



YORKTON
E Q U I T Y G R O U P I N C .

(Unaudited)
Interim Condensed Consolidated
Financial Statements
For the three and nine months ended September 30, 2021

(Expressed in Canadian dollars)

November 29, 2021

Yorkton Equity Group Inc.

Consolidated Balance Sheets

(Unaudited)

As at

September 30,
2021

December 31,
2020

Assets

Non-current assets

| | | |
|---------------------------------|-------------------|-------------------|
| Investment properties (Note 4) | \$ 36,959,426 | \$ 13,360,000 |
| Due from related party (Note 6) | 76,641 | 208,978 |
| Investment | 40,174 | 39,111 |
| Equipment | 13,027 | 6,484 |
| | 37,089,268 | 13,614,573 |

Current assets

| | | |
|----------------------------------|------------------|------------------|
| Investment in associate (Note 5) | \$ 2,653,265 | \$ - |
| Prepays and deposits | 233,039 | 103,427 |
| Accounts receivable | 364,653 | 167,170 |
| Cash | 173,660 | 1,059,018 |
| | 3,424,617 | 1,329,615 |

| | | |
|---------------------|----------------------|----------------------|
| Total assets | \$ 40,513,885 | \$ 14,944,188 |
|---------------------|----------------------|----------------------|

Liabilities

Non-current liabilities

| | | |
|--------------------------------|-------------------|------------------|
| Mortgages payable (Note 7) | \$ 10,318,730 | \$ - |
| Due to related party (Note 6) | 400,000 | 129,642 |
| Deferred income taxes (Note 9) | 1,628,881 | 1,026,802 |
| | 12,347,611 | 1,156,444 |

Current liabilities

| | | |
|--|------------------|------------------|
| Mortgages payable (Note 7) | \$ 7,919,967 | \$ 2,629,779 |
| Security deposits | 121,482 | 57,255 |
| Income taxes payable | - | 42,511 |
| Accounts payable and accrued liabilities | 336,270 | 196,725 |
| | 8,377,719 | 2,926,270 |

Shareholders' equity

| | | |
|-------------------------|-------------------|-------------------|
| Common shares (Note 10) | \$ 12,737,342 | \$ 4,070,264 |
| Warrants (Note 10) | 1,248,747 | 537,176 |
| Contributed surplus | 1,505,867 | 1,469,629 |
| Retained earnings | 4,296,599 | 4,784,405 |
| | 19,788,555 | 10,861,474 |

| | | |
|---|----------------------|----------------------|
| Total liabilities and shareholders' equity | \$ 40,513,885 | \$ 14,944,188 |
|---|----------------------|----------------------|

Subsequent events (Note 14)

See accompanying notes to the interim condensed consolidated financial statements

Approved by the Board of Directors:

(signed) "Ben Lui"

Director (signed by)

(signed) "Jason Theiss"

Director (signed by)

Yorkton Equity Group Inc.

Interim Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

(Unaudited)

| For the periods ended September 30 | Three Months | | Nine Months | |
|---|---------------------|--------------------|--------------------|-------------------|
| | 2021 | 2020 | 2021 | 2020 |
| Revenues | | | | |
| Rental revenue (Note 8) | \$ 308,849 | \$ 70,142 | 579,667 | \$ 350,582 |
| Recovery of operating expenses | 116,344 | 126,467 | 334,454 | 379,402 |
| Direct operating costs | (202,108) | (119,919) | (509,121) | (358,324) |
| | <u>223,085</u> | <u>76,690</u> | <u>405,000</u> | <u>371,660</u> |
| Expenses | | | | |
| General and administration | 286,614 | 139,423 | 608,543 | 280,351 |
| Interest and financing fees | 132,313 | 22,552 | 252,137 | 71,156 |
| Property tax | 16,485 | 5,692 | 33,722 | 14,766 |
| Depreciation | 480 | 405 | 1,448 | 1,215 |
| Bad debt (recovery) | - | 2,101 | (3,233) | 2,101 |
| | <u>435,892</u> | <u>170,173</u> | <u>892,617</u> | <u>369,589</u> |
| Income (loss) before income taxes | <u>(212,807)</u> | <u>(93,483)</u> | <u>(487,617)</u> | <u>2,071</u> |
| Income tax recovery (expense) | | | | |
| Current income tax recovery (expense) | (8,043) | - | (189) | - |
| Net income (loss) and comprehensive income (loss) | <u>\$ (220,850)</u> | <u>\$ (93,483)</u> | <u>(487,806)</u> | <u>\$ 2,071</u> |
| Basic and diluted net income (loss) per common share | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Weighted average number of common shares outstanding | | | | |
| Basic and diluted | <u>133,244,958</u> | <u>36,862,905</u> | <u>132,916,631</u> | <u>36,862,905</u> |

See accompanying notes to the interim condensed consolidated financial statements

Yorkton Equity Group Inc.

