company and a company owned by the President of the Company, which is included in accounts payable and accrued liabilities.

As at October 31, 2023, \$Nil (July 31, 2023 - \$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.

During the year ended October 31, 2023, the Company wrote-off payables of \$53,016 owed to former related parties due to the statute of limitations on the outstanding amounts have lapsed.

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8. Related Party Transactions and Balance (continued)

During the year ended July 31, 2023, the Company settled payable amounts of \$74,725 owed to related parties into 747,250 units and recorded a loss of \$59,237. The Company settled payable amounts of \$80,000 owed to a related party into 1,805,569 common shares and recorded a gain of \$7,765.

9. Convertible Debenture

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 period ended October 31, 2023, the Company recorded accretion interest of \$Nil (2022 - \$724), which is included in interest expense.

On September 5, 2022, the Company converted the debenture into 1,250,000 common shares at a price of \$0.08 and recorded a loss of \$31,250. As at October 31, 2023, the carrying value of the convertible debenture was \$Nil (2022 - \$Nil).

10. Share Capital and Reserves

(a) Authorized

Unlimited number of common shares without nominal or par value.

(b) Share transactions

During the three months ended October 31, 2023:

- i) On September 29, 2023, the Company completed a non-brokered private placement of 1,299,000 units at \$0.03 per unit for proceeds of \$38,970. Each unit consisted of one common share and one share purchase warrant, which is exercisable into one additional common share at an exercise price of \$0.05 per share on or before September 29, 2024. In connection with the issuance, the Company paid a cash finder's fee of \$3,118, and issued 103,920 compensation warrants, which is exercisable into one additional common share at an exercise price of \$0.05 per share until September 29, 2024. The warrant portion of the private placement was valued at \$Nil under the residual value method.
- ii) On October 6, 2023, the Company completed a non-brokered private placement of 2,699,999 units at \$0.03 per unit for proceeds of \$81,000. Each unit consisted of one common share and one share purchase warrant, which is exercisable into one additional common share at an exercise price of \$0.05 per share on or before October 6, 2024. In connection with the issuance, the Company paid a cash finder's fee of \$1,680, and issued 56,000 compensation warrants, which is exercisable into one additional common share at an exercise price of \$0.05 per share until October 6, 2024. The warrant portion of the private placement was valued at \$Nil under the residual value method.

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10. Share Capital and Reserves (continued)

(b) Share transactions (continued)

During the year ended July 31, 2023:

- i) 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 and \$4,931 of accrued interest of a convertible debenture; the Company recorded a loss of \$31,250 (Note 9).
- ii) On September 16, 2022, the Company issued 810,250 units valued at \$145,257 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. \$52,078 was attributed to the warrants as a component of the units. The Company recorded a loss of \$64,232.
- iii) 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, and accordingly, the Company reallocated \$17,500 of reserve to share capital.
- iv) On February 22, 2023, the Company issued 1,805,869 shares valued at \$72,235 for settlement of \$80,000 of accounts payable; the Company recorded a gain of \$7,765.
- v) On April 12, 2023, the Company issued 100,000 shares upon the exercise of options at \$0.11 per share for proceeds of \$11,000, and accordingly, the Company reallocated \$10,041 of reserve to share capital.
- vi) On April 20, 2023, the Company issued 100,000 shares upon the exercise of options at \$0.11 per share for proceeds of \$11,000, and accordingly, the Company reallocated \$10,041 of reserve to share capital.

(c) Share purchase warrants

The changes in warrants as follows:

	October 31, 2023		July 31, 2023	
	Number of warrants	Weighted average exercise price \$	Number of warrants	Weighted average exercise price \$
Warrants outstanding, beginning	6,846,235	0.16	10,108,317	0.18
Issued	4,158,919	0.05	810,250	0.12
Exercised	-	-	(500,000)	0.10
Expired	(810,250)	0.12	(3,572,332)	0.20
Warrants outstanding, ending	10,194,904	0.11	6,846,235	0.16

The weighted average trading price of the Company's shares at the time of the warrant exercise was \$Nil (July 31, 2023 - \$0.12).

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10. Share Capital and Reserves (continued)

(c) Share purchase warrants (continued)

A summary of the Company's outstanding warrants as at October 31, 2023 is as follows:

Number of warrants	Exercise price \$	Expiry date	Remaining life (in years)
3,759,917	0.20	November 2, 2023 *	0.01
112,668	0.20	November 2, 2023 *	0.01
1,663,400	0.10	July 11, 2024	0.70
1,299,000	0.05	September 29, 2024	0.92
103,920	0.05	September 29, 2024	0.92
2,699,999	0.05	October 6, 2024	0.93
56,000	0.05	October 6, 2024	0.93
500,000	0.15	November 19, 2025	2.05
10,194,904			

*Subsequently expired.

