



**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019**

**URBANFUND CORP.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2019**

<b>PROPERTY PORTFOLIO</b>	<b>Accounting treatment under IFRS</b>	<b>Ownership Interest (%)</b>	<b>Site Size (sq. ft.)</b>	<b>Total Suites (#)</b>
<b>Property and Location</b>				
<b>ONTARIO</b>				
<u>Residential</u>				
3080-3094 Don Mills Road. & 200 Van Horne Avenue, Toronto	Wholly-owned	100%	200,812	84
59, 61, 65 Weber Street, Kitchener	Limited partnership	90%	17,300	(i), (ii)
51, 55, 59 Scott Street, Kitchener	Limited partnership	90%	16,700	(i), (ii)
<u>Commercial</u>				
305 North Front Street, Toronto	Wholly-owned	100%	72,796	12
476 Wonderland Road, London	Wholly-owned	100%	16,000	5
4 Alfred Kuehne, Brampton	Joint operation	50%	46,790	12
<b>QUEBEC</b>				
<u>Residential</u>				
7251 Avenue Malicorne, Montreal	Joint operation	10%	535,418	312
11 Rue Thibault, Levis	Joint operation	10%	97,757	90
11 Curé Pelleitier, Levis	Joint operation	10%	125,485	108
249 Avenue Du Pont-Scott, Quebec City	Joint operation	10%	172,803	192
2924 Rue De La Verdure, Quebec City	Joint operation	10%	246,665	208
890 Rue Bourgogne, Quebec City	Joint operation	10%	117,240	92
656 Avenue De Lestres, Quebec City	Joint operation	10%	473,515	396
4300 4e Avenue East, Quebec City	Joint operation	10%	394,938	280
<u>Commercial</u>				
352 Avenue Saint-Sacrement, Quebec City	Joint operation	10%	28,084	11
<b>NOVA SCOTIA</b>				
<u>Residential</u>				
10 Joseph Young Street, Dartmouth	Equity investment	20%	48,283	42
15 Highfield Park Drive, Dartmouth	Equity investment	20%	94,813	79
17 Highfield Park Drive, Dartmouth	Equity investment	20%	5,551	44
20 Joseph Young Street, Dartmouth	Equity investment	20%	43,562	39
21 Highfield Park Drive, Dartmouth	Equity investment	20%	85,076	71
25 Highfield Park Drive, Dartmouth	Equity investment	20%	85,078	71
30 Joseph Young Street, Dartmouth	Equity investment	20%	43,581	39
40 Joseph Young Street, Dartmouth	Equity investment	20%	86,243	75
47 Joseph Young Street, Dartmouth	Equity investment	20%	106,286	88
51 Joseph Young Street, Dartmouth	Equity investment	20%	104,610	87
55 Highfield Park Drive, Dartmouth	Equity investment	20%	90,241	72
65 Highfield Park Drive, Dartmouth	Equity investment	20%	90,161	72
76 Highfield Park Drive, Dartmouth	Equity investment	20%	135,533	128
80 Highfield Park Drive, Dartmouth	Equity investment	20%	66,882	56
86 Highfield Park Drive, Dartmouth	Equity investment	20%	66,117	53
90 Highfield Park Drive, Dartmouth	Equity investment	20%	66,117	53
94 Highfield Park Drive, Dartmouth	Equity investment	20%	66,117	53
95 Highfield Park Drive, Dartmouth	Equity investment	20%	104,651	86
96 Highfield Park Drive, Dartmouth	Equity investment	20%	96,703	75
98 Highfield Park Drive, Dartmouth	Equity investment	20%	86,081	71

(i) As of the date of this MD&A, the property is either vacant land or vacant units, Urbanfund proposes to amalgamate the properties and develop a residential building, see *Investment Properties*.

(ii) As of the date of this MD&A, the property is under development.

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### FOR THE PERIOD ENDED SEPTEMBER 30, 2019

#### INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is provided to enable a reader to assess the results of the operations and financial condition for Urbanfund Corp. for the three and nine months ended September 30, 2019. This MD&A is dated November 27, 2019 and should be read in conjunction with the unaudited interim condensed consolidated financial statements as at and for the three and nine months ended September 30, 2019 ("Consolidated Financial Statements") and the annual audited consolidated financial statements and related notes for the year ended December 31, 2018 ("Annual Consolidated Financial Statements"). Unless the context indicates otherwise, references to "Urbanfund", "the Company", "we", "us" and "our" in this MD&A refer to Urbanfund Corp. and its consolidated operations.

#### FORWARD-LOOKING INFORMATION

Certain information included in this MD&A contains forward-looking information with the meaning of applicable Canadian securities laws. This information includes, but is not limited to, statements made in *Outlook, Business Overview and Strategy, Results from Operations, Investment Properties, Properties under Development, Inventory Properties, Other Real Estate Investments, Debt Profile*, and other statements concerning Urbanfund's objectives, its strategies to achieve those objectives, as well as statements with respect to management's beliefs, plans, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking information generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "would", "expect", "intend", "estimate", "anticipate", "believe", "should", "plan", "continue", or similar expressions suggesting future outcomes or events or the negative thereof. Such forward-looking information reflects management's beliefs and is based on information currently available. All forward-looking information in this MD&A is qualified by the following cautionary statements.

Forward looking information necessarily involves known and unknown risks and uncertainties, which may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, assumptions may not be correct and objectives, strategic goals and priorities may not be achieved. A variety of factors, many of which are beyond Urbanfund's control, affect the operations, performance and results of the Company and its subsidiaries, and could call actual results to differ materially from current expectations of estimated or anticipated events or results.

Although Urbanfund believes that the expectations reflected in such forward-looking information are reasonable and represent the Company's projections, expectations and beliefs at this time, such information involves known and unknown risks and uncertainties which may cause the Company's actual performance and results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking information. Important factors that could cause actual results to differ materially include but are not limited to: *Market Conditions, Real Estate Ownership, Additional Costs Related to Acquisitions, Additional Costs Related to Real Estate Projects and Lease Renewals and Rental Increases*. See *Risks and Uncertainties* for further information. The reader is cautioned to consider these factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking information, as there can be no assurance that actual results will be consistent with such forward-looking information.

The forward-looking information included in this MD&A is made as of the date of this MD&A and should not be relied upon as representing Urbanfund's views as of any date subsequent to the date of this MD&A. Management undertakes no obligation, except as required by applicable law, to publicly update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

#### BUSINESS OVERVIEW AND STRATEGY

##### Business Overview

Urbanfund Corp. is an incorporated entity listed on the TSX Venture Exchange ("TSX-V") under the symbol UFC. The Company is a reporting issuer in Alberta, British Columbia and Ontario. Urbanfund's focus is to invest in Canadian real estate and real estate related projects with a focus on a mix of both residential and commercial properties. The Company's assets are located in Toronto, Brampton, Belleville, Kitchener, London, Ontario, Quebec City and Montreal, Quebec and Dartmouth, Nova Scotia.

##### Operational Highlights

Part of Urbanfund's strength is the ability to attract partners with proven track records with both residential and commercial development expertise. Urbanfund continues to build alliances with its strategic partners:

- Weber Limited Partnerships - On January 22, 2019, the general partners of Weber LP and Weber 3 LP, limited partnerships through which Urbanfund has invested in certain real estate investments, issued a return of capital to the Company from the sale of 48 Weber Street, 61 Roy Street and 65 Roy Street in the amount of \$2,256,982.

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Further, during the period ended September 30, 2019, the Company is coordinating with representatives at the Office of Attorney General in Kitchener, Ontario to continue the civil construction work in relation to the 51, 55, 59 Scott Street and 59, 61, 65 Weber Street project in Kitchener, Ontario. The estimated occupancy for the development is projected to be Q4 2020. See *Joint Operations and Limited Partnerships*.

