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## **Kadestone Capital Corp.**

Condensed Interim Consolidated Financial Statements  
For the three months ended March 31, 2022 and 2021  
(Unaudited – Prepared by Management)

(expressed in Canadian Dollars)

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*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 three months ended March 31, 2022 and 2021**

**(Unaudited – Prepared by Management)  
(expressed in Canadian Dollars)**

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# Kadestone Capital Corp.

## Condensed Interim Consolidated Statements of Financial Position

(Unaudited)

(expressed in Canadian dollars)

|                                                   | Notes | March 31,<br>2022    | December 31,<br>2021 |
|---------------------------------------------------|-------|----------------------|----------------------|
| <b>Assets</b>                                     |       |                      |                      |
| <b>Current</b>                                    |       |                      |                      |
| Cash and cash equivalents                         | 4     | \$ 3,649,411         | \$ 5,017,287         |
| Restricted term deposits                          | 5     | 1,008,337            | 1,005,498            |
| Receivables                                       |       | 148,413              | 122,183              |
| Prepaid expenses and deposits                     |       | <u>23,739</u>        | <u>41,084</u>        |
|                                                   |       | 4,829,900            | 6,186,052            |
| <b>Non-current assets</b>                         |       |                      |                      |
| Investment properties                             | 6     | 1,453,500            | 1,453,500            |
| Investments in associates                         | 7     | <u>15,507,719</u>    | <u>15,494,706</u>    |
| <b>Total assets</b>                               |       | <b>\$ 21,791,119</b> | <b>\$ 23,134,258</b> |
| <b>Liabilities and shareholders' equity</b>       |       |                      |                      |
| <b>Current liabilities</b>                        |       |                      |                      |
| Accounts payable and accrued liabilities          |       | \$ 556,941           | \$ 361,615           |
| <b>Non-current liabilities</b>                    |       |                      |                      |
| Loan payable                                      | 12d   | 3,452,510            | 4,367,256            |
| Convertible note                                  | 9     | <u>4,438,000</u>     | <u>4,322,153</u>     |
| <b>Total liabilities</b>                          |       | <u>8,447,451</u>     | <u>9,051,024</u>     |
| <b>Shareholders' equity</b>                       |       |                      |                      |
| Share capital                                     | 10a   | 17,811,892           | 17,811,892           |
| Contributed surplus                               |       | 2,083,626            | 1,792,949            |
| Equity component of convertible note              | 9     | 395,918              | 395,918              |
| Deficit                                           |       | <u>(6,947,768)</u>   | <u>(5,917,525)</u>   |
|                                                   |       | 13,343,668           | 14,083,234           |
| <b>Total liabilities and shareholders' equity</b> |       | <b>\$ 21,791,119</b> | <b>\$ 23,134,258</b> |

Business of the Company and Going Concern (Note 1)  
Subsequent Event (Note 16)

Approved on behalf of the Board of Directors

“Brent Billey”

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Brent Billey

“Norm Mayr”

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Norm Mayr

# Kadestone Capital Corp.

## Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Unaudited)

(expressed in Canadian dollars)

|                                       | Notes    | Three months<br>ended<br>March 31,<br>2022 | Three months<br>ended<br>March 31,<br>2021 |
|---------------------------------------|----------|--------------------------------------------|--------------------------------------------|
| <b>Revenue</b>                        |          |                                            |                                            |
| Rental revenue                        |          | \$ -                                       | \$ 4,958                                   |
| Net profits interest                  | 6        | 13,144                                     | (214)                                      |
|                                       |          | 13,144                                     | 4,744                                      |
| <br>Rental property operating expense |          | -                                          | 48,664                                     |
|                                       |          | 13,144                                     | (43,920)                                   |
| <b>Operating expenses</b>             |          |                                            |                                            |
| Professional fees                     |          | 282,690                                    | 33,504                                     |
| Share-based compensation              | 10b, 12b | 290,677                                    | 125,151                                    |
| Consulting fees                       | 12b      | 26,800                                     | 48,258                                     |
| Salaries and wages                    | 12b      | 169,951                                    | 132,062                                    |
| Directors' fees                       | 12b      | 49,992                                     | 42,559                                     |
| Dues and subscriptions                |          | 18,848                                     | 42,277                                     |
| Insurance                             |          | 12,287                                     | 9,570                                      |
| Computer                              |          | 345                                        | 1,984                                      |
| Marketing                             |          | 8,910                                      | 36,452                                     |
| Office supplies                       |          | 496                                        | 1,100                                      |
| Bank charges                          |          | 495                                        | 743                                        |
|                                       |          | 861,491                                    | 473,660                                    |
| <br>Operating loss                    |          | (848,347)                                  | (517,580)                                  |
| <b>Other income and expenses</b>      |          |                                            |                                            |
| Interest expense                      |          | (203,523)                                  | (78,141)                                   |
| Interest revenue                      |          | 8,614                                      | 18,538                                     |
| Income from associates                |          | 13,013                                     | -                                          |
| <b>Loss and comprehensive loss</b>    |          | <b>\$ (1,030,243)</b>                      | <b>\$ (577,183)</b>                        |
| <br>Basic and diluted loss per share  | 11       | \$ (0.02)                                  | \$ (0.01)                                  |

