



Kadestone Capital Corp.

Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2023 and 2022
(Unaudited – Prepared by Management)

(expressed in Canadian dollars)

These unaudited condensed interim consolidated financial statements of Kadestone Capital Corp. (the “Company”) have been prepared by and are the responsibility of the Company’s management. The Company’s independent auditor has not performed a review of these interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity’s auditor.

Kadestone Capital Corp.

Condensed Interim Consolidated Financial Statements
For the nine months ended September 30, 2023 and 2022

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

	Notes	September 30, 2023	December 31, 2022
Assets			
Current			
Cash and cash equivalents	4	\$ 6,902,799	\$ 8,886,147
Term deposits	5	-	1,017,103
Accounts receivable and other		8,679	26,812
Prepaid expenses and deposits		278,646	30,881
		<u>7,190,124</u>	<u>9,960,943</u>
Non-current assets			
Investments in associates	7	<u>18,497,531</u>	<u>17,643,402</u>
Total assets		<u>\$ 25,687,655</u>	<u>\$ 27,604,345</u>
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		\$ 263,372	\$ 964,665
Current portion of loans payable	8	<u>10,708,362</u>	<u>-</u>
		10,971,734	964,665
Non-current liabilities			
Loans payable	8, 12c	-	10,628,454
Convertible note	9	<u>5,164,412</u>	<u>4,793,632</u>
Total liabilities		<u>16,136,146</u>	<u>16,386,751</u>
Shareholders' equity			
Share capital	10a	18,304,750	18,304,750
Contributed surplus		3,646,006	2,992,399
Equity component of convertible note	9	395,918	395,918
Deficit		<u>(12,795,165)</u>	<u>(10,475,473)</u>
		9,551,509	11,217,594
Total liabilities and shareholders' equity		<u>\$ 25,687,655</u>	<u>\$ 27,604,345</u>

Business of the Company (Note 1)

Approved on behalf of the Board of Directors

"Brent Billey" Director

"Norm Mayr" Director

The accompanying notes are an integral part of these interim financial statements.

Kadestone Capital Corp.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Unaudited)

(expressed in Canadian dollars)

		Three months ended		Nine months ended	
		September	September	September	September
		30,	30,	30,	30,
	Notes	2023	2022	2023	2022
Revenue					
Net loss from investment properties	6	\$ -	\$ (128,654)	\$ -	\$ (100,520)
		-	(128,654)	-	(100,520)
Operating expenses					
Share-based compensation	10b, 12b	149,276	445,012	653,607	945,902
Salaries and wages	12b	175,515	172,567	547,647	847,338
Professional fees		79,657	50,851	320,241	423,056
Directors' fees	12b	53,764	49,856	159,528	153,372
Marketing		26,749	8,305	65,711	27,917
Consulting fees		15,375	10,800	56,925	53,700
Insurance		11,239	12,142	35,640	36,572
Dues and subscriptions		7,490	7,465	32,134	36,564
Office supplies		6,825	1,527	10,598	2,979
Computer		1,370	663	4,274	2,276
Bank charges		476	646	1,697	1,464
		527,736	759,834	1,888,002	2,531,140
Operating loss		(527,736)	(888,488)	(1,888,002)	(2,631,660)
Other income and expenses					
Interest expense		(257,812)	(311,625)	(757,650)	(789,525)
Interest revenue		87,044	91,333	247,831	118,418
Income from associates	7	25,228	9,847	78,129	49,813
Foreign exchange gain		-	-	-	2,213
Loss and comprehensive loss for the period		\$ (673,276)	\$ (1,098,933)	\$ (2,319,692)	\$ (3,250,741)
Basic and diluted loss per share	11	\$ (0.01)	\$ (0.02)	\$ (0.05)	\$ (0.07)

The accompanying notes are an integral part of these interim financial statements.

