



# **KADESTONE CAPITAL CORP.**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

**For the three and nine months ended September 30, 2022**

As of November 17, 2022

# Kadestone Capital Corp.

Management Discussion and Analysis

For the nine months ended September 30, 2022

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## 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 acquisition, development and 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 market. Its registered and records office is Suite 2600, Three Bentall Centre, 595 Burrard Street, Vancouver, BC Canada, V7X 1L3.

## Basis of Discussion and Analysis

This management discussion and analysis (“MD&A”) of the consolidated financial condition of Kadestone as of September 30, 2022 and the results of its operations for the three and nine months ended September 30, 2022 was prepared as of November 17, 2022. This MD&A should be read in conjunction with the Company’s condensed interim consolidated financial statements and accompanying notes for the three and nine months ended September 30, 2022 and 2021.

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

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set forth in the forward-looking statements.

### Current and Prior Period Activities and Corporate Developments

- On March 5, 2021, 481,000 stock options were issued to officers, directors and consultants of the Company.
- On April 30, 2021, the Company made an initial deposit 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 acquired 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 made an initial deposit of \$400,000 to acquire limited partnership units in a property located in Squamish, B.C. (the "Squamish project"). Land for the project was acquired 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 incurred in respect of the property and future development.
- On June 25, 2021, the Company made an additional equity contribution of \$6,800,000 to the Squamish project, funded by cash of the Company and \$1,300,000 of borrowings from a significant shareholder of the Company.
- 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 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 of July 26, 2024.
- On August 20, 2021, 982,000 options were issued to the Chief Executive Officer, the Chief Financial Officer and three consultants of the Company.
- On September 3, 2021, the Chilliwack project, one of the Company's associates, returned capital of \$720,000 to the Company.
- On September 9, 2021, the Company contributed additional equity of \$600,000 to the Squamish project, one of the Company's associates.
- On January 28, 2022, the Company repaid principal of \$950,000 of a loan payable and accrued interest thereon of \$52,240 to a significant shareholder of the Company which decreased the principal amount of loan payable to \$3,220,000.
- On May 6, 2022, the Company was advanced \$10,000,000, by way of a promissory note. The note is unsecured and bears interest at 5% per annum, compounded annually. Accrued interest is payable on the maturity date of March 31, 2024. The loan agreement provides the lender with certain participation rights in future equity financings of Kadestone as well as a right of first offer with respect to the financing of future real estate development projects.
- On August 4, 2022, the Company granted 1,325,000 options to the Chief Executive Officer, the Chief Financial Officer, other employees and directors. These options have an exercise price of \$1.50 and an expiry date of August 4, 2032. These options have a vesting period of 36 months with 1/36th of the award vesting every month.

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- On August 16, 2022, the Company repaid \$1,350,000 of a loan payable and accrued interest thereon of \$150,200 to a significant shareholder of the Company which decreased the principal amount of loan payable to \$1,870,000.
- In October 2022, all 404,885 of the remaining outstanding agent's options were exercised. These options were related to the Company's initial public offering and had an exercise price of \$0.80, expiry date of October 29, 2022 and vested immediately on their grant date.

### Selected Quarterly Information

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

	<b>Nine months ended September 30, 2022</b>	<b>Nine months ended September 30, 2021</b>
<b>Revenue</b>		
Rental revenue	\$ -	\$ 110,910
Sales revenue	-	47,755
Net profits interest	(100,520)	1,548
	<u>(100,520)</u>	<u>160,213</u>
Rental property operating expense	-	184,446
Cost of goods sold	-	50,953
	<u>(100,520)</u>	<u>(75,186)</u>
<b>Operating expenses</b>		
Professional fees	423,056	235,295
Share-based compensation	945,902	614,612
Consulting fees	53,700	78,734
Salaries and wages	847,338	439,824
Directors' fees	153,372	125,890
Dues and subscriptions	36,564	54,653
Insurance	36,572	29,067
Computer	2,276	3,884
Marketing	27,917	52,529
Office supplies	2,979	4,277
Bank charges	1,464	2,001
	<u>2,531,140</u>	<u>1,640,766</u>
Operating loss	<u>(2,631,660)</u>	<u>(1,715,952)</u>
<b>Other income and expenses</b>		
Fair value adjustments on investment properties	-	160,999
Interest expense	(789,525)	(419,047)
Interest revenue	118,418	37,428
Income from associates	49,813	1,461
	2,213	-
	<u>2,213</u>	<u>-</u>
<b>Loss and comprehensive loss</b>	<u>\$ (3,250,741)</u>	<u>\$ (1,935,111)</u>

Rental revenue consists of rental revenue earned from the Kyle Road property, which was sold in November 2021.

