



KADESTONE CAPITAL CORP.

MANAGEMENT DISCUSSION AND ANALYSIS

For the years ended December 31, 2023 and 2022

As of April 26, 2024

Kadestone Capital Corp.

Management Discussion and Analysis

For the years ended December 31, 2023 and 2022

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 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.

Basis of Discussion and Analysis

This management discussion and analysis (“MD&A”) of the consolidated financial condition of Kadestone as of December 31, 2023 and 2022 and the results of its operations for the years ended December 31, 2023 compared to the year ended December 31, 2022 was prepared as of April 26, 2024. This MD&A should be read in conjunction with the Company’s audited consolidated financial statements and accompanying notes for the years ended December 31, 2023 and 2022.

The Company prepares its consolidated financial statements in accordance with IFRS Accounting Standards.

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 set forth in the forward-looking statements.

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Current and Prior Period Activities and Corporate Developments

Investment

- On April 30, 2021, the Company made an initial deposit of \$1,600,000 to acquire limited partnership units in a limited partnership which owns 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 limited partnership 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 limited partnership which owns 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 limited partnership and will guarantee all loans incurred in respect of the property and future development.

Summary of equity contributions and returns of capital for Chilliwack project:

Date	Type	Amount
April 30, 2021	Equity contribution	\$ 1,600,000
July 7, 2021	Equity contribution	6,800,000
September 3, 2021	Return of capital	(720,000)
June 21, 2022	Equity contribution	240,000
August 23, 2022	Equity contribution	192,000
November 2, 2022	Equity contribution	280,000
November 28, 2022	Equity contribution	440,000
April 25, 2023	Equity contribution	440,000
June 21, 2023	Equity contribution	240,000
August 25, 2023	Equity contribution	800,000
October 5, 2023	Equity contribution	540,000
November 17, 2023	Equity contribution	1,600,000
Total		\$ 12,452,000

Summary of equity contributions and returns of capital for Squamish project:

Date	Type	Amount
May 12, 2021	Equity contribution	\$ 400,000
June 25, 2021	Equity contribution	6,800,000
September 9, 2021	Equity contribution	600,000
June 21, 2022	Equity contribution	200,000
July 21, 2022	Equity contribution	176,000
October 20, 2022	Equity contribution	200,000
November 28, 2022	Equity contribution	320,000
January 3, 2023	Equity contribution	2,080,000
February 1, 2023	Return of capital	(3,440,000)
June 21, 2023	Equity contribution	320,000
September 5, 2023	Equity contribution	336,000
Total		\$ 7,992,000

- On December 31, 2022 the Company sold the 51% interest in the Marine Drive property to the owner of the remaining 49%. The interest in the property was sold for a consideration of \$1,943,949 consisting of cash consideration of \$1,848,117 and the settlement of net loss payable of \$95,832,

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resulting in a fair value adjustment of \$490,449. 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.

- On December 31, 2023, the Company terminated its strategic partnership with Denciti Development Corp.

Financing

- On January 28, 2022, the Company repaid principal of \$950,000 of a loan payable and accrued interest thereon of \$52,239 to a company controlled by 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 16, 2022, the Company repaid principal of \$1,350,000 of a loan payable and accrued interest thereon of \$150,200 to a company controlled by a significant shareholder of the Company which decreased the principal amount of loan payable to \$1,870,000.
- On December 31, 2022, the Company repaid principal of \$1,606,275 of a loan payable and accrued interest thereon of \$243,725 to a company controlled by a significant shareholder of the Company which decreased the principal amount of loan payable to \$263,725 and accrued interest of \$40,096.
- On February 3, 2023 the Company repaid the remaining principal of \$263,725 of a loan payable and accrued interest of \$42,805 to a company controlled by a significant shareholder of the Company.
- On April 24, 2024, the Company amended and restated the agreement for the May 6, 2022 \$10,000,000 promissory note and \$973,540 of accrued interest. The restated \$10,973,540 promissory note is unsecured and bears interest at 9% per annum from May 1, 2024 until April 30, 2025; a rate equal to 11% per annum from May 1, 2025 until April 30, 2026; a rate equal to 13% per annum from May 1, 2026 until April 30, 2027 and a rate equal to 15% from May 1, 2027 to April 30, 2028. Interest is payable in full at the maturity date of May 1, 2028. Principal payments of \$250,000 are payable on the last business day of each fiscal quarter. The loan agreement provides the lender with equity participation rights and a right of first offer with respect to the financing of future real estate development projects.

