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# **Kadestone Capital Corp.**

Condensed Interim Consolidated Financial Statements  
For the three and six months ended June 30, 2021 and 2020  
(Unaudited – Prepared by Management)

(expressed in Canadian Dollars)

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*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  
For the three and six months ended June 30, 2021 and 2020

(Unaudited – Prepared by Management)  
(expressed in Canadian Dollars)

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<b>Table of Contents</b>	<b>Page</b>
<hr/>	
Financial Statements	
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	5-15

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

	Notes	June 30, 2021	December 31, 2020
<b>Assets</b>			
<b>Current</b>			
Cash and cash equivalents	4	\$ 248,678	\$ 8,802,170
Restricted term deposits	5	1,091,746	200,846
Receivables		114,075	61,302
Prepaid expenses and deposits		27,394	65,825
Loan receivable	11c	-	1,001,753
Investment property held for sale	6	9,999,000	-
		<u>11,480,893</u>	<u>10,131,896</u>
<b>Non-current assets</b>			
Investment properties	6	1,458,600	10,527,661
Investments in associates	7	8,800,000	-
		<u>10,258,600</u>	<u>10,527,661</u>
<b>Total assets</b>		<b>\$ 21,739,493</b>	<b>\$ 20,659,557</b>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 612,529	\$ 277,523
Debt on investment property held for sale	8	4,892,086	4,843,620
		<u>5,504,615</u>	<u>5,121,143</u>
<b>Non-current liabilities</b>			
Loan payable	11d	1,300,000	-
		<u>1,300,000</u>	<u>-</u>
<b>Total liabilities</b>		<b>6,804,615</b>	<b>5,121,143</b>
<b>Shareholders' equity</b>			
Share capital	9a	17,802,383	17,799,188
Contributed surplus		1,045,693	771,319
Deficit		(3,913,198)	(3,032,093)
		<u>14,934,878</u>	<u>15,538,414</u>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 21,739,493</b>	<b>\$ 20,659,557</b>

Business of the Company and Going Concern (Note 1)  
Subsequent Events (Note 15)

Approved on behalf of the Board of Directors

“Brent Billey”

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Brent Billey

“Norm Mayr”

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Norm Mayr

# Kadestone Capital Corp.

## Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Unaudited)

(in Canadian dollars)

		Three months ended		Six months ended	
	Notes	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
<b>Revenue</b>					
Rental revenue		\$ 24,473	\$ -	\$ 29,431	\$ -
Sales revenue		45,255	-	45,255	-
Net profits interest		(2,758)	2,722	(2,972)	7,351
		66,970	2,722	71,714	7,351
Property operating expense		45,950	-	94,614	-
Costs of goods sold		40,350	-	40,350	-
		(19,330)	2,722	(63,250)	7,351
<b>Operating expenses</b>					
Professional fees		126,365	136,860	159,869	404,937
Stock-based compensation	9b	150,318	204,819	275,469	421,696
Consulting fees	11b	16,526	79,150	64,784	188,259
Salaries and wages	11b	154,762	90,000	286,824	154,097
Directors' fees	11b	45,720	31,250	88,279	55,577
Dues and subscriptions		4,055	-	46,332	-
Insurance expense		8,013	-	17,583	-
Computer expense		1,368	259	3,352	5,440
Marketing		6,795	196	43,247	3,153
Office supplies		1,475	330	2,575	3,714
Bank charges		673	215	1,416	460
		516,070	543,079	989,730	1,237,333
Operating loss		(535,400)	(540,357)	(1,052,980)	(1,229,982)
<b>Other income and expenses</b>					
Fair value adjustment on investment properties	6	294,222	-	294,222	-
Interest expense		(79,030)	-	(157,171)	-
Interest revenue		16,286	-	34,824	-
<b>Loss and comprehensive loss</b>		<b>\$ (303,922)</b>	<b>\$ (540,357)</b>	<b>\$ (881,105)</b>	<b>\$ (1,229,982)</b>
Basic and diluted loss per share	10	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.04)

