

Madison Pacific Properties Inc.

Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended
May 31, 2017 and May 31, 2016

(expressed in thousands of Canadian dollars)

Notice of No Auditor Review of Interim Financial Statements

Under National Instrument 51-102 “Continuous Disclosure Obligations”, Part 4, Subsection 4.3(3a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company’s management.

The Company’s independent auditor, PricewaterhouseCoopers LLP, has not performed a review of these financial statements in accordance with standards established by CPA (Chartered Professional Accountants) Canada for a review of interim financial statements by an entity’s auditor.

July 13, 2017

Madison Pacific Properties Inc.

Interim Consolidated Balance Sheets

As at May 31, 2017 and August 31, 2016

(unaudited)

(expressed in thousands of Canadian dollars)

	May 31, 2017 \$	August 31, 2016 \$
Assets		
Non-current assets		
Investment properties (note 4)	465,244	416,587
Other non-current assets	22,780	27,911
	<u>488,024</u>	<u>444,498</u>
Current assets		
Cash and cash equivalents	12,140	33,427
Amounts receivable and other current assets	1,599	2,359
Income taxes receivable (note 10)	181	255
	<u>13,920</u>	<u>36,041</u>
Total assets	<u>501,944</u>	<u>480,539</u>
Liabilities		
Non-current liabilities		
Debt on investment properties (note 6)	169,975	170,640
Deferred income tax liabilities (note 10)	20,683	16,073
	<u>190,658</u>	<u>186,713</u>
Current liabilities		
Current portion of debt on investment properties (note 6)	32,313	27,618
Accounts payable and accrued liabilities	6,745	8,936
	<u>39,058</u>	<u>36,554</u>
Total liabilities	<u>229,716</u>	<u>223,267</u>
Equity		
Equity attributable to shareholders of the Company		
Share capital (note 8)	67,472	67,472
Contributed surplus	1,083	1,037
Retained earnings	195,595	181,218
	<u>264,150</u>	<u>249,727</u>
Non-controlling interests	<u>8,078</u>	<u>7,545</u>
Total equity	<u>272,228</u>	<u>257,272</u>
Total liabilities and equity	<u>501,944</u>	<u>480,539</u>

Approved by the Board of Directors

“Marvin Haasen” Director

“Mark E. Elliott” Director

The accompanying notes are an integral part of these consolidated financial statements.

Madison Pacific Properties Inc.

Interim Consolidated Statements of Changes in Equity

For the Nine Months Ended May 31, 2017 and May 31, 2016

(unaudited)

(expressed in thousands of Canadian dollars)

	Attributable to shareholders of the Company				Non-controlling interests	Total equity
	Share capital	Contributed surplus	Retained earnings	Total		
	\$	\$	\$	\$	\$	\$
Balance – August 31, 2015	67,472	921	134,138	202,531	8,295	210,826
Stock-based compensation	-	92	-	92	-	92
Net income and comprehensive income	-	-	28,399	28,399	1,981	30,380
Dividends (note 9)	-	-	(3,075)	(3,075)	-	(3,075)
Distributions to non-controlling interests	-	-	-	-	(371)	(371)
Balance – May 31, 2016	67,472	1,013	159,462	227,947	9,905	237,852
Balance – August 31, 2016	67,472	1,037	181,218	249,727	7,545	257,272
Stock-based compensation	-	46	-	46	-	46
Net income and comprehensive income	-	-	37,454	37,454	846	38,300
Dividends (note 9)	-	-	(23,077)	(23,077)	-	(23,077)
Distributions to non-controlling interests	-	-	-	-	(313)	(313)
Balance – May 31, 2017	67,472	1,083	195,595	264,150	8,078	272,228

The accompanying notes are an integral part of these consolidated financial statements.

Madison Pacific Properties Inc.