Condensed Consolidated Statements of Cash Flows

For the nine months ended September 30,

2021

2020

Operating Activities

| | | | | |
|--|----|------------------|----|-----------------|
| Net income (loss) | \$ | (487,806) | \$ | 2,071 |
| Adjustments for: | | | | |
| Interest expense | | 252,137 | | 48,605 |
| Share-based payments | | 36,238 | | - |
| Depreciation and amortization | | 1,448 | | 1,215 |
| Deferred income tax recovery | | - | | - |
| Accrued rent receivable (Note 4) | | (6,291) | | - |
| Interest income | | (1,063) | | - |
| | | (205,337) | | 51,891 |
| Change in non-cash operating working capital (Note 11) | | (172,563) | | (63,808) |
| Cash used in operating activities | | (377,900) | | (11,917) |

Financing Activities

| | | | | |
|--|--|-------------------|--|----------------|
| Proceeds from subscriptions | | 3,234,401 | | - |
| Share issuance costs paid | | (143,227) | | - |
| Warrant Issuance cost paid | | (49,530) | | - |
| Proceeds from mortgages payable | | 12,438,345 | | 267,386 |
| Repayment of mortgages payable | | (135,319) | | (23,990) |
| Interest paid | | (252,137) | | (48,605) |
| Advances from related party | | 761,910 | | 47,664 |
| Repayments to related party | | (960,353) | | - |
| Cash provided by financing activities | | 14,894,090 | | 242,455 |

Investing Activities

| | | | | |
|---|--|---------------------|--|------------------|
| Additions to investment properties | | (15,501,126) | | (224,578) |
| Advances from related party | | 243,974 | | - |
| Repayments to related party | | (111,641) | | - |
| Transaction costs on investment in associate (Note 5) | | (35,851) | | - |
| Cash acquired on acquisition (Note 4) | | 3,096 | | - |
| Cash used in investing activities | | (15,401,548) | | (224,578) |

Net increase (decrease) in cash

| | | | | |
|----------------------------|----|----------------|----|---------------|
| | | (885,358) | | 5,960 |
| Cash, beginning of period | | 1,059,018 | | 39,489 |
| Cash, end of period | \$ | 173,660 | \$ | 45,449 |

See accompanying notes to the interim condensed consolidated financial statements

YORKTON EQUITY GROUP INC.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2021

(Unaudited)

1. Nature of Business

Yorkton Equity Group Inc. (the "Company" or "YEG") was incorporated on March 4, 2016 under the Business Corporations Act (Alberta). The Company completed a reverse acquisition of 1421526 Alberta Ltd. ("Yorkton Pacific Mall") on November 17, 2020. 1421526 Alberta Ltd. is incorporated and domiciled in Edmonton, Alberta, Canada and is a real estate development company with investment properties located in Edmonton, Alberta.

The acquisition of Yorkton Pacific Mall was considered a reverse acquisition for accounting purposes, with Yorkton Pacific Mall identified as the acquirer. The comparative statements for the three and nine months ended September 30, 2020 reflect the results of Yorkton Pacific Mall based on its position as the acquiring company for accounting purposes in the reverse acquisition.

The Company's shares are listed for trading on the TSX Venture Exchange ("TSXV") under the symbol "YEG". The Company's registered office is located at Suite 3165, 10180 – 101 Street, Edmonton, Alberta, T5J 3S4.

These interim condensed consolidated financial statements, including comparatives, were authorized for issue by the Board of Directors of the Company on November 29, 2021.

2. Basis of Presentation

a) Statement of Compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 –Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain information and note disclosures normally included in the consolidated annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed and accordingly, these interim condensed consolidated financial statements should be read in conjunction with the annual financial statements of the Company as at and for the year ended December 31, 2020.

b) Basis of Measurement

The interim condensed consolidated financial statements have been prepared on a historical cost basis except for investment properties that have been measured at fair value. These consolidated financial statements were prepared on a going concern basis.

c) Functional Currency

The interim condensed consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

d) Use of management critical judgment, estimates and assumptions

The preparation of interim condensed consolidated financial statements in conformity with IAS 34 requires management to make critical judgments, estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses recorded during the reporting period. In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Actual results may differ from those estimates. Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The critical accounting estimate and judgments have been set out in Note 2 to the Company's consolidated financial statements for the year ended December 31, 2020.