- *La Corporation Headway ("Quebec Headway")* - With the scheduled completion of renovations of Domaine Anjou, Versant Nord and Complex Renaissance, Quebec Headway is experiencing high tenant occupancy. The Company, along with its joint arrangement partner, plans to continue with the renovation of its Quebec City investment properties with anticipation of continued high tenant occupancy and net operating income.

#### Dividend Reinvestment Plan Extension

In 2018, Urbanfund amended the number of shares available for issuance pursuant to its dividend reinvestment plans for holders of its common shares and Series A, first preferred shares, increasing the aggregate number of common shares available for issuance. As of September 30, 2019, Urbanfund had 647,231 common shares available for issuance. See *Dividend Reinvestment Plan*.

#### Objectives

The Company's objectives are to: (i) directly and indirectly acquire, own and operate a portfolio of properties and invest in real estate related projects with a focus on a mix of both residential and commercial properties; (ii) make stable quarterly cash distributions to shareholders; and (iii) enhance operating income and property values through active management.

#### Outlook

During the third quarter of 2019, the Canadian economy remained relatively flat; however, the outlook generally remains uncertain due to the economic challenges caused by deepening regional disparities, geo-political uncertainty, global growth concerns and commodity price volatility. The Bank of Canada continues to hold interest rates but is prepared to make reductions should the economy begin to slow. As a result, the market continues to watch for changes in interest rates. Notwithstanding, Urbanfund is well positioned to withstand any changes in interest rates due to a strong balance sheet with ample cash and cash equivalents to cover interest costs, fixed term mortgages payable and staggered debt maturities. See *Debt Profile*.

Canada continues to have increased immigration levels and a large proportion are moving towards Toronto and Montreal areas, creating a flow of capital to those regions. Management believes that the result is a rise to the costs of operating businesses and overall cost of living for individuals. The costs of overall operations of the business will increase similar to the trends in increases in rental rates, and overall will remain a fraction of the total business costs. Individuals will continue to experience cost inflation and interest rate tightening and purchasing a condominium or a house will continue to be a challenge for many. Management believes there will be a continued demand for rental units with an overall continued downwards trend in vacancy rates and an increase in overall rental rates.

Management believes that the Company will continue to benefit from the stable demand for both residential and commercial properties, while continuing to invest in other real estate projects which will continue to produce investment returns for further capital reinvestment. Management expects to continue to distribute investment returns to our shareholders.

## PRESENTATION OF FINANCIAL INFORMATION AND NON-IFRS MEASURES

#### Presentation of Financial Information

Unless otherwise specified herein, financial results, including historical comparatives, contained in this MD&A are based on Urbanfund's Consolidated Financial Statements, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

Unless otherwise specified, amounts are in Canadian dollars and percentage changes are calculated using whole numbers.

#### Non-IFRS Measures

In addition to reported IFRS measures, industry practice is to evaluate real estate entities giving consideration to certain non-IFRS performance measures such as funds from operations, adjusted cash flows from operations and net operating income. Management believes that these measures are helpful to investors because they are widely recognized measures of Urbanfund's performance and provide a relevant basis of comparison to other real estate entities.

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In addition to IFRS results, these measures are also used internally to measure the operating performance of our property portfolio. These measures are not in accordance with IFRS and have no standardized definitions, as such, our computations of these non-IFRS measures may not be comparable to measures by other reporting issuers. In addition, Urbanfund's method of calculating non-IFRS measures may differ from other reporting issuers, and, accordingly, may not be comparable.

The Real Property Association of Canada ("REALpac") issued a white paper in February 2017 prescribing revised definitions for certain non-IFRS financial measures of cash flow and operating performance commonly used by the Canadian real estate industry. Urbanfund has reviewed these guidelines and adopted certain measures, where appropriate, commencing with our fourth quarter 2017 reporting.

#### Funds From Operations ("FFO")

Funds from Operations ("FFO") is a non-IFRS financial measure of operating performance widely used by the Canadian real estate industry based on a white paper published in April 2014 and subsequently revised in February 2017. In the view of management, FFO better presents operating performance over IFRS net income and comprehensive income, which does not necessarily provide a complete view on performance. IFRS's net income and comprehensive income include items such as fair value adjustments on investment properties which are subject to market fluctuations, which is not representative of the Company's year-over-year operating performance.

FFO is computed as IFRS consolidated net income and comprehensive income attributable to Urbanfund's shareholders adjusted for items such as, but not limited to, fair value adjustments on investment properties, transaction gains and losses and fair market value adjustments on marketable securities. FFO should not be construed as an alternative to net income or cash flows provided by or used in operating activities as determined in accordance with IFRS. A reconciliation of FFO to IFRS net income is presented under *Results from Operations* section of this MD&A.

#### Adjusted Cash Flows from Operations ("ACFO")

In February 2017, REALpac introduced a new non-IFRS measure called Adjusted Cash Flow from Operations ("ACFO"), which is intended to measure sustainable economic cash flow available for distributions. ACFO is used by management as an input, together with FFO to assess Urbanfund's distribution payout ratios.

ACFO is computed as cash provided by or used in operating activities per IFRS plus, but not limited to adjustments for working capital items not considered to be indicative of sustainable economic cash flows for distributions, such as changes to other assets, indirect taxes payable and income taxes payable, cash distributions from investments, realized gains or losses from available-for-sale marketable securities and deducts capital expenditures.

ACFO should not be construed as an alternative to cash flows provided by or used in operating activities as determined in accordance with IFRS. A reconciliation of ACFO to IFRS cash flow from or used in operating activities is presented under *Results from Operations* section of this MD&A.

#### Normalized Capital Expenditures

Normalized capital expenditures are an estimate made by management of the amount of ongoing capital investment required to maintain the condition of the physical property and the current rental revenues. Management will consider a number of items in estimating normalized capital expenditures given the age and size of the property portfolio, such as a review of historical capital expenditures and comparison of budgeted to actual on a quarterly basis.

Urbanfund does not obtain support from independent sources for normalized capital expenditures but relies on management's expertise in arriving at this estimate. Both the Chief Financial Officer and the Chief Executive Officer have extensive experience in residential and commercial real estate and in-depth knowledge of the property portfolio.

Actual capital expenditures can vary widely from quarter to quarter depending on a number of factors, management believes that normalized capital expenditures is a more relevant input than actual capital expenditures in assessing the Company's ACFO and for determining an appropriate level of dividends over time. A number of factors affect variations in capital expenditures, including, lease expiries, tenant vacancies, age and location of the properties, and market conditions.

#### Net Operating Income ("NOI")

NOI is a non-IFRS measure and is defined by Urbanfund as rental revenue from income properties less direct property costs such as utilities, property taxes adjusted to normalize the impact of the application requirements of *IFRIC 21*, *Levies*, repairs and maintenance, salaries, insurance, bad debt expenses, property management fees and other property specific costs. Management believes that NOI is a meaningful supplementary measure of the income generated from the Company's income properties and is used in evaluating the portfolio, as well as a key input in determining the value of the income properties.

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#### Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA")

Adjusted EBITDA is a non-IFRS measure used by management as input in several of the debt metrics to measure Urbanfund's debt profile in assessing the ability of the Company to satisfy obligations, including servicing of our debt. Adjusted EBITDA is used as an alternative to net income because it excludes major non-cash items such as fair value adjustments to investment properties and unrealized gains or losses on available-for-sale marketable securities, interest costs, current and deferred income tax expenses and recoveries, equity accounted investments and other items that management considers to be non-operating in nature. A reconciliation of Adjusted EBITDA to IFRS net income is presented under *Debt Profile* section of this MD&A.