Interim Consolidated Statements of Income and Comprehensive Income

For the Three and Nine Months Ended May 31, 2017 and May 31, 2016

(unaudited)

(expressed in thousands of Canadian dollars, except per share data)

	Nine Months Ended		Three Months Ended	
	May 31, 2017 \$	May 31, 2016 \$	May 31, 2017 \$	May 31, 2016 \$
Property revenues	22,709	22,805	7,504	7,525
Property operating expenses	6,139	6,109	2,025	2,014
	<u>16,570</u>	<u>16,696</u>	<u>5,479</u>	<u>5,511</u>
General and administrative expenses	1,872	2,126	613	750
	<u>14,698</u>	<u>14,570</u>	<u>4,866</u>	<u>4,761</u>
Net gain on fair value adjustment on investment properties (note 4)	25,614	25,135	10,129	14,358
Equity earnings of associate	4,398	1,384	1,275	1,410
	<u>44,710</u>	<u>41,089</u>	<u>16,270</u>	<u>20,529</u>
Interest income	134	809	51	301
Interest expense	5,247	5,744	1,745	1,833
(Gains) losses on fair value adjustment on interest rate swaps and disposition of loan receivable (notes 6 and 12)	(3,498)	216	190	(584)
	<u>43,095</u>	<u>35,938</u>	<u>14,386</u>	<u>19,581</u>
Income before income taxes	43,095	35,938	14,386	19,581
Income taxes (note 10)	4,795	5,558	2,016	2,601
	<u>38,300</u>	<u>30,380</u>	<u>12,370</u>	<u>16,980</u>
Net income and comprehensive income	<u>38,300</u>	<u>30,380</u>	<u>12,370</u>	<u>16,980</u>
Net income and comprehensive income attributable to:				
Shareholders of the Company	37,454	28,399	12,179	15,221
Non-controlling interests	846	1,981	191	1,759
	<u>38,300</u>	<u>30,380</u>	<u>12,370</u>	<u>16,980</u>
Income per share (note 11)	\$0.64	\$0.48	\$0.21	\$0.26

The accompanying notes are an integral part of these consolidated financial statements.

Madison Pacific Properties Inc.

Interim Consolidated Statements of Cash Flows

For the Nine Months Ended May 31, 2017 and May 31, 2016

(unaudited)

(expressed in thousands of Canadian dollars)

	May 31, 2017 \$	May 31, 2016 \$
Cash flows from operating activities		
Net income	38,300	30,380
Items not affecting cash		
Net gain on fair value adjustment on investment properties	(25,614)	(25,135)
Amortization	637	422
Equity earnings of associate	(4,398)	(1,384)
Stock-based compensation	46	92
(Gains) losses on fair value adjustment on interest rate swaps and disposition of loan receivable	(3,498)	216
Recognition of rental revenue on a straight-line basis	(248)	(223)
Deferred income taxes	4,610	5,401
	<u>9,835</u>	<u>9,769</u>
(Increase) decrease in amounts receivable and other assets	(1,204)	865
Decrease in income taxes receivable	74	139
Increase in accounts payable and accrued liabilities	3,948	303
	<u>12,653</u>	<u>11,076</u>
Cash flows from (used by) investing activities		
Acquisition of investment properties	(20,098)	(2,371)
Additions to investment properties and property development costs	(2,374)	(1,520)
Other investment property expenditures	(519)	-
Net proceeds from disposition of investment properties	-	30,251
Investment in associate (note 12)	(1,199)	(2,500)
Proceeds from disposition of loan receivable (loan advances), net (note 12)	12,692	(196)
	<u>(11,498)</u>	<u>23,664</u>
Cash flows (used by) from financing activities		
Net proceeds from debt on investment properties	19,428	32,840
Bank indebtedness, net	-	(7,252)
Repayment of debt on investment properties	(15,405)	(32,983)
Distributions to non-controlling interests	(313)	(371)
Dividends paid	(26,152)	(6,150)
	<u>(22,442)</u>	<u>(13,916)</u>
(Decrease) increase in cash and cash equivalents	(21,287)	20,824
Cash and cash equivalents - beginning of period	33,427	4,106
Cash and cash equivalents - end of period	<u>12,140</u>	<u>24,930</u>
Supplemental cash flow information		
Interest received	135	1,387
Interest paid	5,258	5,885

The accompanying notes are an integral part of these consolidated financial statements.

