

# **Madison Pacific Properties Inc.**

Condensed Interim Consolidated Financial Statements  
For the Three and Six Months Ended February 28, 2018 and 2017

(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.

April 11, 2018

# Madison Pacific Properties Inc.

## Interim Consolidated Balance Sheets

As at February 28, 2018 and August 31, 2017

(unaudited)

(expressed in thousands of Canadian dollars)

	February 28, 2018 \$	August 31, 2017 \$
<b>Assets</b>		
<b>Non-current assets</b>		
Investment properties (note 4)	492,983	476,714
Other non-current assets	24,398	22,930
	<u>517,381</u>	<u>499,644</u>
<b>Current assets</b>		
Cash and cash equivalents	2,329	11,237
Amounts receivable and other current assets	25,184	3,193
Income taxes receivable (note 10)	227	215
Assets held for sale (notes 4 and 5)	-	3,830
	<u>27,740</u>	<u>18,475</u>
<b>Total assets</b>	<u>545,121</u>	<u>518,119</u>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Debt on investment properties (note 6)	175,800	165,285
Deferred income tax liabilities (note 10)	28,081	23,087
	<u>203,881</u>	<u>188,372</u>
<b>Current liabilities</b>		
Current portion of debt on investment properties (note 6)	26,868	35,881
Accounts payable and accrued liabilities	5,973	8,107
	<u>32,841</u>	<u>43,988</u>
<b>Total liabilities</b>	<u>236,722</u>	<u>232,360</u>
<b>Equity</b>		
<b>Equity attributable to shareholders of the Company</b>		
Share capital (note 8)	67,472	67,472
Contributed surplus	1,104	1,093
Retained earnings	229,823	208,051
	<u>298,399</u>	<u>276,616</u>
<b>Non-controlling interests</b>	<u>10,000</u>	<u>9,143</u>
<b>Total equity</b>	<u>308,399</u>	<u>285,759</u>
<b>Total liabilities and equity</b>	<u>545,121</u>	<u>518,119</u>

Approved by the Board of Directors

“Sam Grippo” Director

“Marvin Haasen” 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 Six Months Ended February 28, 2018 and 2017

(unaudited)

(expressed in thousands of Canadian dollars)

	Attributable to shareholders of the Company			Total \$	Non- controlling interests \$	Total equity \$
	Share capital \$	Contributed surplus \$	Retained earnings \$			
<b>Balance – August 31, 2016</b>	67,472	1,037	181,218	249,727	7,545	257,272
Stock-based compensation	-	34	-	34	-	34
Net income and comprehensive income	-	-	25,275	25,275	655	25,930
Dividends (note 9)	-	-	(23,077)	(23,077)	-	(23,077)
Distributions to non-controlling interests	-	-	-	-	(156)	(156)
<b>Balance – February 28, 2017</b>	67,472	1,071	183,416	251,959	8,044	260,003
<b>Balance – August 31, 2017</b>	67,472	1,093	208,051	276,616	9,143	285,759
Stock-based compensation	-	11	-	11	-	11
Net income and comprehensive income	-	-	24,847	24,847	1,109	25,956
Dividends (note 9)	-	-	(3,075)	(3,075)	-	(3,075)
Distributions to non-controlling interests	-	-	-	-	(252)	(252)
<b>Balance – February 28, 2018</b>	67,472	1,104	229,823	298,399	10,000	308,399

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 Six Months Ended February 28, 2018 and 2017

(unaudited)

