

FINAL BELL HOLDINGS INTERNATIONAL LTD.

(Formerly Final Bell Holding, Inc)

(the "Company")

INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS – QUARTERLY HIGHLIGHTS

QUARTER ENDED JUNE 30, 2023

The following interim Management's Discussion and Analysis ("Interim MD&A") of Final Bell Holdings International LTD. (the "Company") for the three months ended June 30, 2023, has been prepared to provide material updates to the business operations, liquidity and capital resources of the Company since its last annual management discussion & analysis, being the Management's Discussion & Analysis ("Annual MD&A") for the year ended March 31, 2023. This Interim MD&A does not provide a general update to the Annual MD&A, or reflect any non-material events since the date of the Annual MD&A.

This Interim MD&A has been prepared in compliance with section 2.2.1 of Form 51-102F1, in accordance with National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the Annual MD&A, audited annual consolidated financial statements of the Company for the years ended March 31, 2023, together with the notes thereto, and unaudited condensed interim consolidated financial statements of the Company for the three months ended June 30, 2023, together with the notes thereto. All dollar amounts are expressed in thousands of United States dollars (\$USD), except for share and per share amounts, and where otherwise indicated. The Company's unaudited condensed interim consolidated financial statements and the financial information contained in this Interim MD&A are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and interpretations of the IFRS Interpretations Committee. The unaudited condensed interim consolidated financial statements have been prepared in accordance with International Standard 34, Interim Financial Reporting. Accordingly, information contained herein is presented as of June 30, 2023, unless otherwise indicated.

For the purposes of preparing this Interim MD&A, management, in conjunction with the Board of Directors (the "Board"), considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of the Company common shares; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

These financial statements, and additional information relating to the Company, are available for viewing at www.sedar.com.

This Interim MD&A contains forward-looking information within the meaning of applicable securities laws. Refer to "Cautionary Statement Regarding Forward-Looking Statements" included within this Interim MD&A.

Description of Business and Nature of Operations

Final Bell Holdings International Ltd. (the "Company" or "FBHI") exists pursuant to the provisions of the *Business Corporations Act* (British Columbia) ("BCBCA"). Effective November 30, 2022, the Company completed a series of transactions (collectively, the "Reverse Take-over" ("RTO") and other acquisitions"), pursuant to which it acquired the group of companies operating in the cannabis space known as the "Final Bell Group", including Final Bell Holding, Inc., a Delaware corporation ("FBH"), 14th Round, Inc., a Delaware corporation ("14R" or "14th Round"), Final Bell Canada Inc., an Ontario corporation ("FB Canada"), and their respective subsidiaries and managed entities. As a result of the RTO which closed on November 30, 2022, the resulting business of the Company, and the application of the relevant guidance for reverse acquisitions under IFRS 3, FBH (the entity receiving securities) has been deemed the "accounting acquirer" while the Company (the entity issuing securities) has been deemed the "accounting acquiree". As such, the financial statements included herein reflect the historical results of FBH and equity has been retrospectively adjusted to present FBHI's equity structure for all periods presented.

The Company operates a consolidated group of businesses providing end-to-end supply chain solutions to cannabis brands through integrated product development, manufacturing, and supply chain management within its two segments: Hardware and Packaging and Master Manufacturing. The Company's hardware and packaging segment, 14th Round, operates in the design and technology space offering industrial design, engineering, manufacturing, branding, and child-resistant packaging solutions for cannabis vaporizers, edibles, and related products. The Company's Master Manufacturing operations in California and Canada (such Canadian operations having been divested subsequent to the fiscal quarter to which this MD&A applies) bring the ability to manufacture our internal brands and allow third party brands to fully outsource production and manufacturing of state-of-the-art hardware, packaging, licensed co-manufacturing, and product commercialization to a single supply chain partner.

