

# **LIMESTONE<sup>®</sup>**

## **THE LIMESTONE BOAT COMPANY LIMITED (formerly LL One Inc.)**

### **Management's Discussion and Analysis Third Quarter 2022**

Three and nine months ended September 30, 2022

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE LIMESTONE BOAT COMPANY LIMITED**

The following Management's Discussion and Analysis ("MD&A") is prepared for the three and nine months ended September 30, 2022 (Q3 2022) of the financial condition and results of the operations of The Limestone Boat Company Limited ("Limestone" or the "Company") (formerly LL One Inc. or "LLO") and constitutes management's review of the factors that affected the Company's financial and operating performance.

This MD&A, which has been prepared as of November 29, 2022, should be read in conjunction with Company's audited consolidated financial statements and related notes for the year ended December 31, 2021, along with the Company's condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 and 2021. All figures are in Canadian dollars unless otherwise indicated.

The annual financial statements referred to above have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The condensed consolidated interim financial statements for the three and nine month periods ended September 30, 2022 and 2021 have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the IASB.

These documents, as well as additional information relating to the Company have been filed electronically with the Canadian securities regulators through the System for Electronic Document Analysis and Retrieval (SEDAR) and are available through the SEDAR website at [www.sedar.com](http://www.sedar.com). Readers are cautioned against relying or otherwise obtaining information in respect of the Company from sources other than from the Company's public filings on the SEDAR website.

### **Forward Looking Information**

When used in this MD&A, statements to the effect that the Company or its management 'believes', 'expects', 'plans', 'may', 'will', 'projects', 'anticipates', 'predicts', 'intends' or similar statements, including 'potential', 'opportunity', or variations thereof are not statements of historical fact and should be construed as forward-looking information. These statements reflect management's current beliefs with respect to future events and are based on information currently available to the management of the Company. The Company believes that the expectations reflected in such forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon.

With respect to the forward-looking information contained in this MD&A, we have made assumptions regarding the following:

- Future boat sales
- The continued ability of the Company to raise additional debt and/or equity financing and the ability of the Company to generate positive operating cash flows
- Ability to continue current and new product development
- Ability to retain and recruit qualified staff

Forward-looking information is not a guarantee of future performance and involves a number of risks and uncertainties, only some of which are described herein. Many factors could cause the Company's actual results, performance or achievements, or future events or developments, to differ materially from those expressed or implied by the forward-looking information including, without limitation, the following factors:

- Continued access to debt and/or equity financing
- Overall economic conditions
- Reliance on key partners
- Reliance on stability of supply chain continuity
- Increased competition
- Reliance on employees and contractors with specialized skills and knowledge
- Protection of proprietary rights
- Impact of COVID-19 on the Company's fully owned manufacturing facility and its supply chain

Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results, performance or achievement may vary materially from those expressed or implied by the forward-looking information contained in this MD&A. These factors should be carefully considered, and readers are cautioned not to place undue reliance on forward-looking information, which speaks only as of the date of the MD&A.

#### **Business Overview:**

Limestone is a North American designer, manufacturer and distributor of the Limestone<sup>®</sup>, Aquasport and Boca Bay recreational and commercial powerboats. The Limestone and Aquasport brands are both heritage brands with long legacies, renowned for their timeless design, big water performance, quality manufacturing and durability in the markets they serve. Our boats are crafted at our manufacturing facility, which is centrally located in Tennessee and is operated by our fully owned subsidiary Ebbtide Holdings LLC ("Ebbtide" or "TN Composites"). Limestone<sup>®</sup> and Aquasport feature an evolved and expanded product line that appeals to a growing number of boaters coast to coast, while the Boca Bay offering is focused exclusively on the Gulf Coast fishing segment and skinny water. Ebbtide was a contract manufacturer for Limestone until it was acquired on May 17, 2021. As a result of this strategic acquisition which was completed during Q2, 2021, Limestone obtained full control over the operating, investing and financing activities of Ebbtide, now doing business as TN Composites.

A brief history of the Company is discussed in this business overview section as follows:

Limestone is a brand focused company, dedicated to the wellbeing of all stakeholders, including its customers, employees and shareholders. The Company continues to expand the original legacy of Limestone<sup>®</sup> boats and its original designer, Mark Ellis of Connecticut. Scott Hanson, Mark Ellis and the Limestone design and engineering team continue to work diligently to modernize the Limestone configurations and designs, building on and expanding its outboard power offering, while maintaining the original hull design that has made the Limestone<sup>®</sup> brand famous for its big water performance. The product development, design and engineering team at TN Composites are also working to improve the features of the Aquasport and Boca Bay boats in response to a highly competitive market and evolving consumer expectations to ensure the respective brands maintain their competitive position.

On May 12, 2020, The Limestone Boat Company Inc. ("LBCI") entered into a Design Fee License Agreement with Mark Ellis Design LLC for the exclusive worldwide rights to manufacture Limestone® boats and the exclusive worldwide rights to use the name of the Limestone® trademark. The model designs were originally developed by renowned yacht designer Mark Ellis of Essex, Connecticut. Ellis's body of work includes an impressive number of highly successful power and sail designs for both series production and custom building. Ellis has been active for 45 years designing and developing the Limestone® powerboat brand, as well as many other customer designs and yacht, including well-known sailboats.

