



Kadestone Capital Corp.

Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2020
(Unaudited – Prepared by Management)

(expressed in Canadian Dollars)

These unaudited condensed interim consolidated financial statements of Kadestone Capital Corp. (the “Company”) 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 interim 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.

Kadestone Capital Corp.

Condensed Interim Consolidated Financial Statements
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(Unaudited – Prepared by Management)
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Table of Contents	Page
Condensed Interim Consolidated Statements of Financial Position	1
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss	2
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity	3
Condensed Interim Consolidated Statements of Cash Flows	4
Notes to the Condensed Interim Consolidated Financial Statements	5-11

Kadestone Capital Corp.
Condensed Interim Consolidated Statements of Financial Position
(Unaudited)
(in Canadian dollars)

	Notes	September 30, 2020	December 31, 2019
Assets			
Current			
Cash and cash equivalents		\$ -	\$ 829,811
Receivables		16,232	14,293
Prepaid expenses		77,973	33,333
Deferred financing costs		61,250	61,250
		<u>155,455</u>	<u>938,687</u>
Investment properties	4	1,688,927	1,679,120
Property purchase deposit	4	<u>1,795,000</u>	<u>-</u>
Total Assets		<u>\$ 3,639,382</u>	<u>\$ 2,617,807</u>
Liabilities and Shareholders' Equity			
Current			
Checks issued in excess of funds on deposit		\$ 138,458	\$ -
Accounts payable and accrued liabilities		<u>598,200</u>	<u>191,415</u>
Total Liabilities		<u>736,658</u>	<u>191,415</u>
Shareholders' equity			
Share capital	5	4,513,301	2,897,801
Contributed surplus		609,440	24,875
Deficit		<u>(2,220,017)</u>	<u>(496,284)</u>
		<u>2,902,724</u>	<u>2,426,392</u>
Total Liabilities and Shareholders' Equity		<u>\$ 3,639,382</u>	<u>\$ 2,617,807</u>

Business of the Company and Going Concern (Note 1)

Subsequent events (Note 9)

Approved on behalf of the Board of Directors

“Brent Billey”

Brent Billey

“Norm Mayr”

Norm Mayr

Kadestone Capital Corp.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Unaudited)

(in Canadian dollars)

	Notes	Number of Common shares	Common shares	Contributed surplus	Accumulated deficit	Total
July 2, 2019		-	\$ -	\$ -	\$ -	\$ -
Issuance of common shares in private placement	5	23,315,100	1,429,001	-	-	1,429,001
Issuance of common shares for investment property acquisition	5	3,672,000	1,468,800	-	-	1,468,800
Stock-based compensation	5	-	-	24,875	-	24,875
Loss for the period		-	-	-	(496,284)	(496,284)
December 31, 2019		26,987,100	2,897,801	24,875	(496,284)	2,426,392
Issuance of common shares for property purchase deposit	5	2,019,375	1,615,500	-	-	1,615,500
Stock-based compensation	5	-	-	584,565	-	584,565
Loss for the period		-	-	-	(1,723,733)	(1,723,733)
September 30, 2020		29,006,475	\$ 4,513,301	\$ 609,440	\$ (2,220,017)	\$ 2,902,724

See notes to condensed interim consolidated financial statements

Kadestone Capital Corp.
Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)
(in Canadian dollars)

	Nine months ended September 30, 2020	
Operating activities		
Loss for the period	\$	(1,723,733)
Adjustments for items not affecting cash:		
Stock-based compensation		584,565
		<u>(1,139,168)</u>
Changes in non-cash working capital balances:		
Receivables		(1,939)
Prepaid expenses		(44,640)
Checks issued in excess of funds on deposit		138,458
Accounts payable and accrued liabilities		421,198
		<u>(626,091)</u>
Net cash used in operating activities		(626,091)
Investing activities		
Acquisition of investment properties		(24,220)
Payment of property purchase deposit		(179,500)
		<u>(203,720)</u>
Net cash used in investing activities		(203,720)
Change in cash and cash equivalents		<u>(829,811)</u>
Cash and cash equivalents, beginning of the period		829,811
Cash and cash equivalents, end of the period	<u>\$</u>	<u>-</u>

The significant non-cash transaction for the period was the issuance of 2,019,375 common shares at a value of \$1,615,500 towards the deposit for the acquisition of an investment property.