See notes to condensed interim consolidated financial statements

# 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
<b>December 31, 2019</b>		26,987,100	\$ 2,897,801	\$ 24,875	\$ (496,284)	\$ 2,426,392
Issuance of common shares for property purchase	9a	2,019,375	1,615,500	-	-	1,615,500
Stock-based compensation	9b	-	-	421,696	-	421,696
Loss for the period		-	-	-	(1,229,982)	(1,229,982)
<b>June 30, 2020</b>		<b>29,006,475</b>	<b>4,513,301</b>	<b>446,571</b>	<b>(1,726,266)</b>	<b>3,233,606</b>
<b>December 31, 2020</b>		46,512,925	17,799,188	771,319	(3,032,093)	15,538,414
Issuance of common shares from exercise of stock options	9a	2,625	3,195	(1,095)	-	2,100
Stock-based compensation	9b	-	-	275,469	-	275,469
Loss for the period		-	-	-	(881,105)	(881,105)
<b>June 30, 2021</b>		<b>46,515,550</b>	<b>\$ 17,802,383</b>	<b>\$ 1,045,693</b>	<b>\$ (3,913,198)</b>	<b>\$ 14,934,878</b>

See notes to condensed interim consolidated financial statements

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

	<b>Six months ended June 30, 2021</b>	<b>Six months ended June 30, 2020</b>
<b>Operating activities</b>		
Loss for the period	\$ (881,105)	\$ (1,229,982)
Adjustments for items not affecting cash:		
Stock-based compensation	275,469	421,696
Accrued interest	(7,672)	-
Amortization of finance costs	48,466	-
Amortization of leasing commissions	1,413	-
Fair value adjustment on investment properties	(294,222)	-
	<u>(857,651)</u>	<u>(808,286)</u>
Changes in non-cash working capital balances:		
Restricted term deposits	109,100	-
Receivables	(43,348)	(18,506)
Prepaid expenses and deposits	38,431	(25,417)
Accounts payable and accrued liabilities	118,866	247,521
	<u>(634,602)</u>	<u>(604,688)</u>
Net cash used in operating activities	(634,602)	(604,688)
<b>Investing activities</b>		
Advances to equity accounted investments	(8,800,000)	-
Repayment of loan receivable	1,000,000	-
Acquisition of investment properties	-	(24,220)
Loan to related party	-	(179,500)
Investment in restricted term deposits	(1,000,000)	-
Additions to investment properties	(407,000)	-
Other investment property expenditures	(13,990)	-
	<u>(9,220,990)</u>	<u>(203,720)</u>
Net cash used in investing activities	(9,220,990)	(203,720)
<b>Financing activities</b>		
Cash from exercise of stock options	2,100	-
Cash from loan payable	1,300,000	-
	<u>1,302,100</u>	<u>-</u>
Net cash from financing activities	1,302,100	-
<b>Change in cash and cash equivalents</b>	<u>(8,553,492)</u>	<u>(808,408)</u>
<b>Cash and cash equivalents, beginning of the period</b>	8,802,170	829,811
<b>Cash and cash equivalents, end of the period</b>	<u>\$ 248,678</u>	<u>\$ 21,403</u>

Supplemental cash flow information (Note 12)

# Kadestone Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the six months ended June 30, 2021 and 2020

(Unaudited)

(in Canadian dollars)

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### 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. On October 29, 2020, the Company completed its initial public offering and commenced trading on the TSX Venture Exchange (the “TSXV”). Its principal business activity is the development, acquisition, and management of residential, commercial income producing properties and the procurement and sale of building materials 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 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 financing in order to acquire additional investment properties to generate ongoing revenue to maintain operations. Management is actively pursuing such additional sources of financing. However, there is no assurance that they will be able to do so successfully.

As at June 30, 2021, the Company had current financial assets of \$1,454,499 available to settle current financial liabilities of \$5,504,615. The Company’s business does not currently generate sufficient funds to maintain long-term operations and may require additional financing in the future. However, management believes that current financial assets at June 30, 2021 and the additional cash resulting from the sale of the investment property held for sale (note 6) will be sufficient to meet the Company’s known financial commitments for the next twelve months.