YORKTON EQUITY GROUP INC.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2021

(Unaudited)

2. Basis of Presentation (cont'd)

On March 11, 2020, the World Health Organization declared the novel coronavirus ("COVID-19") a global pandemic. The pandemic has created significant uncertainty in the general economy, including the real estate market. Such a pandemic could, if prolonged, adversely impact the Company directly and/or indirectly. Management continues to assess the impact of COVID-19 and governments' responses to it on the Company. Portions of the Company's financial results incorporate estimates from management that are subject to increased uncertainty due to the market disruptions caused by the COVID-19 pandemic. An area of increased estimation uncertainty in the Company's interim condensed consolidated financial statements is the fair value of its investment properties. The amounts recorded in these interim condensed consolidated financial statements are based on the latest reliable information available to management at the time the interim condensed consolidated financial statements were prepared where that information reflects conditions at the date of the interim condensed consolidated financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

3. Significant Accounting Policies

The accounting policies applied by the Company in these interim condensed consolidated financial statements are consistent with those applied by the Company in its audited consolidated financial statements for the year ended December 31, 2020 except as follows:

Investment in associate

An associate is an entity in which the Company has significant influence, but not control, over the operating and financial policies of the entity. Significant influence is ordinarily presumed to exist when the Company holds between 20% and 50% of the voting rights. The Company may also be able to exercise significant influence through board representation. The effects of potential voting rights that are currently exercisable or convertible are considered in assessing whether the Company has significant influence.

Investments in associates are recognized initially at cost, which includes the purchase price and other costs directly attributable to the purchase. Associates are accounted for using the equity method which reflects the Company's share of the increase or decrease of the post-acquisition earnings and other movements in the associate's equity. If there is a loss of significant influence and the investment ceases to be an associate, equity accounting is discontinued from the date of loss of significant influence. If the retained interest on the date of loss of significant influence is a financial asset, it is measured at fair value and the difference between the fair value and the carrying value is recorded as an unrealized gain or loss in the consolidated statement of operation. Investments in associates are evaluated for impairment at the end of each financial reporting period, or more frequently if events or changes in circumstances indicate the existence of objective evidence of impairment.

For purposes of applying the equity method for an investment that has a different reporting period from the Company, adjustments are made for the effects of any significant events or transactions that occur between the reporting date of the investment and the reporting date of the Company.

YORKTON EQUITY GROUP INC.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2021

(Unaudited)

3. Significant Accounting Policies (cont'd)**Business combinations**

At the time of acquisition, the Company determines whether what is acquired meets the definition of business, in which case if it does, the transaction is considered a business combination, otherwise it is recorded as an asset acquisition.

For an asset acquisition, the net identifiable assets acquired and liabilities assumed are measured at the fair value of the consideration paid, based on their relative fair values at the acquisition date. Acquisition related costs are included in the consideration paid and capitalized. No goodwill is recorded and no deferred tax asset or liability arising from the assets acquired or liabilities assumed are recognized upon the acquisition of the assets.

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in income. If the contingent consideration is classified as equity, it shall not be remeasured. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the fair value of the net identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Acquisition costs are expensed as incurred, unless they qualify to be treated as debt issue costs, or as cost of issuing equity securities. The measurement period is the period from the date of acquisition to the date the Company obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year. The Company elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

4. Investment Properties

| | Land Held for Development | Commercial Property | Residential Property | Total |
|---|------------------------------|------------------------|-------------------------|----------------------|
| Opening balance, December 31, 2019 | \$ 7,665,000 | \$ 6,400,000 | \$ -- | \$ 14,065,000 |
| Additions to investment property | -- | 205,260 | -- | 205,260 |
| Grant received | -- | (60,000) | -- | (60,000) |
| Straight-line rents included in revenue | -- | 6,449 | -- | 6,449 |
| Fair value adjustment | (665,000) | (191,709) | -- | (856,709) |
| Balance, December 31, 2020 | 7,000,000 | 6,360,000 | -- | 13,360,000 |
| Acquisition of investment property | -- | -- | 23,271,659 | 23,271,659 |
| Acquisition related cost capitalized | -- | -- | 118,250 | 118,250 |
| Additions to investment property | -- | 99,709 | 103,517 | 203,226 |
| Straight-line rents included in revenue | -- | 6,291 | -- | 6,291 |
| Balance, September 30, 2021 | \$ 7,000,000 | \$ 6,466,000 | \$ 23,477,426 | \$ 36,959,426 |

YORKTON EQUITY GROUP INC.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2021

(Unaudited)

4. Investment Properties (cont'd)**Acquisition of 1205946 Alberta Ltd. ("Riviera Gardens")**

On April 30, 2021, the Company acquired all of the issued and outstanding common shares of 1205946 Alberta Ltd. ("Riviera Gardens") from Lui Holdings Ltd., a Company under common control, for purchase price of \$3,719,592 through the issuance of 16,940,000 common shares of the Company. The Company has applied the concentration test under IFRS 3 Business Combinations and has accounted for the transaction as an asset acquisition of the net assets of Riviera Gardens. Fair value of the consideration was \$3,719,592 and was determined based on the fair value of net assets acquired. The assets and liabilities at fair value were as follows:

| | | |
|--|----|------------------|
| Cash | \$ | 3,096 |
| Accounts receivable | | 9,252 |
| Equipment | | 7,991 |
| Investment property – Residential | | 8,092,009 |
| Security deposits | | (13,365) |
| Due to related party | | (468,801) |
| Deferred income taxes | | (602,079) |
| Mortgage payable | | (3,305,892) |
| Accounts payable and accrued liabilities | | (2,619) |
| | | <u>3,719,592</u> |

Total acquisition related cost of \$32,493 was capitalized to the investment property.

