



MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019

URBANFUND CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019

PROPERTY PORTFOLIO	Accounting treatment under IFRS	Ownership Interest (%)	Site Size (sq. ft.)	Total Suites (#)
Property and Location				
ONTARIO				
<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
QUEBEC				
<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
NOVA SCOTIA				
<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
74 Bellbrook Crescent, Dartmouth	Equity investment	20%	61,943	43
435 Portland Hills Drive, Dartmouth	Equity investment	20%	58,694	51
449 Portland Hills Drive, Dartmouth	Equity investment	20%	53,029	51

(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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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 year ended December 31, 2019. This MD&A is dated April 21, 2020 and should be read in conjunction with the annual audited consolidated financial statements and related notes for the year ended December 31, 2019 ("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 within the meaning of applicable Canadian securities laws. This information includes, but is not limited to, statements made in *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:

- *Bellbrook and Regal Luxury Apartment Portfolio* - In 2019, Urbanfund invested \$2,000,000 for a 20% interest in Bellbrook Residential Inc. In turn, Bellbrook Residential Inc. purchased the Bellbrook and Regal Luxury Apartment portfolio for \$33,350,000 plus customary closing costs, funded by a \$24,000,000 mortgage and \$9,350,000 in equity contributions. The Bellbrook and Regal Luxury Apartment Portfolio represents a 3-building luxury portfolio with 145 "condo quality" units in Dartmouth, Nova Scotia. See *Other Real Estate Investments*.

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- Alfred Kuehne - As of the date of this MD&A, Urbanfund has sold all of its units within the 4 Alfred Kuehne, Brampton, Ontario project and received a total distribution of \$2,874,228. The estimated revenue from the Company's inventory property sales to be recognized in 2020 is \$9,702,700. See *Inventory Properties*.
- Highfield Park Portfolio – In 2017, Urbanfund invested \$7,569,980 for a 20% interest in Highfield Park Residential Inc. During the year ended December 31, 2019, Urbanfund recognized \$3,226,000 of income and received \$200,000 of distributions relating to its equity investments. Total income and distribution received as of the date of this MD&A were \$3,444,430 and \$400,000 respectively. See *Other Real Estate Investments*.
- One Bloor Project - During the year ended December 31, 2019, Urbanfund received distributions relating to profit on the sales of real estate of \$150,000. Total profits received as of the date of this MD&A were \$4,616,667. See *Other Real Estate Investments*.
- 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.

Further, during the year ended December 31, 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 a higher tenant occupancy. Quebec Headway plans to continue with the renovation of its Quebec City investment properties with anticipation of higher tenant occupancy and NOI.

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

The first quarter of 2020, save and except for the last 2 weeks, remained strong and pointed to another year of continued economic growth. But now with the COVID-19 pandemic encircling the globe, 2020 will be a period of economic and operating uncertainty with regard to its impact on the Company's retail and residential tenants and their ability to satisfy rental payment obligations. These are unprecedented times and Urbanfund is taking all necessary measures to ensure to support its tenants and best manage the short-term challenges to its business.

All governments, where the Company operates, have put in place numerous stringent measures to protect citizens and to slow the spread of the COVID-19 virus. These measures include the closure of all non-essential retail and commercial business, restriction on the ability to gather as well as a slow-down or in some cases, a complete stoppage in construction. Covid-19 is expected to have the most impact on the retail portfolio followed then by its residential portfolio. The company expects to face revenue declines and deferrals in future quarters which it is currently assessing. Urbanfund's top priority is ensuring the safety and well-being of its tenants as well as the communities it serves. There will be financial pressures on our tenant base, particularly on independent retailers, and we intend to work with all of our tenants on a case-by-case basis to support their businesses. We will also work with our residential tenants to ensure they remain with a housing option while at the same time, protecting the financial stability of the Company.

The Company believes that it is positioned financially to weather this unprecedented economic storm.

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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 2019 Annual 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. 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 results 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 includes 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.

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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 of the Company 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 are a more relevant input than actual capital expenditures in assessing the Company's ACFO and for determining appropriate levels 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.