These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on August 18, 2021.

### 2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

#### a. Statement of Compliance

The unaudited condensed interim consolidated financial statements of the Company 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 year ended December 31, 2020, as some disclosures from the annual financial statements have been condensed or omitted.

#### b. Basis of Presentation

These consolidated financial statements have been prepared on a historical cost basis except for investment properties and certain financial instruments that have been measured at fair value. In addition, these 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.

#### 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, revenues 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

# **Kadestone Capital Corp.**

## **Notes to the Condensed Interim Consolidated Financial Statements**

**For the six months ended June 30, 2021 and 2020**

(Unaudited)

(in Canadian dollars)

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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 year ended December 31, 2020 with the addition of judgement used to determine the accounting basis for investments in associates.

### **d. Basis of Consolidation**

The Company's wholly owned subsidiaries are Kadestone (Kyle Road) Property Ltd., Kadestone Building Materials Ltd., 1230609 B.C. Ltd., 1231477 B.C. Ltd., Kadestone Property (Lickman Road) Ltd. and Kadestone Properties Squamish Ltd.

All intercompany balances, transactions and unrealized profits resulting from inter-company transactions have been eliminated.

### **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, 2020 with the addition of the following:

#### **Accounting for Investment in Associates**

Associates are entities over which the Company has significant influence over the financial and operating policies of the entities and that are neither subsidiaries nor interests in joint ventures.

Investments in associates are accounted for using the equity method and initially recorded at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate. The Company's share of the associate profit or loss is recognized in the Company's consolidated statements of comprehensive income.

#### **Revenue Recognition – Building Materials**

The Company recognizes revenue from the sale of building materials in Canada and the United States from its partnerships with overseas suppliers. Revenue from the sale of products and services is recognized, net of discounts and customer rebates, at the point in time the transfer of control of the related products has taken place (based on shipping or delivery terms as specified in the sales contract), and collectability is reasonably assured.

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

### **4. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include cash held at the bank of \$248,678 (December 31, 2020 - \$796,449) and guaranteed investment certificates (GICs) of \$nil (December 31, 2020 - \$8,005,721).

### **5. RESTRICTED TERM DEPOSITS**

Restricted term deposits consist of an interest reserve associated with debt on investment property (note 6) and a restricted GIC held for deposit on construction. As at June 30, 2021 the interest reserve had a balance of \$91,746 (December 31, 2020 - \$200,846) and the restricted GIC had a balance of \$1,000,000 (December 31, 2021 - \$nil).

# Kadestone Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended June 30, 2021 and 2020

(Unaudited)

(in Canadian dollars)

### 6. INVESTMENT PROPERTIES

On December 31, 2019, the Company acquired a 51% interest in a commercial real estate property located in West Vancouver.

On October 30, 2020, the Company completed the transaction for the purchase of an industrial property located on Kyle Road in West Kelowna.

The total purchase price of the Kyle Road Property was \$8,975,000, plus transaction costs of \$177,165 net of \$83,104 in construction refunds. The purchase price was settled with cash of \$7,359,500 and the issuance of 2,019,375 common shares with a value of \$1,615,500. The Company also paid costs of \$24,319 related to the extension of the purchase contract closing date and these costs were expensed.

Changes to the carrying amounts of investment properties are summarized as follows:

	Six months ended		Year ended	
	June 30, 2021		December 31, 2020	
Balance, beginning of period	\$	10,527,661	\$	1,679,120
Acquisitions		-		9,069,061
Other additions		563,738		9,807
Leasing commissions		73,392		-
Amortization of leasing commissions		(1,413)		-
Fair value adjustments		294,222		(230,327)
Investment property held for sale		(9,999,000)		-
Balance, end of period	\$	1,458,600	\$	10,527,661

For the six months ended June 30, 2021, the Company recorded a gain on fair value of \$294,222 for its investment properties (year ended December 31, 2020 – loss of \$230,327).

As at June 30, 2021 the Company has classified the industrial property located on Kyle Road in West Kelowna with a value of \$9,999,000 as held for sale.

