



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

**Condensed Interim Consolidated Financial Statements**

For the three and nine months ended September 30, 2023

(Expressed in Canadian Dollars)

(Unaudited)

## **Management's Responsibility for Condensed Interim Consolidated Financial Statements**

### **For the third quarter ended September 30, 2023 and 2022**

The accompanying unaudited condensed interim consolidated financial statements and all of the data included in this quarterly report have been prepared by and are the responsibility of the Board of Directors and management of Yorkton Equity Group Inc. and reflect management's best estimates and judgments based on currently available information.

The Audit Committee, comprised of non-management directors, acts on behalf of the Board of Directors to ensure that management fulfills its financial reporting and internal control responsibilities. In performing its duties, the Audit Committee acts only in an oversight capacity and necessarily relies on the work and assurances of Yorkton Equity Group Inc.'s management.

Signed "Ben Lui" \_\_\_\_\_

Ben Lui, Chief Executive Officer

Signed "William Harper" \_\_\_\_\_

William Harper, Acting Chief Financial Officer

Dated: November 27, 2023

## **Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements**

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

The accompanying unaudited condensed interim consolidated financial statements of Yorkton Equity Group Inc. have been prepared by and are the responsibility of the Company's management.

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

# Yorkton Equity Group Inc.

## Condensed Interim Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

(Unaudited)

| As at   | September 30<br>2023 | December 31,<br>2022 |
|---|----------------------|----------------------|
| <b>Assets</b>                                       |                      |                      |
| Non-current assets                                  |                      |                      |
| Investment properties (Note 4)                      | \$ 96,730,863        | \$ 54,630,000        |
| Investment  | 40,833               | 40,495               |
| Equipment   | 11,896               | 13,995               |
| Promissory note receivable (Note 5)                 | 202,092              | 202,092              |
|   | <b>96,985,684</b>    | <b>54,886,582</b>    |
| Current assets                                      |                      |                      |
| Cash  | 580,056              | 2,950,636            |
| Restricted cash                                     | 313,930              | 194,653              |
| Accounts receivable                                 | 391,315              | 290,917              |
| Sales taxes receivable                              | -                    | 2,393                |
| Due from related parties (Note 7)                   | 62,941               | 14,691               |
| Prepays and deposits (Note 6)                       | 1,407,698            | 271,394              |
|   | <b>2,755,940</b>     | <b>3,724,684</b>     |
| <b>Total assets</b>                                 | <b>\$ 99,741,624</b> | <b>\$ 58,611,266</b> |
| <b>Liabilities</b>                                  |                      |                      |
| Non-current liabilities                             |                      |                      |
| Mortgages payable (Note 8)                          | \$ 68,468,290        | \$ 29,503,685        |
| Convertible debentures (Note 9)                     | 2,716,346            | 2,256,566            |
| Loan payable to related party (Note 7)              | 1,500,000            | -                    |
| Deferred income taxes                               | 1,417,333            | 1,417,333            |
|   | <b>74,101,969</b>    | <b>33,177,584</b>    |
| Current liabilities                                 |                      |                      |
| Mortgages payable - current portion (Note 8)        | 3,660,721            | 3,622,590            |
| Accounts payable and accrued liabilities            | 536,310              | 436,082              |
| Sales taxes payable                                 | 6,415                | -                    |
| Refundable security deposits                        | 489,355              | 194,653              |
| Convertible debentures to be issued                 | -                    | 239,000              |
|   | <b>4,692,801</b>     | <b>4,492,325</b>     |
| <b>Shareholders' equity</b>                         |                      |                      |
| Common shares (Note 13(a))                          | 14,232,799           | 14,222,796           |
| Warrants (Note 13(c))                               | 1,435,775            | 1,435,775            |
| Contributed surplus                                 | 1,503,320            | 1,509,029            |
| Equity component of convertible debentures (Note 9) | 540,918              | 407,851              |
| Retained earnings                                   | 3,234,042            | 3,365,906            |
|   | <b>20,946,854</b>    | <b>20,941,357</b>    |
| <b>Total liabilities and shareholders' equity</b>   | <b>\$ 99,741,624</b> | <b>\$ 58,611,266</b> |

See accompanying notes to the condensed interim 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.

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

(Expressed in Canadian Dollars)

(Unaudited)

|   | Three Months       |                    | Nine Months         |                     |
|---|--------------------|--------------------|---------------------|---------------------|
| For the three and nine months ended September 30,           | 2023               | 2022               | 2023                | 2022                |
| <b>Rental revenue (Note 10)</b>                             | \$ 1,773,863       | \$ 828,788         | \$ 4,685,090        | \$ 2,256,380        |
| <b>Recovery of operating expenses</b>                       | 137,926            | 104,108            | 330,425             | 323,335             |
| <b>Direct operating costs</b>                               | (766,323)          | (359,780)          | (1,977,398)         | (1,148,012)         |
| <b>Net rental income</b>                                    | <b>1,145,466</b>   | <b>573,116</b>     | <b>3,038,117</b>    | <b>1,431,703</b>    |
| <b>Expenses</b>   |                    |                    |                     |                     |
| Financing costs (Note 12)                                   | 860,688            | 436,278            | 2,301,965           | 1,149,604           |
| General and administration (Note 11)                        | 234,912            | 105,138            | 785,861             | 511,981             |
| Bad debt  | 42,000             | -                  | 84,000              | -                   |
| Property tax  | 4,766              | 4,382              | 14,297              | 14,850              |
| Depreciation  | 700                | 1,144              | 2,099               | 2,624               |
|   | <b>1,143,066</b>   | <b>546,942</b>     | <b>3,188,222</b>    | <b>1,679,059</b>    |
| <b>Income (loss) before other income</b>                    | <b>2,400</b>       | <b>26,174</b>      | <b>(150,105)</b>    | <b>(247,356)</b>    |
| <b>Other income</b>   |                    |                    |                     |                     |
| Interest income   | -                  | 8,223              | 18,241              | 29,568              |
| <b>Income (loss) before income taxes</b>                    | <b>2,400</b>       | <b>34,397</b>      | <b>(131,864)</b>    | <b>(217,788)</b>    |
| <b>Income tax expense</b>                                   |                    |                    |                     |                     |
| Deferred income tax expense                                 | -                  | -                  | -                   | (26,704)            |
| <b>Net Income (loss) and comprehensive income (loss)</b>    | <b>\$ 2,400</b>    | <b>\$ 34,397</b>   | <b>\$ (131,864)</b> | <b>\$ (244,492)</b> |
| <b>Income (loss) per common share</b>                       |                    |                    |                     |                     |
| Basic and diluted   | \$ 0.00            | \$ 0.00            | \$ (0.00)           | \$ (0.00)           |
| <b>Weighted average number of common shares outstanding</b> |                    |                    |                     |                     |
| Basic and diluted   | <b>112,731,487</b> | <b>112,677,427</b> | <b>112,704,351</b>  | <b>112,621,228</b>  |

See accompanying notes to the condensed interim consolidated financial statements