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 is 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

Selected Annual Information

Year ended December 31,	2019	2018	2017
Operating results			
Revenue	\$ 5,172,805	\$ 5,320,151	\$ 5,506,270
Net income before taxes	6,759,202	5,462,709	10,844,757
Net income and comprehensive income	6,505,877	4,688,709	7,344,757
Per share basis, attributable to shareholders			
Basic income per share	\$ 0.14	\$ 0.11	\$ 0.16
Diluted income per share	\$ 0.12	\$ 0.09	\$ 0.14
Non-IFRS measures (i)			
FFO	\$ 2,018,111	\$ 3,183,056	\$ 3,292,017
ACFO	144,666	2,561,196	2,533,230
As at December 31,	2019	2018	2017
Financial position			
Total assets	\$ 92,080,829	\$ 79,259,420	\$ 84,332,317
Total investment properties	67,170,041	57,899,678	61,427,685
Total debt	31,690,190	28,238,845	36,310,938
Non-IFRS measures (i)			
Debt to total assets	34%	36%	43%
Debt to adjusted EBITDA (ii)	4.48	4.14	4.80
Interest coverage ratio (ii)	4.32	4.03	5.83
Debt service ratio (ii)	2.43	2.16	2.57

(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 month ended,	Revenue	Net income attributable to shareholders	Basic income per share	Diluted income per share
December 31, 2019	\$ 1,238,328	\$ 2,439,650	\$ 0.053	\$ 0.045
September 30, 2019	1,281,917	1,669,097	0.036	0.031
June 30, 2019	1,368,674	1,548,996	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 relating to the three months and year ended December 31, 2019 and 2018:

	Three-months ended December 31,		Year-ended December 31,	
	2019	2018	2019	2018
Rental revenue	\$ 1,238,328	\$ 1,298,562	\$ 5,172,805	\$ 5,320,151
Rental expenses	471,396	542,865	2,514,129	2,480,149
NOI	\$ 766,932	\$ 755,697	\$ 2,658,676	\$ 2,840,002
NOI as a percentage of rental revenue	62%	58%	51%	53%

Rental revenue for the year ended December 31, 2019 was \$5,172,805 in comparison to \$5,320,151, representing a decrease of \$147,346. This decrease is mainly attributable to seven months of revenue from 48 Weber Street in 2018 before it was sold on July 13, 2018. See *Joint Operations and Limited Partnerships*.

Rental expenses for the year ended December 31, 2019 was \$2,514,129 in comparison to \$2,480,149, representing an increase of \$33,980. This increase was primarily a result of current year repair and maintenance expenditures.

NOI as a percentage of rental revenue for the year ended December 31, 2019 decreased by 2% due to the loss on revenue from the 48 Weber Street sale in 2018.

Rental revenue for the three months ended December 31, 2019 was \$1,238,328 in comparison to \$1,298,562, representing a decrease of \$60,234 primarily due to lower tenant recoveries from lower recoverable expenditures discussed below.

Rental expenses for the three months ended December 31, 2019 was \$471,396 in comparison to \$542,865, representing a decrease of \$71,469. This decrease was primarily a result of the capitalization of repair and maintenance expenditures in the current quarter relating to the Quebec residential portfolio meeting the capitalization criteria under IFRS.

NOI as a percentage of rental revenue for the three months ended December 31, 2019 increased by 4% from the prior year primarily due to the capitalization of repairs and maintenance expenditures in the current quarter. Factoring this adjustment into the analysis, NOI as a percentage of rental revenue is consistent and stable with the prior year, which is expected due to the property portfolio remaining stabilized.

Operating Income (OI) Attributable to Inventory Property

The following table presents IFRS results relating to the sale of inventory properties for the three months and year ended December 31, 2019 and 2018:

	Three-months ended December 31,		Year-ended December 31,	
	2019	2018	2019	2018
Inventory property sales	\$ -	\$ -	\$ -	\$ 5,138,363
Inventory property cost of sales	-	429,229	-	4,156,937
OI, attributable to inventory property	\$ -	\$ (429,229)	\$ -	\$ 981,426
OI as a percentage of inventory property sales	0%	0%	0%	19%

Operating income attributable to inventory property was \$981,426 for the year ended December 31, 2018. This relates to the sale of units on 11-13 Edvac Drive, Brampton, Ontario in the Edvac Joint venture. See *Inventory Properties*.