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Net profits interest consists of the Company's 51% share of the profits of the Marine Drive property, and the loss during the quarter is due to increased maintenance expense.

Rental property operating expense consists of expenses related to the operations of the Kyle Road property which was sold in November 2021.

Professional fees mainly consist of fees paid to lawyers and auditors for professional services related to the public company filings, advisory services and property acquisitions and dispositions, with the current period increase related primarily to corporate development activities.

Share-based compensation represents amounts relating to stock options issued to directors, officers and consultants to the Company, which vested during the period.

Consulting fees mainly consist of amounts paid for finance and accounting and other related expenses.

Salaries and wages consist solely of salary, and bonuses of \$350,000 paid to the Chief Executive Officer and the Chief Financial Officer in the current period.

Interest expense consists of interest accrued on the loans payable and the convertible note.

Income from associates relates to income from the equity accounted associate investments in the Chilliwack and Squamish projects.

Selected financial information extracted from the statements of financial position at September 30, 2022 and December 31, 2021:

	<u>September 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
Total current assets	\$ 11,265,242	\$ 6,186,052
Investment properties	1,453,500	1,453,500
Investments in associates	16,352,519	15,494,706
<b>Total assets</b>	<b>\$ 29,071,261</b>	<b>\$ 23,134,258</b>
Accounts payable and accrued liabilities	\$ 316,883	\$ 361,615
<b>Total current liabilities</b>	<b>316,883</b>	<b>361,615</b>
Loans payable	12,301,607	4,367,256
Convertible note	4,674,376	4,322,153
<b>Shareholders' equity</b>	<b>11,778,395</b>	<b>14,083,234</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 29,071,261</b>	<b>\$ 23,134,258</b>

Current assets primarily consist of cash and cash equivalents of \$10,195,919, restricted term deposits of \$1,019,714 which is a restricted GIC, accounts receivable of \$6,585 and prepaid expenses and deposits of \$43,024.

Investment properties represents the 51% interest in the Marine Drive West Vancouver property. As of the date of this MD&A, the property is 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. that upon completion, are expected to be accretive to the Company's earnings.

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In April 2021, the Company acquired an 80% interest in a limited partnership formed for the purpose of acquiring certain lands for development and sale of a light industrial commercial project in Chilliwack, B.C. As of the date of this MD&A, the Company has contributed capital of \$9,112,000 to the limited partnership and received a return of capital of \$720,000. The Company has provided a guarantee of up to \$10,800,000 for a land acquisition loan held within the limited partnership. The Company's share of net income from the limited partnership for the nine months ended September 30, 2022 is \$49,943 (net loss for the nine months ended September 30, 2021 - \$1,207). The Company estimates it will have additional equity funding commitments of approximately \$4,060,000 payable over the 46-month development period as estimated by the Company's development partner.

In May 2021, the Company acquired an 80% interest in a limited partnership formed for the purpose of acquiring certain lands for development and sale of a light industrial commercial project in Squamish, B.C. As of the date of this MD&A, the Company has contributed capital of \$8,376,000 to the limited partnership. The Company has provided a guarantee of up to \$9,600,000 for a construction loan held within the limited partnership and has provided a deposit in favour of the lender of \$1,000,000. The Company's share of net loss from the limited partnership for the nine months ended September 30, 2022 is \$130 (nine months ended September 30, 2021 - \$254). The Company estimates it will have additional equity funding commitments of approximately \$3,528,000 payable over the 40-month development period as estimated by the Company's development partner.

Loans payable consists of two promissory notes. The first note is from a significant shareholder of the Company. The note is unsecured and bears interest at 10% per annum, compounded annually. Accrued interest is payable on the maturity date of July 6, 2024. As at September 30, 2022 the principal amount of the loan payable was \$1,870,000 and accrued interest was \$233,167.

The second loan is an advance of \$10,000,000 to the Company on May 6, 2022 and is unsecured and bears interest at 5% per annum, compounded annually. Principal and accrued interest is payable on the maturity date of March 31, 2024. The loan agreement provides the lender with certain participation rights in future equity financings of Kadestone as well as a right of first offer with respect to the financing of future real estate development projects. As at September 30, 2022 the principal amount of the loan payable was \$10,000,000 and accrued interest was \$198,440.

The convertible note is an unsecured convertible note the Company issued on December 29, 2021. The principal amount of the note of \$4,750,000 matures three years after issuance on December 29, 2024 and accrues interest at 7% per annum payable in cash on the maturity date. The Company incurred transaction costs on the debt issuance of \$34,500. The holder of the note has the option to convert the principal amount of the note, in whole or in part, at any time between 180 days after the issuance date up to the maturity date. The note has a fixed conversion price of \$2.50 per share.