Acquisition of Nickel Road Property

On July 8, 2021, the Company acquired property through a holding company (Larson Nickel Holdings Ltd.) for purchase price of \$9,298,832. The purchase was financed through cash and mortgage. The assets acquired was determined as follows:

| | | |
|-----------------------------------|----|------------------|
| Investment Property – Residential | \$ | 8,888,000 |
| Property Tax Transfer | | 362,400 |
| Legal Fees | | 48,432 |
| | | <u>9,298,832</u> |

Acquisition of Pacific Central Properties Ltd

On September 15, 2021, the Company acquired property through a holding company (Pacific Central Properties Ltd.) for purchase price of \$5,976,380. The purchase was financed through cash and mortgage. The asset acquired was determined as follows:

| | | |
|-----------------------------------|----|------------------|
| Investment Property – Residential | \$ | 5,725,000 |
| Property Tax Transfer | | 204,250 |
| Legal Fees | | 47,130 |
| | | <u>5,976,380</u> |

YORKTON EQUITY GROUP INC.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2021

(Unaudited)

4. Investment Properties (cont'd)

Valuation of investment properties

The Company values its investment properties using Level 3 inputs. There have been no transfers during the period between levels. The commercial property was appraised by third party accredited valuation professionals as at December 31, 2020. The residential property was appraised by third party accredited valuation professional as at February 23, 2021. The Company has determined that there has been no change in fair value of investment properties since the appraisal completion dates.

The properties were valued using a combination of the direct capitalization of income method and the direct comparison approach. In applying the direct capitalization of income method, the stabilized net operating income is capitalized at the requisite overall capitalization rate. In applying the direct comparison method (price per square foot), the property was compared to recent sales transactions considered to be similar in terms of location, condition, size, and tenancy.

The Company has determined that there has been no change in fair value of land held for development since the year ended December 31, 2020.

There is heightened uncertainty on the valuation of the investment properties as a result of the global effects of COVID-19. Management estimates that there has been no material effect on the valuation of the investment properties as at September 30, 2021.

The Company leases space in its investment properties to tenants under operating leases. The leases have various terms. The total future contractual minimum base rent lease payments expected to be received under non-cancellable leases are as follows:

| | September 30, 2021 | December 31, 2020 |
|------------------|-----------------------|----------------------|
| One year or less | \$ 360,565 | \$ 360,592 |
| 2 – 5 years | 791,185 | 861,248 |
| | <u>\$ 1,151,750</u> | <u>\$ 1,221,840</u> |

5. Investment in Associate

On April 30, 2021, the Company purchased 2,498,963 limited partnership units of Yorkton 108 Limited Partnership from a corporation related by reason of common control, in exchange for 14,593,943 common shares of the Company at a price of \$0.33 per share which is the trading price of the shares on April 30, 2021. The investment was recorded at fair value of \$4,816,000 and directly attributable cost of \$34,034 for total cost of \$4,850,034.

As at September 30, 2021, the Company determined that evidence exists to support a change in estimate of the fair value of the investment in Yorkton 108 LP as there was a more reliable measure of fair value than the trading price of the shares issued as consideration. The underlying investment of land that was held in Yorkton 108 LP was sold to an independent third party in October 2021. The investment was adjusted to the fair value of \$2,617,414 and directly attributable costs of \$35,851.

YORKTON EQUITY GROUP INC.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2021

(Unaudited)

6. Due from/to Related Party and Related Party Transactions

The Company's related parties are its Board of Directors, key management personnel (Chief Executive Officer and Chief Financial Officer), as well as any companies controlled by key management personnel or directors. Transactions conducted with related parties took place in the normal course of operations and are measured at the amount of consideration established and agreed to by the related parties.

a) Key management personnel and director remuneration

The remuneration of key management personnel and directors follows:

| | Three months ended September 30 | | Nine months ended September 30 | |
|--|------------------------------------|-------|-----------------------------------|-------|
| | 2021 | 2020 | 2021 | 2020 |
| Share-based compensation from stock options granted | \$ 12,812 | \$ -- | \$ 36,238 | \$ -- |

The directors and key management personnel did not receive any direct compensation from the Company. The directors and key management were issued an aggregate of 50,000 stock options during the six-months ended September 30, 2021 (Note 10b – Share Capital).

b) Due from/to Related Party

The balance due from related party is receivable from a company controlled by a director of the Company, is unsecured, bears no interest and has no specific terms of repayment.

The balance due to related party is payable to a director of the Company, is unsecured, bears interest at a rate of 7% and has no specific terms of repayment.