Other Income

	Three-months ended December 31,		Year-ended December 31,	
	2019	2018	2019	2018
Profit from investment in real estate project	\$ 150,000	\$ -	\$ 150,000	\$ 800,000
Income (loss) from equity accounted investment	1,723,917	(44,308)	3,102,000	233,013
Interest income	49,951	34,823	145,402	117,744
Gain on disposal of marketable securities	-	-	169,177	-
Fair value adjustment on marketable securities	-	(67,563)	-	32,925
Fair value adjustment on investment properties	43,901	1,864,310	1,953,874	2,073,414
Other income	\$ 1,967,769	\$ 1,787,262	\$ 5,520,453	\$ 3,257,096

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Profit from investment in real estate project (the "Project") for the year ended December 31, 2019 was \$150,000 in comparison to \$800,000 for the year ended December 31, 2018. This distribution relates to the closing of the condominium units, with majority of the profit relating to this investment recognized in the prior comparative year. See *Other Real Estate Investments*.

Income (loss) from equity accounted investment for the year ended December 31, 2019 was \$3,102,000 in comparison to \$233,013, representing an increase of \$2,868,987. This increase is due to \$2,765,445 of fair value increase on investment properties and \$103,542 increase in net operating income.

During the year ended December 31, 2019, Urbanfund sold all of its marketable securities for a total proceed of \$616,471 resulting in a gain of \$169,477. No marketable securities were disposed of in the year ended December 31, 2018.

Fair value adjustments on marketable securities for the year ended December 31, 2018 was \$32,925 in comparison to \$nil in 2019 as all marketable securities were disposed of during the year.

Fair value adjustment on investment properties for the year ended December 31, 2019 was \$1,953,874 in comparison to \$2,073,414 representing a decrease of \$119,540. This decrease is primarily due to a larger capitalization rate compression for the year ended December 31 2018 on our wholly owned residential and commercial properties.

Profit from investment in real estate project (the "Project") for the three months ended December 31, 2019 was \$150,000 in comparison to \$nil for the three months ended December 31, 2018. This reduction is wholly due to the timing of the closing of the condominium units during the year.

Income (loss) from equity accounted investment for the three months ended December 31, 2019 was \$1,723,917 and \$ (44,308) for the same period in 2018, representing an increase of \$1,768,225. This increase is due to \$1,863,437 of fair value increase on investment properties and a \$95,212 reduction in net operating income.

Fair value adjustments on marketable securities for the three months ended December 31, 2018 was \$ (67,563) and \$nil for the three months ended in December 31, 2019 since all marketable securities were sold in 2019.

Fair value adjustment on investment properties for the three months ended December 31, 2019 was \$43,901 in comparison to \$1,864,310 representing a decrease of \$1,820,409. This decrease is primarily due to a larger capitalization rate compression for the three months ended December 31 2018 on our wholly owned residential and commercial properties.

Other Expenses

	Three-months ended December 31,		Year-ended December 31,	
	2019	2018	2019	2018
Financing costs	\$ 289,112	\$ 299,950	\$ 1,011,724	\$ 1,123,960
General and administrative costs	175,853	136,764	408,203	491,855
Other expenses	\$ 464,965	\$ 436,714	\$ 1,419,927	\$ 1,615,815

Financing costs for the year ended December 31, 2019 was \$1,011,724 in comparison to \$1,123,960 representing a decrease of \$112,236. This decrease primarily relates to the mortgage relating to 48 Weber Street and 65 Roy Street properties which was repaid at the sale on July 13, 2018.

General and administrative costs for the year ended December 31, 2019 was \$408,203 in comparison to \$491,855, representing a decrease of \$83,652. This decrease primarily relates to a decrease in professional fees incurred.

Financing costs for the three months ended December 31, 2019 was \$289,112 in comparison to \$299,950 representing a decrease of \$10,838. The decrease relates to lower interest costs through monthly repayment of principal.

General and administrative costs for the three months ended December 31, 2019 was \$175,853 in comparison to \$136,764, representing an increase of \$39,089. This increase primarily relates to an increase in consulting fees incurred.

