



KADESTONE CAPITAL CORP.

MANAGEMENT DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2020

As of November 18, 2020

Kadestone Capital Corp.

Management Discussion and Analysis

For the three and nine months ended September 30, 2020

About Kadestone

Kadestone Capital Corp. (the “Company” or “Kadestone”) was incorporated under the British Columbia Business Corporations Act on July 2, 2019. Its principal business activity is the development, acquisition, and management of residential and commercial income producing properties within major urban centres and high-growth, emerging markets in Canada, with an initial focus on the Metro Vancouver and Kelowna markets. Its registered and records office is Suite 2600, Three Burrard Centre, 595 Burrard Street, Vancouver, BC Canada, V7X 1L3.

Basis of Discussion and Analysis

This management discussion and analysis (“MD&A”) of the consolidated financial condition of Kadestone as of September 30, 2020 and the results of its operations for the three and nine months ended September 30, 2020 was prepared as of November 18, 2020. This MD&A should be read in conjunction with the Company’s condensed interim consolidated financial statements and accompanying notes for the three and nine months ended September 30, 2020.

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). IFRS comprises IFRS, International Accounting Standards (“IAS”) and interpretations issued by the IFRS Interpretations Committee (“IFRIC”) and the former Standing Interpretations Committee (“SIC”).

The Company’s functional currency is the Canadian dollar which is also its presentation currency.

Forward-Looking Statements

This MD&A contains “forward-looking statements” that reflect the Company’s current expectations and projections about its future results. When used in this MD&A, the use of words such as “estimate”, “project”, “belief”, “anticipate”, “intend”, “expect”, “plan”, “predict”, “may”, “should”, “will”, “consider”, “anticipate”, “objective” and the negative of these words or such variations thereon or comparable terminology, are intended to identify forward-looking statements and information, including but not limited to statements regarding the Company’s ability to raise equity financing, the generation of rental revenue or gains through capital appreciation of the properties, renewal of leases or replacement of tenants, and the Company’s ability to maintain sufficient or readily available working capital to meet liquidity requirements. Forward-looking statements are, by their nature, not guarantees of the Company’s future operational or financial performance and are subject to risks and uncertainties and other factors that could cause the Company’s actual results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. No representation or warranty is intended with respect to anticipated future results, or that estimates, or projections will be sustained.

These forward-looking statements involve known and unknown risks and uncertainties that may cause the Company’s actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied in these forward-looking statements. These risks include risks related to the real estate industry generally such as, changes in interest rates, demand for office, industrial, and commercial rentals, illiquidity of real estate investments, non-renewal of tenant leases, risks associated with development and related zoning and other permits approvals, fluctuation in real estate values, geographic conditions, environmental matters and uninsured losses. Although the forward-looking statements contained herein are based upon what management believes to be current and reasonable assumptions, the Company cannot assure readers that actual results will be consistent with these forward-looking statements. The forward-looking statements contained herein are made as of the date of this MD&A and are expressly qualified in their entirety by this cautionary statement. Except as required by law, the Company undertakes no obligation to publicly update or revise any such forward-looking statements to reflect any change in its expectations or in events, conditions or circumstances on which any such forward-looking statements may be based, or that may affect the likelihood that actual

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results will differ from those set forth in the forward-looking statements.

Current Period Activities and Corporate Developments

- Kadestone was incorporated on July 2, 2019.
- During the period from the date of incorporation on July 2, 2019 to December 31, 2019, Kadestone raised \$1,429,001 in financing through the issuance of 23,315,100 common shares.
- On December 31, 2019 the Company acquired a 51% interest in a commercial real estate property located in West Vancouver. The transaction was accounted for as an asset acquisition. The Company intends to hold the property as an investment property to earn rental income and for capital appreciation. The 51% interest in the property was purchased for its fair value of \$1,679,120 including acquisition costs of \$47,120. The Company paid cash of \$163,200 and issued 3,672,000 common shares with a fair value of \$0.40 per share.
- On December 31, 2019, 1,250,000 stock options were issued to officers and consultants of the Company.
- On February 25, 2020, the Company entered into a purchase agreement which assigned to the Company the rights in an agreement to purchase Phase One of a light industrial development interest on Kyle Road in Kelowna. The total purchase price of the Kyle Road Property is \$8,975,000 payable as follows: i) a first deposit of \$50,000, which has been paid; ii) a second deposit of \$1,745,000, which has been paid and iii) the balance of \$7,180,000 payable on completion, being prior to the outside completion date of December 31 2020. The Company purchased the rights to the Kyle Road Agreement on February 25, 2020 for \$1,795,000 which represents reimbursement of the first and second deposits. The Company paid \$179,500 in cash and issued 2,019,375 shares at a value of \$1,615,500.
- On March 3, 2020, 400,000 stock options were issued to directors of the Company.
- On June 10, 2020, 100,000 stock options were issued to the Chief Financial Officer.
- On October 29, 2020, the Company completed its initial public offering and cornerstone placement by issuing 17,506,450 common shares of the Company at \$0.80 per share.
- On October 30, 2020, the Company completed the purchase of the Kyle Road Property. The balance payable plus closing costs was settled with a combination of cash raised through the Offering and a debt facility established by the Company with a major bank on August 6, 2020. The facility allows the company to draw up to \$4,925,000 in debt for a term of one year at an interest rate of prime plus 2.00%.