Share-based compensation and agent's options

- 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.
- 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.

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Selected Annual Information

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

	Year ended December 31, 2023	Year ended December 31, 2022
Revenue		
Net operating loss from investment properties	\$ -	\$ (125,932)
	-	(125,932)
Operating expenses		
Salaries and wages	1,228,666	1,520,686
Share-based compensation	759,620	1,368,400
Professional fees	717,727	801,910
Directors' fees	205,291	199,135
Consulting fees	165,150	69,000
Marketing	102,241	75,668
Insurance	41,890	48,715
Dues and subscriptions	38,320	43,183
Office supplies	15,200	4,538
Rent	11,000	-
Computer	5,440	3,939
Bank charges	2,237	2,239
	<u>3,292,782</u>	<u>4,137,413</u>
Operating loss	(3,292,782)	(4,263,345)
Other income and expenses		
Fair value adjustments on investment properties	-	490,449
Interest expense	(1,019,157)	(1,086,011)
Interest revenue	301,068	198,050
Income from associates	2,306,723	100,696
Foreign exchange gain	-	2,213
	<u>\$ (1,704,148)</u>	<u>\$ (4,557,948)</u>

In the year ended December 31, 2023, there was no net income or loss from investment properties as this property was sold during the year ended December 31, 2022. In the prior year this consisted of the Company's 51% share of the loss of the Marine Drive property.

Salaries and wages consist solely of salary, bonuses and employee benefits paid to the Chief Executive Officer, the Chief Financial Officer and one other employee in the period. The year ended December 31, 2023 was less than the prior year as a result of the timing of employee bonus payments from year to year.

Share-based compensation represents the recognition of expense over the vesting period relating to stock options issued to directors, officers and consultants to the Company. The year ended December 31, 2023 was significantly lower than the prior year as a result of no new options being issued in the current year.

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 decrease related primarily to a reduction in corporate development activities compared to the same

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period in the prior year.

Directors' fees relate to amounts paid to the members of the board of directors of the Company for the period for their services.

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

Interest revenue consists of interest earned on the Company's holdings of cash equivalents.

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 December 31, 2023 and December 31, 2022:

	<u>December 31,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
Total current assets	\$ 4,633,331	\$ 9,960,943
Investments in associates	22,866,125	17,643,402
Total assets	\$ 27,499,456	\$ 27,604,345
Accounts payable and accrued liabilities	\$ 1,092,538	\$ 964,665
Current portion of loans payable	10,840,864	-
Current portion of convertible note	5,292,988	-
Total current liabilities	17,226,390	964,665
Loans payable	-	10,628,454
Convertible note	-	4,793,632
Shareholders' equity	10,273,066	11,217,594
Total liabilities and shareholders' equity	\$ 27,499,456	\$ 27,604,345

Current assets primarily consist of cash and cash equivalents of \$4,331,129, accounts receivable and other of \$283,068 and prepaid expenses and deposits of \$19,134.

Investment in associates consists of the 80% interests in limited partnerships' which hold development properties located in Chilliwack, B.C. and Squamish, B.C. These properties are currently being held as inventory and are expected to be accretive to the Company's earnings.

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 cumulative capital of \$13,172,000 to the limited partnership and received a cumulative return of capital of \$720,000. The Company has provided a guarantee of up to \$13,856,000 for a construction loan held within the limited partnership. The Company's share of net income from the limited partnership for the year ended December 31, 2023 is \$96,861 (December 31, 2022 - \$100,885). The Company estimates it will not have additional equity funding commitments payable over the remaining 21-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 cumulative capital of \$11,432,000 to the limited

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partnership and received a cumulative return of capital of \$3,440,000. The Company has provided a guarantee of up to \$14,880,000 for a construction loan held within the limited partnership. The Company's share of net income from the limited partnership for the year ended December 31, 2023 is \$2,209,862 (December 31, 2022 – net loss of \$189). During the year the Squamish LP sold land inventory in two transactions which generated revenue of \$20,469,664, cost of sales of \$17,707,082 and had a gain on the sale of \$2,756,928. Squamish LP is currently engaged in a program to sell the partnership's remaining land inventory. If unsuccessful, the LP will continue with their development plans and the Company estimates it will have additional equity funding commitments of approximately \$4,000,000 payable over the remaining 39-month development period as estimated by the Company's development partner.