#### Valuation Methodology

The appraised fair value of investment properties is most commonly determined using the following methodologies:

- Discounted cash flow method - Under this approach, discount rates are applied to the projected annual operating cash flows, generally over a minimum ten-year period, including any terminal value of the properties based on a capitalization rate applied to the estimated net operating income (“NOI”), a non-GAAP measure. This method is primarily used to value rental property portfolios.
- Comparable sales method - This approach compares a subject property’s characteristics with those of comparable properties which have recently sold. The process uses one of several techniques to adjust the price of the comparable transactions according to the presence, absence, or degree of characteristics which influence value. These characteristics include the cost of construction incurred at a property under development. This method is primarily used to value development property portfolios.

As part of the Company’s valuation process, valuations are prepared by management based primarily on assumptions relating to cash flow from current leases, rental income from future leases in light of current market

# Kadestone Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended June 30, 2021 and 2020

(Unaudited)

(in Canadian dollars)

conditions, and capitalization rates. In addition, management will utilize external valuations performed by independent real estate valuation firms. On a quarterly basis, the valuation models are reviewed and updated as necessary to reflect current market data.

### Significant Inputs

There are significant unobservable inputs used, such as capitalization rates, in determining the fair value of each investment property. Accordingly, all investment properties are measured in accordance with the fair value measurement levels and the inputs for investment properties comprise Level 3 unobservable inputs, reflecting management's best estimate of what market participants would use in pricing the asset at the measurement date. Fair values are most sensitive to changes in capitalization rates and stabilized or forecasted NOI. Generally, an increase in NOI will result in an increase in the fair value of investment properties and an increase in capitalization rates will result in a decrease in the fair value of investment properties.

Assuming no change to NOI, a 5% change in the capitalization rate would change the fair value of the investment properties by approximately \$70,000.

### 7. INVESTMENTS IN ASSOCIATES

Investments in associates consist of:

<b>Equity Accounted Investments</b>	<b>General Partnership Ownership</b>	<b>Limited Partnership Ownership</b>	<b>June 30, 2021</b>	<b>December 31, 2020</b>
Kadestone Property (Lickman Road) Ltd.	0%	80%	\$ 1,600,000	\$ -
Kadestone Properties Squamish Ltd.	0%	80%	7,200,000	-
<b>Total</b>			<b>\$ 8,800,000</b>	<b>\$ -</b>

On April 30, 2021, the Company funded initial deposits of \$1,600,000 to acquire an 80% interest in limited partnership units which holds a development property located in Chilliwack, B.C. Land for the project was purchased for a purchase price of \$23,432,500 and will be used for a future light industrial and commercial development. The Company will guarantee all loans incurred in respect of the property and future development. The Company has additional estimated equity funding commitments of \$10,852,000 payable over the 42-month development period.

On May 12, 2021, the Company funded initial deposits of \$400,000 to acquire an 80% interest in limited partnership units which holds a development property located in Squamish, B.C. Land for the project was purchased for a purchase price of \$20,818,725 and will be used for a future light industrial development. The Company will guarantee all loans incurred in respect of the property and future development. On June 25, 2021, the Company funded additional estimated equity of \$6,800,000. The Company has additional equity funding commitments of \$4,704,000 payable over the 36-month development period.

Summary financial information for equity accounted investments, not adjusted for the percentage ownership held by the Company:

<b>Equity Accounted Investments</b>	<b>June 30, 2021</b>	<b>December 31, 2020</b>
Current assets	\$ 23,000,246	\$ -
Current liabilities	12,000,000	-
Revenue	252	-
Expenses	\$ 6	\$ -

# Kadestone Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended June 30, 2021 and 2020

(Unaudited)

(in Canadian dollars)

### 8. DEBT ON INVESTMENT PROPERTY HELD FOR SALE

On October 30, 2020, the Company obtained a \$4,925,000 capital loan from a major credit union to provide financing for the acquisition of the Kyle Road Property. The loan is due on demand but no later than October 31, 2021 and bears interest at the greater of prime plus 2% per annum or 4.45% per annum. The prime rate at June 30, 2021 was 2.45%. The Company incurred transaction costs of \$97,298 which are being amortized over the term of the loan. The loan is secured by a fixed first charge over the property.