Effective September 3, 2020 LBCI entered into a manufacturing agreement with Ebbitide whereby Ebbitide agreed to upgrade some of the existing molds and produce the redesigned Limestone® boats (see Strategic Acquisition below).

The Limestone Boat Company Limited (the "Company"), formerly LL One Inc. ("LLO") was incorporated under the Business Corporations Act of Ontario on March 14, 2018 and was a Capital Pool Corporation as defined in the Policy 2.4 of the TSX Venture Exchange (the "Exchange"). Effective March 2, 2021, and upon completion of the transaction discussed below, the Company changed its name to The Limestone Boat Company Limited.

As described below, the Company completed the acquisition of LBCI through an acquisition agreement ("RTO Transaction") whereby the Company acquired all of the issued and outstanding shares of LBCI on March 2, 2021, with the former shareholders of LBCI obtaining control of the Company.

LBCI was incorporated under the Business Corporation Act of Ontario on January 14, 2020. The primary activities of LBCI are the design, manufacturing, marketing and sale of power boats. Since inception, LBCI has focused on the acquisition of molds and the design, marketing and sale of power boats.

*RTO Transaction:*

On March 2, 2021, the Company (LLO at the time) acquired all of the issued and outstanding securities of LBCI in exchange for the issuance of securities of LLO, which resulted in LBCI becoming a wholly-owned subsidiary of LLO.

As consideration for the acquisition, each issued and outstanding Common share and Class A common share of LBCI was cancelled and replaced by 50 Common shares of LLO (the "Exchange Ratio"). Further, each option or warrant issued by LBCI was exchanged for a corresponding option or warrant of LLO on substantially the same economic terms and conditions as the original option or warrant based on the Exchange Ratio.

Following completion of the RTO Transaction, the Company had 97,927,350 Common shares issued and outstanding on a non-diluted basis with existing shareholders of LLO holding approximately 12.46% and LBCI shareholders holding approximately 87.54% of the outstanding Common shares of the Company. As a result, the transaction is considered a reverse takeover of LLO by LBCI. For accounting purposes LBCI is considered the acquirer and LLO the acquiree. Upon completion of the RTO Transaction, the name of the Company was changed from LLO to the Limestone Boat Company Limited.

LLO's activities prior to the acquisition were limited to management of cash resources and the maintenance of its listing, and accordingly, did not constitute a business. As a result, the RTO Transaction is considered to be outside the scope of IFRS 3 Business Combinations, and has been accounted for as an asset acquisition. Since LBCI granted equity instruments as consideration for the acquisition, the

arrangement has been accounted for under IFRS 2, Share-based Payments. Accordingly, the transaction has been accounted for at the fair value of the equity instruments granted by LBCI to LLO. The share capital, reserves, and deficit of LLO at the time of the RTO Transaction have been eliminated against the fair value of the consideration and the difference has been recognized as a listing expense in the statement of loss and comprehensive loss for the year ended December 31, 2021. The capital structure recognized in the consolidated statement of financial position is that of the Company, but the dollar amount of the issued share capital prior to the RTO transaction is that of LBCI, including the value of the shares issued prior to the RTO Transaction.

In the accounting for the reverse takeover, the RTO Transaction consideration was determined by reference to the fair value of equity the legal subsidiary, being LBCI, would have issued to the legal parent entity, being LLO, for the shareholders of LLO to obtain the same percentage ownership interest of approximately 12.46% in the combined entity. The fair value of the issued equity was determined based on the most reliable and observable fair value measure being the market price per share from a recent LBCI private placement to third party market participants (\$8 per share).

The excess of the fair value of the RTO Transaction consideration to LLO over the fair value of the assets and liabilities of LLO acquired by LBCI at March 2, 2021 is as follows:

Fair value of consideration issued:	
LBCI common shares issued	\$ 1,952,000
LLO options assumed	93,692
LLO warrants assumed	<u>23,998</u>
	<b>\$ 2,069,690</b>
Fair value of net assets acquired:	
Cash	\$ 324,334
Prepaid expenses and other receivables	18,628
Due from LBCI	225,000
Accrued liabilities	<u>(87,389)</u>
	<b>\$ 480,573</b>
Listing expense	<b><u>\$ 1,589,117</u></b>

In addition to the above-mentioned listing expense, the Company incurred \$214,330 in listing fees paid to the TSX Venture Exchange and investor relations costs for the nine months ended September 30, 2021. Further, transaction costs in connection with the RTO transaction of \$146,151 were expensed to professional fees for the nine months ended September 30, 2021.

*Private Placement Financing:*

On January 19, 2021, the Company closed a subscription agreement with Telfer Hanson (2017) Family Trust, an existing shareholder of the Company, for the issuance of 115,625 LBCI common shares at a price of \$8.00 per common share for aggregate gross proceeds of \$925,000 (collectively with the Subscription Receipt Financing, the "Private Placement"). The LBCI common shares were issued by the Company and were not subject to the escrow restrictions associated with the subscription receipts.