Cautionary Statement Regarding Forward-Looking Statements

This document may contain "**forward-looking information**" (as defined under applicable securities laws). In some cases, forward-looking information can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue", "target", "intend", "could" or the negative of these terms or other comparable terminology. This forward-looking information relates to future events or future performance including with respect to (i) the Company's objectives and priorities for fiscal year 2024 and beyond; (ii) the performance of the Company's business and operations; (iii) the Company's expectations regarding revenues, expenses and anticipated cash needs; (iv) the Company's expectations regarding future acquisitions, its ability to source investment opportunities and complete future acquisitions, its ability to finance such acquisitions and the expected timing and impact thereof; (v) the competitive conditions of the industry; (vi) the competitive advantages of the Company; (vii) the Company's strategic partnerships and the expected impact thereof; and (viii) the expected future business strategy, competitive strengths, goals, expansion and growth of the Company's business, including operations and plans, new revenue streams and cultivation and licensing assets.

Forward-looking information contained herein reflects management's current beliefs, expectations and assumptions and is based on information currently available to management, management's historical experience, perception of trends and current business conditions, expected future developments and other factors which management considers appropriate. With respect to the forward-looking information contained herein, the Company has made assumptions regarding, among other things: (i) its ability to generate cash flows from operations and obtain necessary financing on acceptable terms; (ii) general economic, financial market, regulatory and political conditions in which the Company operates; (iii) the output from the Company's operations; (iv) consumer interest in the Company's products; (v) competition; (vi) anticipated and unanticipated costs; (vii) government regulation of the Company's activities and products and in the areas of taxation and environmental protection; (viii) the timely receipt of any required regulatory approvals; (ix) the Company's ability to obtain qualified staff, equipment and services in a timely and cost efficient manner; (x) the Company's ability to conduct operations in a safe, efficient and effective manner; (xi) that the Company will meet its future objectives and priorities; (xii) that the Company will have access to adequate capital to fund its future projects and plans; (xiii) that the Company's future projects and plans will proceed as anticipated; (xiv) industry growth rates; and (xv) currency exchange and interest rates.

By its very nature, forward-looking information involves inherent risks and uncertainties, both general and specific, and many factors could cause actual events or results to differ materially from the results discussed in the forward-looking information. In evaluating forward-looking information, readers should specifically consider various factors that may cause actual results to differ materially from any forward-looking information. These factors include, but are not limited to, market and general economic conditions and the risks and uncertainties discussed in the section entitled "Risks and Uncertainties".

The forward-looking information contained in this MD&A is presented for the purpose of assisting investors in understanding business and strategic priorities and objectives of the Company as at the periods indicated and may not be appropriate for other purposes. Forward-looking information contained in this MD&A is not a guarantee of future performance and, while forward-looking information is based on certain assumptions that the Company considers reasonable, actual events and results could differ materially from those expressed or implied by forward-looking information. Prospective investors are cautioned to consider these and other factors carefully when making decisions with respect to the Company and not place undue reliance on forward-looking information. Circumstances affecting the Company may change rapidly. Except as may be expressly required by applicable law, the Company does not undertake any obligation to update publicly or revise any such forward-looking information, whether as a result of new information, future events or otherwise.

Financial and Operating Highlights

On April 3, 2023, the Company issued 240,003 shares were issued to convertible note holders to satisfy an interest payment on the secured convertible note.

On April 5, 2023, the Company issued 140,844 Class C Series A preferred shares and 18,325 PV shares to the 14R dissenting shareholders to settle the outstanding Series A stock liability of \$10.0 million.

During the current quarter, an additional 8,807,624 FBHI options were issued pursuant to a consulting agreement with an entity controlled by the Company's CEO.

In addition to these transactions, the Company entered into debt settlement agreements with multiple debt holders wherein the parties agreed to settle the debt in FBHI SV Shares. The settlement agreements included \$1.6 million in outstanding debt to be settled for 4,716,113 SV Shares. The conversion price for these exchanges was determined to be \$0.34 per share. Accrued interest would be paid in cash. As of the date these financial statements were issued, no shares had been issued to settle the debt as a result of the Cease Trade Order issued by the British Columbia Securities Commission.

Throughout the first fiscal quarter, the Company received subscriptions of \$3.5 million pursuant to a private placement offering that was initiated but not completed prior to the issuance of the Cease Trade Order. These subscriptions have been recognized as debt consistent with notifications provided to these subscribers.