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:

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	2018				2019			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Wholly-owned</u>								
Commercial properties	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Residential properties	98.1%	98.8%	98.8%	98.8%	98.7%	98.7%	98.8%	98.8%
<u>Joint operation</u>								
Commercial properties	88.0%	88.0%	88.0%	88.0%	88.0%	88.0%	88.0%	88.0%
Residential properties	93.1%	93.9%	93.9%	98.0%	97.0%	97.3%	98.0%	99.4%
<u>Equity investment</u>								
Residential properties	93.6%	93.4%	95.0%	94.9%	95.9%	96.7%	96.5%	96.0%

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 December 31,		Year-ended December 31,	
	2019	2018	2019	2018
Net income attributable to shareholders	\$ 2,439,650	\$ 1,536,523	\$ 6,505,877	\$ 4,863,216
<i>Add back / (deduct):</i>				
Gain on disposal of marketable securities	-	-	(169,177)	-
Deferred income tax expense	(185,000)	285,000	128,000	286,000
Fair value adjustment on equity accounted investments	(1,581,737)	281,700	(2,483,745)	281,700
Fair value adjustment on marketable securities	-	67,563	-	(32,925)
Fair value adjustment on investment properties	(43,901)	(1,864,310)	(1,953,874)	(2,073,414)
Fair value adjustment on Non-controlling interest	-	(10,289)	-	(133,945)
Straight-line of rental revenue	(2,570)	(1,787)	(8,970)	(7,576)
FFO	\$ 626,442	\$ 294,400	\$ 2,018,111	\$ 3,183,056
Weighted average number of shares - basic	45,801,122	45,097,694	46,597,337	45,510,235
Weighted average number of shares - diluted	53,226,122	52,522,694	54,022,337	52,935,235
FFO per share - basic	\$ 0.014	\$ 0.007	\$ 0.043	\$ 0.070
FFO per share - diluted	\$ 0.012	\$ 0.006	\$ 0.037	\$ 0.060

FFO for the year ended December 31, 2019 was \$2,018,111 in comparison to \$3,183,056, representing a decrease of \$1,164,945. The decrease was primarily due to the following:

- Decrease in operating income of \$981,426 related to the inventory sale of units on 11-13 Edvac Drive, Brampton, Ontario
- Decrease in profit from investment in real estate project of \$650,000, due to majority of sales related to the Project being realized by 2018;
- Decrease in operating income of \$221,888 due to the sale of 48 Weber Street in July 13, 2018;

Offset by,

- Increase in equity accounted investment income of \$103,542
- Increase in interest income of \$27,658
- Decrease in financing costs and general administrative costs of \$112,236 and \$83,652 respectively; and
- Decrease in income taxes of \$362,675, primarily due to the decrease in taxable income due to Urbanfund's realized profit from investment in real estate project.

FFO for the three months ended December 31, 2019 was \$626,442 in comparison to \$294,400, representing an increase of \$332,042. This increase was primarily due to the following:

- Decrease in inventory property costs of sales of \$429,229;
- Increase in operating income of \$17,473;
- Increase in profit from the Project of \$150,000 due to the timing of closing on the condominium units;
- Increase in interest income of \$15,128;
- Decrease in financing costs of \$10,838;

Offset by,

- Decrease in income from equity accounted investments of \$95,212;
- Increase in general and administrative costs of \$39,089; and
- Increase in current income taxes of \$163,325.

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Adjusted Cash Flows from Operations ("ACFO")

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

	Three-months ended December 31,		Year-ended December 31,	
	2019	2018	2019	2018
Cash provided by operating activities	\$ 1,513,260	\$ 125,594	\$ 2,483,709	\$ 4,198,798
Adjustments to working capital changes for ACFO (i)	(239,957)	144,116	(143,545)	162,398
Normalized capital expenditures (ii)	(600,000)	(500,000)	(1,800,000)	(1,800,000)
Non-controlling interests	(395,498)	(178,000)	(395,498)	-
ACFO	\$ 277,805	\$ (408,290)	\$ 144,666	\$ 2,561,196

(i) Includes working capital changes that based on REALpac February 2017 whitepaper, are not indicative of sustainable cash flow for distribution. Also 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.

ACFO for the year ended December 31, 2019 was \$144,666 in comparison to \$2,561,196, representing a decrease of \$2,416,530, which was primarily due to items previously identified (see Funds from Operations ("FFO")) as well as the impact of timing of cash receipts and cash disbursements from operating items.

ACFO for the three months ended December 31, 2019 was \$277,805 in comparison to \$(408,290), representing an increase of \$688,095 which was primarily due to items previously identified (see Funds from Operations ("FFO")) as well as the impact of timing of cash receipts and cash disbursements from operating items.