On January 20, 2021, subject to an Agency Agreement, the LBCI closed an aggregate of 288,150 subscription receipts at a price of \$8.00 per subscription receipt, (the "LBCI Subscription Receipt

Financing”) for aggregate gross proceeds of \$2,305,200 pursuant to the terms and condition of a subscription receipt agreement dated January 20, 2021 between the LBCI, Beacon Securities Limited (“Beacon”) and the TSX Trust Company, (the “Subscription Receipt Agent”) (the "Subscription Receipt Agreement"). The subscription receipts issued under the LBCI Subscription Receipt Financing were converted into common shares upon the closing of the RTO Transaction.

On May 14, 2021 the Company completed a non-brokered private placement of \$14,097,000 CAD subordinated unsecured convertible debentures (see Strategic Acquisition of Ebbtide Holdings, LLC below).

On November 10, 2021 the Company entered into a private placement Beacon Securities Limited (the “November Private Placement”) of up to 16.67 million units (the “Units”) at a price of \$0.24 per Unit (the “Issue Price”), to raise gross proceeds of up to \$4.0 million. Each unit consisted of one common share of the Company and one half of one common share purchase warrant (a “Warrant”). Each full Warrant will entitle the holder to purchase one additional common share at a price of \$0.32 per common share for a period of 24 months following the closing of this private placement offering.

On November 25, 2021, the Company completed the first tranche of its November Private Placement issuing 10,851,334 Units for gross proceeds of \$2,604,320.

On May 12, 2022 and June 3, 2022, the Company completed non-brokered private placements of \$340,000 CAD and \$484,000 CAD subordinated unsecured convertible debentures, respectively.

On August 11, 2022, the Company announced that it executed a term sheet with a strategic lender to provide for up to \$6,000,000 USD in secured credit financing. The financing was expected to be advanced to the Company in a series of tranches between August and October 2022.

On October 21, 2022, the Company announced the terms of a proposed non-brokered private placement of up to \$2,000,000 secured debentures.

On November 1, 2022, the Company announced the withdrawal of the proposed financings of August 11, 2022 and October 21, 2022. The Company continues to pursue alternative liquidity financing proposals and remains committed to continuing its long-term operations. While the Company continues to pursue alternative liquidity financing proposals and strategic alternatives, the Company has temporarily suspended manufacturing operations at its facility in White Bluff, Tennessee and is maintaining its leadership team as it looks to resume operations as soon as possible.

### **Strategic Acquisition of Ebbtide Holdings, LLC**

On May 17, 2021, Limestone acquired 100% of the issued and outstanding securities of Ebbtide (the “Ebbtide Acquisition”). The total purchase price of approximately \$7,183,815 consisted of \$3,928,025 in cash and \$3,255,790 in Limestone common shares issued, which were ultimately issued at a market price of \$0.35 CAD per share. In total, 9,302,256 Limestone common shares were issued to the Ebbtide vendor group, subject to certain contractual lock-up provisions.

Ebbtide manufactures the Aquasport and Boca Bay brands, as well as the Limestone® line-up. The acquisition allows for the expanded production of all of these brands, in an effort to meet the growing market demand for marine products. As a result of the Ebbtide Acquisition, Limestone now has 36 Dealers with 48 independent dealer locations servicing the US and Canadian Great Lakes, and the Northeast,

Southeast and Gulf Coasts of the United States. The Ebbtide Acquisition was a key transaction in the continued growth of the Company. The combination of heritage brands, Limestone and Aquasport provides continuity in reputation for safety, performance and quality, coupled with the addition of the Boca Bay brand further diversifying the Company's product offering. The team members in Collingwood, Ontario are responsible for directing product development and North American sales, marketing, distribution and finance, allowing the team in Tennessee to focus primarily on manufacturing of the Company's products with an emphasis on engineering, production and sales support. By securing expanded manufacturing capacity and a broad dealer network, the Company believes it is well positioned to become a significant force in the North American marine industry leveraging not only continued industry growth, but also brand growth given the Company's order book backlog for its products through the 2023 model year. All boats will continue to be manufactured in Ebbtide's 145,000 square foot facility in White Bluff, Tennessee.

Limestone also completed a concurrent, non-brokered private placement of \$14,097,000 subordinated unsecured convertible debentures (see below), in order to fund the cash portion of the purchase price for the Ebbtide Acquisition and to provide the Company with go-forward working capital. This private placement included an investment from a strategic industry participant, Vision Marine Technologies (NASDAQ: VMAR) who has agreed to produce its proprietary E-Motion electric propulsion powertrain option for select Limestone and Aquasport brand models.