Selected Interim Information

Selected financial information from the statements of loss for the nine months ended September 30, 2020:

Expenses (unaudited)

Stock-based compensation	\$	584,565
Professional fees		513,046
Consulting fees		275,958
Salaries and wages		244,097
Directors fees		92,827
Computer expenses		13,336
Marketing		4,357

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Office supplies	3,015
Insurance expense	2,027
Travel expenses	749
Bank charges	601
	\$ 1,734,578

Professional fees mainly consist of fees paid to lawyers for professional services.

Consulting fees mainly consist of consulting expenses paid to the Chief Financial Officer and finance and accounting related expenses.

Salaries and wages consist solely of salary paid to the Chief Executive Officer.

Selected financial information from the statements of financial position sheet as at September 30, 2020 and December 31, 2019:

	September 30, 2020	December 31, 2019
Total current assets	\$ 155,455	\$ 938,687
Investment properties	1,688,927	1,679,120
Property purchase deposit	1,795,000	-
Total Assets	\$ 3,639,382	\$ 2,617,807
Accounts payable and accrued liabilities	\$ 736,658	\$ 191,415
Shareholders' equity	2,902,724	2,426,392
Total liabilities and shareholders' equity	\$ 3,639,382	\$ 2,617,807

Current assets mainly consist of the receivable from input tax credits of \$16,232, prepaid expenses of \$77,973 which consists of prepaid insurance and professional fees, and deferred financing costs of \$61,250.

Investment properties represents the 51% interest in the property in West Vancouver. The property has a gross leasable area of 6,463 square feet and is currently 54% leased.

Property purchase deposit represents the deposit paid on the Kyle Road property which was completed On October 30, 2020.

Selected historical cost financial information for the investment property and the Company's 51% allocation of certain assets, revenue and expenses of the investment property has been summarized as follows:

	Investment property at 100%			The Company's allocation of the 51%		
	Nine months ended September 30, 2020	Year ended December 31, 2019	Year ended December 31, 2018	Nine months ended September 30, 2020	Year ended December 31, 2019 ⁽¹⁾	Year ended December 31, 2018 ⁽¹⁾
Total Assets	\$ 2,853,056	\$ 2,845,382	\$ 2,870,302	\$ 1,632,000	\$ 1,632,000	\$ 1,632,000
Total Liabilities	\$ 2,868,229	\$ 2,817,707	\$ 2,859,390	\$ -	\$ -	\$ -

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Total Revenue	\$ 73,447	\$ 77,670	\$ 85,334	\$ 38,261	\$ 39,611	\$ 43,521
Profit and Loss	\$ (36,690)	\$ (66,276)	\$ (50,660)	\$ 10,845	\$ 3,368	\$ 7,167

- (1) The property at 100% pertains to 0995793 BC Ltd prior to the Company's acquisition of the 51% interest in the property. This historical information includes the property plus assets and liabilities directly related to the property. The Company is entitled to 51% of the revenues less operating expenses (excluding mortgage interest since the mortgage is solely held by the 40% interest holder). The Company is not entitled to any assets nor responsible for any liabilities relating to the property. Accordingly the 51% interest in the assets of \$1,632,000 represents the purchase price of the interest and does not include any of the other assets or liabilities related to the property since the Company is not entitled to the assets nor responsible for the liabilities.

The table above has been prepared for information purposes only, as if the asset had been owned throughout the periods disclosed. Investment property at 100% shows the financial information of the investment property before the Company's allocated assets and liabilities (including debt financing).

Discussion of Operations

For a discussion of current year operations see "Selected Interim Information" in this MD&A.

The Company is currently focused on raising equity financing in order to acquire additional investment properties in order to generate net rental revenue and gains through capital appreciation of these properties.