INVESTMENT PROPERTIES

Refer to note 5 of the Annual Consolidated Financial Statements for the change in consolidated IFRS values of Urbanfund's investment properties.

Valuation Process

Urbanfund will measure 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			December 31, 2019		
	Minimum	Maximum	Average	Minimum	Maximum	Average
Commercial properties	5.00%	8.00%	5.18%	5.05%	7.80%	5.22%
Residential properties	3.90%	5.75%	4.39%	3.90%	5.25%	4.29%

Dispositions

The following table summarizes the Company's disposition of investment properties and properties under development:

As at December 31,	Income properties		Properties under development	
	2019	2018	2019	2018
Total consideration	\$ -	\$ 5,961,000	\$ -	\$ 1,339,000
Mortgages associated with property dispositions	-	(4,568,918)	-	-
Total consideration, net of related debt	\$ -	\$ 1,392,082	\$ -	\$ 1,339,000

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Property name and location	Date of disposition	Sale proceeds	Debt	Ownership interest of Urbanfund
48 Weber Street, Kitchener, Ontario	July 13, 2018	\$ 5,961,000	\$ (4,568,918)	90%
61 Roy Street, Kitchener, Ontario	July 13, 2018	587,000	-	90%
65 Roy Street, Kitchener, Ontario	July 13, 2018	752,000	-	90%
Total dispositions for the year ended December 31, 2018		\$ 7,300,000	\$ (4,568,918)	

The Company incurred \$426,567 of transaction costs relating to the disposition of 48 Weber Street, 61 Roy Street and 65 Roy Street, Kitchener, which was included in inventory property cost of sales in the consolidated statements of income and comprehensive income.

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 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 December 31, 2019 and 2018:

	2019				
	61 Roy St.	51, 55, 59 Scott St.	59, 61, 65 Weber St.	65 Roy St.	Total
Opening balance	\$ -	\$ 2,283,871	\$ 2,182,807	\$ -	\$ 4,466,678
Development costs	-	-	6,864,363	-	6,864,363
Closing balance	\$ -	\$ 2,283,871	\$ 9,047,170	\$ -	\$ 11,331,041

	2018				
	61 Roy St.	51, 55, 59 Scott St.	59, 61, 65 Weber St.	65 Roy St.	Total
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

- **61 Roy St. and 65 Roy St.** – During the year ended December 31, 2018, the Company sold 61 Roy Street and 65 Roy Street together with 48 Weber Street for \$7,300,000 less total transaction costs of \$269,340. See *Joint Operations and Limited Partnerships*.
- **51, 55, 59 Scott St. and 59, 61, 65 Weber St.** - During the year ended December 31, 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 and Limited Partnerships*.

INVENTORY PROPERTIES

Inventory properties are investment properties acquired or under development for which the Company intends to dispose all or part of such properties in the ordinary course of business, rather than to hold on a long-term basis for capital appreciation or for rental income

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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 my management's commitment to use a property for rental purposes or the commencement of an operating lease to another party.

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

	2019		
	11-13 Edvac Dr.	4 Alfred Kuehne	Total
Opening balance	\$ -	\$ 2,841,320	\$ 2,841,320
Development costs	-	391,021	391,021
Closing balance	\$ -	\$ 3,232,341	\$ 3,232,341

	2018		
	11-13 Edvac Dr.	4 Alfred Kuehne	Total
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 Drive** - 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. 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, 2019, Urbanfund, together with its joint venture partner, Takol Real Estate Inc. continue to renovate and sell the 13 units located on 4 Alfred Kuehne, Brampton, Ontario. As at the date of this MD&A, the Company has sold all 13 units and received a distribution of \$2,874,228.

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. Urbanfund utilizes limited partnerships whereby the Company does not own all the equity in its subsidiary, and therefore the non-controlling equity interest is presented as a separate component of equity in our 2019 Annual Consolidated Financial Statements.

Select Financial Information of Joint Operations and Limited Partnerships

December 31, 2019	Method of consolidation under IFRS	Number of investment properties (i)	Investment properties (i)	Mortgages payable	Rental revenues	NOI
Quebec Headway	Proportionately consolidate	9	\$ 12,529,000	\$ 2,239,062	\$ 1,555,856	\$ 645,237
Edvac	Proportionately consolidate	(iii)	-	-	-	(3,880)
Alfred Kuehne	Proportionately consolidate	1	3,232,341	1,541,809	133,684	52,109
Weber LP	Consolidate with NCI (ii)	1	11,325,637	6,038,085	-	-

(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 of the date of this MD&A.