#### Debt to Adjusted EBITDA

Debt to Adjusted EBITDA is a non-IFRS measure calculated on a trailing 12-month basis and is defined as quarterly average total debt (net of cash and cash equivalents) divided by Adjusted EBITDA as calculated under *Debt Profile* section of this MD&A.

#### Debt Service Ratio

Debt service ratio is a non-IFRS measure calculated on a trailing 12-month basis and is defined as Adjusted EBITDA divided by the sum of total interest costs (including interest costs capitalized) and scheduled mortgage principal repayments. It measures Urbanfund's ability to meet debt obligations. Debt service ratio is calculated under *Debt Profile* section of this MD&A.

#### Interest Coverage Ratio

Interest coverage ratio is a non-IFRS measure calculated on a trailing 12-month basis and is defined as Adjusted EBITDA divided by the sum of total interest costs (including interest costs capitalized). It measures Urbanfund's ability to meet interest cost obligations. Interest coverage ratio is calculated under *Debt Profile* section of this MD&A.

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**RESULTS FROM OPERATIONS**

**Select Quarterly Information**

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
<b>Operating results</b>				
Revenue	\$ 1,281,917	\$ 1,183,605	\$ 3,934,477	\$ 4,021,589
Income (loss) before taxes	1,721,336	(205,540)	4,489,466	3,785,693
Net income and comprehensive income	1,669,336	120,460	4,066,466	3,148,693
<b>Per share basis, attributable to shareholders</b>				
Basic income per share	\$ 0.036	\$ 0.006	\$ 0.088	\$ 0.073
Diluted income per share	\$ 0.031	\$ 0.006	\$ 0.076	\$ 0.063
<b>Non-IFRS measures (i)</b>				
FFO	\$ 376,725	\$ 676,791	\$ 1,391,669	\$ 3,012,312
ACFO	555,123	(223,858)	(133,139)	2,969,486
As at	<b>September 30, 2019</b>		December 31, 2018	September 30, 2018
<b>Financial position</b>				
Total assets	\$ 86,235,038		\$ 79,259,420	\$ 77,655,021
Total investment properties	\$ 64,009,507		\$ 57,899,678	\$ 56,257,766
Total debt	\$ 30,836,576		\$ 28,455,589	\$ 28,726,342
<b>Non-IFRS measures (i)</b>				
Debt to total assets	36%		36%	37%
Debt to Adjusted EBITDA (ii)	6.82		4.14	2.80
Interest coverage ratio (ii)	3.23		4.03	6.31
Debt service ratio (ii)	1.59		2.16	3.34

(i) Represents non-IFRS measures. For definitions and basis of presentation for non-IFRS measures, refer to *Non-IFRS Measures* section of this MD&A.

(ii) Calculated on a trailing twelve month basis.

**Summary of Quarterly Results**

For the three months ended,	Revenue	Net income attributable to shareholders	Basic income per share	Diluted income per share
<b>September 30, 2019</b>	<b>\$ 1,281,917</b>	<b>\$ 1,669,336</b>	<b>\$ 0.036</b>	<b>\$ 0.031</b>
June 30, 2019	1,368,674	1,537,609	0.033	0.029
March 31, 2019	1,283,886	848,134	0.018	0.016
December 31, 2018	1,298,562	1,536,523	0.034	0.029
September 30, 2018	1,183,605	296,300	0.006	0.006
June 30, 2018	2,335,133	1,412,797	0.036	0.031
March 31, 2018	5,641,214	1,617,596	0.036	0.031
December 31, 2017	1,387,165	4,559,257	0.101	0.087

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**Net Operating Income**

The following table presents IFRS net operating income for the three and nine months ended September 30, 2019 and 2018:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Rental revenue	\$ 1,281,917	\$ 1,183,605	\$ 3,934,477	\$ 4,021,589
Rental expenses	729,635	585,260	2,042,733	1,937,284
<b>NOI</b>	<b>\$ 552,282</b>	<b>\$ 598,345</b>	<b>\$ 1,891,744</b>	<b>\$ 2,084,305</b>
<b>NOI as a percentage of rental revenue</b>	<b>43%</b>	<b>51%</b>	<b>48%</b>	<b>52%</b>

Rental revenue for the three months ended September 30, 2019 was \$1,281,917 in comparison to \$1,183,605, representing an increase of \$98,312 primarily due to higher tenant recoveries from higher recoverable expenditures discussed below.

Rental expenses for the three months ended September 30, 2019 was \$729,635 in comparison to \$585,260, representing an increase of \$144,375 primarily due to maintenance expenditures compared to capitalized expenditures in the comparable prior year period.

NOI as a percentage of rental revenue for the three months September 30, 2019 has decreased by 8% due to treatment of maintenance expenditures compared to capitalized expenditures in the comparable prior year period (see Non-IFRS Measures). Factoring the adjustment of maintenance expenditures in the current period, NOI as a percentage of revenue is relatively stable and consistent with comparative period.

**Other Income**

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Profit from investment in real estate project	\$ -	\$ 300,000	\$ -	\$ 800,000
Income from equity accounted investment	708,616	91,100	1,378,083	277,321
Interest income	32,031	25,040	95,212	82,921
Fair value adjustment on marketable securities	-	20,428	63,455	100,488
Fair value adjustment on investment properties	662,403	-	1,909,973	209,104
<b>Other income</b>	<b>\$ 1,403,050</b>	<b>\$ 436,568</b>	<b>\$ 3,446,723</b>	<b>\$ 1,469,834</b>

Profit from investment in the One Bloor Street East real estate project (the "Project") for the three months ended September 30, 2018 was \$300,000 relating to distributions relating to the closing of the Project's condominium units. See *Other Real Estate Investments*.

Income from equity accounted investment for the three months ended September 30, 2019 was \$617,516 higher than the three months ended September 30, 2018 due to \$550,008 of fair value gain on investment properties as well as growing rental income from higher occupancies.

Interest income for the three months ended September 30, 2019 was \$32,031 in comparison to \$25,040 during the three months ended September 30, 2018, representing an increase of \$6,991. Interest income is a result of accrued interest on cash held in the Company's bank accounts.

During the three months ended September 30, 2019, Urbanfund recognized fair value adjustments on marketable securities of \$nil in comparison to \$20,428 during the three months ended September 30, 2018, representing a decrease of \$20,428 as all marketable securities were sold in the current quarter.

During the three months ended September 30, 2019 and 2018, Urbanfund recognized fair value adjustments on investment properties of \$622,403 and \$nil, due to revaluation adjustments on Urbanfund's income properties relating to Urbanfund's wholly owned commercial and residential properties.

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**Other Expenses**

	Three months ended September 30, 2019		Nine months ended September 30, 2018	
	2019	2018	2019	2018
Financing costs	\$ 250,864	\$ 203,851	\$ 722,612	\$ 824,010
General and administrative costs	89,093	101,488	232,350	355,091
Fair value adjustment on investment properties	-	771,547	-	-
Other expenses	\$ 339,957	\$ 1,076,886	\$ 954,962	\$ 1,179,101

Financing costs for the three months ended September 30, 2019 were \$250,864 in comparison to \$203,851 for the three months ended September 30, 2018, representing an increase of \$47,013. This increase relates to the Vendor Take Back mortgage for the Quebec Headway joint operation as well as the mortgage on 4 Alfred Kuhne Boulevard joint operation.

General and administrative costs for the three months ended September 30, 2019 was \$89,093 in comparison to \$101,488 for the three months ended September 30, 2018, representing a decrease of \$12,395 primarily attributable to lower legal fees incurred.