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

	Six Months Ended		Three Months Ended	
	February 28, 2018	February 28, 2017	February 28, 2018	February 28, 2017
	\$	\$	\$	\$
Property revenues (note 12)	15,992	15,205	8,145	7,744
Property operating expenses (note 12)	4,404	4,114	2,371	2,200
	<u>11,588</u>	<u>11,091</u>	<u>5,774</u>	<u>5,544</u>
General and administrative expenses (note 12)	1,352	1,259	671	627
	<u>10,236</u>	<u>9,832</u>	<u>5,103</u>	<u>4,917</u>
Net gain on fair value adjustment on investment properties	22,251	15,485	13,164	10,329
Equity earnings of associate	1,503	3,123	1,501	1,760
	<u>33,990</u>	<u>28,440</u>	<u>19,768</u>	<u>17,006</u>
Interest income	84	83	57	36
Interest expense	3,747	3,502	1,948	1,745
Gains on fair value adjustment on interest rate swaps and disposition of loan receivable (note 6)	739	3,688	570	177
	<u>31,066</u>	<u>28,709</u>	<u>18,447</u>	<u>15,474</u>
Income before income taxes	31,066	28,709	18,447	15,474
Income taxes (note 10)	5,110	2,779	2,526	937
	<u>25,956</u>	<u>25,930</u>	<u>15,921</u>	<u>14,537</u>
Net income and comprehensive income	<u>25,956</u>	<u>25,930</u>	<u>15,921</u>	<u>14,537</u>
<b>Net income and comprehensive income attributable to:</b>				
Shareholders of the Company	24,847	25,275	15,088	14,233
Non-controlling interests	1,109	655	833	304
	<u>25,956</u>	<u>25,930</u>	<u>15,921</u>	<u>14,537</u>
<b>Income per share (note 11)</b>	<b>\$0.42</b>	<b>\$0.43</b>	<b>\$0.26</b>	<b>\$0.24</b>

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

**Madison Pacific Properties Inc.**  
**Interim Consolidated Statements of Cash Flows**  
For the Six Months Ended February 28, 2018 and 2017  
(unaudited)

(expressed in thousands of Canadian dollars)

	<b>February 28, 2018</b>	<b>February 28, 2017</b>
	\$	\$
<b>Cash flows from operating activities</b>		
Net income	25,956	25,930
Items not affecting cash		
Net gain on fair value adjustment on investment properties	(22,251)	(15,485)
Amortization	492	437
Equity earnings of associate	(1,503)	(3,123)
Stock-based compensation	11	34
Gains on fair value adjustment on interest rate swaps and disposition of loan receivable	(739)	(3,688)
Recognition of rental revenue on a straight-line basis	(73)	(160)
Deferred income taxes	4,998	2,501
	<u>6,891</u>	<u>6,446</u>
Increase in amounts receivable and other assets	(1,767)	(1,566)
(Increase) decrease in income taxes receivable	(12)	182
Increase in accounts payable and accrued liabilities	1,967	3,218
	<u>7,079</u>	<u>8,280</u>
<b>Cash flows used by investing activities</b>		
Acquisition of investment properties	(14,757)	(14,831)
Additions to investment properties and property development costs	(1,038)	(1,550)
Other investment property expenditures	(450)	(220)
Net proceeds from disposition of investment properties	5,176	-
Proceeds from disposition or repayment of loans receivable, net	36	12,676
	<u>(11,033)</u>	<u>(3,925)</u>
<b>Cash flows used by financing activities</b>		
Net proceeds from debt on investment properties (note 6)	18,760	9,762
Repayment of debt on investment properties (note 6)	(17,312)	(9,456)
Distributions to non-controlling interests	(252)	(156)
Dividends paid	(6,150)	(26,152)
	<u>(4,954)</u>	<u>(26,002)</u>
Decrease in cash and cash equivalents	(8,908)	(21,647)
Cash and cash equivalents - beginning of period	11,237	33,427
Cash and cash equivalents - end of period	<u>2,329</u>	<u>11,780</u>
<b>Supplemental cash flow information</b>		
Interest received	115	87
Interest paid	3,721	3,535

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 Six Months Ended February 28, 2018 and 2017

(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 6<sup>th</sup> Avenue, Vancouver, British Columbia, V5Y 1L1, and its registered office is located at 25<sup>th</sup> 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 six months ended February 28, 2018 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, 2017, 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, 2017 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 April 11, 2018.