Distributions from Limited Partnerships

Distributions by the Limited Partnerships 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

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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 investments

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, which in turn purchased the Highfield Park portfolio ("Highfield Park") for \$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.

On November 16, 2019, Urbanfund invested \$2,000,000 for a 20% interest in Bellbrook Residential Inc., with the remaining 80% interest retained by Westdale, which in turn purchased the Bellbrook and Regal Luxury Apartment portfolio ("Bellbrook") for \$33,350,000 plus customary closing costs, funded by a \$24,000,000 mortgage and \$9,350,000 in equity contributions.

This acquisition is a 3-building luxury portfolio in a highly desired location augmenting the company's current Dartmouth holdings with 145 "condo quality" units.

The following table presents the financial position of Urbanfund's equity accounted investment:

As at December 31,			2019				2018	
	Highfield	Bellbrook	Total	Highfield	Bellbrook	Total	Total	
Current assets	\$ 1,547,425	\$ 534,835	\$ 2,082,260	\$ 1,263,197	\$ -	\$ 1,263,197	\$ 1,263,197	
Non-current assets	126,680,000	33,350,000	160,030,000	113,580,299	-	113,580,299	113,580,299	
Current liabilities	(1,711,529)	(504,833)	(2,216,362)	(1,259,201)	-	(1,259,201)	(1,259,201)	
Non-current liabilities	(72,823,846)	(24,000,000)	(96,823,846)	(75,022,244)	-	(75,022,244)	(75,022,244)	
Net assets	\$ 53,692,050	\$ 9,380,002	\$ 63,072,052	\$ 38,562,051	\$ -	\$ 38,562,051	\$ 38,562,051	
Urbanfund's interest	\$ 10,738,410	\$ 1,876,000	\$ 12,614,410	\$ 7,712,410	\$ -	\$ 7,712,410	\$ 7,712,410	

Year ended December 31,			2019				2018	
	Highfield	Bellbrook	Total	Highfield	Bellbrook	Total	Total	
Revenue	\$ 12,892,570	\$ 235,123	\$ 13,127,694	\$ 12,525,630	\$ -	\$ 12,525,630	\$ 12,525,630	
Operating expenses	(6,919,543)	(117,553)	(7,037,096)	(7,082,095)	-	(7,082,095)	(7,082,095)	
Interest expense	(2,794,805)	(204,518)	(2,999,323)	(2,869,970)	-	(2,869,970)	(2,869,970)	
Fair value adjustment on investment properties	12,951,778	(533,053)	12,418,725	(1,408,500)	-	(1,408,500)	(1,408,500)	
Net income (loss)	\$ 16,130,000	\$ (620,000)	\$ 15,510,000	\$ 1,165,065	\$ -	\$ 1,165,065	\$ 1,165,065	
Income (loss) from equity accounted investme	\$ 3,226,000	\$ (124,000)	\$ 3,102,000	\$ 233,013	\$ -	\$ 233,013	\$ 233,013	

Investment in Real Estate Project

In 2009, Urbanfund invested for a 10% interest in a limited partnership, which in turn has 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.

During the year ended December 31, 2019, Urbanfund received a profit distribution of \$150,000. As at December 31, 2019, Urbanfund received a return of capital of \$1,677,333 and profit distribution of \$4,616,667.

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LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Cash Flow Management

We expect to meet all of our 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 our income properties. See *Risks and Uncertainties*.

The following table presents liquidity as a percentage of debt:

As at December 31,	2019	2018
Cash and cash equivalents	\$ 7,331,435	\$ 9,184,553
Accounts receivable (i)	658,108	441,137
Marketable securities	-	445,060
Liquidity	\$ 7,989,543	\$ 10,070,750
Mortgages payable	33,412,223	28,455,589
Debt	\$ 33,412,223	\$ 28,455,589
Liquidity expressed as a percentage of debt	23.9%	35.4%