During the three months ended September 30, 2019 and 2018, Urbanfund recognized fair value adjustments on investment properties of \$nil and \$771,547, due to revaluation adjustments on Urbanfund's income properties relating to Urbanfund's wholly owned commercial and residential properties.

**Occupancy**

We continually strive to ensure high rate of occupancy and a diversification of our tenant bases and anchor type to minimize the degree of reliance on any one single tenant. In the regular course of business, our occupancy of our Quebec properties will fluctuate between the second and third quarter, with expiry and assumption of new one-year residential tenant leases.

We actively monitor our building occupancies to ensure that tenants are replaced at economically or better lease terms and conditions. See *Risks and Uncertainties*.

The following table details our weighted average portfolio occupancy stratified by commercial and residential properties:

	2017	2018				2019		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<u>Wholly-owned</u>								
Commercial properties	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Residential properties	98.5%	98.1%	98.8%	98.8%	98.8%	98.7%	98.7%	98.8%
<u>Joint operation</u>								
Commercial properties	87.0%	88.0%	88.0%	88.0%	88.0%	88.0%	88.0%	88.0%
Residential properties	92.7%	93.1%	93.9%	93.9%	98.0%	97.0%	97.3%	98.0%
<u>Equity investment</u>								
Residential properties	93.6%	93.6%	93.4%	95.0%	97.3%	97.2%	96.1%	97.3%

Occupancy in our residential properties has improved primarily due to improvements in occupancy rates in Quebec Headway due to our renovations initiative. See *Joint Operations and Limited Partnerships*.

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**Funds from Operations ("FFO")**

The following table presents a reconciliation of IFRS net income and comprehensive income attributable to shareholders to FFO:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
<b>Net income attributable to shareholders</b>	\$ 1,669,336	\$ 296,300	\$ 4,066,466	\$ 3,326,693
<i>Add back / (deduct):</i>				
Gain on disposal of marketable securities	(105,961)	-	(105,961)	-
Deferred income tax expense (recovery)	28,000	(369,000)	313,000	1,000
Fair value adjustment on equity accounted investments	(550,008)	-	(902,008)	-
Fair value adjustment on marketable securities	-	(20,428)	(63,455)	(100,488)
Fair value adjustment on investment properties	(662,403)	771,547	(1,909,973)	(209,104)
Straight-line of rental revenue	(2,239)	(1,628)	(6,400)	(5,789)
<b>FFO</b>	\$ 376,725	\$ 676,791	\$ 1,391,669	\$ 3,012,312
<b>Weighted average number of shares - basic</b>	46,784,860	45,586,534	46,409,162	45,410,624
<b>Weighted average number of shares - diluted</b>	54,209,860	53,011,534	53,834,162	52,835,624
<b>FFO per share - basic</b>	\$ 0.008	\$ 0.015	\$ 0.030	\$ 0.066
<b>FFO per share - diluted</b>	\$ 0.007	\$ 0.013	\$ 0.026	\$ 0.057

FFO for the three months ended September 30, 2019 was \$376,725 in comparison to \$676,791 for the three months ended September 30, 2018, representing a decrease of \$300,066, which was primarily attributable to \$300,000 profit from investment in real estate project (the "Project") recognized in 2018 relating to distribution from the closing of condominium units

FFO for the nine months ended September 30, 2019 was \$1,391,669 in comparison to \$3,012,312 for the nine months ended September 30, 2018, representing a decrease of \$1,620,643, which was primarily due to the following:

- a decrease in operating income related to 11-13 Edvac Drive due to the sale of inventory property of \$1,410,655;
- a \$800,000 Profit from investment in real estate project (the "Project") recognized in 2018 relating to distributions from the closing of condominium units;
- maintenance expenditures incurred during the nine months ended September 30, 2019 of \$168,135 due to treatment of maintenance expenditures versus capitalized expenditures in the prior quarter;
- offset by,
  - an increase in income from equity accounted investments of \$198,754;
  - a decrease in current year income tax provision by \$526,000; and
  - \$33,393 of other fluctuations related to nominal amounts that the Company decided not to investigate further.

**Adjusted Cash Flows from Operations**

The following table reconciles cash flows provided by (used in) operating activities to adjusted cash flow from operating activities for the three and nine months ended September 30, 2019 and September 30, 2018:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Cash provided by (used in) operating activities	\$ 573,383	\$ (74,945)	\$ 970,449	\$ 4,073,204
Adjustments to working capital changes for ACFO (i)	381,740	125,247	96,412	18,282
Normalized capital expenditures (ii)	(400,000)	(450,000)	(1,200,000)	(1,300,000)
Non-controlling interests	-	175,840	-	178,000
<b>ACFO</b>	\$ 555,123	\$ (223,858)	\$ (133,139)	\$ 2,969,486

- (i) Includes working capital changes that based on REALpac February 2017 whitepaper, are not indicative of sustainable cash flow for distribution. ACFO includes income taxes not relating to operating activities, tenant deposits, and deferred financing charges.
- (ii) Normalized capital expenditures are management's estimate of ongoing capital investment required to maintain the condition of the property and current rental revenues. Refer to *Non-IFRS Measures* section of this MD&A for further details.

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**INVESTMENT PROPERTIES**

Refer to note 4 of the Consolidated Financial Statements for the change in consolidated IFRS values of Urbanfund's investment properties.

**Valuation Process**

Urbanfund will measure the majority of its income properties, using valuations prepared by its management team. This team consists of individuals who are knowledgeable and have specialized industry experience in real estate valuations. The internal valuations are reviewed and approved by the Chief Executive Officer on a quarterly basis.

Depending on the asset, management may opt to obtain an independent third-party appraisal from firms that employ experienced valuation professionals having the required qualifications in property appraisals for the purpose of assessing the internal valuations. Going forward, Urbanfund's management will judgmentally select properties for external appraisals on a rotating basis.

**Capitalization Rates**

The capitalization rates used in the valuation of income properties are based on the quality of the properties, the location and takes into account market data. The table below provides the weighted average capitalization rates stratified by commercial and residential properties:

	December 31, 2018			September 30, 2019		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Commercial properties	5.50%	5.50%	5.50%	<b>5.05%</b>	<b>6.00%</b>	<b>5.23%</b>
Residential properties	3.90%	8.00%	4.41%	<b>3.90%</b>	<b>7.80%</b>	<b>4.35%</b>

**PROPERTIES UNDER DEVELOPMENT**

Properties under development include those properties, or components thereof, that will undergo activities that will take a substantial period of time to prepare the properties for their intended use as income properties. The cost of a development property that is an asset acquisition comprises of cash, or the fair value of other consideration, paid to acquire the properties, including transaction costs, the development costs including property taxes and borrowing costs on specific debt. Properties under development are measured under IFRS at cost, until the point in which fair value can be reliably determinable, usually at the point of project completion.

Properties under development represent a significant pipeline for growth of Urbanfund's property portfolio. Properties under development are completed either independently or with a partner as defined in *Joint Operations and Limited Partnerships*. Management expects that the properties under development will continue to be of increasing importance to creating future NOI growth.

Management's current estimates and assumptions may change through the course of the development due to market conditions and other factors, see *Risks and Uncertainties*.