Madison Pacific Properties Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three and Nine Months Ended May 31, 2017 and May 31, 2016

(unaudited)

(expressed in thousands of Canadian dollars, except number of shares and per share amounts)

1. General information

Madison Pacific Properties Inc. (the “Company”) owns, develops and operates office, industrial, and commercial real estate properties located in British Columbia, Alberta, and Ontario. The Company is incorporated and domiciled in Canada. The head office of the Company is located at 389 West 6th Avenue, Vancouver, British Columbia, V5Y 1L1, and its registered office is located at 25th Floor, Toronto-Dominion Bank Tower, 700 West Georgia Street, Vancouver, British Columbia, V7Y 1B3.

2. Summary of significant accounting policies and critical accounting estimates

a. Basis of presentation

These condensed interim consolidated financial statements for the nine months ended May 31, 2017 have been prepared in accordance with International Accounting Standard (IAS) 34, “Interim Financial Reporting”. The condensed interim consolidated financial statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended August 31, 2016, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

The condensed interim consolidated financial statements have been prepared using the same accounting policies and methods as those used in the annual consolidated financial statements for the year ended August 31, 2016 except as otherwise disclosed. The condensed interim consolidated financial statements have been presented in Canadian dollars rounded to the nearest thousand unless otherwise indicated.

These condensed interim consolidated financial statements were approved by the Board of Directors for issue on July 13, 2017.

b. Principles of consolidation

Subsidiaries

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

Madison Pacific Properties Inc.

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(unaudited)

(expressed in thousands of Canadian dollars, except number of shares and per share amounts)

The Company's subsidiaries are Metro Vancouver Properties Corp. ("Metro"), MP Western Properties Inc., 1073774 Properties Inc., 3530639 Canada Inc., 801325 B.C. Ltd., the MPW Properties Partnership, 1100935 B.C. Ltd., the MT Properties LP, and MT Management Inc. The Company holds a 100% interest in MP Western Properties Inc., 1073774 Properties Inc., 3530639 Canada Inc., a 50% interest in 1100935 B.C. Ltd., and the Silverdale Hills Limited Partnership, and a 99.8% interest in Metro which holds a 100% interest in the MPW Properties Partnership and 801325 B.C. Ltd, a 60.9% interest in the MT Properties LP, and a 75% interest in MT Management Inc.

All inter-company balances, transactions, and unrealized profits resulting from inter-company transactions are eliminated.

Non-controlling interests

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. Changes in the parent company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Joint arrangements

The Company classifies its interests in joint arrangements as either a joint venture or a joint operation. A joint arrangement is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control. A joint arrangement is classified as a joint venture when the parties to the joint arrangement have rights over the net assets of the joint arrangement, whereas a joint arrangement is classified as a joint operation when the arrangement provides rights to assets and obligations for liabilities for the parties sharing joint control. Joint ventures are accounted for using the equity method, and joint operations are accounted for using the proportionate consolidation method whereby the Company's share of assets, liabilities, income, expenses and cash flows of jointly controlled operations are combined with the equivalent items in the results on a line-by-line basis.

Associates

Associates are entities over which the Company has significant influence but not control. Investments in associates are accounted for using the equity method as follows:

- Investments are initially recognized at cost.
- Investments in associates include goodwill and intangible assets identified on acquisition, net of any accumulated impairment loss.
- The Company's share of its associates' post-acquisition profits or losses is recognized in the consolidated statement of income and comprehensive income.
- Dividends and distributions receivable from associates reduce the carrying amount of the investment.
- The Company's liability with respect to its associates is limited to its net investment where it has no obligation to fund any subsequent losses should they arise. There is no obligation beyond the initial investment.

Madison Pacific Properties Inc.

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(unaudited)

(expressed in thousands of Canadian dollars, except number of shares and per share amounts)

c. Critical accounting estimates and judgements

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The critical accounting estimates have been set out in Note 2 to the Company's consolidated financial statements for the year ended August 31, 2016.