(i) As of the date of this MD&A, Urbanfund has collected its outstanding amounts due as at December 31, 2019, and therefore, amounts 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 December 31,	2019	2018
Current	\$ 2,654,370	\$ 2,622,641
Non-current	30,577,629	25,616,204
	\$ 33,231,999	\$ 28,238,845
Mortgages payable	\$ 31,690,190	\$ 28,238,845
Mortgages payable on inventory property held for sale	1,541,809	-
	\$ 33,231,999	\$ 28,238,845

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

As at December 31, 2019	Mortgages payable	Percentage of aggregate total
2020	\$ 2,654,370	7.9%
2021	1,038,678	3.1%
2022	15,839,453	47.4%
2023	3,388,546	10.1%
2024	553,739	1.7%
Thereafter	9,937,437	29.7%
Aggregate total mortgages payable, excluding unamortized financing costs	33,412,223	100.0%

During the year ended December 31, 2019, total mortgages payable was \$33,231,999 in comparison to \$28,238,845, representing an increase of \$4,993,154. The increase is a result of:

- An increase of \$6,038,085 relating to the 59 Weber Street construction loan; and
 - Amortization of deferred financing costs of \$36,520.
- offset by,
- Decrease of \$1,081,451 relating to scheduled principal repayments; and

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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:

For the year ended December 31,	2019	2018
Interest coverage	4.32	4.03
Debt service coverage	2.43	2.16

(i) Refer to *Non-IFRS Measures* for further details on the method of calculation.

Urbanfund's goal is to reduce leverage and further improve our interest and debt service coverage. As at December 31, 2019, the interest coverage and debt service coverage have improved as a result of decreased overall financing costs as a result of the extinguishment of 48 Weber Street and 1-13 Edvac Drive mortgage.

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

Year ended December 31,	2019	2018
Net income attributable to shareholders	\$ 6,505,877	\$ 4,863,216
<i>Add (deduct):</i>		
Current income tax expense	125,325	488,000
Deferred income tax expense	128,000	286,000
Finance costs	1,011,724	1,123,960
Fair value adjustment on marketable securities	-	(32,925)
Fair value adjustment on investment properties	(1,953,874)	(2,073,414)
Adjusted EBITDA	\$ 5,817,052	\$ 4,654,837
Debt outstanding	\$ 33,412,223	\$ 28,455,589
Less: cash	(7,331,435)	(9,184,553)
Debt, net of cash	\$ 26,080,788	\$ 19,271,036
Debt to Adjusted EBITDA	4.48	4.14

As at December 31, 2019, Debt to Adjusted EBITDA increased from 4.14 to 4.48 primarily due to \$6,038,085 construction loan advance relating to the redevelopment for 59 Weber Street.

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, 2018, Urbanfund amended its Dividend Policy to increase the annual dividend to a rate of \$0.02 per common share and \$0.02 per preferred share, or 100% increase from the previous year, payable quarterly in the amount of \$0.005 per common and preferred share.

During the three months ended December 31, 2019, 425,538 common shares were issued pursuant to our DRIP resulting in additional equity of \$319,367. The average participant rate of the DRIP was 75%.

During the year ended December 31, 2019, 1,437,467 common shares were issued pursuant to our DRIP resulting in additional equity of \$1,092,729. The average participant rate of the DRIP was 75%.

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The record date for dividends is typically the last business day of each quarter and payment is approximately two weeks from the record date. The following table summarizes our quarterly distributions for the year ended December 31, 2018:

	Payment date	Shareholders of record
2018, quarter 4 distribution	Jan. 15, 2019	Dec. 31, 2018
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

Our fourth distribution was declared to the shareholders of record on December 31, 2019 and was paid January 15, 2020.

OUTSTANDING SHARE DATA

The following table details Urbanfund's outstanding share data as of December 31, 2019 and the date of this MD&A:

	December 31, 2019	Date of this MD&A
Common shares	47,280,392	48,112,942
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.

FUTURE CHANGES IN ACCOUNTING POLICIES

IFRS 16, Leases (IFRS 16)

In January 2016, the IASB issued IFRS 16. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains substantially unchanged, and the distinction between operating and finance leases is retained. IFRS 16 is effective for the Company's annual periods beginning on or after January 1, 2019. The Company does not expect a material impact on the Annual Consolidated Financial Statements relating to the classification of its tenant leases on the adoption of this standard.