## Yorkton Equity Group Inc.

### Condensed Interim Consolidated Statements of Changes in Equity

(Expressed in Canadian Dollars)

(Unaudited)

|   | Common<br>Shares<br>(Note 13(a)) | Warrants<br>(Note 13(c)) | Contributed<br>Surplus<br>(Note 13(b)) | Equity<br>component of<br>convertible<br>debentures<br>(Note 9) | Retained<br>Earnings | Equity        |
|---|----------------------------------|--------------------------|--|---|----------------------|---------------|
| Balance December 31, 2021                   | \$ 14,200,857                    | \$ 1,273,395             | \$ 1,509,029                           | \$ -  | \$ 3,527,879         | \$ 20,511,160 |
| Issuance of convertible debentures (Note 9) | -                                | 162,380                  | -                                      | 529,677   | -                    | 692,057       |
| Share-based payments (Note 13(b))           | -                                | -                        | 1,617                                  | -   | -                    | 1,617         |
| Exercise of common share purchase options   | 21,939                           | -                        | (1,617)                                | -   | -                    | 20,322        |
| Net loss and comprehensive loss             | -                                | -                        | -                                      | -   | (244,492)            | (244,492)     |
| Balance September 30, 2022                  | \$ 14,222,796                    | \$ 1,435,775             | \$ 1,509,029                           | \$ 529,677  | \$ 3,283,387         | \$ 20,980,664 |

|   | Common<br>Shares<br>(Note 13(a)) | Warrants<br>(Note 13(c)) | Contributed<br>Surplus<br>(Note 13(b)) | Equity<br>component of<br>convertible<br>debentures<br>(Note 9) | Retained<br>Earnings | Equity        |
|---|----------------------------------|--------------------------|--|---|----------------------|---------------|
| Balance December 31, 2022                   | \$ 14,222,796                    | \$ 1,435,775             | \$ 1,509,029                           | \$ 407,851  | \$ 3,365,906         | \$ 20,941,357 |
| Issuance of convertible debentures (Note 9) | -                                | -                        | -                                      | 133,067   | -                    | 133,067       |
| Repurchase of common shares (Note 13(a))    | (15,071)                         | -                        | (5,709)                                | -   | -                    | (20,780)      |
| Share-based payments (Note 13(b))           | -                                | -                        | 4,224                                  | -   | -                    | 4,224         |
| Exercise of common share purchase options   | 25,074                           | -                        | (4,224)                                | -   | -                    | 20,850        |
| Net loss and comprehensive loss             | -                                | -                        | -                                      | -   | (131,864)            | (131,864)     |
| Balance September 30, 2023                  | \$ 14,232,799                    | \$ 1,435,775             | \$ 1,503,320                           | \$ 540,918  | \$ 3,234,042         | \$ 20,946,854 |

See accompanying notes to the condensed interim consolidated financial statements

# Yorkton Equity Group Inc.

## Condensed Interim Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

(Unaudited)

For the nine months ended September 30,

2023

2022

### Operating Activities

|   |    |                  |    |                |
|---|----|------------------|----|----------------|
| Net loss  | \$ | (131,864)        | \$ | (244,492)      |
| Adjustments for:  |    |                  |    |                |
| Financing costs   |    | 2,204,220        |    | 1,059,743      |
| Interest accretion  |    | 93,934           |    | 63,873         |
| Deferred income tax expense                               |    | -                |    | 26,704         |
| Share-based payments                                      |    | 4,224            |    | 1,617          |
| Depreciation and amortization                             |    | 2,099            |    | 2,624          |
| Accrued interest receivable                               |    | (338)            |    | (28,027)       |
| Restricted cash   |    | (119,277)        |    | (63,582)       |
| Bad debt  |    | 84,000           |    | -              |
|   |    | 2,136,998        |    | 818,460        |
| Change in non-cash operating working capital (Note 14(a)) |    | (888,502)        |    | (196,343)      |
| <b>Cash provided by (used in) operating activities</b>    |    | <b>1,248,496</b> |    | <b>622,117</b> |

### Financing Activities

|   |  |                   |  |                   |
|---|--|-------------------|--|-------------------|
| Proceeds from exercise of common share purchase options                     |  | 20,850            |  | 20,322            |
| Repurchase of common shares for cancellation                                |  | (20,780)          |  | -                 |
| Proceeds from issuance of convertible debentures (net of transaction costs) |  | 228,220           |  | 933,800           |
| Proceeds from mortgages payable (net of transaction costs)                  |  | 39,363,300        |  | 18,934,015        |
| Mortgage repayments   |  | (710,175)         |  | (7,475,757)       |
| Advances from related parties   |  | 1,500,000         |  | 1,167,867         |
| Repayments to related parties   |  | -                 |  | (1,991,375)       |
| Interest paid   |  | (1,851,378)       |  | (725,218)         |
| <b>Cash provided by financing activities</b>                                |  | <b>38,530,037</b> |  | <b>10,863,654</b> |

### Investing Activities

|  |  |                     |  |                     |
|--|--|---------------------|--|---------------------|
| Acquisition of investment properties         |  | (41,811,439)        |  | (11,368,410)        |
| Improvements to investment properties        |  | (289,424)           |  | (88,643)            |
| Acquisition of equipment                     |  | -                   |  | (5,381)             |
| Return of capital on investment in associate |  | -                   |  | 149,438             |
| Advances to related parties                  |  | (1,073,513)         |  | -                   |
| Repayments from related parties              |  | 1,025,263           |  | -                   |
| <b>Cash used in investing activities</b>     |  | <b>(42,149,113)</b> |  | <b>(11,312,996)</b> |

|   |           |                    |           |                  |
|---|-----------|--------------------|-----------|------------------|
| <b>Net decrease in cash</b>                         |           | <b>(2,370,580)</b> |           | <b>172,775</b>   |
| Cash and cash equivalents, beginning of period      |           | 2,950,636          |           | 2,180,351        |
| <b>Cash and cash equivalents, end of the period</b> | <b>\$</b> | <b>580,056</b>     | <b>\$</b> | <b>2,353,126</b> |

See accompanying notes to the consolidated financial statements

## **YORKTON EQUITY GROUP INC.**

Notes to the Condensed Interim Consolidated Financial Statements

Nine months ended September 30, 2023

(Expressed in Canadian Dollars)

(Unaudited)

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### **1. Nature of Business**

Yorkton Equity Group Inc. (the “Company” or “Yorkton”) was incorporated on March 4, 2016 under the Business Corporations Act (Alberta). The Company is a growth-oriented real estate company which primarily owns a portfolio of multi-unit residential rental properties in Alberta and British Columbia.

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.

### **2. Basis of Presentation**

#### **a) Statement of Compliance**

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board (the “IASB”). Accordingly, certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) have been omitted or condensed and accordingly, these condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Company as at and for the year ended December 31, 2022.

These condensed interim consolidated financial statements were authorized for issue by the Company’s board of directors on November 27, 2023.