3. Accounting standards and amendments issued but not effective

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*. IFRS 15 establishes principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company has not completed its assessment of the effect, if any, of IFRS 15 on its consolidated financial statements.

In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments*, which addresses the classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement*, for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. In addition, IFRS 7, *Financial Instruments – Disclosures*, has been amended to require additional disclosures on transition from IAS 39 to IFRS 9. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company has not completed its assessment of the effect, if any, of IFRS 9 on its consolidated financial statements.

In January 2016, the IASB issued IFRS 16, *Leases*. The new standard replaces IAS 17, *Leases*, and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15. The Company has not completed its assessment, but does not expect the new standard to have a significant effect on its consolidated financial statements.

In January 2016, the IASB issued amendments to IAS 12, *Income Taxes*, to clarify the requirements for recognizing deferred tax assets on unrealized losses, deferred tax where an asset is measured at a fair value below the asset's tax base, and certain other aspects of accounting for deferred tax assets. The amended standard is effective for annual periods beginning on or after January 1, 2017. The Company has not completed its assessment of the effect, if any, of these amendments on its consolidated financial statements.

In January 2016, the IASB issued amendments to IAS 7, *Statement of Cash Flows*, to require disclosures about changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amended standard is effective for annual periods beginning on or after January 1,

Madison Pacific Properties Inc.

Notes to the Condensed Interim Consolidated Financial Statements

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(unaudited)

(expressed in thousands of Canadian dollars, except number of shares and per share amounts)

2017. The Company has not completed its assessment of the effect, if any, of these amendments on its consolidated financial statements.

4. Investment properties

	Nine months ended May 31, 2017 \$	Year ended August 31, 2016 \$
Balance at beginning of period	416,587	403,022
Additions:		
Acquisitions (note 4(b))	20,098	6,412
Other additions	2,837	1,539
Dispositions (note 4(c))	-	(45,062)
Recognition of rental revenue on a straight-line basis	248	255
Tenant improvements	368	192
Amortization of tenant improvements	(460)	(654)
Leasing commissions	122	142
Amortization of leasing commissions	(170)	(219)
Net gain on fair value adjustment	25,614	50,960
	<hr/>	<hr/>
Balance at end of period	465,244	416,587

a. Valuations

After initial recognition, valuations are prepared by management based primarily on assumptions relating to cash flows from current leases, rental income from future leases in light of current market conditions, and capitalization rates. The capitalization rates used are generally based on ranges provided by external valuers. These assumptions are further compared against information obtained from independent industry experts. Adjustments are made to the carrying values of the investment properties when changes in the underlying valuation assumptions occur.

The fair value of the Company's investment properties is considered to be at Level 3 in the fair value hierarchy, as significant unobservable inputs are required to determine fair value.

b. Investment property acquisitions

For the nine months ended May 31 2017, the Company acquired \$19,953 in investment properties in the Metro Vancouver region, some of which were acquired through 50% co-ownership structures.

For the year ended August 31, 2016, the Company acquired \$6,270 in investment properties in the Metro Vancouver region, some of which were acquired through 50% co-ownership structures.

Madison Pacific Properties Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three and Nine Months Ended May 31, 2017 and May 31, 2016

(unaudited)

(expressed in thousands of Canadian dollars, except number of shares and per share amounts)

c. Investment property dispositions

For the year ended August 31, 2016, the Company sold three properties in the Metro Vancouver region and three properties in Eastern Canada for total proceeds before closing costs of \$46,325.

d. Sensitivity

The following table provides a sensitivity analysis for the weighted average capitalization rate applied at May 31, 2017, excluding properties under development and held for sale:

Capitalization rate increase (decrease)	Weighted average capitalization rate	Fair value of investment properties (at Company's ownership) \$	Fair value variance \$	% change
(0.75%)	4.07%	546,796	98,005	21.8%
(0.50%)	4.37%	508,325	59,534	13.3%
(0.25%)	4.67%	476,266	27,475	6.1%
May 31	4.96%	448,791	-	-
0.25%	5.24%	424,801	(23,990)	(5.3%)
0.50%	5.51%	403,570	(45,221)	(10.1%)
0.75%	5.78%	384,584	(64,207)	(14.3%)

5. Assets held for sale

Investment properties are reclassified to assets held for sale when the criteria set out in IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, are met. Investment properties held for sale are classified as current assets in accordance with IFRS 5.