The following table presents Urbanfund's properties under development as at September 30, 2019 and December 31, 2018:

	Nine months ended September 30, 2019						Total
	61 Roy St.	51, 55, 59 Scott St.	59, 61, 65 Weber St.	65 Roy St.	11-13 Edvac Dr.		
Opening balance	\$ -	\$ 2,283,871	\$ 2,182,807	\$ -	\$ -		\$ 4,466,678
Development costs	-	-	3,997,829	-	-		3,997,829
Closing balance	\$ -	\$ 2,283,871	\$ 6,180,636	\$ -	\$ -		\$ 8,464,507

  

	December 31, 2018						Total
	61 Roy St.	51, 55, 59 Scott St.	59, 61, 65 Weber St.	65 Roy St.	11-13 Edvac Dr.		
Opening balance	\$ 581,543	\$ 2,197,721	\$ 1,680,212	\$ 738,209	\$ -		\$ 5,197,685
Development costs	6,082	86,150	502,595	13,166	-		607,993
Disposition	(587,625)	-	-	(751,375)	-		(1,339,000)
Closing balance	\$ -	\$ 2,283,871	\$ 2,182,807	\$ -	\$ -		\$ 4,466,678

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- **51, 55, 59 Scott St. and 59, 61, 65 Weber St.** - During the period ended September 30, 2019, the Company executed a development agreement and all relevant permits were issued in relation to the 51, 55, 59 Scott Street and 59, 61, 65 Weber Street project, in Kitchener, Ontario. The Company is coordinating with representatives of the Office of Attorney General in Kitchener to continue the civil construction work. The estimated occupancy is projected to be Q4 2020. The increase in development costs capitalized to the properties is a result of costs incurred which qualify for the capitalization criteria under IFRS. See Joint Operations.

**INVENTORY PROPERTIES**

Inventory properties are properties acquired or under development which the Company intends to dispose all or part thereof in the ordinary course of business, rather than to hold on a long-term basis for capital appreciation or for rental income purposes or both. It is expected that Urbanfund will earn a return on these assets through a combination of NOI during development, which will be included in net income and sales of inventory properties.

Transfers into inventory properties are based on a change in use evidenced by the commencement of development expenditures with the view to sell, at which point an investment property would be transferred to inventory. Transfers from inventory property to investment property are based on a change in use evidenced by management's commitment to use a property for rental purposes or the commencement of an operating lease to another party.

As at September 30, 2019 and December 31, 2018, the movements in inventory property are as follows:

	<b>Nine months ended September 30, 2019</b>		
	<b>11-13 Edvac Dr.</b>	<b>4 Alfred Kuehne</b>	<b>Total</b>
Opening balance	\$ -	\$ 2,841,320	\$ 2,841,320
Development costs	-	340,474	340,474
Closing balance	\$ -	\$ 3,181,794	\$ 3,181,794

  

	<b>December 31, 2018</b>		
	<b>11-13</b>	<b>4 Alfred</b>	<b>Total</b>
Opening balance	\$ 3,473,551	\$ 2,474,335	\$ 5,947,886
Development costs	254,157	366,985	621,142
Disposition	(3,727,708)	-	(3,727,708)
Closing balance	\$ -	\$ 2,841,320	\$ 2,841,320

- **11-13 Edvac Dr.** - The Company together with its joint venture partner, Takol Real Estate Inc., sold all units related to the development. Urbanfund received distributions of \$3,020,000, comprising of a return on capital of \$1,625,000 and income of \$1,395,000 in the prior year. Under IFRS, Urbanfund has consolidated the financial position and results of operations of 11-13 Edvac Drive in the Annual Consolidated Financial Statements.
- **4 Alfred Kuehne** - During the year ended December 31, 2017, Urbanfund, together with its joint venture partner, Takol Real Estate Inc., purchased 4 Alfred Kuehne, Brampton, Ontario. The intention of the project is to renovate and sell the 12 units. The Company estimates project completion in Q4 of 2019.

**JOINT OPERATIONS AND LIMITED PARTNERSHIPS**

Urbanfund operates some of its real estate investments with its partners through joint operations or limited partnerships. A joint operation is a type of joint arrangement where Urbanfund has joint control of the rights to the assets and the obligations for the liabilities. Limited partnerships are structures where Urbanfund does not own all the equity in a consolidated subsidiary, and therefore the non-controlling equity interest is presented as a separate component of equity in our 2018 Annual Consolidated Financial Statements.

# URBANFUND CORP.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FOR THE PERIOD ENDED SEPTEMBER 30, 2019

#### Select Financial Information of Joint Operations and Limited Partnerships

September 30, 2019	Method of consolidation under IFRS	Number of properties (i)	Properties (i)	Mortgages payable	Rental revenues	NOI
Quebec Headway 11-13 Edvac	Proportionately consolidate	9	\$ 12,215,000	\$ 2,300,980	\$ 1,175,075	\$ 329,441
Alfred Kuehne	Proportionately consolidate	(iii)	-	-	-	-
Weber 2 LP	Proportionately consolidate	1	3,181,794	1,533,275	88,826	22,071
	Consolidate with NCI (ii)	1	8,464,507	3,200,117	-	-

(i) Number of properties includes income properties, properties under development or inventory properties for the purpose of this table.

(ii) NCI means non-controlling interest in accordance with IFRS.

(iii) 11-13 Edvac was sold as the date of this MD&A

#### Distribution from the Limited Partnership

Distributions by each Limited Partnership are allocated to the limited partner, first by their initial capital contributions, and then to limited partners who have contributed capital in excess of their pro-rata share. A return is then provided such that each limited partner achieves an annualized internal rate of return of 6% on their excess contribution. Thereafter, the Limited Partnerships' distributions will be 90% to Urbanfund and 10% to the non-controlling interests. An officer of Urbanfund is also an officer of the general partners.

On January 22, 2019, the general partners from Weber LP and Weber 3 LP issued a return of capital from the sale of 48 Weber Street, 61 Roy Street and 65 Roy Street of \$2,256,982.

#### OTHER REAL ESTATE INVESTMENTS

##### Equity accounted investment

On August 21, 2017, Urbanfund invested \$7,569,980 for a 20% interest in Highfield Park Residential Inc., with the remaining 80% interest retained by Westdale Construction Co. Limited ("Westdale"), which in turn purchased the Highfield Park portfolio ("Highfield Park") for approximately \$113,000,000 plus customary closing costs, funded by way of a \$77,000,000 mortgage and \$36,000,000 in equity contributions.

Highfield Park represents 1,354 units within 20 buildings spanning approximately 37 acres in Dartmouth, Nova Scotia. In the opinion of management, Highfield Park represented a competitive acquisition for Urbanfund to establish an immediate scale and presence in the Halifax residential market at an attractive price of approximately \$83,456 per unit.

Highfield Park has been accounted for as an equity accounted investment. Urbanfund's share of the net income for the three month period ended September 30, 2019 was \$158,608 (three month period ended September 30, 2018 - \$91,100).

The following table presents the financial position of Highfield Park as at September 30, 2019 and December 31, 2018 in accordance with IFRS:

As at	September 30, 2019	December 31, 2018
Current assets	\$ 2,210,987	\$ 1,263,197
Non-current assets	117,850,000	113,580,299
Current liabilities	(1,354,038)	(1,259,201)
Non-current liabilities	(73,254,482)	(75,022,244)
Net assets	45,452,467	38,562,051
<b>Equity accounted investment</b>	<b>\$ 9,090,493</b>	<b>\$ 7,712,410</b>

##### Investment in Real Estate Project

In 2009, Urbanfund invested for a 10% interest in a limited partnership, which in turn had a 33% interest in the One Bloor Street East real estate project (the "Project"). The Project is a mixed-use skyscraper at the intersection of Bloor Street and Yonge Street in Toronto, Ontario.

As at December 31, 2018, Urbanfund received a profit distribution of \$800,000. As of December 31, 2018, Urbanfund received a return of capital of \$1,677,333 and profit distribution of \$4,466,667.

