



# **KADESTONE CAPITAL CORP.**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

**For the years ended December 31, 2024 and 2023**

As of April 22, 2025

# Kadestone Capital Corp.

Management Discussion and Analysis

For the years ended December 31, 2024 and 2023

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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 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, 2024 and 2023 and the results of its operations for the year ended December 31, 2024 compared to the year ended December 31, 2023 was prepared as of April 22, 2025. 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, 2024 and 2023.

The Company prepares its consolidated financial statements in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (“IFRS”).

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 Year Activities and Corporate Developments

### *Cash management*

- On August 1, 2024 the Company purchased 10,000,000 Class A redeemable, non-voting preferred shares (“Class A Shares”) in a mortgage investment corporation. The Class A Shares had a purchase price of \$1.00 per share for a total investment of \$10,000,000. Income from the mortgage fund is distributed in the form of dividends that will be paid within 30 days of the end of each fiscal quarter end and within 90 days of the fiscal year end which is August 31. Payments of dividends may be taken as cash or dividends reinvested in the investee’s Class A shares.

The Company has classified this investment as fair value through profit and loss, with changes in fair value recognized in the statement of profit and loss.

- On December 1, 2024, the Company redeemed \$5,500,000 Class A shares from the mortgage fund at \$1.00 per share.
- On March 1, 2025, the Company redeemed \$1,250,000 Class A shares from the mortgage fund at \$1.00 per share.

### *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.
- The Squamish LP has finalized the sale of the remainder of its land inventory and distributed the proceeds after debt to the limited partners. Subsequent to December 31, 2024, the Squamish LP settled the deposit balances in the partnership associated with the project and distributed withheld profits of \$373,690 to the Company.

Summary of equity contributions and distributions of capital and profit for Chilliwack project:

<b>Date</b>	<b>Type</b>	<b>Amount</b>
April 30, 2021	Equity contribution	\$ 1,600,000
July 7, 2021	Equity contribution	6,800,000
September 3, 2021	Distribution 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

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November 17, 2023	Equity contribution	1,600,000
June 26, 2024	Distribution of capital	(1,280,000)
August 25, 2024	Equity contribution	160,000
October 29, 2024	Equity contribution	160,000
February 27, 2025	Equity contribution	160,000

Summary of equity contributions and distributions of capital and profit 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	Distribution of capital	(3,440,000)
June 21, 2023	Equity contribution	320,000
September 5, 2023	Equity contribution	336,000
June 27, 2024	Distribution of capital and profit	(10,941,034)
March 3, 2025	Distribution of capital and profit	(373,690)

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

### Financing

- On May 6, 2022, the Company was advanced \$10,000,000, by way of a promissory note. The note is unsecured and pursuant to the original terms of the note, accrued interest at a rate of 5% per annum, and payable on the original maturity date of March 31, 2024. The loan agreement, dated May 2, 2022 (the "Original Loan Agreement") provided 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 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 Original Loan Agreement for the May 6, 2022, \$10,000,000 promissory note and \$973,540 of accrued interest (as amended and restated, the "Restated Loan Agreement"). The restated \$10,973,540 promissory note is unsecured and bears interest at a rate equal to 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, which was extended to May 1, 2028. Principal payments of \$250,000 are payable on the last business day of each fiscal quarter. The Restated 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.
- On December 20, 2024, the Company repaid the convertible note in the aggregate amount of \$5,739,301, which was the entirety of the principal and interest on the convertible debt.

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### Share-based compensation

- On September 27, 2024, the Company granted 750,000 options to directors and officers of the Company. These options have an exercise price of \$0.87 and an expiry date of September 27, 2034. These options have a vesting period of 36 months with 1/36th of the award vesting every month.

### Selected Annual Information

Selected financial information from the statements of loss and comprehensive loss, which have been prepared in accordance with IFRS Accounting Standards:

	Year ended December 31, 2024	Year ended December 31, 2023	Year ended December 31, 2022
<b>Revenue</b>	\$ -	\$ -	\$ (125,932)
<b>Operating expenses</b>			
Salaries and wages	1,625,107	1,228,666	1,520,686
Consulting fees	1,555,996	165,150	69,000
Professional fees	559,830	717,727	801,910
Share-based compensation	395,945	759,620	1,368,400
Directors' fees	192,247	205,291	199,135
Rent	71,500	11,000	-
Marketing	63,028	102,241	75,668
Dues and subscriptions	39,924	38,320	43,183
Insurance	22,236	41,890	48,715
Computer	11,598	5,440	3,939
Office supplies	6,843	15,200	4,538
Depreciation	2,117	-	-
Bank charges	1,842	2,237	2,239
	<u>4,548,213</u>	<u>3,292,782</u>	<u>4,137,413</u>
Operating loss	(4,548,213)	(3,292,782)	(4,263,345)
<b>Other income and expenses</b>			
Interest expense	(1,356,997)	(1,019,157)	(1,086,011)
Interest income	91,597	301,068	198,050
Income from associates	834,678	2,306,723	100,696
Income from investment in mortgage fund	332,428	-	-
Fair value adjustments on investment properties	-	-	490,449
Foreign exchange gain	-	-	2,213
<b>Loss and comprehensive loss</b>	<u>\$ (4,646,507)</u>	<u>\$ (1,704,148)</u>	<u>\$ (4,557,948)</u>