Kadestone Capital Corp.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Unaudited)

(expressed in Canadian dollars)

	Notes	Number of common shares	Common shares	Contributed surplus	Equity component of convertible note	Accumulated deficit	Total
December 31, 2021		46,523,362	\$ 17,811,892	\$ 1,792,949	\$ 395,918	\$ (5,917,525)	\$ 14,083,234
Share-based compensation	10b	-	-	945,902	-	-	945,902
Loss and comprehensive loss for the period		-	-	-	-	(3,250,741)	(3,250,741)
September 30, 2022		46,523,362	\$ 17,811,892	\$ 2,738,851	\$ 395,918	\$ (9,168,266)	\$ 11,778,395
December 31, 2022		46,928,247	\$ 18,304,750	\$ 2,992,399	\$ 395,918	\$ (10,475,473)	\$ 11,217,594
Share-based compensation	10b	-	-	653,607	-	-	653,607
Loss and comprehensive loss for the period		-	-	-	-	(2,319,692)	(2,319,692)
September 30, 2023		46,928,247	\$ 18,304,750	\$ 3,646,006	\$ 395,918	\$ (12,795,165)	\$ 9,551,509

The accompanying notes are an integral part of these interim financial statements.

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

	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Operating activities		
Loss and comprehensive loss for the period	\$ (2,319,692)	\$ (3,250,741)
Adjustments for items not affecting cash:		
Share-based compensation	653,607	945,902
Accrued interest	-	671,265
Interest expense	757,650	-
Interest revenue	(247,831)	-
Amortization of financing costs	-	103,532
Income from associates	(78,129)	(49,813)
	<u>(1,234,395)</u>	<u>(1,579,855)</u>
Interest paid	(43,237)	-
Interest received	256,171	-
Changes in non-cash working capital:		
Accounts receivable and other	18,133	115,598
Prepaid expenses and deposits	(239,002)	(1,940)
Accounts payable and accrued liabilities	<u>(701,293)</u>	<u>(44,732)</u>
Net cash (used in) operating activities	(1,943,623)	(1,510,929)
Investing activities		
Advances to associates	(4,216,000)	(808,000)
Return of capital from associate	3,440,000	-
Investment in restricted term deposit	<u>1,000,000</u>	<u>-</u>
Net cash provided by (used in) investing activities	224,000	(808,000)
Financing activities		
Cash from loans payable	-	10,000,000
Repayment of loans payable	<u>(263,725)</u>	<u>(2,502,439)</u>
Net cash provided by (used in) financing activities	(263,725)	7,497,561
Change in cash and cash equivalents	<u>(1,983,348)</u>	<u>5,178,632</u>
Cash and cash equivalents, beginning of period	8,886,147	5,017,287
Cash and cash equivalents, end of period	<u>\$ 6,902,799</u>	<u>\$ 10,195,919</u>
Cash, end of period	776,199	108,122
Cash equivalents, end of period	<u>6,126,600</u>	<u>10,087,797</u>
	<u>\$ 6,902,799</u>	<u>\$ 10,195,919</u>

The accompanying notes are an integral part of these interim financial statements.

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Notes to the Condensed Interim Consolidated Financial Statements

For the nine months ended September 30, 2023 and 2022

(Unaudited)

(expressed in Canadian dollars)

1. BUSINESS OF THE COMPANY

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 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 595 Melville Street Suite 3500, Vancouver, BC Canada, V6E 4E5.

These condensed interim consolidated financial statements were authorized for issuance on behalf of the Board of Directors of the Company on November 15, 2023.

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, 2022, as some disclosures from the annual financial statements have been condensed or omitted.

b. Basis of Presentation

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for investment properties which are measured at fair value.

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

c. 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.

In the process of applying the Company’s accounting policies, management has made the following critical judgments and estimates.

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, 2022.

Kadestone Capital Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the nine months ended September 30, 2023 and 2022

(Unaudited)

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3. SIGNIFICANT ACCOUNTING POLICIES

The 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 year ended December 31, 2022.

The accounting policies have been uniformly applied to each of the Company's subsidiaries, associates and to all periods presented in these condensed interim consolidated financial statements.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash held at the bank of \$776,199 (December 31, 2022 - \$7,872,924) and guaranteed investment certificates (GICs) of \$6,126,600 (December 31, 2022 - \$1,013,223).

5. TERM DEPOSITS

Term deposits consist of a GIC that was restricted and held as security towards a construction loan within an associate (note 7) guaranteed by the Company. This restriction was released on December 29, 2022 and as at September 30, 2023, the GIC had a \$nil balance (December 31, 2022 - \$1,017,103).

6. INVESTMENT PROPERTIES

Prior to December 31, 2022, the Company held a 51% interest in a commercial real estate property located on Marine Drive in West Vancouver. The holder of the 49% interest in the property was responsible for the management of the property as set out in an operating agreement. Pursuant to the agreement, the Company received a 51% share of the property revenues less operating expenses. The Company has recognized net loss from investment properties of \$nil for the year ended December 31, 2022 (year ended December 31, 2022 net loss - \$125,932).