Kadestone Capital Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2020

(Unaudited)

(in Canadian dollars)

1. Business of the Company and Going Concern

Kadestone Capital Corp. (the “Company”) 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 Bentall Centre, 595 Burrard Street, Vancouver, BC Canada, V7X 1L3.

The Company is in the process of completing an initial public offering for common shares at a price to be determined and list on the TSX Venture Exchange (“TSX-V”) (Note 9).

The condensed interim consolidated financial statements have been prepared on a going concern basis. The Company’s ability to continue operations depends on management’s ability to raise additional equity financing in order to acquire additional investment properties to generate ongoing revenue to maintain operations. Management is actively pursuing such additional sources of equity financing. However, there is no assurance that they will be able to do so successfully.

As at September 30, 2020, the Company had current financial assets of negative \$122,226 available to settle current financial liabilities of \$598,200. Subsequent to September 30, 2020, the Company completed its initial public offering and raised gross proceeds of \$14,005,160. However, the Company’s business does not currently generate sufficient funds to maintain operations and the Company will require additional funding to maintain its operations and carry out its business plan. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern.

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 on the Company’s ability to continue as a going concern at this time.

These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on November 18, 2020.

2. Basis of Presentation and Statement of Compliance

a. Statement of Compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”, as issued by the International Accounting Standards Board (“IASB”). These condensed interim consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements as at and for the period ended December 31, 2019, as some disclosures from the annual financial statements have been condensed or omitted.

b. Basis of Presentation

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments that have been measured at fair value. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

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

Kadestone Capital Corp.

Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2020

(Unaudited)

(in Canadian dollars)

c. Significant Accounting Estimates and Judgements

The preparation of these 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.

3. Significant Accounting Policies

The principal accounting policies adopted in the preparation of these condensed interim consolidated financial statements are the same as those applied to the consolidated financial statements for the period ended December 31, 2019.

The policies applied are based on the IFRS issued and outstanding as at the date of these condensed interim consolidated financial statements.

4. Investment properties

- a. 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 51% interest in the property was purchased for \$1,679,120 including costs of \$47,120. The Company paid cash of \$163,200 and issued 3,672,000 common shares with a value of \$0.40 per share.

The holder of the 49% interest in the property is responsible for the management of the property as set out in the operating agreement. Pursuant to the agreement, the Company will receive a 51% share of the property revenues less operating expenses. The Company has recognized net profits of \$7,351 for the nine month period ended September 30, 2020.

The holder of the 49% interest solely holds the mortgage debt of \$1,419,165 on the property. The Company's 51% interest in the property is partial security for the mortgage debt. As well, the Company and a director have provided corporate and personal guarantees for the mortgage debt and the Company has indemnified the director for this personal guarantee.

- b. On February 25, 2020, the Company entered into an Assignment, Assumption and Modification of Purchase Agreement (the "Kyle Road Agreement") which assigned to the Company the rights in an agreement to purchase Phase One of a light industrial development interest (the "Kyle Road Property").

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. See note 9, subsequent events.

The Company purchased the rights to the Kyle Road Agreement on February 25, 2020 for \$1,795,000 representing reimbursement of the first and second deposits. The Company paid \$179,500 in cash and issued 2,019,375 shares with a value of \$0.80 per share.

Kadestone Capital Corp.

Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2020

(Unaudited)

(in Canadian dollars)

5. Shareholders' equity

a. Share capital

The Company has an unlimited number of common shares authorized and has issued 29,006,475 as at September 30, 2020 at no par value.

On December 31, 2019, the Company issued 3,672,000 common shares at a value of \$1,468,800 as partial payment for the acquisition of an investment property (note 4).

On February 25, 2020, the Company issued 2,019,375 common shares at a value of \$1,615,500 as partial payment for the deposit on the acquisition of an investment property (note 4).

During the nine months ended September 30, 2020 the Company did not issue any shares for cash. During the period ended December 31, 2019, the Company issued the following common shares for cash:

Date	Shares	Price	Value
July 2, 2019	100	\$0.01	\$ 1
December 2, 2019	14,200,000	\$0.01	142,000
December 16, 2019	6,740,000	\$0.05	337,000
December 31, 2019	2,375,000	\$0.40	950,000
Total	23,315,100	\$	1,429,001

See note 9, subsequent events.

b. Stock based compensation

The Company approved the Stock Option Plan (the "Plan") on December 31, 2019. The purpose of this Plan is to attract, retain and motivate qualified Directors, Officers, Employees and Consultants (the "Participants"), to reward those Participants for their contributions toward the long term goals of the Company and to enable and encourage the Participants to acquire common shares as long term investments.