The following weighted average assumptions were used for the Black-Scholes valuation of compensation warrants granted or vested during the period ended October 31, 2023 and year ended July 31, 2023 assuming no expected dividends or forfeitures:

	October 31, 2023	July 31, 2023
Risk-free interest rate	4.85%	-
Expected life of options	1 year	-
Annualized volatility	194.40%	-

(d) 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 are as follows:

	October 31, 2023		July 31, 2023	
	Number of Options	Weighted average exercise price \$	Number of Options	Weighted average exercise price \$
Outstanding and exercisable, beginning of the period/year	5,590,000	0.15	5,690,000	0.15
Granted	-	-	3,000,000	0.05
Exercised	-	-	(200,000)	0.11
Cancelled/Expired	(3,340,000)	0.05	(2,900,000)	0.15
Outstanding and exercisable, end of the period/year	2,250,000	0.15	5,590,000	0.15

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10. Share Capital and Reserves (continued)

(d) Stock options (continued)

The weighted average trading price of the Company's shares at the time of the option exercise was \$Nil (July 31, 2023 - \$0.10).

The following stock options were outstanding and exercisable as at October 31, 2023:

Number of options	Exercise price \$	Expiry date	Remaining life (in years)
250,000	0.25	December 18, 2024	1.13
1,000,000	0.045	February 22, 2026	2.32
500,000	0.16	February 26, 2026	2.33
500,000	0.11	January 14, 2027	3.21
2,250,000			

On February 22, 2023, the Company issued 3,000,000 options at \$0.045 per share. Share-based payments recognized and expensed during the year ended July 31, 2023 for this was \$94,147.

On January 14, 2022, the Company granted 500,000 stock options to a consultant exercisable at \$0.11 per share until January 14, 2024. The options vested upon grant. Share-based payment recognized and expensed during the year ended July 31, 2022 for this was \$38,718.

On January 14, 2022, the Company granted 1,250,000 stock options to directors and officers of the Company exercisable at \$0.11 per share until January 14, 2027. The options vested upon grant. Share-based payment recognized and expensed during the year ended July 31, 2022 for this was \$125,512.

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted or vested during the period ended October 31, 2023 and year ended July 31, 2023 assuming no expected dividends or forfeitures:

	October 31, 2023	July 31, 2023
Risk-free interest rate	-	3.94%
Expected life of options	-	3 years
Annualized volatility	-	143.06%

(e) 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.

On September 29, 2023, the Company granted 103,920 compensation warrants pursuant to a private placement at a value of \$3,100.

On October 6, 2023, the Company granted 56,000 compensation warrants pursuant to a private placement at a value of \$3,100.

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11. Financial Risk Management

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

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

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. The majority of cash is deposited in bank accounts held with major banks in Canada. As most of the Company's cash is held by one bank there is a concentration of credit risk. This risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies. The Company also has minimal risk relating to smaller amounts of refundable sales taxes and accounts receivable.

(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, 2023, the Company's current liabilities consisted of accounts payable and accrued liabilities of \$281,664 (July 31, 2023 – \$284,045) and wages payable of \$Nil (July 31, 2023 – \$53,016). The Company's cash was \$51,433 (July 31, 2023 - \$16,869) as at October 31, 2023 and wasn't 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 price).

(d) Foreign currency 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.

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11. Financial Risk Management (continued)

(e) 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.

(f) Commodity price risk

The Company does not hold any financial instruments that have direct exposure to commodity or other price risks.

12. Capital Disclosures

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

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and provide returns for shareholder. The Company is meeting its objective of managing capital through its detailed review and performance of due diligence on all potential acquisitions, preparing short-term and long-term cash flow analysis to ensure an adequate amount of liquidity and monthly review of financial results. The Company considers cash, shareholder loans and shareholders' equity to be capital. The Company does not have any externally imposed requirements on its capital.

There have been no changes in the Company's approach to capital management from the previous periods.

13. Commitments

On April 21, 2020, the Company entered into a distribution agreement with a distributor for an initial term of 10 years. Pursuant to the agreement, the Company appointed the party as the agent to distribute, market sell and supply tobacco products manufactured by for 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.