Salaries and wages consist solely of salary, bonuses and employee benefits paid to the Chief Executive Officer, Chief Development Officer, Chief Financial Officer and other employees. The year ended December 31, 2024 was higher than 2023 mainly due to the addition of the Chief Development Officer.

Consulting fees for the year ended December 31, 2024 mainly consist of fees paid to companies controlled by a director for advisory services related to corporate development activities. No such fees were incurred during the year ended December 31, 2023.

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Professional fees consist of fees paid to lawyers and auditors for professional services related to the public company filings, advisory services and corporate development activities. The professional fees for the year ended December 31, 2024 was lower than 2023 because there was less activity during the 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 share-based compensation for the year ended December 31, 2024 was significantly lower compared to the prior year as a result of the timing of the vesting schedules.

Interest expense consists of interest accrued during the year on the loans payable and the convertible note. The year ended December 31, 2024 had an increase in interest expense related to the renewal of the loan payable at a higher interest rate.

Interest income consists of interest earned on the Company's holdings of cash and cash equivalents. The amount of interest earned depends on the amount of cash held in these interest bearing accounts during the year.

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

Income from investment in mortgage fund relates to distributions in the form of dividends from the investment in the year. This investment was not held in the comparative year.

Selected financial information extracted from the statements of financial position at December 31, 2024 and 2023, which have been prepared in accordance with IFRS Accounting Standards:

	<b>December 31, 2024</b>	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Total current assets	\$ 6,578,847	\$ 4,633,331	\$ 9,960,943
Investments in associates	11,799,769	22,866,125	17,643,402
Capital assets	18,884	-	-
<b>Total assets</b>	<b>\$ 18,397,500</b>	<b>\$ 27,499,456</b>	<b>\$ 27,604,345</b>
Accounts payable and accrued liabilities	\$ 1,374,180	\$ 1,092,538	\$ 964,665
Loans payable	1,000,000	10,840,864	-
Convertible note	-	5,292,988	-
<b>Total current liabilities</b>	<b>2,374,180</b>	<b>17,226,390</b>	<b>964,665</b>
Loans payable	10,000,816	-	10,628,454
Convertible note	-	-	4,793,632
<b>Total liabilities</b>	<b>12,374,996</b>	<b>17,226,390</b>	<b>16,386,751</b>
<b>Shareholders' equity</b>	<b>6,022,504</b>	<b>10,273,066</b>	<b>11,217,594</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 18,397,500</b>	<b>\$ 27,499,456</b>	<b>\$ 27,604,345</b>

As of December 31, 2024, current assets primarily consist of cash and cash equivalents of \$1,200,776 (December 31, 2023 - \$4,331,129), investment in mortgage fund of \$4,832,428 (December 31, 2023 - nil), accounts receivable and other of \$354,387 (December 31, 2023 - \$283,068), income taxes receivable \$164,820 (December 31, 2023 - nil) and prepaid expenses and deposits of \$26,436 (December 31, 2023 - \$19,134).

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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 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 \$13,652,000 to the limited partnership and received a cumulative distribution of capital of \$2,000,000. The Company has provided a guarantee of up to \$25,075,200 for a land loan and construction loan held within the limited partnership. The Company's share of net income from the limited partnership for the year ended December 31, 2024 is \$95,549 (December 31, 2023 - \$96,861). The Company estimates it will have additional equity funding commitments of approximately \$800,000 payable over the remaining 9-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 partnership and received a cumulative distribution of capital and profits of \$14,754,724. The Company's share of net income from the limited partnership for the year ended December 31, 2024 is \$739,129 (December 31, 2023 - \$2,209,862). During the year ended December 31, 2024 the Squamish LP sold the remainder of its land inventory and distributed the proceeds after repayment of debt to the limited partners. Subsequent to December 31, 2024, the Squamish LP settled the deposit balances in the partnership associated with the project and distributed \$373,690 to the Company.

Loans payable consist of the Restated Loan Agreement in the aggregate amount of \$10,973,540, evidenced by the May 6, 2022 \$10,000,000 promissory note, as restated to include \$973,540 of accrued interest. The restated \$10,973,540 promissory note is unsecured and bears interest at a rate equal to 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 Restated 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. The Company has treated the amendment of the debt as an extinguishment and issuance of new debt for accounting purposes and no gain or loss was recorded on the consolidated statement of loss and comprehensive loss.