# Kadestone Capital Corp.

## Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Unaudited)

(expressed in Canadian dollars)

|                          | Notes | Number of<br>common<br>shares | Common<br>shares     | Contributed<br>surplus | Equity<br>component of<br>convertible<br>note | Accumulated<br>deficit | Total                |
|--------------------------|-------|-------------------------------|----------------------|------------------------|-----------------------------------------------|------------------------|----------------------|
| <b>December 31, 2020</b> |       | 46,512,925                    | \$ 17,799,188        | \$ 771,319             | \$ -                                          | \$ (3,032,093)         | \$ 15,538,414        |
| Stock-based compensation | 10b   | -                             | -                    | 125,151                | -                                             | -                      | 125,151              |
| Loss for the period      |       | -                             | -                    | -                      | -                                             | (577,183)              | (577,183)            |
| <b>March 31, 2021</b>    |       | <b>46,512,925</b>             | <b>17,799,188</b>    | <b>896,470</b>         | <b>-</b>                                      | <b>(3,609,276)</b>     | <b>15,086,382</b>    |
| <b>December 31, 2021</b> |       | 46,523,362                    | 17,811,892           | 1,792,949              | 395,918                                       | (5,917,525)            | 14,083,234           |
| Stock-based compensation | 10b   | -                             | -                    | 290,677                | -                                             | -                      | 290,677              |
| Loss for the period      |       | -                             | -                    | -                      | -                                             | (1,030,243)            | (1,030,243)          |
| <b>March 31, 2022</b>    |       | <b>46,523,362</b>             | <b>\$ 17,811,892</b> | <b>\$ 2,083,626</b>    | <b>\$ 395,918</b>                             | <b>\$ (6,947,768)</b>  | <b>\$ 13,343,668</b> |

See notes to condensed interim consolidated financial statements

# Kadestone Capital Corp.

## Condensed Interim Consolidated Statements of Cash Flows

(Unaudited)

(expressed in Canadian dollars)

|                                                           | Three months<br>ended<br>March 31,<br>2022 | Three months<br>ended<br>March 31,<br>2021 |
|-----------------------------------------------------------|--------------------------------------------|--------------------------------------------|
| <b>Operating activities</b>                               |                                            |                                            |
| Loss for the period                                       | \$ (1,030,243)                             | \$ (577,183)                               |
| Adjustments for items not affecting cash:                 |                                            |                                            |
| Share-based compensation                                  | 290,677                                    | 125,151                                    |
| Accrued interest                                          | 166,640                                    | (8,110)                                    |
| Accretion and amortization of finance costs               | 33,861                                     | 24,098                                     |
| Income from associates                                    | (13,013)                                   | -                                          |
|                                                           | <u>(552,078)</u>                           | <u>(436,044)</u>                           |
| Changes in non-cash working capital:                      |                                            |                                            |
| Restricted term deposits                                  | -                                          | 53,924                                     |
| Receivables                                               | (26,230)                                   | (17,489)                                   |
| Prepaid expenses and deposits                             | 17,345                                     | 32,091                                     |
| Accounts payable and accrued liabilities                  | <u>195,326</u>                             | <u>(117,678)</u>                           |
| Net cash used in operating activities                     | (365,637)                                  | (485,196)                                  |
| <b>Investing activities</b>                               |                                            |                                            |
| Additions to investment properties                        | <u>-</u>                                   | <u>(30,759)</u>                            |
| Net cash used in investing activities                     | -                                          | (30,759)                                   |
| <b>Financing activities</b>                               |                                            |                                            |
| Repayment of loan payable and accrued interest            | <u>(1,002,239)</u>                         | <u>-</u>                                   |
| Net cash used in financing activities                     | (1,002,239)                                | -                                          |
| <b>Change in cash and cash equivalents</b>                | (1,367,876)                                | (515,955)                                  |
| <b>Cash and cash equivalents, beginning of the period</b> | 5,017,287                                  | 8,802,170                                  |
| <b>Cash and cash equivalents, end of the period</b>       | <u>\$ 3,649,411</u>                        | <u>\$ 8,286,215</u>                        |

Supplemental cash flow information (Note 13)

# Kadestone Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2022 and 2021

(Unaudited)

(expressed in Canadian dollars)

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### 1. BUSINESS OF THE COMPANY AND GOING CONCERN

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 Suite 2600, Three Bentall Centre, 595 Burrard Street, Vancouver, BC Canada, V7X 1L3.