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**LIQUIDITY AND CAPITAL RESOURCES**

**Liquidity and Cash Flow Management**

The Company expects to meet all of its obligations, including dividends to shareholders, property maintenance, capital expenditures and other commitments as they become due. The Company has various financing sources to fund future acquisitions and continues to fund working capital needs from cash flows generated from operating activities.

Cash flows from operating activities are dependent on the occupancy levels of the Company's income properties. See *Risks and Uncertainties*.

The following table presents liquidity as a percentage of debt:

As at	September 30, 2019	December 31, 2018
Cash	\$ 8,336,012	\$ 9,184,553
Accounts receivable (i)	551,053	441,137
Marketable securities	-	445,060
<b>Liquidity</b>	<b>\$ 8,887,065</b>	<b>\$ 10,070,750</b>
Mortgages payable	30,836,576	28,455,589
<b>Debt</b>	<b>\$ 30,836,576</b>	<b>\$ 28,455,589</b>
Liquidity expressed as a percentage of debt	<b>28.8%</b>	<b>35.4%</b>

(i) As of the date of this MD&A, Urbanfund has collected its outstanding amounts due as at September 30, 2019, and therefore accounts receivable have been factored in Liquidity.

The Company's liquidity will be impacted by contractual commitments as outlined in the *Debt Profile*. Urbanfund's debt obligations can be funded by the Company's cash and cash equivalents, marketable securities, rental revenue from property operations.

**DEBT PROFILE**

**Mortgages Payable**

The following table presents mortgages payable, net of unamortized financing costs:

As at	September 30, 2019	December 31, 2018
Current	\$ 5,836,255	\$ 2,622,641
Non-current	24,809,560	25,616,204
	<b>\$ 30,645,815</b>	<b>\$ 28,238,845</b>

The following table sets out the principal payments of our mortgages payable:

As at September 30, 2019	Mortgages payable	Percentage of aggregate total
Remainder of 2019	\$ 1,819,431	5.9%
2020	4,312,616	14.0%
2021	1,038,614	3.4%
2022	9,801,303	31.8%
2023	3,388,479	11.0%
Thereafter	10,476,133	34.0%
Aggregate total mortgages payable, excluding unamortized financing costs	30,836,576	100.0%

As at September 30, 2019, total mortgages payable was \$30,645,815 in comparison to \$28,238,845 as at December 31, 2018 representing an increase of \$2,406,970. This increase is a result of:

- an increase of \$3,200,117 relating to an advance of 59 Weber Street construction mortgage; and
- offset by a decrease of \$793,147 relating to regularly scheduled principal repayments.

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**Other Metrics**

Other metrics are tracked and disclosed to help facilitate financial statement users' understanding of Urbanfund's ability to service debt and fixed charges, these metrics include debt to Adjusted EBITDA, interest coverage, and debt service coverage. The following table presents the interest coverage and debt service coverage calculation:

Twelve months ended	September 30, 2019	December 31, 2018
Interest coverage	3.23	4.03
Debt service coverage	1.59	2.16

Urbanfund's goal is to reduce leverage and further improve our interest and debt service coverage. As at September 30, 2019, the interest coverage and debt service coverage worsened due to an increase in the construction mortgage relating to 59 Weber development.

The following table presents a reconciliation of consolidated net income from continuing operations attributable to shareholders to Adjusted EBITDA:

Twelve months ended	September 30, 2019	December 31, 2018
Net income attributable to shareholders	\$ 5,591,602	\$ 4,863,216
Add (deduct):		
Current income tax expense	(38,000)	488,000
Deferred income tax expense	598,000	286,000
Finance costs	1,022,562	1,123,960
Gain on disposal of marketable securities	(105,961)	-
Fair value adjustment on marketable securities	4,108	(32,925)
Fair value adjustment on investment properties	(3,774,283)	(2,073,414)
<b>Adjusted EBITDA</b>	<b>\$ 3,298,028</b>	<b>\$ 4,654,837</b>
Debt outstanding	\$ 30,836,576	\$ 28,455,589
Less: cash	(8,336,012)	(9,184,553)
<b>Debt, net of cash and cash equivalents</b>	<b>\$ 22,500,564</b>	<b>\$ 19,271,036</b>
<b>Debt to Adjusted EBITDA</b>	<b>6.82</b>	<b>4.14</b>

**DIVIDEND REINVESTMENT PLAN ("DRIP")**

On June 17, 2015, the Company adopted a dividend policy (the "Dividend Policy") and implemented dividend reinvestment plans for the Company's common and preferred shareholders (collectively, the "DRIP"). The DRIP is a voluntary program permitting holders of our common and preferred shares to automatically, and without charge, reinvest quarterly dividends to acquire additional common shares at a discount to the volume-weighted average market price as of the date of payment.

On June 18, 2019, Urbanfund amended its Dividend Policy to increase the annual dividend to a rate of \$0.03 per common share and \$0.03 per preferred share, or 50% increase from the previous year, payable quarterly in the amount of \$0.0075 per common and preferred share.

During the nine months ended September 30, 2019, 1,011,929 common shares were issued pursuant to our DRIP resulting in additional equity of \$773,361. The average participant rate of the DRIP was 75%.

The record date for dividends is the last business day of each quarter and payment is approximately two weeks from the record date. The following table summarizes our quarterly distributions as at September 30, 2019:

	Payment date	Shareholders of record
2019, quarter 1 distribution	Apr. 15, 2019	Mar. 29, 2019
2019, quarter 2 distribution	Jul. 15, 2019	Jun. 28, 2019
2019, quarter 3 distribution	Oct. 29, 2019	Oct. 22, 2019

# URBANFUND CORP.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FOR THE PERIOD ENDED SEPTEMBER 30, 2019

#### OUTSTANDING SHARE DATA

The following table details Urbanfund's outstanding share data as of September 30, 2019 and the date of this MD&A:

	September 30, 2019	Date of this MD&A
Common shares	46,854,854	47,280,392
Preferred shares (Series A)	7,425,000	7,425,000

#### SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The Company's significant accounting policies are described in note 3 of the Annual Consolidated Financial Statements. The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, expenses and the related disclosures as of the date of the Annual Consolidated Financial Statements. Actual results may differ from estimates under different assumptions and conditions.

Our significant judgments include: (i) capitalization of tenant incentives and capital improvements to investment properties; (ii) lessor accounting; (iii) acquisitions of investment properties; (iv) joint arrangements; (v) significant influence investees; and (vi) classification of assets and liabilities as held for sale. Our significant estimates include: (i) capitalization rates and stabilized net operating income used in the fair value of investment properties; and (ii) fair value of marketable securities. Our significant judgments and estimates have been reviewed and approved by the Audit Committee for completeness of disclosure on what management believes would be relevant and useful to investors in interpreting the amounts and disclosures in our Annual Consolidated Financial Statements.

#### CHANGES IN ACCOUNTING POLICIES

##### IFRS 16, Leases ("IFRS 16")

The company has adopted IFRS 16 retrospectively without restatement to prior year comparatives. IFRS 16 supersedes IAS 17, *Leases*, IFRS Interpretations Committee 4, *Determining whether an Arrangement contains a Lease*, SIC 15, *Operating Leases – Incentives*, and SIC 27, *Evaluating the Substance of Transactions Involving Legal Form of a Lease*.

As a lessee, under IAS 17, leases were classified as operating or finance leases based on the Company's assessment of whether the lease transferred significantly all the risks and rewards incidental to ownership of the underlying asset of the Company. Under IFRS 16, the Company recognizes right-of-use (ROU) asset and lease liability for most leases. The asset is subsequently accounted for as an investment property and the liability is unwound using the interest rate inherent in the lease. Urbanfund is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

Upon the adoption of IFRS 16, the Company has adopted the following accounting policies effective January 1, 2019:

##### Urbanfund as a lessor

When the Company acts as a lessor, it determines and classifies each lease as a finance lease or operating lease at the lease commencement date.