#### **Vision Marine Electric Motor Partnership**

Limestone previously announced the successful completion of sea trials for its Vision Marine electric outboard-powered Aquasport 2100CC on June 8, 2022. The sea trial results met the Company's expectations, confirming that it can be the first to offer a fully electric-powered 21-foot Center Console boat that is expected to deliver an average cruising speed of 23 mph, over two hours of run time, and can be recharged at dockside in four to eight hours depending on whether one opts for one or two onboard chargers. The rigorous real-world, open water testing has validated the Company's belief in its EV engine partner as the preeminent provider of high-performance electric power in the recreational boating market. Upon the resumption of manufacturing operations, the Company will shift their EV model development efforts into scheduled production with a delivery target of calendar 2023 for initial shipments to Dealers given battery supply lead-times under the Seventeen Fifty-Two brand. Limestone's stated EV mandate has been to establish a disruptive early mover electric footprint in the traditional boating sector. The partnership provides Limestone a technological advantage as the E-Motion™ powertrain offers unprecedented power and torque in an electric outboard and will establish Limestone as a leader in the rapidly growing electric segment of the recreational boating industry. This new EV model debuted last month in the Vision Marine Technologies display at the Fort Lauderdale International Boat Show under the Company's EV moniker, Seventeen Fifty-Two.

#### Market & Trends:

The marine industry is subject to shifting trends, spending patterns and economic cycles. The Company's revenue and financial results are linked to these trends. Demand for the Company's product line of powerboats continues to be strong and the market trends are consistent with the information provided in the Company's Q4, 2021 MD&A.

Industry experts project that the backlog in consumer demand will continue through 2023 as marine manufacturers strive to bring retail inventories back to normalized levels to facilitate more timely access

to product for consumers. Global Markets Insights is estimating sector growth of 7.5% CAGR (for 2021 – 2027).

#### Competitive Conditions:

The market for boats in the Company's market segment is large and highly competitive. The Limestone® and Aquasport brands are recognized as quality products that handle extremely well in "big water". That reputation has led to Limestone® and Aquasport experiencing strong dealer demand and initial and ongoing boat orders, with prospective dealers lining up to sign on as increased production capacity becomes available. In fact, in 2021, the Aquasport brand increased its Share of Market among its peers according to Info Link's Quarterly Registration Data.

The Company believes that both Limestone® and Aquasport are well-positioned to capitalize on favorable long-term trends in the marine consumer products segment as quantified in the Companies recent Image & Branding Research conducted in Q1 2022.

#### **Outlook:**

Limestone has started to see the effects of management decisions taken in Q2 concerning wholesale pricing and labour realignment with improvements in margin. These are attributable, in large part, to price increases implemented in April (10.3%) and a further increase in August (+/-10%) of this year. These price increases are consistent with the Company's peers and ensure that the Company's product remains competitive while also affording its dealers respectable margins. With the 2023 Model Year price increase that took effect August 1<sup>st</sup>, the Company would expect to see steady improvement in average revenue per unit and margin upon the resumption of manufacturing operations at TN Composites. This would be compounded by the Company's emphasis on a curtailed model mix of higher margin, higher demand product given its order backlog, thus yielding margins expected to be more in-line with industry norms.

Unit production, however, decreased due to ongoing supply chain delays and financial constraints with 27 units shipped in Q3 2022 vs. 38 in Q2 2022, revenues decreased 33% from \$4,366,888 in Q2 2022 to \$2,913,667 in Q3 2022. Additionally, average gross revenue per unit increased by 14% in Q3 vs. Q2 2022. Stated gross margins continued to improve from a gross margin of +4.4% in Q2 2022 to a gross margin of +4.7% in Q3 2022, with the Company generating growth in a modest gross profit for the third consecutive period since acquiring Ebbtide in May of 2021. The Company plans to continue to focus production on a limited range of higher margin models as it works towards profitability in Fiscal 2023 upon resumption of manufacturing in its TN Composites manufacturing facility. As production increases, the Company believes that overhead such as depreciation and utilities will also continue to become a lower proportionate component in stated gross margins and quarterly results are expected to continue to improve.

Upon securing additional financing and the resumption of manufacturing in the Company's TN Composites facility, the Company expects to bolster its inventory levels, reduce supply chain disruptions on manufacturing, and commence the phased transformation of the Company's manufacturing capabilities through the reconfiguration of select production spaces, integration of additional technology, expansion of large boat production capacity, and enhanced manufacturing process flow. It will also strengthen the Company's liquidity.

Limestone's current order book backlog for both Aquasport and Limestone models continues to exceed its projected capacity through the balance of the 2023 Model Year 2:1. Although there is anxiety among

dealers due to the temporary suspension of manufacturing in its TN Composites facility, Dealer orders in hand and expression of interest have not been cancelled as at this juncture, but rather put on hold assuming a restart as soon as possible.

Beyond the boat order backlog, the Company's dealer network development backlog remains strong with new dealers expressing interest in taking on the Limestone® Boats and/or the Aquasport Boats lines when production becomes readily available. The Company currently distributes product through 45 dealer locations, spanning the Great Lakes, East Coast from Maine to Florida, and the Gulf Region.

Upon the resumption of manufacturing operations, the Company plans to continue to develop and revamp the Limestone® and Aquasport lineup with a focus on higher demand, higher margin products that align with retail demand and tooling availability. The Company introduced and launched two all-new models to the market in 2022, the Limestone® L-200CC centre console and L-200R closed deck runabout. In addition, in October Limestone debuted its new EV Brand offering at the Fort Lauderdale Boat show under the Seventeen Fifty-Two brand, and it expects to commence the production of its revamped AQ 3000 Center Console, and Limestone L290 Dual Console later in the 2023 calendar year. Production and shipments of the revitalised Limestone Cuddy's lineup have been postponed indefinitely given tooling delays, while the new L270 Dual Console is being planned for early in the 2024 calendar year, pending tooling development confirmations.