Summary of Quarterly Results

The following summarizes the selected quarterly results for the Company:

	Period from the date of incorporation on July 2, 2019 September 30, 2019	Three months ended December 31, 2019	Three months ended March 31, 2020	Three months ended June 30, 2020	Three months ended September 30, 2020
Net profits interest	-	-	\$ 4,629	\$ 2,722	\$ 3,494
Loss from continuing operations	\$ (195)	\$ (496,089)	\$ (689,625)	\$ (540,357)	\$ (493,751)
Loss per share (diluted and non-diluted)	\$ (2.82)	\$ (0.08)	\$ (0.02)	\$ (0.02)	\$ (0.02)

During the period from the date of incorporation on July 2, 2019 to September 30, 2019 the Company did not have significant activity and therefore incurred only minimal bank expenses.

During the three months ended December 31, 2019 the Company incurred the majority of the expenses discussed above in the selected financial information. This included professional and consulting fees involved with establishing the legal, finance and corporate structure of the Company.

During the three months ended March 31, 2020 the Company continued to incur professional and consulting fees involved with establishing the legal, finance and corporate structure of the Company and prepare for the initial public offering.

During the three months ended June 30, 2020 the Company continued to incur professional and consulting fees involved with establishing the legal, finance and corporate structure of the Company and

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prepare for the initial public offering.

During the three months ended September 30, 2020 the Company continued to incur professional and consulting fees involved with establishing the legal, finance and corporate structure of the Company and prepare for the initial public offering.

Liquidity and Capital Resources

The primary objective of the Company's capital management is to ensure that it maintains adequate capital in order to support its business and maximize shareholder value. The Company manages its capital structure with the goal of minimizing risk to the stability of cash flows from properties.

As at September 30, 2020, the Company had nil cash to settle checks issued in excess of funds on deposit of \$138,458 and current financial liabilities of \$598,200.

Risks and Uncertainties

Real Estate Industry

Investment properties are subject to varying degrees of risk. Such risks include changes in general economic conditions (such as the availability and cost of mortgage funds), local conditions (such as an over-supply of space or a reduction in demand for real estate in the area), the attractiveness of the properties to tenants, competition from others with available space and the ability of the Company to provide adequate maintenance at an economic cost.

Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges, must be made regardless of whether a property is producing sufficient income to cover such expenses. If the property is unable to generate enough net operating income to make mortgage repayments on any property, losses could be sustained as a result of the lenders exercising their rights of foreclosure or sale.

Real estate is relatively illiquid. Such illiquidity will tend to limit the Company's ability to vary its portfolio promptly in response to changing economic or investment conditions. Financial difficulties of other property owners resulting in distress sales may further depress real estate values in many of the markets in which the Company operates or intends to operate.

Revenue-Producing Properties

The Company's revenue-producing property generates income through rental receipts from tenants. Upon the expiry of any lease, there is no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favourable to the Company than the existing lease. Furthermore, at any time, a tenant of the Company's property may seek the protection of bankruptcy, insolvency or similar laws which could result in the rejection and termination of such tenant's lease and a resultant reduction in cash flow available to the Company.

Revenue generated by the Company's investment property is dependent on the lease rate and occupancy rate of the property. The Company faces a risk of a net operating loss from its investments if the revenue from an investment property is less than the expenses.

The Company's 51% interest in the West Vancouver property is currently only 54% leased and the Company is not guaranteed to lease the remaining space in the future.

Fluctuations in Real Estate Values

The commercial and industrial real estate industry is subject to variability and fluctuations in real estate values. The Company has elected to report its investment properties at fair value. Fair value represents the amount at which the properties could be exchanged between a knowledgeable and willing buyer and

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seller in an arm's length transaction at the date of valuation. Adjustments will be made to the fair values when changes in the underlying valuation assumptions occur.

Geographic Concentration

The Company currently holds an interest in one property located in West Vancouver, British Columbia. An economic downturn in any of these markets could cause leasing rates to decline, which could have a material adverse effect on the business and negatively affect the results of operations and financial position of the Company.

Environmental Matters

As an owner of an investment property, the Company is subject to various Canadian federal, provincial, and municipal laws relating to environmental matters. Such laws provide that the Company could be liable for costs of removal and remediation of certain hazardous substances or wastes released or deposited on or in its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could adversely affect the Company's ability to sell such real estate or pledge real estate as collateral for borrowing. In addition, such a situation could potentially result in claims against the Company. The Company is not aware of any material pending or threatened investigations or actions by environmental regulatory authorities in connection with any of its properties or any material pending or threatened claims relating to environmental conditions at its properties. It is also possible that asbestos containing material ("ACM") and polychlorinated biphenyls ("PCB") in light fixtures may be present at some properties, which may result in future removal and disposal costs; however, management is not aware of any such presence in its current property.

General Uninsured Losses

The Company's investment property is insured however, certain types of risks (generally of a catastrophic nature such as from wars or environmental contamination) which are either uninsurable or not insurable on an economic basis. Should an uninsured or underinsured loss occur, the Company could lose its investment in, and anticipated profits and cash flows from, the property, while still being obligated to repay any recourse mortgage indebtedness on such properties. If a loss occurs in excess of insured limits, the Company could lose all or part of its investment in, and anticipated profits and cash flows from such property.