	<b>Six months ended</b>		<b>Year ended</b>
	<b>June 30, 2021</b>		<b>December 31, 2020</b>
Balance, beginning of period	\$ 4,843,620	\$	-
Proceeds from debt issuances	-		4,925,000
Costs associated with debt issuance	-		(97,298)
Amortization of deferred financing costs	48,466		15,918
Balance, end of period	\$ 4,892,086	\$	4,843,620

### 9. SHAREHOLDERS' EQUITY

#### a. Share Capital

The Company has an unlimited number of common shares authorized and has issued 46,515,550 as at June 30, 2021 at no par value.

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 the Kyle Road investment property (note 6).

On October 29, 2020, the Company completed its cornerstone placement of common shares whereby the Company issued 9,200,000 common shares at a price of \$0.80 per common share for total gross proceeds of \$7,360,000.

On October 29, 2020, the Company completed its initial public offering of common shares whereby the Company issued 8,306,450 common shares at a price of \$0.80 per common share for total gross proceeds of \$6,645,160. The Company also incurred \$545,967 in issuance costs related to the offering and issued 415,322 agent options with a fair value of \$173,306.

On May 13, 2021, 750 shares were issued for agent's options exercised. These options had an exercise price of \$0.80.

On June 9, 2021, 1,875 shares were issued for agent's options exercised. These options had an exercise price of \$0.80.

**Kadestone Capital Corp.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the six months ended June 30, 2021 and 2020**  
(Unaudited)  
(in Canadian dollars)

From December 31, 2019 to June 30, 2021 the Company has issued the following common shares:

<b>Date</b>	<b>Shares</b>	<b>Price</b>	<b>Value</b>
<b>Total – December 31, 2019</b>	<b>26,987,100</b>	<b>\$</b>	<b>2,897,801</b>
February 25, 2020	2,019,375	\$0.80	1,615,500
October 29, 2020	9,200,000	\$0.80	7,360,000
October 29, 2020	8,306,450	\$0.80	6,645,160
	46,512,925		18,518,461
Share issuance costs			(719,273)
<b>Total – December 31, 2020</b>	<b>46,512,925</b>		<b>17,799,188</b>
May 13, 2021	750	\$1.22	913
June 9, 2021	1,875	\$1.22	2,282
<b>Total – June 30, 2021</b>	<b>46,515,550</b>	<b>\$</b>	<b>17,802,383</b>

As at June 30, 2021, the Company has 24,001,106 and 2,973,000 common shares subject to escrow and pooling restrictions respectively. These shares will be released from restrictions in tranches through October 2023.

**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%.

The exercise price of an option will not be less than the closing price of common shares on the TSXV as of the award date.

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.

On March 5, 2021, the Company granted 481,000 options to the board of directors, the Chief Financial Officer and three consultants. These options have an exercise price of \$1.55, expiry date of March 5, 2031 and a vesting period of 36 months with 1/36th of the award vesting every month. The fair value of options granted was \$557,626.

# Kadestone Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended June 30, 2021 and 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.

<b>Grant Date</b>	<b>March 3, 2020</b>	<b>June 10, 2020</b>	<b>March 5, 2021</b>
Expected dividend yield	Nil	Nil	Nil
Expected stock price volatility	100%	100%	69%
Risk-free interest rate	0.96%	0.57%	1.50%
Expected life of options	10 years	10 years	10 years
Forfeiture rate	Nil	Nil	Nil

As at June 30, 2021, 1,056,750 (December 31, 2020 - 822,222) of the total stock options outstanding had vested. For the six months ended June 30, 2021 the Company recognized \$275,469 (six months ended June 30, 2020 - \$421,696) in stock-based compensation expense for vesting of options.