## Select Financial Information and Overall Performance:

### Review of Statements of Comprehensive Income:

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Revenue	\$ 2,913,677	\$ 2,552,087	\$ 11,045,153	\$ 3,827,543
Cost of good sold	2,774,127	2,947,191	10,569,456	4,632,628
Gross profit	\$ 139,550	\$ (395,104)	\$ 475,697	\$ (805,085)
Salaries and wages	656,238	731,137	2,066,787	1,539,073
Stock based compensation	51,602	134,232	154,807	343,096
Listing expenses	52,208	41,329	127,928	1,803,447
Professional fees	649,491	1,120,765	1,325,416	2,744,117
Advertising, marketing and promotion	130,617	85,685	242,512	295,815
General and administrative expense	718,694	538,150	1,922,421	886,624
Interest and bank charges	796,889	645,999	2,316,825	1,065,891
Amortization and depreciation expense	91,789	111,112	273,126	199,165
Operating loss	(3,007,978)	(3,803,513)	(7,954,125)	(9,682,313)
Foreign exchange gain (loss)	1,212,227	395,524	1,519,597	645,365
Other income	166	5,301	1,545	5,928
Deferred tax recovery	81,694	206,462	406,961	299,855
Loss for the period	(1,713,891)	(3,196,226)	(6,026,022)	(8,731,165)
Currency translation adjustment	(815,708)	(38,327)	(985,809)	(98,515)
Comprehensive loss for the period	\$ (2,529,599)	\$ (3,234,553)	\$ (7,011,831)	\$ (8,829,680)
Net loss per share (basic & diluted)	\$ (0.014)	\$ (0.030)	\$ (0.050)	\$ (0.092)

### Revenue and Gross Profit

The Company's revenue of \$2,913,677 is primarily comprised of Aquasport and Limestone boats sales by TN Composites which became Limestone's fully owned subsidiary on May 17, 2021. Upon the resumption of manufacturing operations, the management team intends to work on optimizing TN Composites'

operations to make them more efficient and to start generating gross profit consistent with industry standards. Gross Profit of \$139,550 in Q3 2022 is the third consecutive quarter the Company generated a gross profit since acquiring Ebbtide.

*Salaries and wages and stock-based compensation:*

Salaries and wages for the nine months ended September 30, 2022 increased by \$527,714. This increase is a result of the Company continuing to add employees to meet its growing operational and corporate requirements. Further, the increase can be attributed to the workforce acquired with TN Composites acquisition. Since obtaining control on May 17, 2021, management has also made additional strategic, financial and operational hires at TN Composites. On October 19, 2022 and November 1, 2022, the Company announced the layoff of employees at its manufacturing facility in White Bluff, Tennessee and head office in Collingwood, Ontario due to financial constraints and ongoing supply chain challenges.

Stock based compensation expense of \$51,602 and \$154,807 is associated with the options which vested during the three and nine months ended September 30, 2022.

*Listing expenses*

Listing expenses for 2022 are comprised primarily of TSXV listing fees and investor relation expenses. The decrease in listing expenses compared to 2021 was primarily a result of the RTO Transaction which took place in Q1, 2021. The total Q3, 2021 listing expenses of \$1,803,447 were comprised of the following:

- The difference between the fair value of the consideration issued in Q1, 2021 (i.e., the fair value of the LBCI common shares, stock options, and warrants issued to effect the RTO) and the fair value of LLO's net identifiable assets acquired of \$1,589,117, which was recognized as a listing expense because the transaction did not meet the definition of a business combination; and,
- Ongoing TSXV listing fees and investor relation expenses of \$214,330 incurred in during the six months ended June 30, 2021.

*Professional fees*

This category of expense relates to management services, consulting, legal, accounting and audit expenses incurred by the Company.

*Advertising, marketing and promotion:*

The Company participates in the marketing and advertising programs, as well as supporting the Limestone and Aquasport brands through strong multi-media initiatives.

*General and administrative expense:*

This category of expenses is primarily comprised of general corporate related expenses including, insurance, rental, travel expenses, office expenses, delivery, freight and customs and utilities. As noted above, the Company was in early stages of its business and operations in Q3, 2021.

*Interest and bank charges:*

The increase in interest and bank charges compared to 2021 is primarily due to the issuance of convertible debentures in Q2, 2021 and Q2 2022. For the nine months ended June 30, 2022, there was \$1,085,155 in interest accrued to holders of convertible debentures as well as accretion expense of \$690,312 recorded.

*Foreign exchange impact:*

This category of expense largely relates to the unrealized foreign exchange gain on related party loans denominated in a foreign currency other than the functional currency of The Limestone Boat Company Limited.

*Amortization and depreciation expense:*

Amortization and depreciation expense for the quarter is primarily due to the tangible and intangible assets which were acquired during Q2, 2021 by Limestone as a result of the Ebbtide strategic acquisition. Depreciation expense of \$119,074 (2021 - \$116,993) and \$350,559 (\$192,457) for the three and nine months ended September 30, 2022 has been included within cost of good sold.