The condensed interim consolidated financial statements have been prepared on a going concern basis. The Company’s ability to continue operations depends on management’s ability to raise additional financing in order to acquire additional investment properties to generate ongoing revenue to maintain operations. Management is actively pursuing such additional sources of financing. However, there is no assurance that they will be able to do so successfully.

As at March 31, 2022, the Company had current financial assets of \$4,806,161 available to settle current financial liabilities of \$556,941. The Company’s business does not currently generate sufficient funds to maintain long-term operations and will require additional financing in the future. However, management believes current financial assets at March 31, 2022 and the additional cash resulting from access to additional advances from a significant shareholder of the Company (note 12) will be sufficient to meet the Company’s known financial commitments for the next twelve months.

These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on May 19, 2022.

### 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, 2021, 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 and certain financial instruments that have been measured at fair value. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

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 condensed interim 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

# Kadestone Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2022 and 2021

(Unaudited)

(expressed in Canadian dollars)

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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 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, 2021.

### **d. Basis of consolidation**

#### *Subsidiaries*

These condensed interim consolidated financial statements incorporate the assets and liabilities of all entities controlled by the Company and the results of all controlled entities. Controlled entities are those entities over which the Company has i) the power to govern the financial and operating policies, ii) the right to receive benefits from that entity, and iii) the ability to use its operating decisions to alter the benefits received. These criteria are met by having a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. In addition, for consolidation purposes, factors may exist where an entity may consolidate without having more than 50% of the voting power through ownership or agreements, or in the circumstances of enhanced minority rights, as a consequence of de facto control. De facto control is control without the legal right to exercise unilateral control and involves decision-making abilities that are not shared with others and the ability to give direction with respect to the operating and financial policies of the entity concerned. Where control of an entity is acquired during a financial year, results are included in the consolidated statements of loss and comprehensive loss from the date on which control commences.

The Company's wholly owned subsidiaries are Kadestone (Kyle Road) Property Ltd., Kadestone Building Materials Ltd., 1230609 B.C. Ltd., Kadestone Property (Lickman Road) Ltd. and Kadestone Properties Squamish Ltd.

All intercompany balances, transactions and unrealized profits resulting from inter-company transactions have been eliminated.

#### *Accounting for Investments in Associates*

Associates are entities for which the Company has significant influence over the financial and operating policies of the entities and that are neither subsidiaries nor interests in joint ventures.

Investments in associates are accounted for using the equity method and initially recorded at cost and adjusted thereafter to recognize the Company's share of profit or loss and other comprehensive income or loss of the associate. The Company's share of the associate's profit or loss and other comprehensive income or loss is recognized in the Company's consolidated statements of loss and comprehensive loss.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

The principal 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 period ended December 31, 2021.

### **4. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include cash held at the bank of \$643,636 (December 31, 2021 - \$5,017,287) and guaranteed investment certificates (GICs) of \$3,005,775 (December 31, 2021 - \$nil).



# Kadestone Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2022 and 2021

(Unaudited)

(expressed in Canadian dollars)

### 5. RESTRICTED TERM DEPOSITS

Restricted term deposits consist of a restricted GIC held as security towards a construction loan within a limited partnership investment (note 7) guaranteed by the Company. As at March 31, 2022, the restricted GIC had a balance of \$1,008,337 (December 31, 2021 – \$1,005,498).

### 6. INVESTMENT PROPERTIES

The Company holds a 51% interest in a commercial real estate property located in West Vancouver. The holder of the 49% interest in the property is responsible for the management of the property as set out in an operating agreement. Pursuant to the agreement, the Company will receive a 51% share of the property revenues less operating expenses. The Company has recognized net profits of \$13,144 for the three months ended March 31, 2022 (net loss for three months ended March 31, 2021 – \$214).

The holder of the 49% interest solely holds the mortgage debt of \$1,333,105 (December 31, 2021 - \$1,346,223) on the property. The Company's 51% interest in the property is partial security for the mortgage debt. As well, the Company and a director have provided corporate and personal guarantees for the mortgage debt and the Company has indemnified the director for this personal guarantee.