Trends and Economic Outlook

The Company is continuously evaluating the market and potential growth opportunities for the business. The Company has taken measures to introduce new streams of business and streamline the existing lines of business, including evaluating the disposal of lines of business that do not fit with the overall growth strategy of the business. Most notably, the Company plans to introduce a new revenue stream in growing markets in the US during the subsequent quarters in the fiscal year ending March 31, 2024. This will enable the company to expand its operational reach across more markets in the United States, including the newly legalized markets, through an offering of established brands and master manufacturing capabilities as well as increased sell through of our hardware and packaging offerings. The Company's hardware and packaging offerings continue to expand with an increased focus on research and development of differentiated new product and tooling offerings.

From an economic outlook, unlike in Canada, which has federal legislation governing the cultivation, distribution, sale, and possession of medical and adult-use cannabis, cannabis is largely regulated at the state level in the United States.

The legal cannabis industry is comprised of several sub-sectors and is legal under different guidelines in many U.S. states though it remains illegal federally in the U.S. However, the overall sector is generally recognized to be one of the fastest growing in the U.S. Independent projections and publicized reports from sources such as Headset.io, expect total annual cannabis revenue of US\$45.8 billion by 2025, both as the sector gains in credibility and acceptance, and as more and more states legalize either medical use or adult recreational use; or both.

On August 29, 2023, the U.S. Department of Health and Human Services (HHS) issued a recommendation to the U.S. Drug Enforcement Administration (DEA) that cannabis be reclassified from Schedule I to Schedule III under the Controlled Substances Act (CSA). As of the date of this filing, US President Biden has endorsed the Justice Department's move to reclassify marijuana from a Schedule 1 drug to a Schedule 3 drug. Cannabis will still be an illegal drug on the federal level, but this will result in a reduction in the federal tax burden of 280e requirements in the cannabis sector where our master manufacturing segment operates.

Results of Operations

	For the three months ended	
	June 30, 2023	June 30, 2022
Revenue	21,254	19,101
Loss from Continuing Operations	(6,466)	(153)
Net (Loss) Income Attributable to Company	(8,275)	(1,856)

The company's segment reporting is detailed in the below tables:

<u>Segmented Operating Results for the Three Months Ended</u>				
<u>June 30, 2023</u>				
	Hardware and Packaging	Master Manufacturing	Corporate	Total
Revenues	\$ 9,376	\$ 11,878	\$ -	\$ 21,254
Cost of Goods Sold	(7,109)	(11,222)	-	(18,331)
Gross Profit	2,267	656	-	2,923
Expenses	(4,110)	(3,829)	(1,450)	(9,389)
Loss from Operations	\$ (1,843)	\$ (3,173)	\$ (1,450)	\$ (6,466)

<u>Segmented Operating Results for the</u>				
<u>Three Months Ended June 30, 2022</u>				
	Hardware and Packaging	Master Manufacturing	Corporate	Total
Revenue	\$ 15,241	\$ 3,860	\$ -	\$ 19,101
Cost of Goods Sold	(10,454)	(3,497)	-	(13,951)
Gross Profit	4,787	363	-	5,150
Expenses	(1,692)	(2,187)	(1,424)	(5,303)
Income (Loss) from Operations	\$ 3,095	\$ (1,824)	\$ (1,424)	\$ (153)

The Company continued to grow its master manufacturing segment with the Canadian operations contributing \$7.6 million in revenue during the first quarter ended June 30, 2023. This increase was offset by a decrease in revenue of \$5.9 million in the hardware and packaging segment. This decrease was primarily due to the timing of customer orders as customer(s) had built inventory in the prior year for new product launch(s), which did not reoccur in the current period.

Gross profit in the first quarter of 2024 declined from 27% of revenue to 14% of revenue. This decline was primarily driven by the shift in revenue from the hardware and packaging segment to the master manufacturing segment. Master manufacturing incurs higher costs on product inputs as compared to the hardware and packaging business line. The Company is actively evaluating the market opportunities and expects to see improvement in the margins

Total operating expenses, other than cost of goods sold, primarily consist of corporate infrastructure and personnel to support customer relationships and ongoing business, which are reflected as general and administrative expenses, and expense associated with depreciation and amortization. During the first quarter of 2024, the company incurred increased SG&A costs as compared to the prior quarters. General and administrative costs increased as a result of being a public entity and increased integration expense associated with FB Canada.