IFRIC 23, Uncertainty over Income Tax Treatments (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. This interpretation is effective for annual reporting periods beginning on or after January 1, 2019. The amendments are not expected to have any impact on the Annual Consolidated Financial Statements.

IASB Annual Improvements 2015-2017 Cycle

In December 2017, the IASB issued amendments to four standards, IFRS 3, *Business Combinations* (IFRS 3), IFRS 11, *Joint Arrangements* (IFRS 11), IAS 12, *Income Taxes* (IAS 12) and IAS 23 *Borrowing Costs* (IAS 23). These amendments will be effective for annual period beginning on or after January 1, 2019. The implementation of these standards is not expected to have a significant impact on the Annual Consolidated Financial Statements.

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DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and Chief Financial Officer have designed or caused to 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 December 31, 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 Construction Co. Limited ("Westdale"), a related party, to perform management services. Ronald Kimel, Chairman of Urbanfund, is also a shareholder and Director of Westdale.

Key management personnel are those individuals that have the authority and responsibility for planning, directing and controlling the Company's activities, directly or indirectly. The Company's key management personnel include the Chief Executive Officer and the Chief Financial Officer and the Controller (collectively, "Key Management"). No compensation is paid to key management. Westdale, however, charges the Company pursuant to an agreement to provide property management services equal to 4% on wholly-owned residential properties and 3% on wholly-owned commercial properties.

During the year ended December 31, 2019 the Company incurred property management fees and cost reimbursements of \$209,601 and \$545,967, respectively (2018 - \$210,386 and \$576,672, respectively). For further details on related party transactions, refer to note 19 of our Annual 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.

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 tenants and 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. See *Risks and Uncertainties – COVID-19 and Events After the Balance Sheet Date*.

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COVID-19

Public health crises, including the ongoing health crisis related to the coronavirus (COVID-19) pandemic, or relating to any other virus, flu, epidemic, pandemic or any other similar disease or illness (each a "Health Crisis") could adversely impact the Company. Each could result in: a general or acute decline in economic activity in the jurisdictions in which the Company's properties are located, increased unemployment, mobility restrictions and other quarantine and isolation measures, increased government regulation, and the quarantine or contamination of one or more of the Company's properties. Contagion in a property or market in which the Company operates could negatively impact its occupancy, reputation or attractiveness of that market. All of these occurrences may have a material adverse effect on the Company's business, revenue, cashflows, financial condition, results of operations and share price.

Furthermore, increased government regulation relating to a Health Crisis could result in legislation or regulations that may restrict the Company's ability to enforce material provisions under its leases, including in respect of the collection of rent or other payments obligations, among other potential adverse impacts. Such measures could have a material adverse effect on the Company's revenue, cash flows, business, financial condition, results of operations and share price.

Laws and regulations providing for compliance with various housing matters involving tenant evictions, work orders, health and safety issues or fire and maintenance standards, etc., including in relation to the ongoing COVID-19 pandemic, may become more stringent in the future. The Company may incur increased operating costs as part of its compliance with any such additional government legislation and regulations relating to housing matters, which may have an adverse effect on revenue, cash flows, business, financial condition, results of operations and share price.

As a result of the COVID-19 pandemic, the Ontario Landlord and Tenant Board has ceased issuing eviction orders for tenants in Ontario, unless the matter relates to an urgent issue such as an illegal act or serious safety concerns. In addition, on March 19, 2020, the Ontario Superior Court of Justice issued an order suspending the execution of all existing residential eviction orders issued by Landlord and Tenant Board during the COVID-19 pandemic, unless the Superior Court of Justice orders otherwise. Similar actions have been taken in other jurisdictions in which the Company's properties are located.

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.

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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. See *Risks and Uncertainties – COVID-19 and Events After the Balance Sheet Date*.

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 2020 is 2.2 %. In Nova Scotia, the allowable rent increase for 2020 is 1.2%. In Quebec, 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.

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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.

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 is, and 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.

EVENTS AFTER THE BALANCE SHEET DATE

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The

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duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Corporation and its operating subsidiaries in future periods.

In February 2020, Urbanfund completed the sale of all 13 units within the 4 Alfred Kuehne, Brampton, Ontario project and received a total distribution of \$2,874,228.

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.

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, 2019, will be contained in Urbanfund's Management Information Circular to be furnished in connection with the annual and special meeting of the shareholders which is anticipated to be held on June 16, 2020.