During the period, the Company paid property management fees of \$20,446 (2020 - \$18,441) for the three months and \$55,194 (2020 - \$55,797) for the nine months ending September 30, 2021 which are included in direct operating costs, under a property management contract to a company controlled by a director of the Company.

7. Mortgages Payable

| | September 30, 2021 | December 31, 2020 |
|--|-----------------------|----------------------|
| Mortgage payable due on February 15, 2022 with monthly instalments of \$14,387 (2020 - \$15,987), interest at prime plus 0.75% (2020 – prime plus 0.75%) secured by the investment property with a carrying amount of \$13,466,000 (2020 - \$13,360,000), general assignment of rent and a general security agreement | \$ 1,936,687 | \$ 2,021,741 |
| Mortgage payable with a maximum borrowing limit of \$950,000 due June 12, 2022 with blended monthly instalments and interest of prime plus 0.75% (2021 – prime plus 0.75%) per annum, secured by the investment property with a carrying amount of \$13,466,000 (2020 - \$13,360,000), general assignment of rent and a general security agreement | 653,450 | 608,038 |

YORKTON EQUITY GROUP INC.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2021

(Unaudited)

7. Mortgages Payable (cont'd)

| | | |
|---|----------------------|---------------------|
| Mortgage payable due on July, 2022 with monthly interest only payments, interest at the greater of prime plus 8.8% or 11.25% secured by a second mortgage on an investment property with a carrying amount of \$8,218,214, and a personal guarantee from the CEO of the Company | 2,000,000 | --- |
| Mortgage payable due November 6, 2021 with blended monthly instalments and interest of prime plus 0.75% per annum, secured by the investment property with a carrying amount of \$8,218,214, general assignment of rent and a general security agreement and a personal guarantee from the CEO of the Company | 3,221,423 | --- |
| Mortgage payable of \$6,644,442 net of deferred financing charges of \$306,240 due August 1, 2026 with blended monthly instalments of \$21,648.81, bearing interest of 1.89% per annum, secured by the investment property with a carrying amount of \$9,298,832 and a personal guarantee from the CEO of the Company equal to 40% of the loan | 6,338,202 | --- |
| Mortgage payable of \$4,305,733 net of deferred financing charges of \$216,798 due August 1, 2026 with blended monthly instalments of \$12,818.91 bearing interest of 1.91% per annum, secured by the investment property with a carrying amount of \$5,976,380, general assignment of rent and a general security agreement and a personal guarantee from the CEO of the Company | 4,088,935 | --- |
| Total Mortgage payable | \$ 18,238,697 | \$ 2,629,779 |
| Current Portion – Mortgage payable | \$ 7,919,967 | \$ 2,629,779 |
| Long-Term Portion – Mortgage payable | \$ 10,318,730 | \$ --- |

The Company is required to maintain a stabilized debt service coverage ratio of not less than 1.20:1. At September 30, 2021, the Company is in breach of this covenant for the mortgage payable due November 6, 2021. The bank has provided confirmation of forbearance of the breach and has agreed that no further action will be taken.

YORKTON EQUITY GROUP INC.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2021

(Unaudited)

8. Rental Revenue

Rental revenue consists of the following components:

| | Three months ended September 30 | | Nine months ended September 30 | |
|----------------------------------|--|------------------|---|-------------------|
| | 2021 | 2020 | 2021 | 2020 |
| Commercial lease revenue | 80,303 | 46,582 | 276,909 | 275,175 |
| Residential lease revenue | 211,607 | -- | 256,817 | -- |
| Non-lease revenue ⁽¹⁾ | 16,939 | 23,560 | 45,941 | 75,407 |
| | \$ 308,849 | \$ 70,142 | \$ 579,667 | \$ 350,582 |

⁽¹⁾ Consists of revenue from non-lease items such as parking income**9. Income Tax**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are as follows:

| | September 30, 2021 | December 31, 2020 |
|--|-------------------------------|------------------------------|
| Deferred tax assets (liabilities): | | |
| Capital loss carry forward | \$ 3,795 | \$ 3,795 |
| Non-capital loss carry forward | 35,227 | 9,836 |
| Tax basis of investment properties in excess of carrying value | (1,698,720) | (1,071,250) |
| Tax basis of other assets in excess of carrying value | 40,653 | 40,653 |
| Deferred tax assets not recognized (valuation allowance) | (9,836) | (9,836) |
| | \$ (1,628,881) | \$ (1,026,802) |

YORKTON EQUITY GROUP INC.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2021

(Unaudited)

10. Share Capital

Authorized: Unlimited number of common shares without nominal or par value
 Unlimited number of preferred shares without nominal or par value