On October 30, 2020, the Company completed the transaction for the purchase of an industrial property located on Kyle Road in West Kelowna. The total purchase price of the Kyle Road Property was \$8,975,000, plus transaction costs of \$177,165 net of \$83,104 in construction refunds. The purchase price was settled with cash of \$7,359,500 and the issuance of 2,019,375 common shares with a value of \$1,615,500. The Company also paid costs of \$24,319 related to the extension of the purchase contract closing date and these costs were expensed.

On November 1, 2021, the Company completed the sale of the Kyle Road Property. The property was sold for a price of \$10,100,000 less \$237,000 in selling commissions and other closing costs resulting in a gain of \$160,999 included in fair value adjustments.

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

|                                     | <b>Three months ended</b> |           | <b>Year ended</b>        |             |
|-------------------------------------|---------------------------|-----------|--------------------------|-------------|
|                                     | <b>March 31, 2022</b>     |           | <b>December 31, 2021</b> |             |
| Balance, beginning of period        | \$                        | 1,453,500 | \$                       | 10,527,661  |
| Other additions                     |                           | -         |                          | 594,586     |
| Leasing commissions                 |                           | -         |                          | 70,056      |
| Amortization of leasing commissions |                           | -         |                          | (4,476)     |
| Fair value adjustments              |                           | -         |                          | 128,673     |
| Sale of Kyle Road Property, net     |                           | -         |                          | (9,863,000) |
| Balance, end of period              | \$                        | 1,453,500 | \$                       | 1,453,500   |

For the three months ended March 31, 2022, the Company recorded a fair value adjustment gain of \$nil for its investment properties (year ended December 31, 2021 – loss of \$128,673).

### Valuation Methodology

The appraised fair value of investment properties is most commonly determined using the following methodologies:

- a) Discounted cash flow method - Under this approach, discount rates are applied to the projected annual

# Kadestone Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2022 and 2021

(Unaudited)

(expressed in Canadian dollars)

operating cash flows, generally over a minimum ten-year period, including any terminal value of the properties based on a capitalization rate applied to the estimated net operating income ("NOI"), a non-GAAP measure. This method is primarily used to value rental property portfolios.

- b) Comparable sales method - This approach compares a subject property's characteristics with those of comparable properties which have recently sold. The process uses one of several techniques to adjust the price of the comparable transactions according to the presence, absence, or degree of characteristics which influence value. These characteristics include the cost of construction incurred at a property under development. This method is primarily used to value development property portfolios.

As part of the Company's valuation process, valuations are prepared by management based primarily on assumptions relating to cash flow from current leases, rental income from future leases in light of current market conditions, and capitalization rates. In addition, management will utilize external valuations performed by independent real estate valuation firms. On a quarterly basis, the valuation models are reviewed and updated as necessary to reflect current market data.

### Significant Inputs

There are significant unobservable inputs used, such as capitalization rates, in determining the fair value of each investment property. Accordingly, all investment properties are measured in accordance with the fair value measurement levels and the inputs for investment properties comprise Level 3 unobservable inputs, reflecting management's best estimate of what market participants would use in pricing the asset at the measurement date. Fair values are most sensitive to changes in capitalization rates and stabilized or forecasted NOI. Generally, an increase in NOI will result in an increase in the fair value of investment properties and an increase in capitalization rates will result in a decrease in the fair value of investment properties.

Assuming no change to NOI, a 5% change in the capitalization rate would change the fair value of the investment properties by approximately \$69,000 (2021 - \$70,000).

## 7. INVESTMENTS IN ASSOCIATES

Investments in associates consist of:

| Equity Accounted Investments                             | General Partnership Ownership | Limited Partnership Ownership | March 31, 2022       | December 31, 2021    |
|----------------------------------------------------------|-------------------------------|-------------------------------|----------------------|----------------------|
| Denciti Chilliwack Limited Partnership ("Chilliwack LP") | 0%                            | 80%                           | \$ 7,707,535         | \$ 7,694,474         |
| Denciti Squamish Limited Partnership ("Squamish LP")     | 0%                            | 80%                           | 7,800,184            | 7,800,232            |
| <b>Total</b>                                             |                               |                               | <b>\$ 15,507,719</b> | <b>\$ 15,494,706</b> |

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. The Company contributed capital of \$8,400,000 to the limited partnership and also received a return of capital of \$720,000. The Company has provided a guarantee of up to \$10,800,000 for a land acquisition loan held within the limited partnership. The Company's share of net income from the limited partnership for the three months ended March 31, 2022 is \$13,061 (three months ended March 31, 2021 - \$nil). The Company estimates it will have additional equity funding commitments of approximately \$4,772,000 payable over the 46-month development period as estimated by the Company's development partner.