When a lease transfers to the lessee substantially all the risk and rewards of ownership incidental to the ownership of the underlying asset, the lease is classified as a finance lease, otherwise, the lease is classified as an operating lease. To make this assessment, the Company considers certain indicators including whether the lease is for the major part of the economic life of the asset or the present value of lease payments is substantially all the fair value of the underlying asset.

If a lease arrangement contains lease and non-lease components, the Company applies IFRS 15, *Revenue from Contracts with Customers* to allocate the consideration to the various components of the contract, and subsequently applies IFRS 16 to the lease component.

##### Operating lease revenue

##### Straight-line rent

Certain lease contracts contain rent escalation clauses or provide for tenant occupancy during periods for which no rent is due. Certain lease contracts or lease modifications may also include lease termination options and payments. Urbanfund records the total rental income on a straight-line basis, inclusive of lease termination payments, if it is likely that the tenant will exercise the lease termination option, over the full term of the lease contract or modified lease contract, including the tenant fixturing period. An accrued straight-line rent receivable is recorded from tenants for the difference between the straight-line rent and the rent that is contractually owing.

# **URBANFUND CORP.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **FOR THE PERIOD ENDED SEPTEMBER 30, 2019**

Straight-line rent is recalculated and adjusted for modifications to existing tenant operating leases.

#### Lease cancellation fees

Amounts payable by tenants to terminate their lease prior to the contractual expiry date are included in rental revenue as lease cancellation fees at the date the tenant ceases to have the right to use the asset, if the lease termination payment was not included in the straight-line rent, as a result of the tenant likely exercising the lease termination option.

#### **IFRIC 23, Uncertainty over Income Tax Treatment (“IFRIC 23”)**

In June 2017, the IASB issued amendments as a clarification to requirements under IAS 12, Income Taxes. IFRIC 23 clarifies the application of various recognition and measurement requirements when there is uncertainty over income tax treatments. The amendments became effective on January 1, 2019. The amendments did not have an impact on the Company's Consolidated Financial Statements.

#### **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The Chief Executive Officer and Chief Financial Officer have designed or caused to have designed controls to provide reasonable assurance that (i) material information relating to the Company is made known to management by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual and interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time frame specified in the securities legislation. Based on the evaluations, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were adequate and effective.

Urbanfund has established internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS. Management, including the Company's Chief Executive Officer and Chief Financial Officer have determined that as at September 30, 2019, the internal controls over financial reporting were effective.

Due to the inherent limitation in all control systems, including well-designed and operated systems, no control can provide absolute assurance that the objectives of the control system will be met. Furthermore, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected or prevented. These inherent limitations include, but are not limited to: (i) management's assumptions and judgments could be incorrect under varying conditions and circumstances; (ii) the impact of any undetected errors; and (iii) controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people or management override.

#### **RELATED PARTY TRANSACTIONS**

In the ordinary course of business, we may enter into transactions with entities whose directors are also Urbanfund's directors and/or part of Urbanfund's senior management. All such transactions are in the normal course of operations and are measured at market based exchange amounts.

The Company engages Westdale, a related party, to perform management services. Westdale is 50% owned and controlled by Ronald Kimel, who is also Chairman of Urbanfund. Urbanfund contracts Westdale to provide management services, with fees and cost reimbursements equal to 3% on wholly-owned residential properties and 4% on wholly-owned commercial properties. During the nine months ended September 30, 2019, property management fees and cost reimbursements were \$91,392 and \$192,802, respectively (September 30, 2018 - \$93,133 and \$175,198).

For further details on related party transactions, refer to note 13 of the Consolidated Financial Statements.

#### **RISKS AND UNCERTAINTIES**

The achievement of Urbanfund's objectives is, in part, dependent on the successful mitigation of business risks identified. Real estate investments are subject to a degree of risk. They are affected by various factors including changes in general economic and local market conditions, equity and credit markets, fluctuations in financing costs, attractiveness of investment properties to tenants, competition, credit ratings of existing tenants and other factors.

# **URBANFUND CORP.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **FOR THE PERIOD ENDED SEPTEMBER 30, 2019**

The following are risks that could affect Urbanfund that each reader should carefully consider. Additional risks and uncertainties may not be presently known to management, or that management believes is not material, which could adversely impact the results of our operations.

#### **Market Conditions**

Urbanfund faces risks associated with general market conditions and their potential effects. Current general market conditions may include, among other things, insolvency of market participants, tightening of lending standards, decreased availability of cash and changes in unemployment levels, retail sales levels and real estate values. These market conditions may affect occupancy levels and Urbanfund's ability to obtain credit on favourable terms.

#### **Real Estate Ownership**

All real property is subject to a degree of risk and uncertainty. The value of real property and any improvement thereto depend on the credit and financial stability of tenants and vacancy rates of such properties. The value of some of our properties could be adversely affected if tenants fail to comply with their contractual obligations, experience credit or financial instability. If a significant number of tenants are unable to meet their obligations under their leases or of a significant amount of available space in Urbanfund's property portfolio becomes vacant and cannot be re-leased on economically favourable terms, the properties may not generate sufficient rental revenues to meet operating expenses, including debt service, capital expenditures and dividend payments.

Certain significant expenditures involved with real estate ownership, such as property taxes, insurance costs, maintenance costs and mortgage payments represent liabilities which must be met, regardless of whether the property is generating rental revenue through tenant occupancy. Urbanfund continually seeks to re-lease vacant space resulting from tenant terminations.

#### **Illiquidity of Investment Properties**

Real estate investments are relatively illiquid. As a significant proportion of Urbanfund's capital is invested in physical assets, which can be difficult to sell, especially if local market conditions are poor. A lack of liquidity could limit Urbanfund's ability to sell components of the portfolio promptly in response to changing economic or investment conditions. If the Company were required to quickly liquidate its assets, there is a risk that we would realize proceeds less than the current value of our real estate investments.

#### **Additional Costs Related to Acquisitions**

There is a risk associated with any real estate acquisition or project, that there may be undisclosed or unknown liabilities and that Urbanfund may not be insured for some or all of these liabilities. These undisclosed or unknown liabilities may be material and have an adverse impact on the Company. Urbanfund ensures an appropriate level of due diligence prior to any real estate acquisition or project.

#### **Additional Costs Related to Real Estate Projects**

There is a risk associated with the possibility that completed developments will not be leased or sold, or that the costs to complete the development will exceed the initial estimates, resulting in a lower or less favourable return on investment. Urbanfund's real estate projects are subject to risks ordinarily attributable to construction projects, including: (i) delays in construction due to lack of municipal approvals; (ii) unfavourable cost variances in comparison to budget; and (iii) the subsequent failure to lease or sell the investment property.

#### **Lease Renewals and Rental Increases**

Growth of rental income is dependent on strong rental markets to ensure expiring leases are renewed and new tenants are found in a timely manner to fill vacancies. It is possible that we may face a disproportionate amount of space expiring in any one period. Upon lease expiry, there can be no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may also be less favourable. Additionally, rental rates could decline, tenant bankruptcies could increase, particularly in the event of a protracted disruption in the economy, such as a recession.