#### **b) Basis of Measurement**

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

#### **c) Functional Currency**

The condensed interim 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 condensed interim consolidated financial statements 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 condensed interim 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 estimates and judgments made by management in applying the Company’s accounting policies were the same as those described in Note 2 to the Company’s consolidated financial statements for the years ended December 31, 2022 and 2021.

## **YORKTON EQUITY GROUP INC.**

Notes to the Condensed Interim Consolidated Financial Statements

Nine months ended September 30, 2023

(Expressed in Canadian Dollars)

(Unaudited)

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### **3. Significant Accounting Policies**

The significant accounting policies applied by the Company in these condensed interim consolidated financial statements are consistent with those applied by the Company in its annual consolidated financial statements for the years ended December 31, 2022 and 2021 with the addition of the below:

#### **a) Basis of Consolidation**

These condensed interim consolidated financial statements consist of Yorkton Equity Group Inc. and its wholly-owned subsidiaries:

- 1421526 Alberta Ltd.
- 1205946 Alberta Ltd.
- 1305271 B.C. Ltd.
- Pacific Central Properties Ltd.
- Pacific Central Holdings Ltd.
- Larson Nickel Properties Ltd.
- Larson Nickel Holdings Ltd.
- Winton Terrace Properties Ltd.
- Winton Terrace Holdings Ltd.
- Midtown YXJ Properties Ltd.
- Midtown YXJ Holdings Ltd.
- Canterbury YXJ Properties Ltd.
- Canterbury YXJ Holdings Ltd.
- Windsor Shamrock YXJ Properties Ltd.
- Windsor YXJ Holdings Ltd.
- Shamrock YXJ Holdings Ltd.
- 1999988 Alberta Ltd.

Subsidiaries are entities over which the Company has control and are consolidated from the date control commences until control ceases. Control is achieved when the Company has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts, circumstances and events indicate that there are changes to one or more of the three elements of control listed above.

All intercompany balances and transactions are eliminated on consolidation.

**YORKTON EQUITY GROUP INC.**

Notes to the Condensed Interim Consolidated Financial Statements

Nine months ended September 30, 2023

(Expressed in Canadian Dollars)

(Unaudited)

**4. Investment Property**

|   | Land Held for<br>Development | Commercial<br>Property | Residential<br>Properties | Total                |
|---|------------------------------|------------------------|---------------------------|----------------------|
| Balance, December 31, 2021                      | \$ 6,620,000                 | \$ 6,400,000           | \$ 29,530,000             | \$ 42,550,000        |
| Acquisition of investment properties            | -                            | -                      | 11,109,800                | 11,109,800           |
| Capitalized acquisition costs                   | -                            | -                      | 258,610                   | 258,610              |
| Additions (Reductions) to investment properties | -                            | (16,947)               | 126,328                   | 109,381              |
| Straight-line rents included in revenue         | -                            | (32,781)               | -                         | (32,781)             |
| Fair value adjustment                           | (170,000)                    | (50,272)               | 855,262                   | 634,990              |
| Balance, December 31, 2022                      | 6,450,000                    | 6,300,000              | 41,880,000                | 54,630,000           |
| Acquisition of investment properties            | -                            | -                      | 41,736,000                | 41,736,000           |
| Capitalized acquisition costs                   | -                            | -                      | 75,440                    | 75,440               |
| Additions (Reductions) to investment properties | -                            | 19,571                 | 269,852                   | 289,423              |
| Straight-line rents included in revenue         | -                            | -                      | -                         | -                    |
| <b>Balance, September 30, 2023</b>              | <b>\$ 6,450,000</b>          | <b>\$ 6,319,571</b>    | <b>\$ 83,961,292</b>      | <b>\$ 96,730,863</b> |

Included in investment properties is \$125,530 (December 31, 2022 - \$125,530) of rent receivable arising from the recognition of rental revenue on a straight-line basis over the lease term.

**Acquisition of The Dwell Property**

On February 27, 2023, the Company acquired a residential one hundred and eighty-eight (188) unit multi-family residential complex comprising of two (2) buildings located in Edmonton, Alberta through a holding company, 1999988 Alberta Ltd., for a total purchase price of \$41,811,440. The purchase was funded with mortgage financing of \$40,159,300 and cash on hand of \$1,652,140.

|                                     | Amount        |
|-------------------------------------|---------------|
| Investment property - Residential   | \$ 41,736,000 |
| Acquisition costs                   | 75,440        |
| Total purchase price (paid in cash) | \$ 41,811,440 |
| Units acquired - Residential        | 188           |

Investment properties measured at fair value in the condensed interim consolidated statement of financial position are categorized by level according to significance of the inputs used in making the measurements. The level of inputs are as follows:

The Company values its investment property using Level 3 inputs. There have been no transfers during the period between levels.

**YORKTON EQUITY GROUP INC.**

Notes to the Condensed Interim Consolidated Financial Statements

Nine months ended September 30, 2023

(Expressed in Canadian Dollars)

(Unaudited)

**4. Investment Property (continued)**

As at September 30, 2023, the commercial property was valued at \$6,319,571 (December 31, 2022 - \$6,300,000) and the residential properties were valued at \$83,961,292 (December 31, 2022 - \$41,880,000) 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 or price per unit), the property was compared to recent sales transactions considered to be similar in terms of location, condition, size, and tenancy.

As at September 30, 2023, the land held for development was valued at \$6,450,000 (December 31, 2022 - \$6,450,000) using the direct comparison approach. The land was compared to recent sales transactions of commercial land sales.

The Company leases space in its commercial property to tenants under operating leases. The leases have various terms between 1 and 5 years. The total future contractual minimum base rent lease payments expected to be received under non-cancellable leases are as follows:

|                  | September 30,<br>2023 | December 31,<br>2022 |
|------------------|-----------------------|----------------------|
| One year or less | \$ 294,938            | \$ 379,859           |
| 2 – 5 years      | 305,338               | 529,364              |
|                  | \$ 600,276            | \$ 909,223           |

**5. Promissory Note Receivable**

On May 31, 2021, the Company received a promissory note of \$250,000 from a tenant for rent receivable in arrears. The promissory note receivable does not bear interest, is due on demand on or before December 31, 2021 and was personally guaranteed by the tenant. As at September 30, 2023, the promissory note receivable was in default and had not been repaid and the Company had not demanded on its repayment rights.

**6. Prepaids and deposits**

The major components of prepaids and deposits as at September 30, 2023 are as follows:

|                                  | September 30,<br>2023 | December 31,<br>2022 |
|----------------------------------|-----------------------|----------------------|
| Prepaid property taxes           | \$ 310,266            | \$ 37,270            |
| Prepaid insurance                | 62,094                | 3,931                |
| Deposits on property acquisition | 980,000               | 223,800              |
| Other prepaids and deposits      | 55,338                | 6,393                |
|                                  | \$ 1,407,698          | \$ 271,394           |

During the nine months ended September 30, 2023, the Company paid deposits totalling \$980,000 towards the acquisition of The FUSE (Note 17).