In May 2021, the Company acquired an 80% interest in a limited partnership formed for the purpose of acquiring certain lands for development and sale of a light industrial commercial project in Squamish, B.C. The Company contributed capital of \$7,800,000 to the limited partnership. The Company has provided a guarantee of up to \$9,600,000 for a construction loan held within the limited partnership and has provided a deposit in

# Kadestone Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2022 and 2021

(Unaudited)

(expressed in Canadian dollars)

favour of the lender of \$1,000,000 (note 5). The Company's share of net loss from the limited partnership for the three months ended March 31, 2022 is \$48 (three months ended March 31, 2021 - \$nil). The Company estimates it will have additional equity funding commitments of approximately \$4,104,000 payable over the 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.

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

|                         | <b>Chilliwack LP</b>      |                              | <b>Squamish LP</b>        |                              |
|-------------------------|---------------------------|------------------------------|---------------------------|------------------------------|
|                         | <b>March 31,<br/>2022</b> | <b>December 31,<br/>2021</b> | <b>March 31,<br/>2022</b> | <b>December 31,<br/>2021</b> |
| Current assets          | \$ 715,976                | \$ 905,736                   | \$ 248,730                | \$ 431,709                   |
| Non-current assets      | 22,558,896                | 22,376,417                   | 21,497,650                | 21,288,231                   |
| Current liabilities     | 378,734                   | 413,996                      | 11,996,150                | 11,969,650                   |
| Non-current liabilities | 13,261,720                | 13,250,064                   | -                         | -                            |
| Revenue                 | 31,250                    | 33,465                       | -                         | 342                          |
| Expenses                | 14,924                    | 15,372                       | 60                        | 52                           |
| Net income (loss)       | \$ 16,326                 | \$ 18,093                    | \$ (60)                   | \$ 290                       |

### 8. DEBT ON INVESTMENT PROPERTY

On October 30, 2020, the Company obtained a \$4,925,000 capital loan from a major credit union to provide financing for the acquisition of the Kyle Road Property. The loan was due on demand but no later than October 31, 2021 and bore interest at the greater of prime plus 2% per annum or 4.45% per annum. The Company incurred transaction costs of \$97,298, which were amortized over the term of the loan. The loan was secured by a fixed first charge over the property.

On November 1, 2021, the Company sold the Kyle Road Property and the balance of \$4,925,000 was repaid.

|                                          | <b>Three months ended<br/>March 31, 2022</b> | <b>Year ended<br/>December 31, 2021</b> |
|------------------------------------------|----------------------------------------------|-----------------------------------------|
| Balance, beginning of period             | \$ -                                         | \$ 4,843,620                            |
| Proceeds from debt issuances             | -                                            | -                                       |
| Costs associated with debt issuance      | -                                            | -                                       |
| Amortization of deferred financing costs | -                                            | 81,380                                  |
| Repayment of loan                        | -                                            | (4,925,000)                             |
| Balance, end of period                   | \$ -                                         | \$ -                                    |

### 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.

# Kadestone Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2022 and 2021

(Unaudited)

(expressed in Canadian dollars)

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.

|                                                 | Three months ended<br>March 31, 2022 | Year ended<br>December 31, 2021 |
|-------------------------------------------------|--------------------------------------|---------------------------------|
| Balance, beginning of period                    | \$ 4,322,153                         | \$ -                            |
| Additions of principal amounts                  | -                                    | 4,750,000                       |
| Transaction costs associated with issuance      | -                                    | (34,500)                        |
| Equity component                                | -                                    | (395,918)                       |
| Accretion and amortization of transaction costs | 33,861                               | 749                             |
| Accrued interest                                | 81,986                               | 1,822                           |
| Balance, end of period                          | \$ 4,438,000                         | \$ 4,322,153                    |

### 10. SHAREHOLDERS' EQUITY

#### a. Share Capital

The Company has an unlimited number of common shares authorized and has issued 46,523,362 shares as at March 31, 2022.

On February 25, 2020, the Company issued 2,019,375 common shares at a value of \$1,615,500 as partial payment for the deposit on the acquisition of the Kyle Road investment property (note 6).

On October 29, 2020, the Company completed its cornerstone placement of common shares whereby the Company issued 9,200,000 common shares at a price of \$0.80 per common share for total gross proceeds of \$7,360,000.