Stock option transactions from December 31, 2019 to June 30, 2021 are as follows:

	<b>Number of options</b>	<b>Weighted Average Exercise Price</b>
Balance at December 31, 2019	1,250,000	\$0.40
Issued options	500,000	\$0.80
Balance at December 31, 2020	1,750,000	\$0.51
Issued options	481,000	\$1.55
Balance at June 30, 2021	2,231,000	\$0.74
Exercisable at June 30, 2021	1,056,750	\$0.54

As at June 30, 2021, the following stock options were outstanding and exercisable:

<b>Number Outstanding</b>	<b>Number Exercisable</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
250,000	250,000	\$0.40	December 31, 2029
1,000,000	500,000	\$0.40	December 31, 2029
400,000	166,667	\$0.80	March 3, 2030
100,000	100,000	\$0.80	June 10, 2030
481,000	40,083	\$1.55	March 5, 2031

### c. Agent's Options

The Company granted 415,322 agent's options related to the initial public offering. These options have an exercise price of \$0.80, expiry date of October 29, 2022 and vest immediately. The fair value of the options granted of \$173,306 was estimated using the Black-Scholes options pricing model using expected dividend yield of nil, stock price volatility of 100%, risk-free interest rate of 0.23% and an expected term of 2 years. As at June 30, 2021, 2,625 options had been exercised and 412,697 are remained outstanding and exercisable.

# Kadestone Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended June 30, 2021 and 2020

(Unaudited)

(in Canadian dollars)

### 10. LOSS PER SHARE

	Three months ended		Six months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Loss	\$ (303,922)	\$ (540,357)	\$ (881,105)	\$ (1,229,982)
Weighted average number of shares	47,546,838	29,006,475	47,461,909	28,318,556
Basic and diluted loss per share	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.04)

### 11. 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

Summary of transactions with key management and directors:

	Six months ended June 30, 2021		Six months ended June 30, 2020	
Salary	\$	278,000	\$	150,000
Consulting fees		32,258		150,833
Directors' fees		82,500		55,577
Stock-based compensation		213,364		381,536
	\$	606,122	\$	737,946

Included in accounts payable is \$38,808 (December 31, 2020 - \$45,250) owing to officers and directors of the Company.

#### c. Loan Receivable

On December 15, 2020 the Company advanced \$1,000,000 by way of promissory note to a company controlled by a significant shareholder of the Company. The note was unsecured, due on 30 days written demand and bears interest at 4% per annum payable at the end of each quarter. On June 25, 2021, the principal amount of this loan was repaid and as of June 30, 2021 accrued interest of \$9,425 (December 31, 2020 - \$1,753) is included in accounts receivable.

#### d. Loan Payable

On June 25, 2021, the Company was advanced \$1,300,000 by way of a promissory note from a significant shareholder of the Company. The note is unsecured and bears interest at 10% per annum and compounded annually. Accrued interest will be payable on the maturity date of July 6, 2024.

### 12. SUPPLEMENTAL CASH FLOW INFORMATION

	Six months ended June 30, 2021		Six months ended June 30, 2020	
Interest received	\$	32,874	\$	-
Interest paid	\$	108,705	\$	-

# Kadestone Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended June 30, 2021 and 2020

(Unaudited)

(in Canadian dollars)

The significant non-cash transaction for the six months ended June 30, 2020 was the issuance of 2,019,375 common shares at a value of \$1,615,500 towards the acquisition of an investment property.

There were no significant non-cash transactions for the six months ended June 30, 2021.

### 13. SEGMENT DISCLOSURE

The Company and its subsidiaries operate in two distinct operating segments throughout Canada with some sales in the United States. These segments are property investment and the sale of building materials.