The carrying values of assets held for sale are established to be the lower of their carrying values or their estimated fair values less selling costs.

As at May 31, 2017 and August 31, 2016, no investment properties were classified as held for sale.

Madison Pacific Properties Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three and Nine Months Ended May 31, 2017 and May 31, 2016

(unaudited)

(expressed in thousands of Canadian dollars, except number of shares and per share amounts)

6. Debt on investment properties

	Nine months ended May 31, 2017 \$	Year ended August 31, 2016 \$
Balance at beginning of period	198,258	200,693
Net proceeds from debt issuances	19,428	52,774
Amortization of deferred finance costs	141	203
Amortization of acquisition date fair value adjustments on assumed debt	(134)	(405)
Repayment of debt	(15,405)	(55,007)
Balance at end of period	202,288	198,258
Less: current portion	32,313	27,618
Non-current portion	169,975	170,640

Mortgage and construction loans are secured by charges against the related properties and corporate guarantees. Of the total mortgage and construction loans (before netting of deferred financing costs and fair value adjustments to assumed debt), \$195,048 (August 31, 2016 - \$195,203) bears interest at fixed rates ranging from 2.40% to 5.68% (August 31, 2016 - 2.40% to 5.68%) per annum and \$7,655 (August 31, 2016 - \$3,386) bears interest at bank prime rate plus 0.70% to 1.25% (August 31, 2016 - plus 0.70% to 1.25%) per annum. The weighted average interest rate on fixed rate debt as at May 31, 2017 was 3.56% (August 31, 2016 - 3.63%).

Interest rate swaps

The Company has entered into interest rate swaps with Canadian chartered banks on three mortgages to fix the Company's interest rates on those mortgages. The swaps have notional amounts as at May 31, 2017 totalling \$64,705 (August 31, 2016 - \$66,279), fixed swap rates ranging from 2.92% to 3.14%, and maturity dates ranging from June 2020 to June 2021. The total notional amount of the interest rate swaps represented 31.9% as at May 31, 2017 (August 31, 2016 - 33.4%) of the total debt on investment properties (before netting of deferred financing costs and fair value adjustments to assumed debt) and bank indebtedness. The Company anticipates holding the mortgages and interest rate swap contracts until maturity.

Madison Pacific Properties Inc.

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For the Three and Nine Months Ended May 31, 2017 and May 31, 2016

(unaudited)

(expressed in thousands of Canadian dollars, except number of shares and per share amounts)

The total fair value of the interest rate swaps and net realized and unrealized (gains) losses on those contracts are as follows:

	<u>Fair value liabilities</u>		<u>Net (gains) losses on interest rate swaps</u>	
	<u>May 31, 2017</u>	<u>August 31, 2016</u>	<u>Nine months ended</u>	
	<u>\$</u>	<u>\$</u>	<u>May 31, 2017</u>	<u>May 31, 2016</u>
			<u>\$</u>	<u>\$</u>
Interest rate swaps	523	1,171	(648)	216

7. Bank indebtedness

The Company has a line of credit of up to \$20,000 (August 31, 2016 - \$20,000) bearing interest at bank prime rate plus 1% or the Bankers Acceptance rate (August 31, 2016 - bank prime rate plus 1% or the Bankers Acceptance rate) with a Canadian chartered bank. As at May 31, 2017, \$nil (August 31, 2016 - \$nil) had been drawn against this line of credit. The amount available under this line of credit varies with the fair value of investment properties pledged, up to a maximum of \$20,000. Second mortgages against certain of the Company's investment properties, assignments of rents and insurance, as well as general security agreements creating floating charges over all of the Company's assets, have been provided as security. Amounts advanced under this line of credit are repayable on demand. The line of credit agreement contains the following financial ratios that must be maintained, with which the Company was in compliance as at May 31, 2017:

- Not permit the debt service coverage ratio to be less than 1.25 to 1.00;
- Not permit the ratio of EBITDA to interest expense on all debt secured by the investment properties pledged to be less than 1.50 to 1.00;
- Not permit the aggregate amount of all outstanding borrowings secured by the investment properties pledged to exceed 65% of their appraised values; and
- Not permit the tangible net worth of the Company to be at any time less than \$125,000.