Shares issued:**a) Common Shares**

| | Common Shares | | Warrants | | Total |
|---|--------------------|----------------------|-------------------|---------------------|----------------------|
| | Number | Amount | Number | Amount | |
| Balance, December 31, 2019 | 100 | \$ 100 | -- | \$ -- | \$ 100 |
| Recapitalization | 3,962,800 | -- | -- | -- | -- |
| Shares issued for reverse acquisition | 36,862,905 | 515,177 | -- | -- | 515,177 |
| Private placement | 7,804,330 | 983,690 | 7,804,330 | 537,176 | 1,520,866 |
| Shares issued to settle shareholder's loan | 19,779,208 | 2,571,297 | -- | -- | 2,571,297 |
| Balance, December 31, 2020 | 68,409,343 | \$ 4,070,264 | 7,804,330 | \$ 537,176 | \$ 4,607,440 |
| Receipt of subscription proceeds | -- | 40,000 | -- | -- | 40,000 |
| Shares issued for investment in associate (i) | 14,593,943 | 2,617,413 | -- | -- | 2,617,413 |
| Shares issued on asset acquisition (ii) | 16,940,000 | 3,719,592 | -- | -- | 3,719,592 |
| Private placement (iii) | 11,300,000 | 2,194,859 | 11,300,000 | 630,141 | 2,825,000 |
| Private placement (iv) | 1,126,336 | 219,147 | 1,126,336 | 118,754 | 337,901 |
| Private placement (v) | 105,000 | 23,153 | 105,000 | 8,347 | 31,500 |
| Share issuance costs | -- | (143,227) | -- | (49,530) | (192,757) |
| Finder's warrants (iii) | -- | (3,859) | 42,000 | 3,859 | -- |
| | 112,474,622 | \$ 12,737,342 | 20,377,666 | \$ 1,248,747 | \$ 13,986,089 |

- i) On April 30, 2021, the Company purchased 2,498,963 limited partnership units of Yorkton 108 Limited Partnership in exchange for 14,593,943 common shares of the Company. (Note 5 – Investment in Associate)
- ii) On April 30, 2021, the Company acquired all of the issued and outstanding common shares of 1205946 Alberta Ltd. ("Riviera Gardens") from Lui Holdings Ltd., a related party of the Company, for purchase price of \$3,719,592 through the issuance of 16,940,000 common shares of the Company. (Note 4 – Investment Properties)
- iii) On May 12, 2021, the Company completed a private placement of 11,300,000 units ("Units") at a price of \$0.25 per Unit for gross proceeds of \$2,825,000. Each Unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of \$0.40 per common share for a period of two years from date of closing. Allocation of gross proceeds was determined based on the relative fair value allocated between common shares and warrants of each unit. The gross proceeds of \$2,194,859, was allocated to common shares. The gross proceeds of \$630,141 was allocated warrants. Warrants were valued using the Black-Scholes model with the following assumptions: expected dividend rate of 0%; expected volatility of 67%; risk free rate of 0.32%; and expected life of 2 years. The Company also issued total of 42,000 finder's warrants at value of \$3,859. Finder's warrants were valued using the Black-Scholes model with the following assumptions: expected dividend rate of 0%; expected volatility of 67%; risk free rate of 0.32%; and expected life of 2 years.

YORKTON EQUITY GROUP INC.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2021

(Unaudited)

10. Share Capital (cont'd)

a) Common Shares (cont'd)

- iv) On July 22, 2021, the Company completed a private placement of 1,126,336 units ("Units") at a price of \$0.30 per Unit for gross proceeds of \$337,901. Each Unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of \$0.45 per common share for a period of two years from date of closing. Allocation of gross proceeds was determined based on the relative fair value allocated between common shares and warrants of each unit. The gross proceeds of \$219,147, was allocated to common shares. The gross proceeds of \$118,754 was allocated warrants. Warrants were valued using the Black-Scholes model with the following assumptions: expected dividend rate of 0%; expected volatility of 105%; risk free rate of 0.42%; and expected life of 2 years.
- v) On August 24, 2021, the Company completed a private placement of 105,000 units ("Units") at a price of \$0.30 per Unit for gross proceeds of \$31,500. Each Unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of \$0.45 per common share for a period of two years from date of closing. Allocation of gross proceeds was determined based on the relative fair value allocated between common shares and warrants of each unit. The gross proceeds of \$23,153, was allocated to common shares. The gross proceeds of \$8,347 was allocated warrants. Warrants were valued using the Black-Scholes model with the following assumptions: expected dividend rate of 0%; expected volatility of 100%; risk free rate of 0.44%; and expected life of 2 years.

The shares issued to the principals of 1421526 Alberta Ltd. and the shares issued to settle the shareholders' loan are held in escrow pursuant to a TSXV Value Escrow Agreement for Tier 2 Issuers and are releasable over a 36-month period following the issuance of the final exchange bulletin.

b) Options

The Company's stock option plan (the "Stock Option Plan") provides that the Board of Directors of the Company may from time to time, in its discretion, grant to directors, officers, employees and consultants of the Company non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance under the Stock Option Plan shall not exceed twenty percent (20%) of the issued and outstanding common shares exercisable for the period of up to ten (10) years.