Current portion of loans payable consists of two promissory notes. The first note is 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. On February 3, 2023 the Company repaid the remaining principal of \$263,725 and accrued interest of \$42,805 on this promissory note.

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 December 31, 2023 the principal amount of the loan payable was \$10,000,000 and accrued interest was \$840,864. On April 24, 2024, the Company amended and restated the maturing agreement for the May 6, 2022 \$10,000,000 promissory note and \$973,540 of accrued interest (refer to Subsequent event below).

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.

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The following table provides the Company's cash flows from operating activities for the years ended:

	Year ended December 31, 2023	Year ended December 31, 2022
Operating activities		
Loss and comprehensive loss for the period	\$ (1,704,148)	\$ (4,557,948)
Adjustments for items not affecting cash:		
Share-based compensation	759,620	1,368,400
Interest expense	1,019,157	1,086,011
Interest revenue	(301,068)	(198,050)
Fair value adjustment on investment properties	-	(490,449)
Income from associates	(2,306,723)	(100,696)
	<u>(2,533,162)</u>	<u>(2,892,732)</u>
Interest paid	(43,666)	(447,059)
Interest received	304,763	186,445
Changes in non-cash working capital:		
Accounts receivable and other	(242,848)	191,203
Prepaid expenses and deposits	11,747	10,203
Accounts payable and accrued liabilities	127,873	603,050
	<u>(2,375,293)</u>	<u>(2,348,890)</u>
Net cash used in operating activities	(2,375,293)	\$ (2,348,890)

For the year ended December 31, 2023, the Company used \$2,375,293 net cash in operating activities compared to \$2,348,890 in the prior year. The increase in cash used in operations mainly relates to the increase in cash used for prepaid expenses which was partially offset by the increase in interest received from cash equivalents during the year ended December 31, 2023 compared to the same period in the prior year.

For the year ended December 31, 2022, the Company used \$2,348,890 net cash in operating activities compared to \$1,383,038 in the prior year. The increase in cash used in operations mainly relates to the increase in salaries and wages, the increase of professional fees and the reduction of revenue during the year ended December 31, 2022 compared to the prior year.

Discussion of Operations

For a discussion of current period operations see "Summary of Quarterly Results" 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.

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Summary of Quarterly Results

The following summarizes the selected quarterly results for the Company:

	Three months ended Mar 31, 2022	Three months ended Jun 30, 2022	Three months ended Sep 30, 2022	Three months ended Dec 31, 2022	Three months ended Mar 31, 2023	Three months ended Jun 30, 2023	Three months ended Sep 30, 2023	Three months ended Dec 31, 2023
Gross revenue (loss)	\$ 13,144	\$ 14,990	\$ (128,654)	\$ (25,412)	\$ -	\$ -	\$ -	\$ -
Income (loss) and comprehensive income (loss)	(1,030,243)	(1,121,565)	(1,098,933)	(1,307,207)	(749,557)	(896,589)	(673,276)	615,544
Income (loss) per share (diluted and non-diluted)	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ (0.03)	\$ (0.02)	\$ (0.02)	\$ (0.01)	\$ 0.01

During the three months ended March 31, 2022, the Company earned net operating gain from investment properties. 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 operating gain from investment properties. 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 net operating loss from investment properties 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.

During the three months ended December 31, 2022, the Company had a net operating loss from investment properties 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. The loss during this period was partially offset by the fair value adjustments related to the sale of the Marine Drive property in December 2022.

During the three months ended March 31, 2023, the Company had a nil net operating loss from investment properties due to the Marine Drive property being sold in the previous year. 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, 2023, the Company had a nil net operating loss from investment properties due to the Marine Drive property being sold in the previous year. The Company continued to incur salary, consulting, professional and share-based compensation expenses related to ongoing operations.