## YORKTON EQUITY GROUP INC.

Notes to the Condensed Interim Consolidated Financial Statements

Nine months ended September 30, 2023

(Expressed in Canadian Dollars)

(Unaudited)

### 7. Related Parties

The Company's related parties are its Board of Directors, key management personnel (Chief Executive Officer "CEO", Acting Chief Financial Officer "CFO" and Executive Vice President "EVP"), 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 is as follows:

|                   | Three months ended September 30, |           | Nine months ended September 30, |           |
|-------------------|----------------------------------|-----------|---------------------------------|-----------|
|                   | 2023                             | 2022      | 2023                            | 2022      |
| Professional fees | \$ 13,598                        | \$ 14,385 | \$ 65,163                       | \$ 58,530 |
| Director fees     | 6,200                            | 8,000     | 21,600                          | 24,000    |
|                   | \$ 19,798                        | \$ 22,385 | \$ 86,763                       | \$ 82,530 |

#### b) Related party transactions

During the three and nine months ended September 30, 2023, the Company made repayments and advances to related parties of \$278,032 and \$1,073,513, respectively (2022 - \$319,783 and \$1,991,375, respectively), and received advances and repayments from related parties of \$250,668 and \$1,025,263, respectively (2022 - \$235,420 and \$1,167,867, respectively). The amounts were for working capital and property management and administration.

During the three and nine months ended September 30, 2022, \$6,956 and \$27,706, respectively, was recorded as interest income related to advances to a company controlled by the CEO of the Company.

As at September 30, 2023, \$62,941 was receivable from companies directly controlled by the CEO of the Company (December 31, 2022 - \$14,691). These amounts are short term, unsecured and have no specific terms of repayment and relate to the property management and administrative services provided by certain related companies, as described below.

During the three and nine months ended September 30, 2023, the Company incurred property management fees of \$76,308 and \$199,359, respectively (2022 - \$24,484 and \$88,211, respectively), included in direct operating costs, incurred under a property management contract with a company directly controlled by the CEO of the Company.

On January 1, 2023, the Company entered into an agreement with a company directly controlled by the CEO of the Company, to provide administrative services. The agreement has a term of one (1) year and will automatically be extended for one (1) additional year on the same terms and conditions. During the three and nine months ended September 30, 2023, the Company incurred administrative fees of \$106,867 and \$333,874, respectively (2022 - \$nil).

On April 20, 2023, the Company completed a non-brokered private placement of unsecured convertible debentures (Note 9). Pursuant to this private placement, the CEO of the Company acquired 55 of the convertible debentures in the principal amount of \$55,000.

**YORKTON EQUITY GROUP INC.**

Notes to the Condensed Interim Consolidated Financial Statements

Nine months ended September 30, 2023

(Expressed in Canadian Dollars)

(Unaudited)

**7. Related Parties** (continued)

During the nine months ended September 30, 2023, the Company entered into a loan with Lui Holdings Corporation, a company directly controlled the CEO of the Company ("Lui Holdings"), to borrow up to \$1,700,000, of which it had received \$1,500,000 as at September 30, 2023. The loan had a maturity date twenty-four (24) months from the date of issuance and bore interest at a rate of five percent (5%) per annum for the first thirty days and ten percent (10%) per annum from the 31st day until the maturity date, or upon the early repayment of the loan in full, whichever came first. The loan was made by Lui Holdings for the purpose of satisfying the required deposits and other related payments for the acquisition of The FUSE (Note 17).

**8. Mortgages Payable**

As at September 30, 2023, mortgages payable included variable rate mortgages with an aggregate carrying value of \$3,272,403 which bear interest at prime plus 0.75% per annum (December 31, 2022 – \$3,392,450) and fixed rate mortgages with an aggregate carrying value of \$68,856,609 which bear a weighted average interest rate of approximately 3.17% per annum (December 31, 2022 – \$31,273,716 and 2.59% per annum). The overall weighted average interest rate as at September 30, 2023 was 3.38% per annum (December 31, 2022 – 3.04% per annum). Mortgages payable are payable in monthly principal and interest instalments totalling approximately \$295,000 (December 31, 2022 - \$149,000) and mature from 2023 to 2028.

The mortgages payable are secured by specific charges against specific investment properties with a fair value of \$96,730,863 (December 31, 2022 - \$54,630,000), general assignment of rent, general security agreement, and on certain investment properties a personal guarantee from the CEO of the Company equal to between 40% and 100% of the loan.

|   | <b>September<br/>30, 2023</b> | December 31,<br>2022 |
|---|-------------------------------|----------------------|
| Total mortgages payable                 | \$ 74,115,292                 | \$ 34,666,166        |
| Deferred financing costs                | (1,986,281)                   | (1,539,891)          |
|   | <b>72,129,011</b>             | <b>33,126,275</b>    |
| Mortgages payable – current portion     | \$ (3,660,721)                | \$ (3,622,590)       |
| Mortgages payable – non-current portion | \$ 68,468,290                 | \$ 29,503,685        |

**YORKTON EQUITY GROUP INC.**

Notes to the Condensed Interim Consolidated Financial Statements

Nine months ended September 30, 2023

(Expressed in Canadian Dollars)

(Unaudited)

**8. Mortgages Payable (continued)**

Estimated future principal payments required to meet mortgage obligations as at September 30, 2023 are as follows:

| Years ending September 30,           | Amounts              |
|--------------------------------------|----------------------|
| 2024                                 | \$ 4,177,409         |
| 2025                                 | 931,679              |
| 2026                                 | 10,833,404           |
| 2027                                 | 19,418,497           |
| 2028                                 | 38,754,303           |
| Total mortgage principal outstanding | 74,115,292           |
| Deferred financing costs             | (1,986,281)          |
|                                      | <b>\$ 72,129,011</b> |

The following investment property holding company is required to maintain certain debt service coverage ratio ("DSCR") covenants on its mortgages payable which are measured and tested at December 31<sup>st</sup> of each year, during the term of the mortgages payable, based on the financial results of the previous twelve (12) month period:

| Investment property holding company | Funding date      | Mortgage balance as at September 30, 2023 | Required financial covenant(s) | Actual DSCR at December 31, 2022 |
|-------------------------------------|-------------------|---|--------------------------------|----------------------------------|
| 1421526 Alberta Ltd                 | February 15, 2023 | \$1,755,976                               | 1.3x DSCR                      | 0.94                             |
| 1421526 Alberta Ltd.                | June 12, 2022     | \$582,164                                 | 1.3x DSCR                      | 0.94                             |
| 1421526 Alberta Ltd.                | January 5, 2023   | \$934,263                                 | 1.3x DSCR                      | 0.94                             |
|                                     |                   | <b>\$3,272,403</b>                        |                                |                                  |

For the three and nine months ended September 30, 2023, primarily due to increases in the variable interest rate on the mortgages payable and an allowance for doubtful accounts, the actual DSCR for the above noted mortgages payable was 0.86 and 0.75, respectively, and 1421526 Alberta Ltd. was not in compliance with the DSCR covenants. In addition, the above mortgages payable are all short term with maturities of one year or less. Therefore, they have been presented as current liabilities in the condensed interim consolidated statement of financial position.