The convertible note was issued by the Company on December 29, 2021 in the principal amount of \$4,750,000. The convertible note was unsecured, had a maturity date of December 29, 2024 (being three years from the date of issuance) and accrued interest at a rate of 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 had 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 at a fixed conversion price of \$2.50 per share. On December 20, 2024, the Company repaid \$5,739,301 which was the entirety of the principal and interest on the convertible debt.

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The following table provides the Company's cash flows from operating activities for the years ended December 31, 2024 and 2023:

	<b>Year ended December 31, 2024</b>	<b>Year ended December 31, 2023</b>
<b>Operating activities</b>		
Loss and comprehensive loss for the year	\$ (4,646,507)	\$ (1,704,148)
Adjustments for items not affecting cash:		
Share-based compensation	395,945	759,620
Depreciation	2,117	-
Interest expense	1,356,997	1,019,157
Interest income	(91,597)	(301,068)
Income from associates	(834,678)	(2,306,723)
Income from investment in mortgage fund	(332,428)	-
	<u>(4,150,151)</u>	<u>(2,533,162)</u>
Interest paid	(990,033)	(43,666)
Interest received	72,795	304,763
Income taxes paid	(164,820)	-
Changes in non-cash working capital:		
Accounts receivable and other	(52,517)	(242,848)
Prepaid expenses and deposits	(7,302)	11,747
Accounts payable and accrued liabilities	281,642	127,873
	<u>(22,187)</u>	<u>(113,228)</u>
Net cash used in operating activities	<u>\$ (5,010,386)</u>	<u>\$ (2,375,293)</u>

For the year ended December 31, 2024, the Company used \$5,010,386 net cash in operating activities compared to \$2,375,293 in the prior year. The increase in cash used in operations is mainly due to the increase in salaries and wages, consulting fees and interest payments on the convertible note paid by the Company which was offset by the cash received from the investment in associates.

### 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 development fees, 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, which have been prepared in accordance with IFRS:

	<b>Three months ended Mar 31, 2023</b>	<b>Three months ended Jun 30, 2023</b>	<b>Three months ended Sep 30, 2023</b>	<b>Three months ended Dec 31, 2023</b>	<b>Three months ended Mar 31, 2024</b>	<b>Three months ended Jun 30, 2024</b>	<b>Three months ended Sep 30, 2024</b>	<b>Three months ended Dec 31, 2024</b>
Gross revenue (loss)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Income (loss) and comprehensive income (loss)	(749,557)	(896,589)	(673,276)	615,544	(1,103,796)	(599,252)	(1,058,823)	(1,884,636)
Income (loss) per share (diluted and non-diluted)	\$ (0.02)	\$ (0.02)	\$ (0.01)	\$ 0.01	\$ (0.02)	\$ (0.01)	\$ (0.02)	\$ (0.05)

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.

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 quarter 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.

During the three months ended March 31, 2024, the Company incurred salary, consulting and professional and share-based compensation expenses related to the ongoing operations of the company. The Company had no revenue during the period to offset these expenses.

During the three months ended June 30, 2024, the Company incurred salary, consulting and professional and share-based compensation expenses related to the ongoing operations of the company. The Company offset operational expenses with income from associates of \$754,758, which was primarily related to a gain from a sale of property realized by the Squamish LP investment.

During the three months ended September 30, 2024, the Company incurred salary, consulting and professional and share-based compensation expenses related to the ongoing operations of the company. The Company had no revenue during the period to offset these expenses.

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During the three months ended December 31, 2024, the Company incurred salary, consulting and professional and share-based compensation expenses related to the ongoing operations of the company. The Company had no revenue during the period to offset these expenses.

### 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 instruments such as guaranteed investment certificates or shares in a mortgage investment corporation.

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.

At December 31, 2024, the Company had current financial assets of \$6,387,591 (December 31, 2023 - \$4,614,197) available to settle current financial liabilities of \$2,374,180 (December 31, 2023 - \$17,226,390).

### Disclosure of Outstanding Share Data

#### *Common shares*

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, 2024 and the date of this MD&A was 46,928,247 (December 31, 2023 - 46,928,247).

#### *Stock options to purchase common shares*

At December 31, 2024 and the date of this MD&A, there were 4,638,000 (December 31, 2023 - 4,438,000) options to purchase common shares outstanding entitling the holders thereof to purchase 4,638,000 (December 31, 2023 - 4,438,000) common shares for each option in accordance with the following schedule:

<b>Number Outstanding</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
250,000	\$0.40	December 31, 2029
1,000,000	\$0.40	December 31, 2029
300,000	\$0.80	March 3, 2030
100,000	\$0.80	June 10, 2030
431,000	\$1.55	March 5, 2031
382,000	\$1.60	August 20, 2031
100,000	\$1.80	November 23, 2031
1,325,000	\$1.50	August 4, 2032
750,000	\$0.87	September 27, 2034
<b>4,638,000</b>		

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## **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 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 to mid 2023, 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. Starting in fiscal 2024, The Bank of Canada has lowered the overnight interest rate by 225 basis points and is expected to continue to adjust its overnight interest rate until it achieves its target inflation range. 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.