Cash Flows

Cash Flows from Operating Activities

Net cash used by operating activities was \$1.6 million for the three months ended June 30, 2023, compared to \$4.2 million in the prior period. This improvement was driven primarily through improved working capital management.

Cash Flow from Investing Activities

Net cash used in investing activities was \$0.3 million during the three months ended June 30, 2023, compared to \$0.2 million in the prior year. The company invested in property, plant, and equipment for the three months ended June 30, 2023 and 2022. The investing activities in the normal course of business were materially consistent year over year.

Cash Flow from Financing Activities

Net cash provided by financing activities was \$3.3 million during the periods ended June 30, 2023 and 2022. During the 2023 period, the primary source of funding was proceeds from new financing arrangements as compared to proceeds from the credit facility providing the financing in the same period of 2022.

Liquidity and Capital Resources

As of June 30, 2023, the Company had total current assets of \$28.6 million including cash of \$4.6 million and total current liabilities of \$55.7 million. There have been no changes to the classification of financial instruments during the period ended June 30, 2023. Refer to the section entitled "Financial Instruments" in the Company's Annual MD&A for the year ended March 31, 2023, available on SEDAR at www.sedar.com.

As of June 30, 2023, the Company had a working capital deficit of \$27.1 million as compared to working capital of \$31.8 million at June 30, 2022. The \$4.7 million improvement in the Company's working capital deficit was driven by a decrease in the Series A Preferred Stock Liabilities, which was converted into shares on April 5, 2023 offset by an increase in accounts payable. To remedy the deficiency, the Company has taken measures to introduce new streams of business and streamline the existing lines of business, including disposing of lines of business that do not fit with the overall growth strategy of the business. These initiatives coupled with the equity conversions will enable us to improve the Company's working capital position and allow us the liquidity and flexibility to meet financial commitments.

In evaluating short, medium, and long-term capital requirements to fund both the Company's existing operations and future plans, Management has taken the following measures to address any potential short falls and to raise additional money to continue to fund future expansion and growth of the Company. In the first quarter of fiscal year 2025, the Company intends to convert certain outstanding debts into notes and will continue to raise capital to fund the company's growth strategy, as well as pursuing other investment vehicles. The Company has converted its unsecured convertible notes to equity on January 19, 2024. Additionally, the maturity date of the Company's outstanding secured term loan has been extended to August 18, 2026.

The Company's business plan includes growth through acquisitions to bolster the Company's ability to pursue additional brand licensing and partnership deals. Management continues to review and pursue selected external financing sources to ensure adequate financial resources. These potential sources include but are not limited to (i) financing from traditional or non-traditional investment capital organizations; (ii) funding from the sale of equity or debt instruments; and (iii) debt financing with lending terms that more closely match the Company's business model and capital needs. There can be no assurance that the Company will gain adequate market acceptance for our products or be able to generate sufficient positive cash flow to achieve its business plans, that additional capital or other types of financing will be available when needed, or that such financing will be on terms favorable to the Company.

Management expects to need to continue funding operating losses as we continue to scale operations. Therefore, the Company is subject to risks including, but not limited to, the inability to raise additional funds through debt and/or equity financing to support continued development, including capital expenditure requirements, operating requirements and to meet liabilities and commitments as they come due. The Company's ability to continue as a going concern is dependent on the Company being successful in accessing additional sources of liquidity from lenders or investors. Although the Company is actively pursuing capital raising initiatives, there is no assurance that the

Company will be successful in raising capital on acceptable terms or at all. These material uncertainties may cast significant doubt on the ability of the Company to continue as a going concern.

Off-Balance-Sheet Arrangements

As of the date of this Interim MD&A, the Company does not have any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company, including, and without limitation, such considerations as liquidity, capital expenditures and capital resources, that are material to investors.

Proposed Transactions

There were no material proposed transactions as of the date of this Interim MD&A, except for those disclosed in “Highlights” above.