On October 29, 2020, the Company completed its initial public offering of common shares whereby the Company issued 8,306,450 common shares at a price of \$0.80 per common share for total gross proceeds of \$6,645,160. The Company also incurred \$545,967 in issuance costs related to the offering and issued 415,322 agent options with a fair value of \$173,306.

On May 13, 2021, 750 shares were issued for agent's options exercised.

On June 9, 2021, 1,875 shares were issued for agent's options exercised.

On December 29, 2021, 7,812 shares were issued for agent's options exercised.

# Kadestone Capital Corp.

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(Unaudited)

(expressed in Canadian dollars)

From December 31, 2019 to March 31, 2022 the Company has issued the following common shares:

| Date                             | Shares     | Price  | Value      |
|----------------------------------|------------|--------|------------|
| <b>Total – December 31, 2019</b> | 26,987,100 | \$     | 2,897,801  |
| February 25, 2020                | 2,019,375  | \$0.80 | 1,615,500  |
| October 29, 2020                 | 9,200,000  | \$0.80 | 7,360,000  |
| October 29, 2020                 | 8,306,450  | \$0.80 | 6,645,160  |
|                                  | 46,512,925 |        | 18,518,461 |
| Share issuance costs             |            |        | (719,273)  |
| <b>Total – December 31, 2020</b> | 46,512,925 |        | 17,799,188 |
| May 13, 2021 <sup>(1)</sup>      | 750        | \$0.80 | 913        |
| June 9, 2021 <sup>(1)</sup>      | 1,875      | \$0.80 | 2,282      |
| December 29, 2021 <sup>(1)</sup> | 7,812      | \$0.80 | 9,509      |
| <b>Total – December 31, 2021</b> | 46,523,362 | \$     | 17,811,892 |
| <b>Total – March 31, 2022</b>    | 46,523,362 | \$     | 17,811,892 |

<sup>(1)</sup> Shares issued for exercise of agent's options, values include transfers from contributed surplus

As at March 31, 2022, the Company had 19,200,885 and 1,982,000 common shares subject to escrow and pooling restrictions respectively. 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 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 March 3, 2020, the Company granted 400,000 options with an exercise price of \$0.80, expiry date of March 3, 2030 and a vesting period of 36 months with 1/36th of the award vesting every month. These options were awarded to the Company’s board of directors and each of the four directors received 100,000 options. The fair value of options granted was \$285,287.

On June 10, 2020, the Company granted 100,000 options to the Chief Financial Officer. These options have an exercise price of \$0.80, expiry date of June 10, 2030 and a vesting period of 6 months with 1/6th of the award vesting every month. The fair value of the options granted was \$71,149.

On March 5, 2021, the Company granted 481,000 options to the directors, the Chief Financial Officer and three consultants. These options have an exercise price of \$1.55, expiry date of March 5, 2031 and a vesting period of

# Kadestone Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2022 and 2021

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36 months with 1/36th of the award vesting every month. The fair value of options granted was \$557,626.

On August 20, 2021, the Company granted 982,000 options to the Chief Executive Officer, the Chief Financial Officer and three consultants. These options have an exercise price of \$1.60, expiry date of August 20, 2031. Of these options 782,000 have a vesting period of 36 months with 1/36th of the award vesting every month and the remaining 200,000 have a vesting period of 12 months with 1/12th of the award vesting every month. The fair value of options granted was \$1,167,797.

On November 23, 2021, the Company granted 100,000 options to a director. These options have an exercise price of \$1.80, expiry date of November 23, 2031 and a vesting period of 36 months with 1/36th of the award vesting every month. The fair value of options granted was \$135,347.

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.

| <b>Grant Date</b>               | <b>March 3,<br/>2020</b> | <b>June 10,<br/>2020</b> | <b>March 5,<br/>2021</b> | <b>August 20,<br/>2021</b> | <b>November 23,<br/>2021</b> |
|---------------------------------|--------------------------|--------------------------|--------------------------|----------------------------|------------------------------|
| Expected dividend yield         | Nil                      | Nil                      | Nil                      | Nil                        | Nil                          |
| Expected stock price volatility | 100%                     | 100%                     | 69%                      | 69%                        | 69%                          |
| Risk-free interest rate         | 0.96%                    | 0.57%                    | 1.50%                    | 1.14%                      | 1.81%                        |
| Expected life of options        | 10 years                 | 10 years                 | 10 years                 | 10 years                   | 10 years                     |
| Forfeiture rate                 | Nil                      | Nil                      | Nil                      | Nil                        | Nil                          |

As at March 31, 2022, 1,806,834 (December 31, 2021 - 1,526,583) of the total stock options outstanding had vested. For the three months ended March 31, 2022 the Company recognized \$290,677 (three months ended March 31, 2021 - \$125,151) in share-based compensation expense for vesting of options.