During the three months ended September 30, 2023, the Company had a nil net operating loss from investment properties due to the Marine Drive property being sold in the previous year. 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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During the three months ended December 31, 2023, the Company had a nil net operating loss from investment properties. The Company continued to incur salary, consulting and professional and share-based compensation expenses related to the ongoing operations of the company. The Company had net income in the period due to income from associates of \$2,228,594, which was primarily related to a gain from a sale of property realized by the Squamish LP investment.

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 the mortgage debt of the associates which will be renewed at the end of the term, if necessary.

The consolidated financial statements have been prepared on a going concern basis. The Company's going concern assessment included a number of assumptions, the most significant of which is the return of capital and payment of profits from the Company's investments in associates in the upcoming year (note 2c).

At December 31, 2023, the Company had current financial assets of \$4,614,197 available to settle current financial liabilities of \$17,226,390. On December 29, 2024, the Company's convertible note will mature and will either be converted at the option of the holder or will require repayment of the principal and interest amounts on that date. Squamish LP is currently engaged in a program to sell the partnership's remaining land inventory. If unsuccessful, the LP will continue with their development plans, including financing the land to access liquidity. The Company estimates it will have additional equity funding commitments of approximately \$4,000,000 payable over the remaining 39-month development period as estimated by the Company's development partner.

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 December 31, 2023 and 2022 was 46,928,247 and at the date of this MD&A was 46,928,247.

As at December 31, 2023 and as of the date of this MD&A, the Company had nil common shares subject to escrow. The remaining shares were released from escrow restrictions on October 27, 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

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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 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.

Interest Rate Fluctuations

The Company's capital structure involves risks primarily associated with leverage and interest rates. The Company's financing includes debt, which when renewed, is based on the current market interest rate. This could result in fluctuations in the Company's cost of borrowing.

Since the beginning of 2022, the Bank of Canada has increased its overnight interest rate by 475 basis points in an attempt to bring inflation under control. During 2022, inflation in Canada rose to its highest level in four decades and was a result of, but not limited to the effects of, the tight labour market, global supply chain disruptions, and strong economic growth. The Bank of Canada is expected to continue to adjust its overnight interest rate until it achieves its target inflation range. Rising interest rates directly affect the Company's cost of debt capital and cash flows.

Revenue-Producing Properties

The Company holds investments in associates that generate 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 lessor than the existing lease. Furthermore, at any time, a tenant of the Company's associates' 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 investments in associates' properties 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 in properties is less than the expenses.

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 investments in associates who hold investment property inventory 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 in 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

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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 in 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 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.

Related Party Transactions

In addition to the related party transactions disclosed elsewhere in this MD&A, 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.

b. Transactions

Summary of transactions with key management and directors:

	Year ended December 31, 2023		Year ended December 31, 2022
Salary and short-term benefits	\$ 1,127,076	\$	1,515,990
Directors’ fees	203,000		197,033
Share-based compensation	789,815		1,166,930
	<u>\$ 2,119,891</u>	<u>\$</u>	<u>2,879,953</u>

Included in accounts payable is \$38,948 (December 31, 2022 - \$38,755) owing to officers and directors of the Company.

During the year ended December 31, 2023, the Company paid \$80,000 (December 31, 2022 - \$nil) in consulting fees to a company controlled by a director.

c. Loans Payable

On June 25, 2021 and July 7, 2021, the Company was advanced \$1,300,000 and \$6,800,000, respectively,

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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.

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.

On December 31, 2022, the Company repaid \$1,606,275 of this loan and accrued interest of \$243,725, which decreased the principal amount of loan payable to \$263,725 and accrued interest of \$40,096

On February 3, 2023 the Company repaid the remaining principal of \$263,725 and accrued interest of \$42,805 on the promissory note.

d. *Sale of Marine Drive property*

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

Significant Accounting Estimates and Judgements

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, 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.

Judgements:

Consolidation of investees

Judgment is applied in assessing whether the Company exercises control or significant influence over investees, 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 entity. Where the Company is determined to have control, these entities are consolidated.