**Review of Balance Sheets:**

<u>As at</u>	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Cash	\$ 84,527	\$ -
Trade and other receivables	759,152	715,405
Prepaid expenses and deposits	562,287	500,151
Inventories	2,302,551	2,364,383
Restricted cash	774,722	817,141
Property and equipment	3,956,540	3,787,748
Right of use assets	5,974,032	5,729,189
Goodwill and intangible assets	4,473,320	4,404,873
Total assets	<u>\$ 18,887,131</u>	<u>\$ 18,318,890</u>
Bank indebtedness	\$ -	\$ 103,962
Accounts payable and accrued liabilities	8,361,579	3,990,099
Customer deposits	148,594	97,820
Long-term lease obligations	2,175,946	2,095,711
Long-term debt	13,973,411	10,855,050
Deferred tax liability	-	355,965
Total liabilities	<u>24,659,530</u>	<u>17,498,607</u>
Total equity	<u>(5,772,399)</u>	<u>820,283</u>
Total liabilities and equity	<u>\$ 18,887,131</u>	<u>\$ 18,318,890</u>

As reflected in the selected balance sheet information above, between December 31, 2021 and September 30, 2022, the Company's cash balance increased by \$188,500 primarily due to the proceeds received from the exercise of options, loans received from related parties, and issuance of additional convertible debentures offset by investments in inventory, property and equipment and cash used in operating activities.

Changes in property, plant and equipment, right of use assets and goodwill and intangible assets was primarily due to depreciation and amortization recorded plus increases from a favorable currency translation adjustment due to higher exchange rates.

Restricted cash of \$774,722 as at September 30, 2022 consisted of the following:

- On January 25, 2021, an irrevocable standby letter of credit in the amount of \$500,000 was issued on behalf of the Company to NorthPoint Commercial Finance in connection with the floor planning facility. The letter of credit bears interest at a rate of 2.80% per annum. The letter of credit is secured by a cash deposit of \$500,000 which has been invested in a 1-year term Guaranteed Investment Certificate (“GIC”) with an annual interest rate of 4.00%. This amount has been recorded as restricted cash within the statement of financial position. Restricted cash has been presented as long-term as it cannot be exchanged or used to settle a liability within the next twelve months;
- Additional cash deposit totaling \$274,722 (\$200,000 USD) as security for letters of credit to secure NCF for Ebptide.

Accounts payable and accrued liabilities increased by \$4,371,480 primarily as a result of the timing of expense accruals made as at September 30, 2022 offset by payments made throughout the nine months ended September 30, 2022.

Lease obligations consist of the land, building and equipment leases acquired with the Ebptide Acquisition. A small portion of the lease obligations also represents the Company’s office lease space in Collingwood which was entered into in Q1, 2021 and the present value of lease payments over the estimated lease term were recorded as a lease liability on the Company’s balance sheet as per the requirements of IFRS 16.

Long term debt is comprised primarily of the convertible debentures offset by deferred financing fees incurred to issue these debentures on May 14, 2021, May 12, 2022 and June 3, 2022. Also included in long term debt is the liability portion of \$673,288 for the TN Composites Aquasport brand liability.

The deferred tax liabilities balance is comprised of the timing differences resulting from accounting and tax basis on the convertible debentures.

#### **Capital Resources and Liquidity:**

The liquidity and capital resources of the Company are dependent upon a number of factors including, without limitation, market and economic conditions and the impact of these conditions on the demand and price of the Company’s products, raw material costs and the ability to fund working capital and necessary capital projects.

The Company’s principal uses of funds are for operating expenses and capital expenditures. Further, refer to the RTO Transaction on which the Company primarily used its funds during Q1, 2021, and used its funds during Q2 2021 for the acquisition of TN Composites. The Company has been financially constrained due to labor turnover, inflationary price pressures and insufficient production throughput. It continues to pursue alternative liquidity financing proposals and remains committed to continuing its long-term operations.

The Company’s ability to fund future operating expenses and capital expenditures as well as repayment of its long-term debt will depend on the Company’s ability to secure financing, the resumption of manufacturing operations and future operating performance which may be affected by general economic, financial and other factors beyond management’s control, including demand and pricing of the Company’s products, supplies, materials and a reliable workforce.

## Share capital:

The increase in share capital from December 31, 2021 to September 30, 2022 is shown in the table below:

	LBCI				The Company	
	Common shares		Class A common shares		Common shares	
	Number	Amount	Number	Amount	Number	Amount
<b>Balance, January 1, 2021</b>	<b>1,000,000</b>	<b>\$ 10</b>	<b>310,772</b>	<b>\$ 1,654,005</b>	-	-
Private placement financing <sup>(i)</sup>	403,775	3,230,200	-	-	-	-
Share issuance costs <sup>(i)</sup>	-	(532,298)	-	-	-	-
Share for share exchange in RTO Transaction <sup>(ii)</sup>	(1,403,775)	(2,697,912)	(310,772)	(1,654,005)	85,727,350	4,351,917
Share capital of the Company at the date of the Reverse Takeover (note 1)	-	-	-	-	12,200,000	1,952,000
Shares issued in connection with acquisition of Ebbtide Holdings, LLC (note 22)	-	-	-	-	9,302,256	3,255,790
Warrants exercised	-	-	-	-	370,000	60,448
Private placement financing <sup>(iii)</sup>	-	-	-	-	10,851,334	2,604,320
Share issuance costs <sup>(iii)</sup>	-	-	-	-	-	(636,051)
<b>Balance, December 31, 2021</b>	-	<b>\$ -</b>	-	<b>\$ -</b>	<b>118,450,940</b>	<b>\$11,588,424</b>
Stock options exercised	-	-	-	-	1,215,000	215,192
<b>Balance, September 30, 2022</b>	-	<b>\$ -</b>	-	<b>\$ -</b>	<b>119,665,940</b>	<b>\$11,803,616</b>