Stock option transactions from December 31, 2019 to March 31, 2022 are as follows:

|                               | <b>Number of<br/>options</b> | <b>Weighted Average<br/>Exercise Price</b> |
|-------------------------------|------------------------------|--------------------------------------------|
| Balance at December 31, 2019  | 1,250,000                    | \$0.40                                     |
| Issued options                | 500,000                      | \$0.80                                     |
| Balance at December 31, 2020  | 1,750,000                    | \$0.51                                     |
| Issued options                | 1,563,000                    | \$1.60                                     |
| Balance at December 31, 2021  | 3,313,000                    | \$1.03                                     |
| Balance at March 31, 2022     | 3,313,000                    | \$1.03                                     |
| Exercisable at March 31, 2022 | 1,806,834                    | \$0.77                                     |

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As at March 31, 2022, the following stock options were outstanding and exercisable:

| <b>Number<br/>Outstanding</b> | <b>Number<br/>Exercisable</b> | <b>Exercise Price</b> | <b>Expiry Date</b> |
|-------------------------------|-------------------------------|-----------------------|--------------------|
| 250,000                       | 250,000                       | \$0.40                | December 31, 2029  |
| 1,000,000                     | 750,000                       | \$0.40                | December 31, 2029  |
| 400,000                       | 266,667                       | \$0.80                | March 3, 2030      |
| 100,000                       | 100,000                       | \$0.80                | June 10, 2030      |
| 481,000                       | 160,333                       | \$1.55                | March 5, 2031      |
| 982,000                       | 268,723                       | \$1.60                | August 20, 2031    |
| 100,000                       | 11,111                        | \$1.80                | November 23, 2031  |

### c. Agent's Options

The Company granted 415,322 agent's options related to the Company's initial public offering. These options have an exercise price of \$0.80, expiry date of October 29, 2022 and vested immediately. The fair value of the options granted of \$173,306 was estimated using the Black-Scholes options pricing model using expected dividend yield of nil, stock price volatility of 100%, risk-free interest rate of 0.23% and an expected term of 2 years. As at March 31, 2022, 10,437 options have been exercised and 404,885 remain outstanding and exercisable.

## 11. LOSS PER SHARE

|                                   | <b>Three months ended<br/>March 31, 2022</b> | <b>Three months ended<br/>March 31, 2021</b> |
|-----------------------------------|----------------------------------------------|----------------------------------------------|
| Loss                              | \$ (1,030,243)                               | \$ (577,183)                                 |
| Weighted average number of shares | 46,523,362                                   | 46,512,925                                   |
| Basic and diluted loss per share  | \$ (0.02)                                    | \$ (0.01)                                    |

## 12. RELATED PARTY TRANSACTIONS

### a. Key Management Personnel

Transactions with key management personnel, including compensatory arrangements, require disclosure. Key management personnel include the Company's officers and directors.

### b. Transactions

Summary of transactions with key management and directors:

|                          | <b>Three months ended<br/>March 31, 2022</b> | <b>Three months ended<br/>March 31, 2021</b> |
|--------------------------|----------------------------------------------|----------------------------------------------|
| Salary                   | \$ 153,000                                   | \$ 125,000                                   |
| Consulting fees          | -                                            | 32,258                                       |
| Directors' fees          | 49,500                                       | 37,250                                       |
| Share-based compensation | 222,209                                      | 98,964                                       |
|                          | \$ 424,709                                   | \$ 293,472                                   |

Included in accounts payable is \$42,865 (December 31, 2021 - \$39,716) owing to officers and directors of the Company.

# Kadestone Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2022 and 2021

(Unaudited)

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### c. Loan Receivable

On December 15, 2020 the Company advanced \$1,000,000 by way of promissory note to a company controlled by a significant shareholder of the Company. The note was unsecured, due on 30 days written demand and bore interest at 4% per annum payable at the end of each quarter. On June 25, 2021, the principal amount of this loan and accrued interest was repaid.

### d. Loan Payable

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

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.

As at March 31, 2022 the principal amount of loan payable was \$3,220,000 (December 31, 2021 - \$4,170,000) and accrued interest of \$232,510 (December 31, 2021 - \$197,256).