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## ***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 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 and significant shareholders***

Transactions with key management personnel and significant shareholders, including compensatory arrangements, require disclosure. Key management personnel include the Company's officers and directors as well as their close family members. Significant shareholders are shareholders as well as their close family members, who have significant influence over the Company.

# Kadestone Capital Corp.

## Management Discussion and Analysis

For the years ended December 31, 2024 and 2023

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### **b. Transactions**

Summary of transactions with key management personnel and significant shareholders:

	<b>Year ended December 31, 2024</b>		<b>Year ended December 31, 2023</b>
Salaries and wages	\$ 1,415,101	\$	1,127,076
Directors' fees	189,000		203,000
Share-based compensation	365,349		789,815
	<b>\$ 1,969,450</b>	<b>\$</b>	<b>2,119,891</b>

Included in accounts payable is \$27,789 (December 31, 2023 - \$38,948) payable to directors of the Company for directors' fees and \$500,000 (December 31, 2023 - \$500,000) for accrued bonus payments for Company officers.

During the year ended December 31, 2024, the Company paid \$1,310,333 (year ended December 31, 2023 - \$80,000) in consulting fees to companies which are controlled by a director of the Company.

### **Significant Accounting Estimates and Judgments**

The preparation of these consolidated financial statements in conformity with IFRS Accounting Standards 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.

The Company's significant accounting estimates and judgments are described in the notes to the consolidated financial statements as at and for the year ended December 31, 2024.

### **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).

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, accounts receivable and other, investment in mortgage fund, 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 an interest rate derived by combining the market interest rate with an estimated risk premium to determine a rate that would likely be available to the Company for similar financial instruments.

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The Company classifies its financial instruments as follows:

<b>December 31, 2024</b>	<b>Financial assets at amortized cost</b>	<b>Financial liabilities at amortized cost</b>	<b>Fair Value through profit and loss</b>	<b>Fair Value</b>
Cash and cash equivalents	\$ 1,200,776	\$ -	\$ -	\$ 1,200,776
Investment in mortgage fund	-	-	4,832,428	4,832,428
Accounts receivable and other	354,387	-	-	354,387
Accounts payable and accrued liabilities	-	1,374,180	-	1,374,180
Loans payable	-	11,000,816	-	11,530,311
<b>Total</b>	<b>\$ 1,555,163</b>	<b>\$ 12,374,996</b>	<b>\$ 4,832,428</b>	

<b>December 31, 2023</b>	<b>Financial assets at amortized cost</b>	<b>Financial liabilities at amortized cost</b>	<b>Fair Value</b>
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
Loans payable	-	10,840,864	10,740,284
Convertible note	-	5,292,988	5,340,741
<b>Total</b>	<b>\$ 4,614,197</b>	<b>\$ 17,226,390</b>	

## 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 A or higher.

The Company is exposed to credit risk through the investment in mortgage fund. The Company's maximum exposure to credit risk is the full investment value, before considering risk mitigation. The fund manages credit risk by securing loans with real estate collateral, analyzing loan-to-value ratios, and applying strict underwriting standards.

The Company is exposed to credit risk through the financial assets contained in accounts receivable and other. This balance in this account mainly consists of a loan receivable from another company. There is a risk that the outstanding principal and interest on this loan will not be repaid. This risk is mitigated as the borrowing company has a history of repayment and the Company is engaged in an active monitoring program through regular communication with the borrower regarding the loan.

### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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The Company earns interest income through the investment in GICs which is directly affected by the interest rate. In addition, the Company earns dividend income through the investment in mortgage fund, which is indirectly affected the fluctuation in interest rates. The impact of a 1% change in the interest rates would affect the Company's net income by \$58,914 (December 31, 2023 - \$nil).

The Company does not currently have any variable rate borrowings directly. The Company's loans payable 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 loan payable, with no penalty.

### Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company's objective in managing liquidity risk is to maintain sufficient readily available working capital to meet its liquidity requirements. At December 31, 2024, the Company had current financial assets of \$6,387,591 (December 31, 2023 - \$4,614,197) available to settle current financial liabilities of \$2,374,180 (December 31, 2023 - \$17,226,390).

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

	<b>Current</b>	<b>1-2 years</b>	<b>2-5 years</b>
Accounts payable and accrued liabilities	\$ 1,374,180	\$ -	\$ -
Loans payable	1,000,000	2,000,000	11,495,995

### **Additional Information**

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