The holder of the 49% interest solely holds the mortgage debt of \$2,462,895 (December 31, 2021 - \$1,346,223) on the property. The Company's 51% interest in the property was partial security for the mortgage debt. As well, the Company and a director provided corporate and personal guarantees for the mortgage debt and the Company had indemnified the director for this personal guarantee.

On December 31, 2022 the Company sold the 51% interest in the Marine Drive property to the owner of the remaining 49%. The Company's interest in the property was sold for consideration of \$1,943,949, consisting of net cash consideration of \$1,848,117 and the non-cash settlement of net loss payable of \$95,832. With the completion of this sale, the Company and the director no longer provide corporate and personal guarantees for the mortgage debt on the property. The holder of the 49% interest and the purchaser of the 51% interest is a related party of the Company (note 12d).

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

	Nine months ended		Year ended	
	September 30, 2023		December 31, 2022	
Balance, beginning of period	\$	-	\$	1,453,500
Fair value adjustments		-		490,449
Sale of Marine Drive Property, net		-		(1,943,949)
Balance, end of period	\$	-	\$	-

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7. INVESTMENTS IN ASSOCIATES

Investments in associates consist of:

Investments In Associates	General Partnership Ownership	Limited Partnership Ownership (Class A)	Limited Partnership Ownership (Non-voting Class B)	September 30, 2023	December 31, 2022
Denciti Chilliwack Limited Partnership ("Chilliwack LP")	0%	80%	0%	\$ 10,501,608	\$ 8,947,359
Denciti Squamish Limited Partnership ("Squamish LP")	0%	80%	0%	7,995,923	8,696,043
Total				\$ 18,497,531	\$ 17,643,402

In April 2021, the Company acquired an 80% interest in Chilliwack LP, which was formed for the purpose of acquiring certain lands for development and sale of a light industrial commercial project in Chilliwack, B.C. The Company has contributed capital of \$11,032,000 (December 31, 2022 - \$9,552,000) to the limited partnership and also received a return of capital of \$720,000 (December 31, 2022 - \$720,000). The Company has provided a guarantee of up to \$10,800,000 (December 31, 2022 - \$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, 2023 is \$74,249 (nine months ended September 30, 2022 - \$49,943). The Company estimates it will have additional equity funding commitments of approximately \$2,140,000 payable over the remaining 24-month development period as estimated by the Company's development partner.

In May 2021, the Company acquired an 80% interest in Squamish LP, which was formed for the purpose of acquiring certain lands for development and sale of a light industrial commercial project in Squamish, B.C. The Company has contributed capital of \$11,432,000 (December 31, 2022 - \$8,696,000) to the limited partnership and also received a return of capital of \$3,440,000 (December 31, 2022 - \$nil). The Company has provided a guarantee of up to \$14,880,000 (December 31, 2022 - \$14,880,000) for a construction loan held within the limited partnership and had provided a deposit in favour of the lender which was released on December 29, 2022 (note 5). The Company's share of net income from the limited partnership for the nine months ended September 30, 2023 is \$3,880 (net loss for the nine months ended September 30, 2022 - \$130). The Company estimates it will have additional equity funding commitments of approximately \$4,544,000 payable over the remaining 36-month development period as estimated by the Company's development partner.

The general partner for each of the limited partnerships has the full authority to administer, manage, control and operate the limited partnerships. The Company's judgment is it does not have control over the limited partnership investments, but it does have significant influence and equity accounting is appropriate.

The Class B Limited Partners are entitled to receive a performance distribution. This carried interest is calculated as 20% of the remaining Net Income of the Partnership subject to priority distributions to Class A Limited Partners and will be paid at the time of a distribution to the Limited Partners.

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Summary financial information for investments in associates, not adjusted for the percentage ownership held by the Company is as follows:

	Chilliwack LP		Squamish LP	
	September 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Cash and cash equivalents	\$ 203,025	\$ 615,026	\$ 264,330	\$ 164,391
Current assets	354,064	648,856	12,935,232	12,465,565
Non-current assets	26,879,387	23,971,004	17,046,024	10,479,277
Current loans payable	13,320,000	-	2,618,000	12,000,000
Current liabilities	14,106,443	138,975	2,749,692	12,074,788
Non-current liabilities	-	13,296,688	17,236,659	-
Revenue	139,146	167,023	5,031	-
Expenses	46,335	40,918	181	236
Net income (loss)	92,811	126,105	4,850	(236)
Comprehensive income (loss)	\$ 92,811	\$ 126,105	\$ 4,850	\$ (236)

8. LOANS 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 and a related party. 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.