Six months ended June 30, 2021	Property investment	Building materials	Total
Rental revenue and net profits interest	\$ 26,459	\$ -	\$ 26,459
Sales revenue	-	45,255	45,255
	26,459	45,255	71,714
Property operating costs	94,614	-	94,614
Costs of goods sold	-	40,350	40,350
	(68,155)	4,905	(63,250)
Operating expenses	986,012	3,718	989,730
Operating loss	(1,054,167)	1,187	(1,052,980)
Other income and expenses	171,875	-	171,875
Net loss	\$ (882,292)	\$ 1,187	\$ (881,105)

### 14. FINANCIAL INFORMATION 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
<b>June 30, 2021</b>			
Cash and cash equivalents	\$ 248,678	\$ -	\$ -
Restricted term deposits	1,091,746	-	-
Receivables	114,075	-	-
Accounts payable and accrued liabilities	-	612,529	-
Debt on investment property	-	4,892,086	-
Loan payable	-	1,300,000	-
<b>Total</b>	<b>\$ 1,454,499</b>	<b>\$ 6,804,615</b>	<b>\$ -</b>
<b>December 31, 2020</b>			
Cash and cash equivalents	\$ 8,802,170	\$ -	\$ -
Restricted term deposits	200,846	-	-
Receivables	61,302	-	-
Loan receivable	1,001,753	-	-
Accounts payable and accrued liabilities	-	277,523	-
Debt on investment property	-	4,843,620	-
<b>Total</b>	<b>\$ 10,066,071</b>	<b>\$ 5,121,143</b>	<b>\$ -</b>

# Kadestone Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the six months ended June 30, 2021 and 2020

(Unaudited)

(in Canadian dollars)

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### 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 defines capital as the aggregate of shareholders' equity, debt on investment property and loans payable. 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.

### Risk Factors

The Company's financial instruments consist of cash and cash equivalents, restricted term deposits, receivables, accounts payable and accrued liabilities, debt on investment properties and loan payable. As at June 30, 2021, 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. As the Company has provided loans to facilitate business development, further credit risks arise in the event that borrowers default on the repayment of their amounts owing to the Company. The Company's loans and advances will be subordinate to prior ranking mortgages or charges. As at June 30, 2021, the Company did not have any loans receivable from other business.

The Company mitigates this risk by performing credit checks on potential borrowers, monitoring the financial and operating performance of borrowers and ensuring interest payments are made on time. Credit risk from lease receivables arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments, resulting in the Company incurring a financial loss. The Company manages credit risk to mitigate exposure to financial loss by staggering lease maturities, diversifying revenue sources over a large user base, ensuring no individual user contributes a significant portion of the company's revenues and conducting credit reviews of new users.

#### 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 June 30, 2021, the Company had current financial assets of \$1,454,499 available to settle current financial liabilities of \$5,504,615.

#### Market Risk

Market risk is the risk that the fair value or future cash flow of financial instruments will fluctuate because of changes in market prices. The Company is exposed to interest rate risk on its borrowings. The Company's mortgages payable as at June 30, 2021, are at floating interest rates and are exposed to changes in interest rates during the term of the debt. As at June 30, 2021, the mortgages payable, which are at floating interest rates and are exposed to changes in interest rates, had a balance outstanding of \$4,892,086 (December 31, 2020 - \$4,843,620).

# **Kadestone Capital Corp.**

## **Notes to the Condensed Interim Consolidated Financial Statements**

**For the six months ended June 30, 2021 and 2020**

(Unaudited)

(in Canadian dollars)

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### **15. SUBSEQUENT EVENTS**

- a. On July 7, 2021 the Company made an additional equity contribution of \$6,800,000 to the Chilliwack project, funded by additional borrowings from a significant shareholder (note 15(b)).
- b. On July 7, 2021 the Company borrowed an additional \$6,800,000 from a significant shareholder of the Company which increases the total borrowings to \$8,100,000. The Loan was funded by way of two advances. The first advance, in the amount of \$1,300,000, was received by the Company on June 25, 2021. The second advance, in the amount of \$6,800,000, was received by the Company on July 7, 2021. The Loan bears interest at a rate of 10%, compounded annually and payable by Kadestone on the maturity date.
- c. On August 16, 2021, the Company accepted a purchase offer for the Company's industrial strata property located at Kyle Road, Kelowna. The Company has agreed to sell the property for a price of \$10,100,000 less \$101,000 in selling commissions before closing costs. A fair value adjustment of \$294,222 was recorded and the sale is expected to close in October 2021 and is subject to TSX Venture Exchange approval.