8. Share capital

Authorized and issued

The authorized share capital of the Company consists of an unlimited number of Class A non-voting preferred shares without par value, an unlimited number of Class B voting common shares without par value, and an unlimited number of Class C non-voting common shares without par value.

Madison Pacific Properties Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Three and Nine Months Ended May 31, 2017 and May 31, 2016

(unaudited)

(expressed in thousands of Canadian dollars, except number of shares and per share amounts)

The following table summarizes the issued share capital as at May 31, 2017 and August 31, 2016:

	Class B common shares		Class C common shares		Total	
	Number	Amount \$	Number	Amount \$	Number	Amount \$
Balance – May 31, 2017 and August 31, 2016	7,255,500	7,720	51,315,089	59,752	58,570,589	67,472

No shares were issued or cancelled during the nine month period ended May 31, 2017.

9. Dividends

On July 13, 2017, the Company declared a dividend of \$0.0525 per class B common share and Class C common share payable on September 7, 2017.

On January 12, 2017, the Company declared a dividend of \$0.0525 per Class B common share and Class C common share payable on February 24, 2017.

On September 6, 2016, the Company declared the payment of a special cash dividend of \$0.3415 per Class B common share and Class C common share payable on September 30, 2016 to shareholders of record on September 22, 2016.

On July 12, 2016, the Company declared a dividend of \$0.0525 per Class B common share and Class C common share payable on September 7, 2016.

On January 13, 2016, the Company declared a dividend of \$0.0525 per Class B common share and Class C common share payable on February 24, 2016.

10. Income taxes

The following table provides the components of income taxes for the nine months ended:

	May 31, 2017 \$	May 31, 2016 \$
Current income tax expense	185	157
Deferred income tax expense	4,610	5,401
	<u>4,795</u>	<u>5,558</u>

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Income taxes vary from the amount that would be expected if computed by applying the Canadian federal and provincial statutory income tax rates to the Company's income before income taxes as shown in the following table for the nine months ended:

	May 31, 2017		May 31, 2016	
	\$		\$	
Income before income taxes	43,095		35,938	
	\$	%	\$	%
Expected income taxes at statutory rates	11,237	26.1	8,867	24.7
Adjustments				
Non-taxable portion of realized and unrealized capital gains	(3,337)	(7.7)	(3,084)	(8.6)
Recognition of previously unrecognized tax assets	(730)	(1.7)	-	-
Adjustment in respect of prior years	(454)	(1.1)	-	-
Equity earnings in investee	(1,143)	(2.7)	(359)	(.07)
Other items	(778)	(1.8)	134	0.1
Income taxes	4,795	11.1	5,558	15.5

Deferred income tax liabilities comprise the following:

	May 31, 2017 \$	August 31, 2016 \$
Benefit of non-capital losses carried forward	(1,988)	(2,227)
Benefit of capital losses carried forward	(907)	(1,177)
Undeducted expenditures	(9,342)	(9,339)
Deferred income tax assets not recognized	946	946
Investment tax credits	140	-
Investment properties	29,795	25,862
Tenant improvements and leasing costs	1,231	1,268
Straight-line rental revenue in excess of base rents	808	740
	20,683	16,073

The entire change in deferred income tax liabilities for the nine months ended May 31, 2017 and year ended August 31, 2016 has been recognized in net income for those respective periods.