#### **Rent Control Legislation**

Rent control legislation and the risk of implementation of legislative rent controls or amendments in the markets Urbanfund operates may have an adverse impact. The *Residential Tenancies Act* in Ontario, the *Residential Tenancies Act* in Nova Scotia and the *Régie du Logement* in Quebec are responsible for providing the criteria for the ability to increase rents annually above a prescribed guideline. In Ontario, the rental increase guideline for 2019 is 1.8%. In Nova Scotia, the allowable rent increase for 2019 is 1.2%. In Quebec,

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### FOR THE PERIOD ENDED SEPTEMBER 30, 2019

Urbanfund is free to negotiate the rental increase with its tenants as deemed just and reasonable, however, if there is difficulty reaching an agreement, the *Régie du Logement* provides guidelines on annual indexed rent increases.

#### Joint Arrangements and Co-ownerships

Urbanfund participates in joint arrangements, partnerships and other similar arrangements (herein after "partners") that may involve risks and uncertainties not present absent third-party involvement, including, but not limited to: (i) dependency on the partners that are not under our control; (ii) the partners may have economic or business interests inconsistent with the Company; (iii) the partners could experience financial difficulties or seek the protection of bankruptcy, insolvency or other laws, which could result in additional financial demands to maintain and operate such properties or repay the partners' share of obligations; (iv) whereby Urbanfund does not have control, the partners may enter into activities which may expose or subject Urbanfund or its subsidiaries to liability; and (v) the need to obtain the partners consent with respect to major decisions. Accordingly, we may not be able to favourably resolve issues with respect to such decisions, or we may become engaged in a dispute with the partners which may affect our ability to operate the joint arrangement, partnerships or other arrangements in question.

#### Mortgage Financing Risks

The real estate industry is highly capital intensive. Urbanfund will continue to require access to capital to maintain its properties, fund the development of its properties and invest in other real estate related projects. Given the relatively small size of the Canadian market place in comparison to global markets, there is a limited number of lenders from which Urbanfund can borrow, and there is no assurance that capital will be available when needed.

Urbanfund has outstanding indebtedness in the form of mortgages payable and is subject to the risks normally associated with debt financing, including the risk that we may not generate sufficient cash flow to meet the scheduled terms of repayment. Additionally, upon expiry of the financing, there is risk that the terms and conditions may be less favourable than the existing financing. Urbanfund's financial condition and results would be adversely affected if it were unable to obtain financing or cost-effective financing.

#### Equity Financing Risks

Equity markets for small capitalized public companies are subject to varying degrees of risk. The Company may not always have access to additional capital via equity offerings. As a result, in the absence of obtaining mortgage financing as identified in *Mortgage Financing Risks*, additional capital may not be available. In management's opinion, the risk of lack of financing is not significant, as the Company continues to leverage its existing asset base, as well as mortgage financing to take advantage of real estate opportunities, as they arise.

#### General Uninsured Losses

Urbanfund carries comprehensive general liability insurance for fire, flood and extended coverage for rental loss with policy specific limits and deductibles depending on the property. However, there are certain risks (generally catastrophic, such as war, terrorist acts or environmental contamination) which may be either uninsurable, in whole or in part, or in the opinion of management, not economically insurable. Should an uninsured or underinsured loss occur, Urbanfund could be negatively impacted through loss of the investment, anticipated profits and cash flows from one or more of its investment properties. In addition, the Company would continue to be obligated to repay any balance of mortgages outstanding on such properties.

#### Environmental Matters

Under various environmental and ecological laws, Urbanfund could become liable for the costs of removal or remediation of certain hazardous or toxic substances released on or in its properties or disposed of at other locations. The failure to remove or remediate such substances may adversely affect the Company's ability to sell such property or to borrow or use the property as collateral and could also result in claims against the Company by third parties. Urbanfund is not currently aware of any material non-compliance, liability or claim with respect to any of its properties that it believes would involve material expenditures to the Company.

#### Key Personnel

Urbanfund's executive and other senior officers have a significant role in the success of our operations. Our ability to retain our current management team or ensure suitable replacements could have an adverse effect on the Company and its operations.

We rely on the services of key personnel on our executive including the Chief Executive Officer and Chief Financial Officer and the loss of their services could have an adverse effect on the Company. We are mitigating this risk through implementation of succession planning.

# **URBANFUND CORP.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **FOR THE PERIOD ENDED SEPTEMBER 30, 2019**

#### **Potential Conflicts of Interest**

Urbanfund is subject to various conflicts of interest due to the directors and officers being engaged in other real estate related activities. The Company may become involved in transactions which may conflict with our overall business objectives. The directors, from time to time may enter into arrangements with individuals or companies with which may also be desirable to Urbanfund. The interests of these persons and/or companies could conflict with those of Urbanfund. In addition, the individuals or companies may be competing with Urbanfund for available investment opportunities.

Our directors or officers who are identified to be in conflict with are required to disclose material interests in material contracts and transactions and are refrained from voting on a resolution to approve a material contract or transaction.

#### **Significant Shareholders**

As of the date of this MD&A, our directors and officers hold, directly or indirectly, a majority of the outstanding common shares and 100% of the preferred shares. The market price of our common shares could be significantly affected if our directors or officers intend or are perceived to be selling their holdings in Urbanfund.

#### **Dividends**

The declaration and payment of future dividends and the quantum of any such dividends will be subject to the approval of Urbanfund's Board of Directors', in its discretion, taking into account, among other things, operating performance, financial condition, future growth plans, expected capital requirements, statutory solvency tests, as well as any contractual restrictions on such dividends, including any agreements entered into with lenders to the Company or its subsidiaries. There can be no assurance that dividends will be paid at the intended rate or at any rate in the future.

#### **Cyber Security Threats**

A cyber incident is an intentional or unintentional event that could threaten the integrity, confidentiality or availability of the Company's information resources. These events include, but are not limited to, unauthorized access to information systems, a disruption to our information systems, or loss of confidential information. Urbanfund's primary risks that could result directly from the occurrence of a cyber incident include operational interruption, damage to our public image and reputation, and/or potentially impact the relationships with our tenants.

We have implemented processes, procedures and controls to mitigate these risks, including, but not limited to, firewalls and antivirus programs and training and awareness programs on the risks of cyber incidents. These procedures and controls do not guarantee that the financial results may not be negatively impacted by such an incident.

#### **ADDITIONAL INFORMATION**

These documents, as well as additional information relating to Urbanfund, have been filed electronically with the Canadian securities regulators through the System for Electronic Document Analysis and Retrieval ("SEDAR") and may be accessed through the SEDAR website at [www.sedar.com](http://www.sedar.com).

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Urbanfund's securities, common share issuances pursuant to the DRIPs and options to purchase the Company's securities authorized for issuance under equity compensation plans, as of December 31, 2018, are contained in Urbanfund's Management Information Circular which was furnished in connection with the annual and special meeting of the shareholders that was held on June 12, 2019.

#### **SUBSEQUENT EVENT**

On November 26, 2019, the Company, along with Westdale Construction Limited ("Westdale"), completed the acquisition of the 145 unit Bellbrook and Regal Luxury Apartment portfolio located in Dartmouth, Nova Scotia. An incorporated subsidiary, Bellbrook Residential Inc. (the "Purchaser"), purchased the portfolio with the Company being a 20% shareholder and Westdale retaining the remaining 80% interest. The Purchaser purchased the portfolio for \$33,350,000 plus customary closing costs. The purchase price was funded by a \$24,000,000 mortgage and the balance by pro rata equity subscriptions from the Company and Westdale. The Company's subscription for a 20% interest in the Purchaser was satisfied with cash on-hand. The Company agreed to indemnify Westdale for its pro rata share of the obligations, if any, Westdale may have to the lender in Westdale's capacity as guarantor. Property Management will be the responsibility of Westdale and will be compensated at market rates.