In addition, as a condition on its mortgage payable, 1999988 Alberta Ltd. is required to maintain a minimum of 25% of the units in The Dwell as "affordable units", as defined by the Canada Mortgage and Housing Corporation ("CMHC"), with residential rents at or below 30% of the median renter income in Edmonton, Alberta at the time of the issuance of the Certificate of Insurance ("COI") and with allowable annual increases according to the Consumer Price Index ("CPI") as stipulated by Statistics Canada for Alberta. The mortgage payable has a net carrying value of \$39,293,953 at September 30, 2023 and during the period from purchase, on February 27, 2023, to September 30, 2023, the Company has been in compliance with this covenant and 25% of the units in the Dwell have been designated as "affordable units".

**YORKTON EQUITY GROUP INC.**

Notes to the Condensed Interim Consolidated Financial Statements

Nine months ended September 30, 2023

(Expressed in Canadian Dollars)

(Unaudited)

**9. Convertible Debentures**

|  | <b>Nine Months<br/>Ended September<br/>30, 2023</b> | <b>Year Ended<br/>December<br/>31 2022</b> |
|--|---|--|
| Balance, start of period   | \$ 2,400,139  | \$ -                                       |
| Proceeds from issuance of convertible debenture units            | 508,000   | 3,005,000                                  |
| Amount allocated to fair value of common share purchase warrants | -   | (162,380)                                  |
| Amount allocated to fair value of convertible debentures         | 508,000   | 2,842,620                                  |
| Amount classified as equity for conversion feature               | (133,067)   | (529,677)                                  |
| Interest accretion   | 93,932  | 87,196                                     |
| Total additions to convertible debentures                        | 468,865   | 2,400,139                                  |
| Balance, end of period   | 2,869,004   | 2,400,139                                  |
| Deferred financing costs at period end                           | (152,658)   | (143,573)                                  |
|  | \$ 2,716,346  | 2,256,566                                  |

During the three and nine months ended September 30, 2023, the liability component of the convertible debentures was initially recognized at the fair value of a similar liability that did not have an equity conversion option and using a weighted average discount rate of approximately 16%. The equity component of the convertible debentures was recognized at the difference between the fair value of the convertible debentures as a whole and the fair value of the liability component.

On January 26, 2023, the Company completed a non-brokered private placement of 258 unsecured convertible debentures (the "January 2023 Convertible Debentures") at an issue price of \$1,000 per January 2023 Convertible Debenture for gross proceeds of \$258,000. Each January 2023 Convertible Debenture has a principal amount of \$1,000 with an interest rate equal to 8% per annum, payable annually, only in cash without any conversion of that interest component into common shares. Each January 2023 Convertible Debenture will mature on the date that is 5 years from the date of issuance. For a period of 30 calendar days following the 3<sup>rd</sup> and 4<sup>th</sup> anniversary after the closing date, the January 2023 Convertible Debenture holder may request the Company to repurchase the convertible debenture subject to the discretion of management of the Company, acting reasonably, and other certain conditions. The Company, after a period of 36 months following the date of closing, will also have the right, but not the obligation, to redeem the principal amount and any unpaid interest of the January 2023 Convertible Debenture in cash, without penalty, at any time prior to the date of maturity subject to certain conditions. The principal amount of each January 2023 Convertible Debenture may, at the option of the January 2023 Convertible Debenture holder, be converted, in whole or in part, into common shares at a conversion price of \$0.30 per common share.

**YORKTON EQUITY GROUP INC.**

Notes to the Condensed Interim Consolidated Financial Statements

Nine months ended September 30, 2023

(Expressed in Canadian Dollars)

(Unaudited)

**9. Convertible Debentures** (continued)

On April 20, 2023, the Company completed a non-brokered private placement of 250 unsecured convertible debentures (the "April 2023 Convertible Debentures") at an issue price of \$1,000 per April 2023 Convertible Debenture for gross proceeds of \$250,000. Each April 2023 Convertible Debenture has a principal amount of \$1,000 with an interest rate equal to 8% per annum, payable annually, only in cash without any conversion of that interest component into common shares. Each April 2023 Convertible Debenture will mature on the date that is 5 years from the date of issuance. For a period of 30 calendar days following the 3<sup>rd</sup> and 4<sup>th</sup> anniversary after the closing date, the April 2023 Convertible Debenture holder may request the Company to repurchase the convertible debenture subject to the discretion of management of the Company, acting reasonably, and other certain conditions. The Company, after a period of 36 months following the date of closing, will also have the right, but not the obligation, to redeem the principal amount and any unpaid interest of the April 2023 Convertible Debenture in cash, without penalty, at any time prior to the date of maturity subject to certain conditions. The principal amount of each April 2023 Convertible Debenture may, at the option of the April 2023 Convertible Debenture holder, be converted, in whole or in part, into common shares at a conversion price of \$0.30 per common share. Pursuant to this private placement, the CEO of the Company acquired 55 of the April 2023 Convertible Debentures in the principal amount of \$55,000 (Note 7).

Estimated future principal payments required to meet convertible debenture obligations as at September 30, 2023 are as follows:

| Years ending September 30,                        | Amounts      |
|---|--------------|
| 2027  | \$ 3,005,000 |
| 2028  | 508,000      |
| Total convertible debenture principal outstanding | 3,513,000    |
| Allocated to equity                               | (825,124)    |
| Interest accretion                                | 181,128      |
| Deferred financing costs                          | (152,658)    |
|   | \$ 2,716,346 |

**10. Rental Revenue**

Rental revenue consists of the following components:

|                                  | Three months ended<br>September 30, |            | Nine months ended<br>September 30, |              |
|----------------------------------|-------------------------------------|------------|------------------------------------|--------------|
|                                  | 2023                                | 2022       | 2023                               | 2022         |
| Residential lease revenue        | \$ 1,567,637                        | \$ 700,672 | \$ 4,106,522                       | \$ 1,912,494 |
| Commercial lease revenue         | 98,722                              | 98,778     | 302,294                            | 270,241      |
| Non-lease revenue <sup>(1)</sup> | 107,504                             | 29,338     | 276,274                            | 73,645       |
|                                  | \$ 1,773,863                        | \$ 828,788 | \$ 4,685,090                       | \$ 2,256,380 |

<sup>(1)</sup> Non-lease revenue comprises parking and other ancillary services.