Related Party Transactions

In the normal course of business, the Company regularly has product sales to customers that are affiliated through common ownership. During the three months ended June 30, 2023 and 2022, the Company had sales to related parties of \$0.2 million and \$0.8 million, respectively. As of June 30, 2023 and March 31, 2023, the Company is owed trade receivables from related parties in the amount of \$0.4 million and \$0.4 million, respectively, that are included in accounts receivable in the condensed consolidated interim statements of financial position.

Related Party Loans

Throughout the first fiscal quarter of 2024, the Company received subscriptions from related parties of \$1.7 million pursuant to a private placement offering that was initiated but not completed prior to the issuance of the Cease Trade Order. These subscriptions have been recognized as debt consistent with notifications provided to these subscribers.

In December 2022, the Company secured debt financing in the aggregate principal amount of \$1.25 million from a group of strategic investors. Of this amount, \$0.9 million was received from Angsana (entity controlled by a director of the Company) and \$0.1 million from another director of the company. The loan bears interest at a rate of 9.0% per annum with a maturity date of September 30, 2023. As of June 30, 2023 and March 31, 2023, the balance of the loan with Angsana, inclusive of accrued interest, was \$0.9 million. As of June 30, 2023 and March 31, 2023, the balance outstanding, inclusive of accrued interest, on the director loan was \$0.1 million.

On June 23, 2023, the Company secured additional funding from Angsana and a director of the Company in the aggregate amount of \$0.1 million.

Changes in Accounting Policy and Estimates

There were no changes in accounting estimates in the current quarter.

Adoption of New Accounting Pronouncements

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

The amendment clarifies the requirements relating to determining if a liability should be presented as current or non-current in the statement of financial position. Under the new requirement, the assessment of whether a liability is presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition. The amendment applies retrospectively for annual reporting periods beginning on or after January 1, 2023. There were no changes to the Company’s current period or comparative period upon adoption.

Amendments to IAS 12: Deferred Tax Related to Assets and Liabilities from a Single Transaction

The amendment narrowed the scope of certain recognition exemptions so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. It also, at the beginning of the earliest comparative period presented, recognizes deferred tax for all temporary differences related to leases and decommissioning obligations and recognizes the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date. The amendment is effective for annual periods beginning on or after January 1, 2023. There were no material changes to the Company's financials upon adoption.

New Accounting Pronouncements Not Yet Adopted

The following IFRS standards have been recently issued by the IASB. Pronouncements that are irrelevant or not expected to have a significant impact have been excluded.

Amendments to IAS 1: Covenants

The amendment clarifies how an entity classifies debt and other financial liabilities as current or non-current in particular circumstances. The amendments are effective for annual periods beginning on or after January 1, 2024. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements.

Disclosure of Internal Controls

Management has established processes to provide them with sufficient knowledge to support representations that they have exercised reasonable diligence to ensure that the unaudited condensed interim consolidated financial statements (i) do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, and (ii) fairly present in all material respects the financial condition, results of operations and cash flow of the Company, in each case as of the date of and for the periods presented by such statements.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Venture Issuer Basic Certificate filed by the Chief Executive Officer and Chief Financial Officer of the Company does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as such terms are defined in NI 52-109. In particular, the certifying officers filing such certificate are not making any representations relating to the establishment and maintenance of:

- (i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the Company 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
- (ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of unaudited condensed interim consolidated financial statements for external purposes in accordance with IFRS.

The Company'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 such certificate. Investors should be aware that inherent limitations on the ability of the Company's certifying officers of a venture issuer to design and implement, on a cost-effective basis, DC&P and ICFR may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports required to be provided under securities legislation.

Risks and Uncertainties

An investment in the securities of the Company is highly speculative and involves numerous and significant risks. Such investment should be undertaken only by investors whose financial resources are sufficient to enable them to assume these risks and who have no need for immediate liquidity in their investment. Prospective investors should carefully consider the risk factors that have affected, and which in the future are reasonably expected to affect, the Company and its financial position. Please refer to the section entitled "Financial Risk Management" in the Company's Annual MD&A for the year ended March 31, 2023, available on SEDAR at www.sedar.com.