Identification of compound financial liabilities

The Company applied judgment when determining the separate components of the convertible note and measuring the equity component of the convertible note.

Going concern

Judgment is applied in connection with these consolidated financial statements and the assessment of conditions relating to the Company's ability to continue as a going concern. This judgment includes

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estimated future cash flows including the timing of receipts of cash from investments in associates and payments of debt.

The Company believes that it has sufficient available liquidity to meet its minimum obligations as they come due for a period of at least 12 months from December 31, 2023. Further, the Company has assessed that there are no material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. In making this significant judgment, the Company has prepared a cash flow forecast with the most significant assumption in the preparation of such forecast being the ability of one of its investments in associates to sell its remaining land inventory and distribute proceeds to the Company and the Company's ability to extend its promissory note to a future date beyond 12 months from December 31, 2023.

Estimates:

Evaluation of grant date fair value of share-based awards

The Company measures share-based award transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for granted share-based awards requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate requires determining the appropriate inputs to the valuation model, with the significant assumption being the expected stock price volatility. Expected stock price volatility was derived from a sample of similar publicly traded companies. The assumptions and models used for estimating the grant date fair value of share-based awards are disclosed in financial statement Note 10b.

Fair value of investment properties

After initial recognition, valuations of investment properties are prepared by management based primarily on assumptions relating to stabilized net operating income from current leases, non-recoverable capital expenditures 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.

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. The Company recognizes a tax benefit from an uncertain tax position when it is probable that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, on the basis of the technical merits.

Financial Instruments and Other Instruments

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).

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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 fair value of loans payable and the convertible note is estimated by discounting the future contractual cash flows at the market interest rate that is available to the Company for similar financial instruments.

The Company classifies its financial instruments as follows:

	Financial assets at amortized cost	Financial liabilities at amortized cost	Fair Value
December 31, 2023			
Cash and cash equivalents	\$ 4,331,129	\$ -	\$ 4,331,129
Accounts receivable and other	283,068	-	283,068
Accounts payable and accrued liabilities	-	1,092,538	1,092,538
Current portion of loans payable	-	10,840,864	10,740,284
Convertible note	-	5,292,988	5,340,741
Total	\$ 4,614,197	\$ 17,226,390	

	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	

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.

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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.

The Company may prepay at any time, in full or in part, the principal and accrued interest on the convertible note and loan payable, with no penalty.

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 December 31, 2023, the Company had current financial assets of \$4,614,197 available to settle current financial liabilities of \$17,226,390. On December 29, 2024, the Company's convertible note will mature and will either be converted at the option of the holder or will require repayment of the principal and interest amounts on that date.

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

	Current	1-2 years
Accounts payable and accrued liabilities	\$ 1,092,538	\$ -
Current portion of loans payable	10,973,540	-
Current portion of convertible note	\$ 5,820,033	\$ -

Squamish LP is currently engaged in a program to sell the partnership's remaining land inventory. If unsuccessful, the LP will continue with their development plans, including financing the land to access liquidity. The Company estimates it will have additional equity funding commitments of approximately \$4,000,000 payable over the remaining 39-month development period as estimated by the Company's development partner.

In order to manage the repayment of convertible note and the equity funding requirement, the Company will source additional debt and equity financing as required.

Subsequent Event

On April 24, 2024, the Company amended and restated the agreement for the May 6, 2022 \$10,000,000 promissory note and \$973,540 of accrued interest. The restated \$10,973,540 promissory note is unsecured and bears interest at 9% per annum from May 1, 2024 until April 30, 2025; a rate equal to 11% per annum from May 1, 2025 until April 30, 2026; a rate equal to 13% per annum from May 1, 2026 until April 30, 2027 and a rate equal to 15% from May 1, 2027 to April 30, 2028. Interest is payable in full at the maturity date of May 1, 2028. Principal payments of \$250,000 are payable on the last business day of each fiscal quarter. The loan agreement provides the lender with equity participation rights and a right of first offer with respect to the financing of future real estate development projects.

Additional Information

Additional information relating to the Company can be found on SEDAR at www.sedarplus.ca.