### **Discussion of Operations**

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

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

### **Summary of Quarterly Results**

The following summarizes the selected quarterly results for the Company:

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	<b>Three months ended Dec 31, 2020</b>	<b>Three months ended Mar 31, 2021</b>	<b>Three months ended Jun 30, 2021</b>	<b>Three months ended Sep 30, 2021</b>	<b>Three months ended Dec 31, 2021</b>	<b>Three months ended Mar 31, 2022</b>	<b>Three months ended Jun 30, 2022</b>	<b>Three months ended Sep 30, 2022</b>
Gross revenue	\$ 2,952	\$ 4,744	\$ 66,970	\$ 88,499	\$ 50,554	\$ 13,144	\$ 14,990	\$ (128,654)
Loss from continuing operations	(812,076)	(577,183)	(303,922)	(1,054,006)	(950,321)	(1,030,243)	(1,121,565)	(1,098,933)
Loss per share (diluted and non-diluted)	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ (0.02)

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 share-based compensation expenses related to the ongoing operations of the company.

During the three months ended September 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 share-based compensation expenses related to the ongoing operations of the company.

During the three months ended September 30, 2021, the Company continued its lease out of the Kyle Road property and continued to incur building operating expenses related to the property. The Company did not have any significant sales of building materials to external customers. The Company continued to incur salary, consulting and professional and share-based compensation expenses related to the ongoing operations of the company.

During the three months ended December 31, 2021, the Company earned rental revenue and incurred rental property operating expenses from the Kyle Road property until the date of sale on November 1, 2021. The Company did not have any significant sales of building materials to external customers. The Company continued to incur salary, consulting and professional and share-based compensation expenses related to the ongoing operations of the company.

During the three months ended March 31, 2022, the Company earned net profits interest from investment property. The Company did not have any significant sales of building materials to external customers. The Company continued to incur salary, consulting and professional and share-based compensation expenses related to the ongoing operations of the company.

During the three months ended June 30, 2022, the Company earned net profits interest from investment property. The Company did not have any significant sales of building materials to external customers. The Company continued to incur salary, consulting and professional and share-based compensation expenses related to the ongoing operations of the company.

During the three months ended September 30, 2022, the Company had a loss from net profits interest from investment property due to increased maintenance expense. The Company did not have any significant sales of building materials to external customers. The Company continued to incur salary, consulting and professional and share-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.

The Company uses mortgage debt as another source of financing. 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. Currently, the Company has guaranteed mortgage debt of the associates which will be renewed at the end of the term, if necessary.

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 September 30, 2022, the Company had current financial assets of \$11,222,218 available to settle current financial liabilities of \$316,883. 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 current financial assets at September 30, 2022 and the additional cash resulting from access to additional advances from a significant shareholder of the Company 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 September 30, 2022 was 46,523,362 and at the date of this MD&A was 46,928,247.

As at September 30, 2022, the Company had 14,400,664 and 991,000 common shares subject to escrow and pooling restrictions respectively. As of the date of this MD&A, the Company had 9,600,443 and nil common shares subject to escrow and pooling restrictions respectively. The remainder of these shares will be released from restrictions in tranches through October 2023.

## **Risks and Uncertainties**

### ***Real Estate Industry***

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

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

Real estate is relatively illiquid. Such illiquidity will tend to limit the Company's ability to vary its portfolio

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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.

## ***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 a property located in West Vancouver, British Columbia and investments in properties in Chilliwack and Squamish, British Columbia. An economic downturn in any of these markets could cause leasing rates to decline, which could have a material adverse effect on the business and negatively affect the results of operations and financial position of the Company.

## ***Environmental Matters***

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

## ***General Uninsured Losses***

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

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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:

	<b>Nine months ended September 30, 2022</b>	<b>Nine months ended September 30, 2021</b>
Salary	\$ 809,000	\$ 431,000
Consulting fees	-	32,258
Directors' fees	151,783	119,750
Share-based compensation	787,747	311,149
	<u>\$ 1,748,530</u>	<u>\$ 894,157</u>

Included in accounts payable is \$38,995 (December 31, 2021 - \$39,716) 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 bore interest at 4% per annum payable at the end of each quarter. On June 25, 2021, the principal amount of this loan and accrued interest was repaid.

### ***d. Loan Payable***

On June 25, 2021 and July 7, 2021, the Company was advanced \$1,300,000 and \$6,800,000, respectively, by way of a promissory note from a company controlled by a significant shareholder of the Company. The note is unsecured and bears interest at 10% per annum, compounded annually. Accrued interest is payable on the maturity date of July 6, 2024.