**Going concern:**

The condensed consolidated interim financial statements have been prepared on a going concern basis which contemplates that the Company will continue in operation and be able to realize its assets and discharge its liabilities and commitments in the normal course of business for the foreseeable future. In assessing whether this going concern assumption is appropriate and whether there are material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern, management considers all available information and actions within its control with respect to the future which is at least, but not limited to, twelve months from the end of the reporting period. 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, as described in the following paragraphs.

During the nine months ended September 30, 2022, the Company has recognized a net loss of \$6,026,022 (2021 - \$8,731,165) and negative cash flows from operations of \$5,114,438 (2021 - \$6,061,519). The Company also has negative working capital of \$9,315,285 (2021 - \$866,901) and an accumulated deficit of \$20,560,365 (2021 - \$14,534,343) as at September 30, 2022. As a result, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business.

Management's current strategy is to raise additional debt and/or equity financing to resume its manufacturing operations. There is no assurance that the Company will be able to raise additional debt and/or equity capital required to fund its operations or achieve profitable operations upon the resumption of its manufacturing operations. If the Company is unable to obtain financing or take other actions, it may be unable to continue as a going concern.

The condensed consolidated interim financial statements do not reflect any adjustments, which could be material, to the carrying amounts of assets and liabilities, reported revenues and expenses, and balance sheet classifications used, that would be necessary if the Company were unable to continue as a going concern.

**Capital Management:**

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its strategy of growth and to maximize the return to its shareholders. The capital structure of the Company consists of cash, convertibles debentures, related party loans and shareholders' equity. The Company does not have any externally imposed capital requirements and does not presently utilize any quantitative measures to monitor its capital. The Company makes adjustments to its capital structure in light of general economic conditions and the Company's working capital requirements. In order to maintain or adjust its capital structure, the Company, upon approval from its Board of Directors, may pay dividends, buy back shares or undertake other activities as deemed appropriate under the specific circumstances. The Board of Directors reviews and approves any material transactions not in the ordinary course of business.

### Transactions Between Related Parties:

The Company's related party transactions during the period are largely associated with its shareholders. Transactions with shareholders have been recorded in the following financial statement captions at the aggregate amounts noted below:

	September 30, 2022	September 30, 2021
Advertising and promotion	\$ -	\$ 5,109
Office expense	-	2,030
Professional fees	<b>526,662</b>	809,578
Rental	-	973
Salaries and wages	<b>637,525</b>	637,140
Stock based compensation (note 13(b))	<b>146,117</b>	289,989
	<b>\$ 1,310,304</b>	<b>\$ 1,744,819</b>

Key management personnel are also shareholders of the Company. The CEO and a director provide their services through entities they control which charge the Company a management fee. During the nine months ended September 30, 2022, management fees paid amounted to \$211,662 (2021 - \$447,952) which has been recorded within professional fees. For the nine months ended September 30, 2022, director fees of \$315,000 (2021 - \$361,626), have been included within professional fees.

Compensation of other key management personnel during the nine months ended September 30, 2022 amounted to \$637,525 (2021 - \$637,140) which included in salaries in the aggregate amount of \$617,919 (2021 - \$620,500) and short-term benefits in the amount of \$19,606 (2021 - \$16,640). These amounts have been recorded within salaries and wages.

For the nine months ended September 30, 2022, an entity that is a shareholder of the Company incurred costs totaling \$nil (2021 - \$8,112) on behalf of the Company. The costs include rent of \$nil (2021 - \$973), advertising, promotion and office expenses in the aggregate of \$nil (2021 - \$7,139) on behalf of the Company, for which it was reimbursed in cash.

On December 23, 2021, the Company received a loan from a related party in the amount of \$100,000. The loan bears interest at 10% per annum, is unsecured and expected to be repaid in 2022.

During the nine months ended September 30, 2022, the Company received loans from related parties amounting to \$539,715 (2021 - \$nil). These loans bear interest at 10% per annum, are unsecured and expected to be repaid in 2022.

**Risks:**

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth. The main objectives of the Company's risk management process is to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal financial risks to which the Company is exposed are described below.

*a) Liquidity risk:*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due or can do so only at excessive cost. Given that the Company continues to use cash in operations, there are inherent liquidity risks, including the possibility that additional financing may not be available to the Company on a timely basis.

*b) Foreign currency risk:*

Foreign currency risk arises from the possibility that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities when revenue or expenses are denominated in a foreign currency.