On November 3, 2021, the Company repaid principal of \$3,930,000 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.

On December 31, 2022, the Company repaid \$1,606,275 of this loan and accrued interest of \$243,725.

On February 3, 2023 the Company repaid the remaining principal of \$263,725 and accrued interest of \$42,805 on the promissory note from a company controlled by a significant shareholder of the Company (note 12c).

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 a right of first offer with respect to the financing of future real estate development projects.

As at September 30, 2023 the principal amount of the loan payable was \$10,000,000 and accrued interest was \$708,362.

9. CONVERTIBLE NOTE

On December 29, 2021, the Company issued an unsecured convertible note. 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.

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The convertible note is a compound instrument and the proceeds are required to be bifurcated to record the fair value of the separate debt and equity components. The fair value of the debt was determined using a discounted cash flow model using an estimated market interest rate for equivalent debt of 10%. The initial fair value of the debt, net of transactions costs, was calculated to be \$4,319,582 with the residual portion of \$395,918 allocated to equity.

	Nine months ended September 30, 2023		Year ended December 31, 2022	
Balance, beginning of period	\$	4,793,632	\$	4,322,153
Accretion and amortization of transaction costs		105,041		138,979
Accrued interest		265,739		332,500
Balance, end of period	\$	5,164,412	\$	4,793,632

10. SHAREHOLDERS' EQUITY

a. Share Capital

The Company has an unlimited number of common shares authorized and 46,928,247 common shares issued as at September 30, 2023.

From January 1, 2022 to September 30, 2023 the Company has issued the following common shares:

Date	Shares	Price	Value
Total – January 1, 2022	46,523,362	\$	17,811,892
October 12, 2022 ⁽¹⁾	200,000	\$0.80	243,456
October 17, 2022 ⁽¹⁾	1,750	\$0.80	2,130
October 18, 2022 ⁽¹⁾	203,135	\$0.80	247,272
Total – December 31, 2022	46,928,247	\$	18,304,750
Total – September 30, 2023	46,928,247	\$	18,304,750

⁽¹⁾ Shares issued for exercise of agent's options, values include transfers from contributed surplus.

As at September 30, 2023, the Company had 4,800,221 (December 31, 2022 – 9,600,443) common shares subject to escrow. The remainder of these shares will be released from restrictions in tranches through October 2023.

b. Share-based Compensation

The Company has a Stock Option Plan (the “Plan”) in which 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

Kadestone Capital Corp.

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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 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. The grant date fair value of options granted was \$1,515,767.

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

Grant Date	August 4, 2022
Expected dividend yield	Nil
Expected stock price volatility	69%
Risk-free interest rate	2.66%
Expected life of options	10 years
Forfeiture rate	Nil

As at September 30, 2023, 3,233,472 (December 31, 2022 - 2,728,139) of the total stock options outstanding had vested. For the nine months ended September 30, 2023 the Company recognized \$653,607 (nine months ended September 30, 2022 - \$945,902) in share-based compensation expense for vesting of stock options.

Stock option transactions from December 31, 2021 to September 30, 2023 are as follows:

	Number of options	Weighted Average Exercise Price
Balance at December 31, 2021	3,313,000	\$1.03
Granted during the year	1,325,000	\$1.50
Forfeited during the year	-	-
Expired during the year	-	-
Balance at December 31, 2022	4,638,000	\$1.16
Granted during the period	-	-
Forfeited during the period	-	-
Expired during the period	(200,000)	\$1.60
Balance at September 30, 2023	4,438,000	\$1.14
Exercisable at September 30, 2023	3,233,472	\$1.00
Exercisable at December 31, 2022	2,728,139	\$0.91

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Notes to the Condensed Interim Consolidated Financial Statements For the nine months ended September 30, 2023 and 2022

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As at September 30, 2023, the following stock options were outstanding and exercisable:

Number Outstanding	Number Exercisable	Exercise Price	Expiry Date	Average remaining life (years)
250,000	250,000	\$0.40	December 31, 2029	6.26
1,000,000	1,000,000	\$0.40	December 31, 2029	6.26
400,000	400,000	\$0.80	March 3, 2030	6.43
100,000	100,000	\$0.80	June 10, 2030	6.70
481,000	400,833	\$1.55	March 5, 2031	7.43
782,000	543,056	\$1.60	August 20, 2031	7.89
100,000	61,111	\$1.80	November 23, 2031	8.15
1,325,000	478,472	\$1.50	August 4, 2032	8.85
4,438,000	3,233,472			

11. LOSS PER SHARE

The following table summarizes the weighted average number of common shares used in calculating basic and diluted loss per share:

	Three months ended		Nine months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Loss	\$ (673,276)	\$ (1,098,933)	\$ (2,319,692)	\$ (3,250,741)
Weighted average number of common shares, basic and diluted	46,928,247	46,523,362	46,928,247	46,523,362
Basic and diluted loss per share	\$ (0.01)	\$ (0.02)	\$ (0.05)	\$ (0.07)

12. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed elsewhere in these condensed interim consolidated financial statements, related party transactions include:

a. Key Management Personnel

Transactions with key management personnel, including compensatory arrangements, require disclosure. Key management personnel include the Company's officers and directors as well as their close family members.

b. Transactions

Summary of transactions with key management and directors:

	Nine months ended September 30, 2023		Nine months ended September 30, 2022	
Salary and short-term benefits	\$	466,182	\$	809,000
Directors' fees		157,750		151,783
Share-based compensation		658,522		787,747
	\$	1,282,454	\$	1,748,530

Included in accounts payable is \$44,564 (December 31, 2022 - \$38,755) owing to officers and directors of the Company.

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c. Loan Payable

The Company had a loan payable with a related party which is described in Note 8.

d. Sale of Marine Drive property

The sale of the Marine Drive property on December 31, 2022 described in Note 6 was a related party transaction with a company controlled by a significant shareholder of the Company.

13. FINANCIAL INFORMATION AND RISK FACTORS

Fair value measurements recognized in the consolidated financial statements are categorized in accordance with the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

The fair value of cash and cash equivalents, term deposits, accounts receivable and other and accounts payable and accrued liabilities approximate their carrying values due to the short-term nature of those instruments. These financial instruments are classified as Level 2 in the fair value hierarchy because while prices are available, there is no active market for these instruments. The fair value of loans payable and the convertible note is based on fair value hierarchy level 3.

The Company classifies its financial instruments as follows:

	Financial assets at amortized cost	Financial liabilities at amortized cost	Fair Value
September 30, 2023			
Cash and cash equivalents	\$ 6,902,799	\$ -	\$ 6,902,799
Accounts receivable and other	8,679	-	8,679
Accounts payable and accrued liabilities	-	263,372	263,372
Loans payable	-	10,708,362	10,509,504
Convertible note	-	5,164,412	5,225,983
Total	\$ 6,911,478	\$ 16,136,146	

	Financial assets at amortized cost	Financial liabilities at amortized cost	Fair Value
December 31, 2022			
Cash and cash equivalents	\$ 8,886,147	\$ -	\$ 8,886,147
Term deposits	1,017,103	-	1,017,103
Accounts receivable and other	26,812	-	26,812
Accounts payable and accrued liabilities	-	964,665	964,665
Loans payable	-	10,628,454	10,250,127
Convertible note	-	4,793,632	4,967,798
Total	\$ 9,930,062	\$ 16,386,751	

Kadestone Capital Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the nine months ended September 30, 2023 and 2022

(Unaudited)

(expressed in Canadian dollars)

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, loans payable and convertible note. 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.

There have been no changes in the Company's approach to capital management in the nine months ended September 30, 2023.

Risk Factors

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 term deposits are made with major Canadian banks which have a minimum credit rating of B or higher.

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, 2023, the Company had current financial assets of \$6,911,478 available to settle current financial liabilities of \$10,971,734.

The contractual cash flows of the Company's financial liabilities including expected interest payments to maturity are as follows:

	Current	1-2 years
Accounts payable and accrued liabilities	\$ 263,372	\$ -
Loans payable	10,973,540	-
Convertible note	\$ -	\$ 5,820,033

In addition to the financial liabilities in the table above, the Company is required to contribute \$6,684,000 in equity funding over the next 15 months (note 7). In order to manage this equity funding requirement, the Company will source additional debt and equity financing as required.