



KADESTONE CAPITAL CORP.

MANAGEMENT DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2021

As of August 18, 2021

Kadestone Capital Corp.

Management Discussion and Analysis
For the six months ended June 30, 2021

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, management of residential and 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 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 June 30, 2021 and the results of its operations for the three and six months ended June 30, 2021 was prepared as of August 18, 2021. This MD&A should be read in conjunction with the Company’s condensed interim consolidated financial statements and accompanying notes for the three and six months ended June 30, 2021 and 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 fluctuations in the market for real estate investment opportunities, availability of project financing, 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

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which any such forward-looking statements may be based, or that may affect the likelihood that actual results will differ from those set forth in the forward-looking statements.

Current and Prior Period Activities and Corporate Developments

- 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 West 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 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 October 29, 2020, the Company completed its cornerstone placement of common shares whereby the Company issued 9,200,000 common shares pursuant to the cornerstone placement at a price of \$0.80 per common share for total gross proceeds of \$7,360,000.
- 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, which were expensed.
- 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 December 31, 2020 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.
- On March 5, 2021, 481,000 stock options were issued to officers, directors and consultants of the Company.
- On April 30, 2021, the Company funded initial deposits of \$1,600,000 to acquire limited partnership units in a property located in Chilliwack, B.C. (the "Chilliwack project"). 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 has an 80% equity interest in the property and will guarantee all loans incurred in respect of the property and future development.
- On May 12, 2021, the Company funded initial deposits of \$400,000 to acquire limited partnership units in a property located in Squamish, B.C. (the "Squamish project"). 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 has an 80% equity interest in the property and will guarantee all loans

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incurred in respect of the property and future development. On June 25, 2021, the Company funded additional equity of \$6,800,000.

- On July 7, 2021 the Company made an addition equity contribution of \$6,800,000 to the Chilliwack project, funded by additional borrowings from a significant shareholder as described below.
- 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.
- 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.

Selected Quarterly Information

Selected financial information from the statements of loss and comprehensive loss:

	Three months ended		Six months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Revenue				
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
Operating expenses				
Professional fees	126,365	136,860	159,869	404,937
Stock-based compensation	150,318	204,819	275,469	421,696
Consulting fees	16,526	79,150	64,784	188,259
Salaries and wages	154,762	90,000	286,824	154,097
Directors' fees	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)

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Other income and expenses

Fair value adjustment on investment properties	294,222	-	294,222	-
Interest expense	(79,030)	-	(157,171)	-
Interest revenue	16,286	-	34,824	-

Loss and comprehensive loss \$ (303,922) \$ (540,357) \$ (881,105) \$ (1,229,982)

Rental revenue consists of rental revenue earned from the Kyle Road property.

Sales revenue consists of revenues from the sales of building materials.

Net profits interest consists of the Company's 51% share of the profits of the Marine Drive property.

Property operating expense consists of expenses related to the operations of the Kyle Road property.

Costs of goods sold are expenses incurred to purchase building materials sold during the period.

Professional fees mainly consist of fees paid to lawyers for professional services related to the initial public offering, advisory services and property acquisitions.

Stock based compensation represents amounts relating to stock options issued to directors, officers and consultants to the Company.

Consulting fees mainly consist of consulting fees 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 and the Chief Financial Officer.

Fair value adjustment on investment properties relates to the fair value adjustment on the Kyle Road property which has been classified as held for sale.

Selected financial information extracted from the statements of financial position at June 30, 2021 and December 31, 2020:

	<u>June 30,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Total current assets	\$ 11,480,893	\$ 10,131,896
Investment properties	1,458,600	10,527,661
Investments in associates	8,800,000	-
Total assets	\$ 21,739,493	\$ 20,659,557
Accounts payable and accrued liabilities	\$ 612,529	\$ 277,523
Debt on investment property held for sale	4,892,086	4,843,620
Total current liabilities	5,504,615	5,121,143
Loan payable	1,300,000	-
Shareholders' equity	14,934,787	15,538,414
Total liabilities and shareholders' equity	\$ 21,739,493	\$ 20,659,557

Current assets primarily consist of investment properties held for sale of \$9,999,000 which consists of

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the Kyle Road investment property which as at the balance sheet date has been classified as held for sale. The Company has agreed to sell the property for a price of \$10,100,000 less \$101,000 in selling commissions before closing costs. The sale of this property is expected to close in October 2021

Also include in current assets is cash and cash equivalents of \$248,678, restricted term deposits of \$1,091,746 which consists of an interest reserve related to the debt on investment properties and a restricted term deposit and receivables of \$114,075.

Investment properties represents the 51% interest in the property in West Vancouver. As of the date of this MD&A, the property in West Vancouver is currently 100% leased.

Investment in associates consists of the 80% interests in limited partnership's which hold development properties located in Chilliwack, B.C. and Squamish, B.C. which, upon completion, are expected to be accretive to the Company's earnings.

For the development property located in Chilliwack, the limited partnership purchased land for a purchase price of \$23,432,500 and will be used for a future light industrial and commercial development. As of the date of this MD&A the Company has funded equity contributions of \$8,400,000 and has additional estimated equity funding commitments of \$4,052,000 payable over the 42-month development period.

For the development property located in Squamish, the limited partnership purchased land for a purchase price of \$20,818,725 and will be used for a future light industrial development. As of the date of this MD&A the Company has funded equity contributions of \$7,200,000 and has additional equity funding commitments of \$4,704,000 payable over the 36-month development period.

Debt on investment property held for sale is the mortgage debt related to the Kyle Road property described above.