## 13. SUPPLEMENTAL CASH FLOW INFORMATION

|                   | Three months ended<br>March 31, 2022 |        | Three months ended<br>March 31, 2021 |        |
|-------------------|--------------------------------------|--------|--------------------------------------|--------|
| Interest received | \$                                   | -      | \$                                   | 2,888  |
| Interest paid     | \$                                   | 52,422 | \$                                   | 54,043 |

There were no significant non-cash transactions for the three months ended March 31, 2022 and 2021.

## 14. SEGMENT DISCLOSURE

The Company and its subsidiaries operate in two distinct operating segments in Canada. These segments are property investment and the sale of building materials.

Operating performance of the Company is evaluated primarily based on the net operating income of these two segments.

|                                 | Property<br>Investment |              | Building<br>Materials |            | Consolidated   |              |
|---------------------------------|------------------------|--------------|-----------------------|------------|----------------|--------------|
| Three months ended<br>March 31, | 2022                   | 2021         | 2022                  | 2021       | 2022           | 2021         |
| Revenue                         | \$ 13,144              | \$ 4,744     | \$ -                  | \$ -       | \$ 13,144      | \$ 4,744     |
| Operating loss                  | (860,059)              | (515,400)    | (1,432)               | -          | (861,491)      | (517,580)    |
| Other income and expenses       | (181,896)              | (59,603)     | -                     | (2,180)    | (181,896)      | (59,603)     |
| Net loss                        | \$ (1,028,811)         | \$ (575,003) | \$ (1,432)            | \$ (2,180) | \$ (1,030,243) | \$ (577,183) |



# Kadestone Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2022 and 2021

(Unaudited)

(expressed in Canadian dollars)

### 15. FINANCIAL INFORMATION AND RISK FACTORS

The Company classifies its financial instruments as follows:

|                                          | Financial assets<br>at amortized<br>cost | Financial<br>liabilities at<br>amortized cost | Financial assets at<br>fair value through<br>profit and loss |
|------------------------------------------|------------------------------------------|-----------------------------------------------|--------------------------------------------------------------|
| <b>March 31, 2022</b>                    |                                          |                                               |                                                              |
| Cash and cash equivalents                | \$ 3,649,411                             | \$ -                                          | \$ -                                                         |
| Restricted term deposits                 | 1,008,337                                | -                                             | -                                                            |
| Receivables                              | 148,413                                  | -                                             | -                                                            |
| Accounts payable and accrued liabilities | -                                        | 556,941                                       | -                                                            |
| Loan payable                             | -                                        | 3,452,510                                     | -                                                            |
| Convertible note                         | -                                        | 4,438,000                                     | -                                                            |
| <b>Total</b>                             | <b>\$ 4,806,161</b>                      | <b>\$ 8,447,451</b>                           | <b>\$ -</b>                                                  |

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

### 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 notes. 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 three months ended March 31, 2022.

### Risk Factors

The Company's financial instruments consist of cash and cash equivalents, restricted term deposits, receivables, accounts payable and accrued liabilities, loan payable and convertible note. As at March 31, 2022, the carrying values and fair values of the Company's financial instruments are approximately the same.

# Kadestone Capital Corp.

## Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2022 and 2021

(Unaudited)

(expressed in Canadian dollars)

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The Company is exposed, in varying degrees, to the following financial instrument related risks:

### Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

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

The Company has provided loans to facilitate business development and credit risks arise in the event that borrowers default on the repayment of their amounts owing to the Company. The Company's loans and advances will be subordinate to prior ranking mortgages or charges. However, as at March 31, 2022, the Company did not have any loans receivable from other business.

The Company mitigates credit risk by performing credit checks on potential borrowers, monitoring the financial and operating performance of borrowers, and ensuring interest payments are made on time. Credit risk from lease receivables arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments, resulting in the Company incurring a financial loss.

### Interest Rate Risk

The Company does not currently have any variable rate borrowings directly. The Company's loan 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 March 31, 2022, the Company had current financial assets of \$4,806,161 available to settle current financial liabilities of \$556,941.

### Market Risk

Market risk is the risk that the fair value or future cash flow of financial instruments will fluctuate because of changes in market prices. The Company is exposed to interest rate risk on its borrowings. The Company's has exposure to floating interest rates through the investments in associates which is managed through a contingency on the project.

## **16. SUBSEQUENT EVENT**

On May 2, 2022, the Company entered into with an unrelated third party an unsecured non-revolving term loan credit facility of up to \$10,000,000. Interest is payable on the outstanding amounts at a rate of 5% per annum and the facility expires on 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.