**YORKTON EQUITY GROUP INC.**

Notes to the Condensed Interim Consolidated Financial Statements

Nine months ended September 30, 2023

(Expressed in Canadian Dollars)

(Unaudited)

**11. General and Administration Expenses**

The components of general and administrative expenses are as follows:

|                           | Three months ended<br>September 30,<br>2023 |         | 2022 |         | Nine months ended<br>September 30,<br>2023 |         | 2022 |         |
|---------------------------|---|---------|------|---------|--|---------|------|---------|
| Advertising and promotion | \$  | 20,246  | \$   | 10,732  | \$   | 52,163  | \$   | 27,134  |
| Insurance                 |   | 4,663   |      | 18,750  |  | 14,409  |      | 56,250  |
| Professional fees         |   | 59,735  |      | 60,270  |  | 292,425 |      | 380,351 |
| Office costs              |   | 16,571  |      | 3,496   |  | 26,803  |      | 9,655   |
| Travel and meetings       |   | 15,515  |      | 11,238  |  | 45,534  |      | 31,940  |
| Administrative fees       |   | 106,867 |      | -       |  | 333,874 |      | -       |
| Share-based compensation  |   | -       |      | -       |  | 4,224   |      | 1,617   |
| Other                     |   | 11,315  |      | 652     |  | 16,429  |      | 5,034   |
|                           | \$  | 234,912 | \$   | 105,138 | \$   | 785,861 | \$   | 511,981 |

**12. Financing costs**

The components of financing costs are as follows:

|  | Three months ended<br>September 30,<br>2023 |         | 2022 |         | Nine months ended<br>September 30,<br>2023 |           | 2022 |           |
|--|---|---------|------|---------|--|-----------|------|-----------|
| Mortgage interest                        | \$  | 624,492 | \$   | 260,431 | \$   | 1,638,362 | \$   | 725,218   |
| Convertible debenture interest           |   | 64,721  |      | 51,389  |  | 184,554   |      | 141,009   |
| Amortization of deferred financing costs |   | 140,092 |      | 97,823  |  | 381,304   |      | 195,375   |
| Interest accretion                       |   | 31,295  |      | 26,635  |  | 93,933    |      | 63,873    |
| Other interest and financing costs       |   | 88      |      | -       |  | 3,812     |      | 24,129    |
|  | \$  | 860,688 | \$   | 436,278 | \$   | 2,301,965 | \$   | 1,149,604 |

**YORKTON EQUITY GROUP INC.**

Notes to the Condensed Interim Consolidated Financial Statements

Nine months ended September 30, 2023

(Expressed in Canadian Dollars)

(Unaudited)

**13. 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      |                      |
|---|--------------------|----------------------|
|   | Number             | Amount               |
| Balance, December 31, 2021                          | 112,575,822        | 14,200,857           |
| Exercise of common share purchase options           | 101,605            | 21,939               |
| Balance, December 31, 2022                          | 112,677,427        | 14,222,796           |
| <b>Repurchase of common shares for cancellation</b> | <b>(94,500)</b>    | <b>(15,071)</b>      |
| <b>Exercise of common share purchase options</b>    | <b>122,647</b>     | <b>25,074</b>        |
| <b>Balance, September 30, 2023</b>                  | <b>112,705,574</b> | <b>\$ 14,232,799</b> |

On January 27, 2023, the Company received approval from the TSX Venture Exchange to commence a normal course issuer bid (the "NCIB") to repurchase, for cancellation, up to an aggregate of 5,633,871 common shares of the Company. The funds used to repurchase the common shares of the Company pursuant to the NCIB will only come from cash provided by operating activities of the Company. The NCIB will expire on January 26, 2024.

During the three months ended September 30, 2023, the Company repurchased 59,500 of its common shares under the NCIB at a weighted average price of approximately \$0.16 per common share for a total cost, including commission, of \$9,480. During the nine months ended September 30, 2023, the Company repurchased 119,500 of its common shares under the NCIB at a weighted average price of approximately \$0.16 per common share for a total cost, including commission, of \$19,415.

**YORKTON EQUITY GROUP INC.**

Notes to the Condensed Interim Consolidated Financial Statements

Nine months ended September 30, 2023

(Expressed in Canadian Dollars)

(Unaudited)

**13. Share Capital** (continued)**b) Common Share Purchase Options**

On June 16, 2023, the Company implemented an omnibus security based compensation plan which includes a ten percent (10%) rolling stock option plan (the "Stock Option Plan") together with a ten percent (10%) fixed security based compensation plan (other than stock options) (the "Equity Compensation 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, management company 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 ten percent (10%) of the issued and outstanding common shares at that time, exercisable for the period of up to ten (10) years. As the Stock Option Plan is considered a "rolling" plan, the Company must obtain shareholder approval of the Stock Option Plan at each annual meeting of shareholders in accordance with the policies of the TSXV.

The Equity Compensation Plan provides that the Board of Director of the Company may, from time to time, in its discretion, grant to directors, officers, employees, management company employees, and consultants of the Company, non-transferrable stock appreciation rights, deferred share units, restricted share units, performance share units, and any other compensation or incentive mechanism involving the issuance or potential issuance of securities of the Company from treasury, provided that the number of common shares reserved for issuance under the Equity Compensation Plan shall not exceed ten percent (10%) of the issued and outstanding common shares at its implementation.

In addition, the number of common shares reserved for issuance to any one person and to insiders, as a group, shall not exceed five percent (5%) and ten percent (10%), respectively, 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, employee, management company employee, and consultant and all other terms and conditions of the award, subject to the rules of the TSXV.

The continuity of the Company's outstanding and exercisable common share purchase options is as follows:

|                                  | September 30, 2023 |                                 | December 31, 2022 |                                 |
|----------------------------------|--------------------|---------------------------------|-------------------|---------------------------------|
|                                  | Number of options  | Weighted average exercise price | Number of options | Weighted average exercise price |
| Outstanding, beginning of period | 559,905            | \$0.20                          | 584,905           | \$0.21                          |
| Granted                          | 177,000            | \$0.17                          | 150,000           | \$0.20                          |
| Exercised                        | (122,647)          | \$0.17                          | (101,605)         | \$0.20                          |
| Expired                          | (54,353)           | \$0.17                          | (73,395)          | \$0.27                          |
| Outstanding, end of period       | 559,905            | \$0.20                          | 559,905           | \$0.20                          |
| Exercisable, end of period       | 559,905            | \$0.20                          | 559,905           | \$0.20                          |

As at September 30, 2023, 559,905 common share purchase options outstanding and exercisable expire on November 18, 2025 and have an exercise price of \$0.20 per common share.

**YORKTON EQUITY GROUP INC.**

Notes to the Condensed Interim Consolidated Financial Statements

Nine months ended September 30, 2023

(Expressed in Canadian Dollars)

(Unaudited)

**13. Share Capital** (continued)**b) Common Share Purchase Options** (continued)

The Company determines the fair value of the common share purchase options granted using the Black Scholes Model. The weighted average grant date fair value per common share purchase option granted during the nine months ended September 30, 2023 was \$0.02 (2022 - \$0.01) using the following assumptions:

|   | <b>September 30,<br/>2023</b> | September 30,<br>2022 |
|---|-------------------------------|-----------------------|
| Share price                             | <b>\$0.17</b>                 | \$0.20                |
| Exercise price                          | <b>\$0.17</b>                 | \$0.20                |
| Risk-free interest rate                 | <b>4.2%</b>                   | 2.67%                 |
| Expected dividend yield                 | <b>Nil</b>                    | Nil                   |
| Estimated common share price volatility | <b>98%</b>                    | 46%                   |
| Estimated life in years                 | <b>0.13</b>                   | 0.08                  |

The effects of early exercise were incorporated in the estimate of the expected life of the common share purchase options. Expected volatility was determined based on historical volatilities of peer companies that are publicly traded. Other features of the common share purchase options did not affect the calculation of grant date fair value.