Loan payable is 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.

Discussion of Operations

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

The Company is currently focused on using the cash raised through the initial public offering and the cornerstone placement to acquire additional investment properties in order to generate net rental revenue and gains through capital appreciation of these properties.

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Summary of Quarterly Results

The following summarizes the selected quarterly results for the Company since inception:

	Period from the date of incorporation on July 2, 2019 Sep 30, 2019	Three months ended Dec 31, 2019	Three months ended Mar 31, 2020	Three months ended Jun 30, 2020	Three months ended Sep 30, 2020	Three months ended Dec 31, 2020	Three months ended Mar 31, 2021	Three months ended Jun 30, 2021
Gross revenue	\$ -	\$ -	\$ 4,629	\$ 2,722	\$ 3,494	\$ 2,952	\$ 4,744	\$ 66,970
Loss from continuing operations	\$ (195)	\$ (496,089)	\$ (689,625)	\$ (540,357)	\$ (493,751)	\$ (812,076)	\$ (577,183)	\$ (303,922)
Loss per share (diluted and non-diluted)	\$ (2.82)	\$ (0.08)	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ (0.01)	\$ (0.01)

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 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 to 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 to 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 to prepare for the initial public offering.

During the three months ended December 31, 2020 the Company continued to incur professional and consulting fees involved with the initial public offering. The Company also incurred salary and other costs related to the ongoing operations. In addition, building operating expenses related to the Kyle Road property were incurred during this quarter.

During the three months ended March 31, 2021 the Company started to earn rental revenue and continued to incur building operating expenses related to the Kyle Road property. The Company continued to incur salary, consulting and professional and stock-based compensation expenses related to the ongoing operations of the company.

During the three months ended June 30, 2021 the Company continued its lease out of the Kyle Road property and continued to incur building operating expenses related to the property. In addition, the Company began sales of building materials to external customers. The Company continued to incur salary, consulting and professional and stock-based compensation expenses related to the ongoing operations of the company.

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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. The Company maintains larger cash balances from time to time for investment opportunities that may become available. The Company may invest a small portion of surplus cash in highly liquid interest-bearing bank instruments such as guaranteed investment certificates.

Another source of financing is from mortgage debt. The ability to obtain a mortgage loan is dependent upon the value of the property and the cash flows the specific property generates and the availability of funds from time to time from lending institutions. The Company expects to renew mortgage debt as it becomes due.

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 will be sufficient to meet the Company's known financial commitments for the next twelve months.

Disclosure of Outstanding Share Data

The authorized capital of the Company consists of an unlimited number of common shares without par value. The number of common shares issued and fully paid as at June 30, 2021 and at the date of this MD&A was 46,515,550.

As at June 30, 2021 and at the date of this MD&A, 2,231,000 options were granted; 2,643,697 common shares are available for future issuance under the Stock Option Plan.

As at June 30, 2021 and as at the date of this MD&A, the Company had 24,001,106 and 2,973,000 shares subject to escrow and pooling restrictions.

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

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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 favorable 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 100% leased. The Company has leased out 14 out of 20 units in the Kyle Road property. There is a risk the Company could experience delays in leasing the vacant 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 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

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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.

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		Six months ended
	June 30, 2021		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

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annually. Accrued interest will be payable on the maturity date of July 6, 2024. A second advance in the amount of \$6,800,000, was received by the Company on July 7, 2021.

Significant Accounting Estimates and Judgements

The preparation of the 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 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.

Management has applied significant estimates and assumptions to the following:

Valuation of share-based compensation

The Company measures the cost of equity-settled transactions with directors, officers and employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected: option life, volatility, risk-free interest rate, forfeiture rates, stock option exercise behaviours, dividend yield and corporate performance. Changes in these assumptions affect the fair value estimate for share-based compensation.

Income Taxes

Deferred tax assets, including those arising from un-utilized tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

Property acquisition

The Company acquires real estate properties in its normal course of business. At the time of acquisition, the Company uses judgement to determine whether or not the acquisition represents the acquisition of a business or assets. Specifically, the Company uses the concentration test, which states that if all the fair value of an acquisition is contained in a single asset or group of assets, then the acquisition is an asset acquisition. If the Company concludes the fair value is not concentrated in an asset or group of assets, further judgement is required to determine the type of acquisition.

The Company accounts for an acquisition as a business combination if the acquired property meets the definition of a business, being an integrated set of activities and assets that are capable of being managed for the purpose of providing a return to the shareholders. If it does not meet the definition of a business, it is treated as an asset acquisition. The Company expenses transaction costs on business combinations.

Fair value of investment properties

After initial recognition, valuations of investment properties are prepared by management based primarily on assumptions relating to cash flows from current leases, rental income from future leases in light of current market conditions, and capitalization rates. These assumptions are compared against information

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obtained from independent industry experts. Adjustments are made to the carrying values of the investment properties when changes in the underlying valuation assumptions occur.

Financial Instruments and Other Instruments

The Company classifies its financial instruments as follows:

June 30, 2021	Financial assets at amortized cost	Financial liabilities at amortized cost	Financial assets at fair value through profit and loss
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	-
Total	\$ 1,454,499	\$ 6,804,615	\$ -

December 31, 2020	Financial assets at amortized cost	Financial liabilities at amortized cost	Financial assets at fair value through profit and loss
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	-	252,523	-
Debt on investment property	-	4,843,620	-
Total	\$ 10,066,071	\$ 5,121,143	\$ -

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.

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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 \$6,804,615.

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).

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 advances from a significant shareholder as described below.
- 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.

Additional Information

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