*c) Market risks:*

The success of the Company is primarily tied to the size and growth rate of the boating segment of the marine industry. Underlying market conditions are subject to change based on economic conditions, consumer preferences and other factors that are beyond the Company's control, including media attention, which may be positive or negative. An adverse change in size or growth rate of the marine industry segment could have a material adverse effect on the Company's business, financial condition and results of operations.

In addition, the Company's business is cyclical in nature, and Company's products compete with a variety of other recreational products and activities for consumers' discretionary income and leisure time. Consumer spending habits, including spending on the Company's products, are affected by, among other things, prevailing economic conditions, levels of employment, fuel prices, salaries and wages, the availability of consumer credit, consumer confidence and consumer perception of economic conditions. A general economic slowdown, such as that caused by COVID-19, in any of the Company's targeted markets could decrease demand for its products, which would adversely affect revenue. In addition, an uncertain economic outlook may adversely affect consumer spending habits and customer traffic, which may result in lower revenue. A prolonged economic downturn in any of the Company's target markets could have a material negative impact on its business, financial condition and performance.

*d) Manufacturing, Transportation and Distribution:*

Following the acquisition of Ebbtide, the Company is reliant on its on its own manufacturing resources, (see Strategic Acquisition above), for the production of all of its products. As a result, any delays or shutdowns that stem from Ebbtide could have a significant impact upon the business. Additionally, a potential increase in the cost of manufacturing at Ebbtide would have a significant adverse impact upon the Company's distribution chain and margins.

If issues arise at any step of the supply chain, it could cause logistical problems and delays in customers obtaining their orders beyond the direct control of the Company. There can be no assurance that the vendors will continue to reliably deliver products at the levels of quality or in the quantities required, nor can there be any assurance that the third-party carriers and distributors fulfill their obligations pursuant to their committed timelines. Any insufficiency or delay by third-party vendors would adversely affect the Company's financial performance.

e) *Protection of Intellectual Property*

The Company's products are not currently protected by patents. The Company maintains an active research and development program that is devoted to developing efficiencies in design, production and performance of its products. The Company protects its investment in research, as well as the techniques it uses to improve products, by relying on trade secret and trademark laws.

Notwithstanding the Company's efforts, there can be no assurance that efforts to protect Limestone's Brands trade secrets and trademarks will be successful. The Company intends to maintain and keep current all of its trademark registrations and to pay all applicable renewal fees as they become due. Beyond merely its trademarks, if for any reason the Company is unable to maintain the Company's current or its future intellectual property rights, its sales of any related products could be materially and negatively affected.

f) *Laws and regulations:*

The Company is subject to all of the accompanying risks that come with complying with the laws and regulations of the countries in which the products are intended to be produced and sold. This includes the need to receive licensing approval as well as a responsibility to be compliant with the production requirements of various countries. By operating in both the United States and Canada, the Company will be obligated to comply with both U.S. and Canadian regulatory and legal regimes.

g) *COVID-19:*

The COVID-19 pandemic may adversely affect, the operations of Ebbtide, and those of our dealers and suppliers, thereby adversely affecting our business, financial condition and results of operations.

The COVID-19 pandemic has significantly impacted health and economic conditions throughout Canada, the United States and the world.

While we cannot predict the ultimate impact of the COVID-19 virus on our business at this time, the pandemic and related efforts to mitigate the pandemic may impact our business in a number of ways, including but not limited to:

- decreasing consumer confidence as a result of the economic impact of the pandemic, which could result in a decrease in consumer demand for recreational boats;
- disruption at our fully owned manufacturing facility in Tennessee which could impact employees' attendance and productivity, as well as the production of our boats;
- adversely impacting the financial health of our dealers who typically require financing to purchase our boats;
- adversely impacting the business of our suppliers, which could result in among other things, delays for delivery of raw materials and components needed for the production of our boats;

- impacting ability to maintain its workforce during this uncertain time;
- potential cost increases on raw materials and components from suppliers due to supply chain constraints along with potentially greater personnel costs due to hiring additional workers to mitigate employee absenteeism;
- Any or all of these items may occur, which individually or in the aggregate, may have a material adverse effect on our business, financial condition, results of operations and cash flows. These risks could accelerate or intensify depending on the severity and length of the pandemic.

The ultimate magnitude of COVID-19's impact, including the extent of its impact on our financial condition and results of operations, which could be material, will depend on all of the factors noted above, including other factors that we may not be able to forecast at this time. While we expect the impacts of COVID-19 to have an adverse effect on our business, financial condition and results of operations, we are unable to predict the extent of these impacts at this time.

**Off-Balance Sheet Arrangements:**

The Company's off-balance sheet arrangements and contractual obligations are detailed in the December 31, 2021 consolidated financial statements.

**Outstanding share data:**

As of November 29, 2022, the Company had 119,665,940 Common Shares outstanding. The increase from December 31, 2021 is due to the exercise of 1,215,000 options.

*(signed) "Scott Hanson"*  
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**Scott Hanson**  
CEO

*(signed) "Ryan Lupton"*  
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**Ryan Lupton, CPA, CA**  
CFO (interim)