Technology and information security

The Company is also subject to technology and information security risk, including the risk that confidential information held by the Company is stolen or accessed causing financial or personal harm to the affected individual(s) or the Company's business. The Company reduces this risk through enhancement of policies and procedures, and monitoring and auditing to ensure compliance related to information technology, safety of data, and secure storage of physical files. The Company is also subject to risks related to reliance on key personnel and catastrophic and general uninsured loss.

COVID-19

The impact of the COVID-19 pandemic, with its combined health toll and sharp decline in global economic output, is unprecedented and the full extent of the impact will depend on future developments. These developments are highly uncertain and cannot be accurately predicted, including new information which may emerge concerning its severity, its duration and actions by government authorities to contain the outbreak or manage its impact. As a result, it is not possible to determine the impact of COVID-19 on the ability of the Company to continue as a going concern at this time.

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Related Party Transactions

a. *Key management personnel*

Transactions with key management personnel, including compensatory arrangements, require disclosure. Key management personnel include the Company's officers and directors.

b. *Transactions*

For the three months ended September 30, 2020 the Chief Executive Officer received \$240,000 in salary and the Chief Financial Officer received \$217,500 for consulting fees.

Summary of transactions with key management and directors:

	Nine months ended September 30, 2020	
Salary	\$	240,000
Consulting fees		217,500
Directors fees		92,827
Stock-based compensation		532,669
	\$	1,082,996

Included in accounts payable is \$92,250 (December 31, 2019 - \$nil) owing to officers and directors of the Company.

Significant Accounting Estimates and Judgements

The preparation of the condensed interim consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets, liabilities and expenses, as well as the Company's ability to continue as a going concern. The estimates and assumptions made are continually evaluated and have been based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Such estimates and assumptions are inherently uncertain. Actual results could differ materially from these estimates and assumptions. Revisions to estimates are recognized in the period in which the estimate is revised and may impact future periods.

In preparation of the condensed interim consolidated financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the period ended December 31, 2019.

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Financial Instruments and Other Instruments

The Company classifies its financial instruments as follows:

September 30, 2020	Financial assets at amortized cost	Financial liabilities at amortized cost	Financial assets at fair value through profit and loss
Cash and cash equivalents	\$ -	\$ -	\$ -
Receivables	16,232	-	-
Checks issued in excess of cash on deposit	(138,458)	-	-
Accounts payable and accrued liabilities	-	598,200	-
Total	\$ (122,226)	\$ 598,200	\$ -

December 31, 2019	Financial assets at amortized cost	Financial liabilities at amortized cost	Financial assets at fair value through profit and loss
Cash and cash equivalents	\$ 829,811	\$ -	\$ -
Receivables	14,293	-	-
Accounts payable and accrued liabilities	-	191,415	-
Total	\$ 844,104	\$ 191,415	\$ -

Risk factors

The Company's financial instruments consist of cash, marketable securities, receivables and other financial liabilities. As at September 30, 2020, the carrying values and fair values of the Company's financial instruments are approximately the same.

The Company is exposed, in varying degrees, to the following financial instrument related risks:

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is in its cash and cash equivalents. This risk is managed through the use of a major bank which is a high credit quality financial institution as determined by rating agencies.

Liquidity Risk

Liquidity risk arises through the excess of financial obligations due at any point in time over available financial assets. The Company's objective in managing liquidity risk is to maintain sufficient readily available working capital to meet its liquidity requirements. At September 30, 2020, the Company had current financial assets of negative \$122,226 available to settle current financial liabilities of \$598,200.

Market Risk

The only significant market risk exposure to which the Company is exposed is interest rate risk. The Company's exposure to interest rate risk relates to its ability to earn interest income on its cash balances is immaterial currently.

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Subsequent Events

a. The initial public offering of the Company

On October 29, 2020, the Company completed its initial public offering and cornerstone placement of common shares of the Company. Kadestone issued 8,306,450 Common Shares pursuant to the Offering and 9,200,000 Common Shares pursuant to the Cornerstone Placement at a price of \$0.80 per Common Share for total gross proceeds of \$14,005,160.

b. Purchase and financing of Kyle Road Property

On October 30, 2020, the Company completed the purchase of the Kyle Road Property. The balance payable plus closing costs was settled with a combination of cash raised through the Offering and a debt facility established by the Company with a major bank on August 6, 2020. The facility allows the Company to draw up to \$4,925,000 in debt for a term of one year at an interest rate of prime plus 2.00%.

Additional Information

Additional information relating to the Company can be found on SEDAR at www.sedar.com.