During the three and nine months ended September 30, 2022, total share-based payment expense of \$nil and \$4,224, respectively (2022 - \$nil and \$1,617, respectively) was recognized and included in general and administration expense.

On June 2, 2023, 122,647 common share purchase options were exercised. The Company's share price on the date of exercise was \$0.17 per common share.

On July 16, 2023, 54,353 common share purchase options expired unexercised.

**YORKTON EQUITY GROUP INC.**

Notes to the Condensed Interim Consolidated Financial Statements

Nine months ended September 30, 2023

(Expressed in Canadian Dollars)

(Unaudited)

**13. Share Capital** (continued)**c) Common Share Purchase Warrants**

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

|                                  | September 30, 2023 |                                 | December 31, 2022  |                                 |
|----------------------------------|--------------------|---------------------------------|--------------------|---------------------------------|
|                                  | Number of warrants | Weighted average exercise price | Number of warrants | Weighted average exercise price |
| Outstanding, beginning of period | 21,930,466         | \$0.38                          | 20,377,666         | \$0.36                          |
| Issued                           | -                  | -                               | 1,552,800          | \$0.60                          |
| Expired                          | (12,573,336)       | \$0.40                          | -                  | -                               |
| Outstanding, end of period       | 9,357,130          | \$0.36                          | 21,930,466         | \$0.38                          |

The following common share purchase warrants are outstanding as at September 30, 2023:

| Expiry date       | Exercise Price | Warrants exercisable |
|-------------------|----------------|----------------------|
| November 17, 2023 | \$0.30         | 7,804,330            |
| January 17, 2027  | \$0.60         | 1,488,000            |
| January 25, 2027  | \$0.60         | 64,800               |
|                   |                | 9,357,130            |

During the three and nine months ended September 30, 2023, 1,231,336 and 12,573,336 common share purchase warrants expired unexercised, respectively.

**YORKTON EQUITY GROUP INC.**

Notes to the Condensed Interim Consolidated Financial Statements

Nine months ended September 30, 2023

(Expressed in Canadian Dollars)

(Unaudited)

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

|  | September 30,<br>2023 | September 30,<br>2022 |
|--|-----------------------|-----------------------|
| Prepays and deposits                     | \$ (1,136,304)        | \$ 420,468            |
| Accounts receivable                      | (184,396)             | (343,295)             |
| Sales taxes receivable                   | 2,393                 | (32,800)              |
| Sales taxes payable                      | 6,413                 | -                     |
| Accounts payable and accrued liabilities | 128,690               | (304,298)             |
| Refundable security deposits             | 294,702               | 63,582                |
|  | \$ (888,502)          | \$ (196,343)          |

**b) Reconciliation of Liabilities Arising from Financing Activities**

|   | Amounts Due<br>to Related<br>Parties | Mortgages<br>Payable | Convertible<br>Debentures |
|---|--------------------------------------|----------------------|---------------------------|
| Balance, December 31, 2021                      | \$ 124,221                           | \$ 21,570,535        | \$ -                      |
| Advances  | 263,701                              | 20,174,644           | 3,005,000                 |
| Addition to deferred financing costs            | -                                    | (1,244,003)          | (168,931)                 |
| Amortization of deferred financing costs        | -                                    | 280,445              | 25,358                    |
| Allocated to equity                             | -                                    | -                    | (692,057)                 |
| Interest accretion                              | -                                    | -                    | 87,196                    |
| Repayments                                      | (387,922)                            | (7,655,346)          | -                         |
| Balance, December 31, 2022                      | -                                    | 33,126,275           | 2,256,566                 |
| <b>Advances</b>                                 | <b>-</b>                             | <b>40,159,300</b>    | <b>508,000</b>            |
| <b>Addition to deferred financing costs</b>     | <b>-</b>                             | <b>(795,780)</b>     | <b>(40,779)</b>           |
| <b>Amortization of deferred financing costs</b> | <b>-</b>                             | <b>349,391</b>       | <b>31,693</b>             |
| <b>Allocated to equity</b>                      | <b>-</b>                             | <b>-</b>             | <b>(133,067)</b>          |
| <b>Interest accretion</b>                       | <b>-</b>                             | <b>-</b>             | <b>93,933</b>             |
| <b>Repayments</b>                               | <b>-</b>                             | <b>(710,175)</b>     | <b>-</b>                  |
| <b>Balance, September 30, 2023</b>              | <b>\$ -</b>                          | <b>\$ 72,129,011</b> | <b>\$ 2,716,346</b>       |

**YORKTON EQUITY GROUP INC.**

Notes to the Condensed Interim Consolidated Financial Statements

Nine months ended September 30, 2023

(Expressed in Canadian Dollars)

(Unaudited)

**15. Financial Instruments****Fair Value**

Financial instruments include cash, restricted cash, accounts receivable, promissory note receivable, due from related parties, investment, refundable security deposits, mortgages payable, convertible debentures, loan payable 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 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.

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

|  | <b>September 30,<br/>2023</b> | December 31,<br>2022 |
|--|-------------------------------|----------------------|
| <b>Financial Assets Measured at Amortized Cost:</b>      |                               |                      |
| Cash   | \$ 580,056                    | \$ 2,950,636         |
| Restricted cash  | \$ 313,930                    | \$ 194,653           |
| Accounts receivable                                      | \$ 391,315                    | \$ 290,917           |
| Promissory note receivable                               | \$ 202,092                    | \$ 202,092           |
| Investment   | \$ 40,833                     | \$ 40,495            |
| Due from related parties                                 | \$ 62,941                     | \$ 14,691            |
| <b>Financial Liabilities Measured at Amortized Cost:</b> |                               |                      |
| Accounts payable and accrued liabilities                 | \$ 536,310                    | \$ 436,082           |
| Refundable security deposits                             | \$ 489,355                    | \$ 194,653           |
| Mortgages payable  | \$ 74,115,292                 | \$ 34,666,166        |
| Convertible debentures                                   | \$ 3,513,000                  | \$ 3,005,000         |
| Loan payable to related party                            | \$ 1,500,000                  | \$ -                 |

The fair value of cash, restricted cash, accounts receivable, promissory note receivable, investment, due from related parties, accounts payable and accrued liabilities and refundable security deposits approximate their carrying amounts due to the relatively short periods to maturity of these financial instruments.

The fair values of mortgages payable, convertible debentures, and loan payable to related party are determined using level 2 measurements 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 Condensed Interim Consolidated Financial Statements

Nine months ended September 30, 2023

(Expressed in Canadian Dollars)

(Unaudited)

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### **15. Financial Instruments (continued)**

The nature of these financial instruments and the Company's operations expose the Company to certain principal financial risks. The principal financial risks to which the Company is exposed are described below.