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On November 3, 2021 the Company repaid \$3,930,000 of this loan and accrued interest of \$123,552.

On January 28, 2022 the Company repaid \$950,000 of this loan and accrued interest of \$52,239.

On August 16, 2022, the Company repaid \$1,350,000 of this loan and accrued interest of \$150,200.

As at September 30, 2022 the principal amount of loan payable was \$1,870,000 (December 31, 2021 - \$4,170,000) and accrued interest of \$233,167 (December 31, 2021 - \$197,256).

## **Significant Accounting Estimates and Judgements**

The preparation of these 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.

Management has applied significant estimates and judgements to the following:

### ***Valuation of share-based compensation***

The Company measures the cost of equity-settled transactions 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

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

### ***Consolidation of subsidiaries***

Judgment is applied in assessing whether the Company exercises control or significant influence over subsidiaries, in which the Company directly or indirectly is a participant or owns an interest. Control is defined as the power to govern the financial and operating decisions of an entity so as to obtain benefits from its activities, and significant influence is defined as the power to participate in the financial and operating decisions of the associate. Where the Company is determined to have control, these entities are consolidated.

### ***Impact of COVID-19***

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic, which has resulted in unprecedented social and economic challenges. As a result, there are areas of uncertainty with respect to management's internal forecast, the most significant being the fact that it cannot predict how consumers will respond as the restriction measures continue or change in Canada. In addition, the Company cannot predict the extent and severity of the economic disruption flowing from the global pandemic. In the preparation of these consolidated financial statements, the Company has incorporated the potential impact of COVID-19 into its estimates and assumptions that affect the carrying amounts of its assets and liabilities, and the reported amount of its results using the best available information as of September 30, 2022. Actual results could differ from those estimates.

## **Financial Instruments and Other Instruments**

The Company classifies its financial instruments as follows:

<b>September 30, 2022</b>	<b>Financial assets at amortized cost</b>	<b>Financial liabilities at amortized cost</b>	<b>Financial assets at fair value through profit and loss</b>
Cash and cash equivalents	\$ 10,195,919	\$ -	\$ -
Restricted term deposits	1,019,714	-	-
Receivables	6,585	-	-
Accounts payable and accrued liabilities	-	316,883	-
Loans payable	-	12,301,607	-
Convertible note	-	4,674,376	-
<b>Total</b>	<b>\$ 11,222,218</b>	<b>\$ 17,292,866</b>	<b>\$ -</b>

# Kadestone Capital Corp.

## Management Discussion and Analysis

For the nine months ended September 30, 2022

<b>December 31, 2021</b>	<b>Financial assets at amortized cost</b>	<b>Financial liabilities at amortized cost</b>	<b>Financial assets at fair value through profit and loss</b>
Cash and cash equivalents	\$ 5,017,287	\$ -	\$ -
Restricted term deposits	1,005,498	-	-
Receivables	122,183	-	-
Accounts payable and accrued liabilities	-	361,615	-
Loans payable	-	4,367,256	-
Convertible note	-	4,322,153	-
<b>Total</b>	<b>\$ 6,144,968</b>	<b>\$ 9,051,024</b>	<b>\$ -</b>

### ***Risk factors***

The Company's financial instruments consist of cash and cash equivalents, restricted term deposits, receivables, accounts payable and accrued liabilities, loans payable and convertible note. As at September 30, 2022, 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.

Deposits of cash and cash equivalents and restricted cash are made with major Canadian banks and only with counterparties meeting certain credit criteria.

The Company has provided loans to facilitate business development and 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. However, as at September 30, 2022, the Company did not have any loans receivable from other business.

The Company mitigates credit 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.

#### Interest Rate Risk

The Company does not currently have any variable rate borrowings directly. The Company's loans payable and convertible note bear interest at fixed rates, and therefore, these financial instruments do not expose the Company to significant interest rate risk. The loans held by the Company's associate investments, and guaranteed by the Company, are based on a variable rate and the risk on these loans are managed through a budget contingency on the project.

#### 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, 2022, the Company had current financial assets of \$11,228,800 available to settle current financial liabilities of \$314,034.

# **Kadestone Capital Corp.**

Management Discussion and Analysis

For the nine months ended September 30, 2022

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## 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 has exposure to floating interest rates through the investments in associates which is managed through a contingency on the project.

## **Subsequent Events**

In October 2022, all 404,885 of the remaining outstanding agent's options were exercised. These options were related to the Company's initial public offering and had an exercise price of \$0.80, expiry date of October 29, 2022 and vested immediately on their grant date.

## **Additional Information**

Additional information relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com).