In accordance with the Plan, stock options are granted at the sole discretion of the board of directors of the Company. At issuance of the stock options, the board of directors determines the award date, the number of options granted, the exercise price, vesting schedule, exercise period and any other terms. Common shares available to Participants through the Plan will not exceed 10% of the outstanding common shares of the Company. In addition, no one person will receive more than 5% of the issued and outstanding capital of the Company through the Plan and consultants or persons employed to conduct investor relations will receive no more than 2%.

On December 31, 2019, the Company granted 1,000,000 options with an exercise price of \$0.40, expiry date of December 31, 2029 and a vesting period of 36 months with 1/36th of the award vesting every month and 250,000 options with an exercise price of \$0.40, expiry date of December 31, 2029 and a vesting period of 6 months with 1/6th of the award vesting every month. The fair value of options granted was \$447,766.

On March 3, 2020, the Company granted 400,000 options with an exercise price of \$0.80, expiry date of March 3, 2030 and a vesting period of 36 months with 1/36th of the award vesting every month. These options were awarded to the Company's board of directors and each of the four directors received 100,000 options. The fair value of options granted was \$285,287.

On June 10, 2020, the Company granted 100,000 options to the Chief Financial Officer. These options have an exercise price of \$0.80, expiry date of June 10, 2030 and a vesting period of 6 months with 1/6th of the award vesting every month. The fair value of the options granted was \$71,149.

Kadestone Capital Corp.

Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2020

(Unaudited)

(in Canadian dollars)

The Company has valued these grants based on the Black-Scholes option pricing model with the following assumptions. Expected stock price volatility was derived from a sample of similar publicly traded companies.

Grant Date	March 3, 2020	June 10, 2020
Expected dividend yield	Nil	Nil
Expected stock price volatility	100%	100%
Risk-free interest rate	0.96%	0.57%
Expected life of options	10 years	10 years
Forfeiture rate	Nil	Nil

As at September 30, 2020, 672,222 (December 31, 2019 - 69,444) of the total stock options outstanding had vested. The Company recognized \$584,565 in stock-based compensation expense for the nine months ended September 30, 2020.

Stock option transactions from July 2, 2019 to September 30, 2020 are as follows:

	Number of options	Weighted Average Exercise Price
Issued options	1,250,000	\$0.40
Balance at December 31, 2019	1,250,000	\$0.40
Issued options	500,000	\$0.80
Balance at September 30, 2020	1,750,000	\$0.51
Exercisable at September 30, 2020	672,222	\$0.49

As at September 30, 2020, the following stock options were outstanding and exercisable:

Number Outstanding	Number Exercisable	Exercise Price	Expiry Date
250,000	277,778	\$0.40	June 30, 2020
1,000,000	250,000	\$0.40	December 31, 2029
400,000	77,778	\$0.80	March 3, 2030
100,000	66,667	\$0.80	June 10, 2030

6. Loss per share

	Three months ended September 30, 2020	Nine months ended September 30, 2020	For the period from date of incorporation July 2, 2019 to September 30, 2020
Loss	\$ 493,751	\$ 1,723,733	\$ 195
Weighted average number of shares	29,006,475	28,549,536	69
Basic and diluted loss per share	\$ 0.02	\$ 0.06	\$ 2.82

Kadestone Capital Corp.

Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2020

(Unaudited)

(in Canadian dollars)

7. 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

During the nine 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.

8. Financial instruments and risk factors

The Company classifies its financial instruments as follows:

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

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

Kadestone Capital Corp.

Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2020

(Unaudited)

(in Canadian dollars)

Risk factors

The Company's financial instruments consist of cash and cash equivalents, receivables and accounts payable and accrued 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.

Management of Capital

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue the development of its business and maintain a flexible capital structure, which optimizes the costs of capital at an acceptable risk. The Company considers its capital for this purpose to be its shareholders' equity.

The Company's primary source of capital is through the issuance of equity. The Company manages and adjusts its capital structure when changes in economic conditions occur. To acquire additional investment properties the Company will seek additional capital funding. The Company may require additional capital resources to meet its administrative overhead expenses in the long term. The Company believes it will be able to raise capital as required in the long term but recognizes there will be risks involved that may be beyond its control. There are no external restrictions on the management of capital.

Kadestone Capital Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2020

(Unaudited)

(in Canadian dollars)

9. 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%.