In addition, the number of common shares reserved for issuance to any one person shall not exceed five percent (5%) of the issued and outstanding common shares. The Board of Directors determines the price per common share and the number of common shares which may be allocated to each director, officer, and employee and all other terms and conditions of the option, subject to the rules of the TSXV. Options have been issued with vesting periods of immediate to one year with terms between 1 and 5 years.

YORKTON EQUITY GROUP INC.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2021

(Unaudited)

10. Share Capital (cont'd)**b) Options (cont'd)**

The continuity of the Company's outstanding and exercisable stock options is as follows:

| | September 30, 2021 | | December 31, 2020 | |
|---|--------------------|---------------------------------|-------------------|---------------------------------|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Outstanding, beginning of period | 1,166,195 | \$0.20 | -- | -- |
| Options granted | 50,000 | \$0.42 | 769,905 | \$0.20 |
| Options reassigned on reverse acquisition | -- | -- | 396,290 | \$0.20 |
| Options forfeited | (87,500) | -- | -- | -- |
| Outstanding, end of the period | 1,128,695 | \$0.21 | 1,166,195 | \$0.20 |
| Exercisable, end of the period | 693,743 | \$0.21 | 781,243 | \$0.20 |

The following tables summarize information about stock options granted during the nine months ended September 30, 2021. The weighted average grant date fair value was estimated using a Black-Scholes option pricing model using the following grant date assumptions:

Original grant date**March 14, 2021****Options granted:**

| | |
|--|---------|
| Options granted | 50,000 |
| Options exercisable | -- |
| Exercise price | \$0.42 |
| Weighted average grant date fair value | \$0.203 |
| Remaining life in years | 2.7 |

Assumptions used:

| | |
|-------------------------|-------|
| Grant date stock price | 0.37 |
| Risk free interest rate | 0.54% |
| Expected dividend yield | 0.00% |
| Volatility | 92% |
| Estimated life in years | 3.0 |

Total share-based payments of \$36,238 (2020 - \$nil) was recognized as a share-based payment included in general and administration expense.

YORKTON EQUITY GROUP INC.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2021

(Unaudited)

10. Share Capital (cont'd)**c) Warrants**

The continuity of the Company's outstanding warrants is as follows:

| | September 30, 2021 | | December 31, 2020 | |
|--------------------------------------|-----------------------|---------------------------------------|-----------------------|---------------------------------------|
| | Number of warrants | Weighted average exercise price | Number of warrants | Weighted average exercise price |
| Outstanding, beginning of the period | 7,804,330 | \$0.30 | -- | -- |
| Issued | 12,573,336 | \$0.40 | 7,804,330 | \$0.30 |
| Outstanding, end of the period | 20,377,666 | \$0.36 | 7,804,330 | \$0.30 |

11. Supplemental Cash Flow Information**a) Net changes in Non-Cash Working Capital Items**

| | September 30, 2021 | September 31, 2020 |
|--|-----------------------|-----------------------|
| Prepaid expenses and deposits | \$ (129,612) | \$ (24,819) |
| Accounts receivable | (188,231) | (144,942) |
| Short-term investments | -- | (1,032) |
| Security deposits | 50,865 | -- |
| Income taxes payable | (42,511) | -- |
| Accounts payable and accrued liabilities | 136,926 | 106,985 |
| | <u>\$ (172,563)</u> | <u>\$ (63,808)</u> |

b) Reconciliation of Liabilities Arising from Financing Activities

| | Amounts Due to Related Party | Mortgage Payables |
|--|---------------------------------|----------------------|
| Balance, December 31, 2020 | 129,642 | 2,629,779 |
| Liabilities assumed on acquisition of Riviera Gardens | 468,801 | 3,305,892 |
| Advances | 761,910 | 12,438,345 |
| Repayments | (960,353) | (135,319) |
| Balance, September 30, 2021 | \$ 400,000 | \$ 18,238,697 |

YORKTON EQUITY GROUP INC.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2021

(Unaudited)

12. Financial Instruments

Fair Value

Financial instruments include cash, accounts receivable, due from related party, security deposits, short-term investments, mortgage payable, amount due to related party and accounts payable and accrued liabilities.

The following provides an analysis of financial instruments that are measured at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are not observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liabilities that are not based on observable market data.

As at September 30, 2021 and December 31, 2020, the Company has no financial instruments classified as "fair value through profit and loss".