As at May 31, 2017, the Company has approximately \$35,846 of scientific research and development expenditures available for unlimited carry forward and approximately \$7,392 of non-capital losses which begin to expire in 2030, which may be used to reduce future Canadian income taxes otherwise payable. The company also has approximately \$7,726 of unrecognized federal investment tax credits and approximately \$174 of unrecognized provincial investment tax credits which begin to expire in 2018, and can also be carried forward to be used to reduce future Canadian income taxes otherwise payable.

Madison Pacific Properties Inc.

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The federal investment tax credits and non-capital losses expire as follows:

	Federal investment tax credits	Non-capital losses carried forward
	\$	\$
2018	317	-
2019	602	-
2020	679	-
2021	625	-
2022	880	-
2023	1,048	-
2024	934	-
2025	865	-
2026	727	-
2027	689	-
2028	360	-
2030	-	7,339
2037	-	53
	<hr/>	<hr/>
	7,726	7,392

In addition, the Company has capital losses carried forward of approximately \$6,974 which may be used to reduce future taxable capital gains in Canada and do not expire.

Contingencies

In June 2013, 1073774 Properties Inc., a subsidiary of the Company, received from the Canada Revenue Agency ("CRA") tax notices of reassessment relating to the taxation years 2008 to 2010. The reassessments deny the application and usage of non-capital losses, deductions and credits arising from years prior to 2008. The reassessments increase total taxable income by \$22,933 for the reassessed taxation years. As a result, additional taxes payable for the reassessed years, including interest, are \$8,159. The Company has filed notices of objection to the reassessments with the CRA and subsequently a notice of appeal to the Tax Court of Canada. To object to the reassessments, the Company was required to make a deposit of \$3,375 for a portion of the taxes and interest the CRA has claimed are owed. The Company made this deposit in July 2013 and it is included in other non-current assets. Additional interest accruing on the unpaid portion of the reassessments was approximately \$954 as at May 31, 2017.

The Company has received from the CRA tax notices of reassessment relating to the 2009, 2011, 2013 and 2016 taxation years. The reassessments deny the application and usage of capital losses arising from years prior to 2009. The reassessments increase total taxable income by \$13,911 for the reassessed taxation years. In addition, the CRA is disallowing unused carry-forward capital losses of \$9,824. As a result, additional taxes payable for the reassessed years, including interest, are \$4,371. The Company has filed notices of objection to the reassessments with the CRA and subsequently a notice of appeal to the Tax Court of Canada. To object to the reassessments, the Company was required to make deposits totalling \$2,261 for a portion of the taxes and interest the CRA has claimed are owed. The Company has made such deposits which are

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included in other non-current assets. Additional interest accruing on the unpaid portion of the reassessments was approximately \$299 as at May 31, 2017.

Metro has received from the CRA and Alberta Tax and Revenue Administration (“ATRA”) tax notices of reassessment for the taxation years 2011 to 2016. The reassessments deny the application and usage of non-capital losses, capital losses and investment tax credits arising from prior years. The reassessments increase total taxable income by \$33,386 for the taxation years 2011 to 2016. In addition, the CRA and ATRA are disallowing unclaimed carry-forward losses of \$11,378, carry-forward scientific research and development expenditures of \$35,846, and investment tax credits of \$7,726. As a result, additional taxes payable for the reassessed years, including interest, are \$10,414. The Company has filed notices of objection to the reassessments with the CRA and ATRA. To object to the reassessments, the Company was required to make deposits totalling \$5,241 for a portion of the taxes and interest the CRA and ATRA have claimed are owed. The Company made these deposits and they are included in other non-current assets. Additional interest accruing on the unpaid portion of the reassessments was approximately \$302 as at May 31, 2017.

The Company and its counsel believe that its filing positions for the companies described above are appropriate and in accordance with the law. It intends to vigorously defend such positions as required. Accordingly, the Company has not recorded a liability in these consolidated financial statements for the reassessed taxes payable and related interest described above nor has it reduced the carrying value of deferred income tax assets recorded for unused carry-forward amounts. If the Company is ultimately successful in defending its positions, deposits made plus applicable interest will be refunded to the Company. There is no assurance that the Company’s objections and appeals will be successful. If the CRA and ATRA are successful, the Company will be required to pay the balance of taxes reassessed plus applicable interest and derecognize deferred income tax assets related to the carry-forward amounts.