#### **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.

##### **a. Interest Rate Risk**

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 cash flow risk on its convertible debentures and mortgages payable that bear interest at a variable rate and fair value risk on its mortgages payable, convertible debentures and loan payable to related party that bear interest at a fixed rate.

As at September 30, 2023, the Company had \$196,000 (September 30, 2022 - \$196,000) of convertible debentures and \$3,272,403 (September 30, 2022 - \$3,425,608) of mortgages payable, which are carried at variable-rate interest. Each 1% change in market interest rates would, all else being equal, increase or decrease net earnings for the three and nine months ended September 30, 2023 by approximately \$8,671 and \$26,013, respectively (three and nine months ended September 30, 2022 - \$9,054 and \$27,162, respectively).

##### **b. 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 and if the borrower fails to repay on the promissory note receivable or if the related party fails to repay on the amount due from related party. Credit risk for the Company primarily arises from the accounts receivable from tenants and the promissory note receivable. 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 promissory note receivable is with a current tenant of the commercial investment property and is personally guaranteed by the tenant. As at September 30, 2023, the promissory note was in default and had not been repaid and the Company had not demanded on its repayment rights. The Company continues to work with the tenant on repayment.

**YORKTON EQUITY GROUP INC.**

Notes to the Condensed Interim Consolidated Financial Statements

Nine months ended September 30, 2023

(Expressed in Canadian Dollars)

(Unaudited)

**15. Financial Instruments (continued)****Financial risk management (continued)****b. Credit risk (continued)****Commercial investment property**

As at September 30, 2023, approximately 72% (December 31, 2022 – 70%) of accounts receivable from the commercial investment property is from two (2) tenants (December 31, 2022 – two (2) tenants). For the three and nine months ended September 30, 2023, approximately 64% and 63%, respectively (2022 – 75%), of commercial rental revenue is from two (2) tenants (2022 – three (3) tenants).

The aging of accounts receivable for the commercial investment property is as follows:

|                                 | <b>September 30,<br/>2023</b> | <b>December 31,<br/>2022</b> |
|---------------------------------|-------------------------------|------------------------------|
| Current                         | \$ 77,757                     | \$ 28,350                    |
| 31-90 days                      | 24,850                        | 30,530                       |
| 90 + days                       | 589,496                       | 373,526                      |
|                                 | <b>692,103</b>                | 432,406                      |
| Allowance for doubtful accounts | <b>(320,876)</b>              | (278,876)                    |
|                                 | <b>\$ 371,227</b>             | \$ 153,530                   |

Certain tenants of the commercial investment property have experienced ongoing business disruptions due to changes in consumer behaviour after the COVID-19 pandemic. The Company continues to work together with all affected tenants to collect on the outstanding amounts.

**c. Liquidity risk**

The Company's exposure to liquidity risk is dependent on generating rental revenue to sustain operations. The Company controls liquidity risk by managing working capital and cash flows. The Company's contractual obligations for its non-derivative financial liabilities as at September 30, 2023 consists of accounts payable and accrued liabilities of \$536,310 (December 31, 2022 - \$436,082) and refundable security deposits of \$489,355 (December 31, 2022 - \$194,653) that have a contractual maturity in the next 12 months. The mortgages payable have terms maturing as disclosed in Note 8, convertible debentures have terms maturing as disclosed in Note 9, and loan payable to related party have terms maturity as disclosed in Note 7.

## YORKTON EQUITY GROUP INC.

Notes to the Condensed Interim Consolidated Financial Statements

Nine months ended September 30, 2023

(Expressed in Canadian Dollars)

(Unaudited)

### 16. 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 certain liabilities and equity as follows:

|                        | September 30,<br>2023 | December 31,<br>2022 |
|------------------------|-----------------------|----------------------|
| Mortgages payable      | \$ 72,129,011         | \$ 33,126,275        |
| Convertible debentures | 2,716,346             | 2,256,566            |
| Shareholders' equity   | 20,946,854            | 20,941,357           |
|                        | <b>\$ 95,792,211</b>  | <b>\$ 56,324,198</b> |

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 rental activities and through obtaining financing. There is no assurance 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 nine months ended September 30, 2023 and the year ended December 31, 2022.

An individual investment property holding company is required to maintain mortgages payable covenants which are assessed by the lender on an annual basis (Note 8).

### 17. Subsequent Events

On October 12, 2023, the Company announced a non-brokered private placement of up to 2,200 unsecured convertible debentures (the "October 2023 Convertible Debentures") at an issue price of \$1,000 per October 2023 Convertible Debenture for gross proceeds of \$2,200,000. Each October 2023 Convertible Debenture will have a principal amount of \$1,000 with an interest rate equal to 8% per annum, payable annually, only in cash without any conversion of that interest component into common shares. Each October 2023 Convertible Debenture will mature on the date that is 5 years from the date of issuance. The Company, after a period of 36 months following the date of closing, will also have the right, but not the obligation, to redeem the principal amount and any unpaid interest of the October 2023 Convertible Debenture in cash, without penalty, at any time prior to the date of maturity subject to certain conditions. The principal amount of each October 2023 Convertible Debenture may, at the option of the October 2023 Convertible Debenture holder, be converted, in whole or in part, into common shares at a conversion price of \$0.20 per common share.

On October 17, 2023, the Company completed an initial tranche closing on the private placement announced on October 12, 2023 with Lui Holdings, which included the loan from Lui Holdings (Note 7), which adopted the terms and conditions of the October 2023 Convertible Debentures, for a total aggregate subscription of 2,000 October 2023 Convertible Debentures in the principal amount of \$2,000,000.

**YORKTON EQUITY GROUP INC.**

Notes to the Condensed Interim Consolidated Financial Statements

Nine months ended September 30, 2023

(Expressed in Canadian Dollars)

(Unaudited)

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**17. Subsequent Events (continued)**

On October 17, 2023, the Company also closed on the acquisition of “The FUSE”, a one hundred and twenty-five (125) unit condominium grade multi-family residential complex that was constructed in 2015 and is comprised of two buildings situated on approximately 2.67 acres of land located in the Summerside neighborhood of Edmonton, Alberta for a purchase price of \$25,625,000. As part of the financing of the acquisition of the property, the Company obtained a CMHC insured mortgage on The FUSE of \$24,423,140 at a fixed interest rate of 4.0% per annum, amortized over 50 years, maturing on November 30, 2028 and secured by the property, general assignment of rent, specific assignment of present and future leases of the property, and general security agreement. In connection with the acquisition, the Company acquired 1999999 Alberta Ltd. to hold the property. In addition, as a condition on its mortgage payable, 1999999 Alberta Ltd. is required to maintain a minimum of 80% of the units in The FUSE as “affordable units”, as defined by the CMHC, with residential rents at or below 30% of the median renter income in Edmonton, Alberta at the time of the issuance of the COI and with allowable annual increases according to the CPI as stipulated by Statistics Canada for Alberta.

Of the 119,500 common shares repurchased under the NCIB during the nine months ended September 30, 2023, 25,000 were cancelled in October 2023.

On November 17, 2023, 7,804,330 common share purchase warrants expired unexercised.