The fair values of the Company's financial instruments are presented in the table below:

| | <u>September 30, 2021</u> | <u>December 31, 2020</u> |
|--|---------------------------|--------------------------|
| Financial Assets Measured at Amortized Cost: | | |
| Cash | \$ 173,660 | \$ 1,059,018 |
| Accounts receivable | 364,653 | 167,170 |
| Investment | 40,174 | 39,111 |
| Due from related party | 76,641 | 208,978 |
| Financial Liabilities Measured at Amortized Cost: | | |
| Accounts payable and accrued | | |
| Liabilities | \$ 336,270 | \$ 196,725 |
| Due to related party | 400,000 | 129,642 |
| Mortgages payable | 18,238,69 | 2,629,779 |

The fair value of cash and accounts receivable, due from related party, investment, accounts payable and accrued liabilities, and due to related party approximate their carrying amounts due to the relatively short periods to maturity of these financial instruments.

The fair value of mortgage payable, measured at a fair value level 2, is determined by discounting the future contractual cash flows under the current financing arrangements at a discount rate that represents an approximation to the borrowing rates presently available to the Company for debts with similar terms to maturity.

YORKTON EQUITY GROUP INC.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2021

(Unaudited)

12. Financial Instruments (cont'd)

Financial risk management

The Company's activities are exposed to a variety of financial risks: market risk, credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Company's financial results. Risk management is carried out by financial management in conjunction with overall corporate governance.

Market risk

Market risk includes currency risk and interest rate risk. The Company is not susceptible to any currency risk as all financial instruments are denominated in Canadian dollars.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is susceptible to interest rate and fair value cash flow risk on its mortgage payable that bears fixed and variable interest rate.

Credit risk

The Company is exposed to credit risk due to unexpected losses that could occur if a tenant fails to satisfy its lease obligations. Credit risk for the Company arises from the accounts receivable from tenants. The Company's maximum exposure to credit risk is equal to the carrying value of the financial asset. The Company mitigates its credit risk by attracting tenants with good credit and by limiting exposure to any one tenant.

The aging of accounts receivable is as follows:

| | September 30, 2021 | December 31, 2020 |
|---------------------------------|-----------------------|----------------------|
| Current | \$ 45,351 | \$ 113,026 |
| 31-90 days | 61,261 | 85,038 |
| 90 + days | 415,691 | 113,676 |
| | <u>522,303</u> | <u>311,740</u> |
| Allowance for doubtful accounts | <u>(157,650)</u> | <u>(144,570)</u> |
| | <u>\$ 364,653</u> | <u>\$ 167,170</u> |

Certain tenants experienced business difficulty during COVID-19. The company has registered repayment agreements under the Personal Property Security Act and obtained personal guarantees from these tenants.

Liquidity risk

The Company's exposure to liquidity risk is dependent on generating rental revenue to sustain operations. The Company controls liquidity risk by management of working capital and cash flows. The Company's contractual obligation consists of accounts payable and accrued liabilities of \$336,270 (2020 - \$196,725) that have a contractual maturity in fiscal year 2021. There is no contractual maturity for the amounts due to related party as there are no terms of repayment. The mortgages payable have terms maturing between the next quarter and fiscal year 2026.

YORKTON EQUITY GROUP INC.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2021

(Unaudited)

13. Capital Management

The primary objectives of the Company's capital management strategy are to:

- a) Provide an adequate return to its shareholders;
- b) Provide adequate and efficient funding for operations;
- c) Finance growth; and
- d) Preserve financial flexibility to benefit from potential opportunities as they arise.

The capital structure of the Company consists of liabilities and equity as follows:

| | September 30, 2021 | December 31, 2020 |
|----------------------|-----------------------|----------------------|
| Mortgages payable | \$ 18,238,697 | \$ 2,629,779 |
| Due to related party | 400,000 | 129,642 |
| Shareholders' equity | 19,788,555 | 10,861,474 |
| | <u>\$ 38,427,252</u> | <u>\$ 13,620,895</u> |

In managing capital, the Company estimates its future cash requirements by preparing a budget. The budget establishes the activities for the upcoming year and estimates the costs associated with these activities. Historically, funding for the Company's plan is primarily managed through its commercial rental activities and through obtaining financing. There are no assurances that funds will be made available to the Company when required. There have been no changes to the Company's capital management policies during the period ended September 30, 2021.

The Company is subject to bank covenants which must be maintained for their mortgage payable. As at September 30, 2021, the Company is in compliance with its bank covenants except for the covenant on the mortgage payable due November 1, 2021. The bank has provided confirmation of forbearance of the breach and has agreed that no further action will be taken.

14. Subsequent events

Acquisitions

The Company entered into a real estate purchase contract to acquire a residential apartment property located in the City of Penticton, British Columbia with an appraised value of \$4,900,000. The acquisition is expected to be completed in December 9, 2021.

The Company has entered into a number of purchase contracts with buyer due diligence conditions for additional properties across British Columbia.

Share Options

Subsequent to September 30, 2021, 101,200 options were exercised at a share price of \$0.20 for total proceeds of \$20,240. 295,090 options expired without being exercised on November 18, 2021.