11. Income per share

	Nine months ended		Three months ended	
	May 31, 2017	May 31, 2016	May 31, 2017	May 31, 2016
Net income attributable to shareholders of the Company	\$37,454	\$28,399	\$12,179	\$15,221
Weighted average number of common shares outstanding	58,570,589	58,570,589	58,570,589	58,570,589
Basic and diluted income per share	\$0.64	\$0.48	\$0.21	\$0.26

12. Related party transactions

The following transactions occurred in the normal course of operations and are measured at the exchange amounts, which are the amounts agreed upon by the related parties.

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a. Transactions and balances with related parties

On May 25, 2017, the Company acquired 309,838 shares for \$1,199 in its equity investee, Grant Street Properties Inc. ("GSP"). The Company has an ownership interest of 34.29% in GSP.

The Company has engaged the services of a landscaping company owned by a related party. During the nine months ended May 31, 2017, landscaping and maintenance expenses paid to this company were \$140 (nine months ended May 31, 2016 - \$186).

b. Transactions and balances with affiliates

During the nine months ended May 31, 2017, rental revenues of \$1,409 (nine months ended May 31, 2016 - \$1,380) were received from tenants that are companies controlled by a shareholder of the Company.

During the nine months ended May 31, 2017, the Company paid management consulting fees of \$64 to a shareholder and a party related to a shareholder of the Company (nine months ended May 31, 2016 - \$109).

The Company has provided a limited guarantee of \$16,830 on the MT Properties LP mortgage debt. During the nine months ended May 31, 2017, a guarantee fee of \$39 (nine months ended May 31, 2016 - \$39) was paid to the Company.

c. Transactions and balances with joint ventures

On October 4, 2016, the Company assigned its interest in a loan receivable of \$12,650 due from a 50% related joint venture, to Madison Venture Corporation, a significant shareholder of the Company and a partner in the joint venture, for consideration of \$15,500, resulting in a gain on disposition of the loan receivable of \$2,850.

d. Key management personnel

Key management personnel include the Company's directors and officers. The following table summarizes compensation awarded to key management personnel for the nine months ended:

	May 31, 2017	May 31, 2016
	\$	\$
Salaries and short-term employee benefits	857	846
Stock-based compensation	46	92
	<u>903</u>	<u>938</u>

13. Segment information

The Company's chief executive officer and chief financial officer examined the Company's performance and have concluded that the Company has one reportable segment - that being the rental of office, industrial, and

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commercial real estate properties located in Canada. Although properties are in different Canadian regions and in different asset classes, they have reasonably similar returns and risks.

14. Capital management

The primary objective of the Company's capital management is to ensure that it maintains adequate capital resources in order to support its business and maximize shareholder value. The Company manages its capital structure with the goal of minimizing risk to the stability of cash flows from properties. Other goals include maintaining debt service coverage, interest coverage, and debt to equity ratios as well as maintaining minimum amounts of shareholders' equity as required by the Company's line of credit agreement. The Company's capital includes mortgage loans, construction loans, a line of credit, and equity.

The Company's principal source of financing is from mortgage loans. The ability to obtain a mortgage loan is dependent on the value of a specific property and the cash flows the property generates and the availability of funds from time to time from lending institutions. The Company expects to renew mortgage loans as they become due.

There have been no changes in the Company's approach to capital management in the nine months ended May 31, 2017.

The calculation of the total capital, excluding the undrawn line of credit, is summarized as follows:

	May 31, 2017	August 31, 2016
	\$	\$
Fixed rate mortgage loans	195,048	195,203
Variable rate mortgages and construction loans	7,655	3,386
Balance drawn on line of credit	-	-
	<hr/> 202,703	<hr/> 198,589
Equity	<hr/> 264,150	<hr/> 249,727
	<hr/> <hr/> 466,853	<hr/> <hr/> 448,316