#### 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.

## Notes to the Condensed Interim Consolidated Financial Statements

For the Six Months Ended February 28, 2018 and 2017

(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., Madison Silverdale Developments Corp., Madison Developments 2800 Barnet 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., Madison Silverdale Developments Corp. and a 99.8% interest in Metro which holds a 100% interest in the MPW Properties Partnership, 801325 B.C. Ltd., and Madison Developments 2800 Barnet 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.

## Notes to the Condensed Interim Consolidated Financial Statements

For the Six Months Ended February 28, 2018 and 2017

(unaudited)

---

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

- Associates are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

### 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, 2017.

### 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, but does not expect the new standard to have a significant effect 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, but does not expect the new standard to have a significant effect 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 of the effect, if any, of IFRS 16, but does not expect the new standard to have a significant effect on its consolidated financial statements.

In June 2017, the IASB issued IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments*, to clarify the application of recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on or after January 1, 2019, with early application permitted. The Company has not completed its assessment of the effect, if any, of this interpretation on its consolidated financial statements.

# Madison Pacific Properties Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

For the Six Months Ended February 28, 2018 and 2017

(unaudited)

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

### 4. Investment properties

	<b>Six months ended February 28, 2018 \$</b>	<b>Year ended August 31, 2017 \$</b>
Balance at beginning of period	480,544	416,587
Additions:		
Acquisitions (note 4(b))	14,757	20,085
Other additions	916	3,267
Dispositions (note 4(c))	(23,330)	-
Recognition of rental revenue on a straight-line basis	69	303
Tenant improvements	131	606
Amortization of tenant improvements	(312)	(615)
Leasing commissions	154	238
Amortization of leasing commissions	(126)	(224)
Net gain on fair value adjustment	20,180	40,297
	<u>492,983</u>	<u>480,544</u>
Assets held for sale (note 5)	-	(3,830)
	<u>492,983</u>	<u>476,714</u>

#### 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

On December 11, 2017, the Company acquired through its interest in the Silverdale Hills Limited Partnership, a 50% interest in 459 acres of undeveloped residential land in Mission, British Columbia for \$14,757 (note 12(b)).

For the year ended August 31, 2017, the Company acquired \$20,085 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 Six Months Ended February 28, 2018 and 2017

(unaudited)

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

### c. Investment property dispositions

For the six months ended February 28, 2018, the Company sold one industrial property and a 50% interest in a commercial property, both located in British Columbia for total proceeds of \$24,676. Concurrent with the sale of a 50% interest in the commercial property, the Company entered into a 50/50 joint venture with a residential developer to rezone and redevelop the property for residential and commercial use. Rezoning and redevelopment of the property is subject to receipt of all necessary approvals, none of which are certain.

For the year ended August 31, 2017, the Company had no dispositions of investment properties.

### d. Sensitivity

The following table provides a sensitivity analysis for the weighted average capitalization rate applied at February 28, 2018, excluding properties under development:

Capitalization rate increase (decrease)	Weighted average capitalization rate	Fair value of investment properties (at Company's ownership) \$	Fair value variance \$	% change
(0.75%)	3.87%	564,144	100,831	21.8%
(0.50%)	4.16%	524,943	61,660	13.3%
(0.25%)	4.44%	491,868	28,585	6.2%
February 28	4.72%	463,283	-	-
0.25%	4.99%	438,190	(25,093)	(5.4%)
0.50%	5.26%	415,906	(47,377)	(10.2%)
0.75%	5.52%	395,939	(67,344)	(14.5%)

## 5. Assets held for sale

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 February 28, 2018, no investment properties were classified as held for sale.

As at August 31, 2017, the Company classified one industrial investment property located in British Columbia as held for sale.

# Madison Pacific Properties Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

For the Six Months Ended February 28, 2018 and 2017

(unaudited)

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

### 6. Debt on investment properties

	<b>Six months ended February 28, 2018 \$</b>	<b>Year ended August 31, 2017 \$</b>
Balance at beginning of period	201,166	198,258
Net proceeds from debt issuances	18,760	19,383
Amortization of deferred financing costs	115	197
Amortization of acquisition date fair value adjustments on assumed debt	(61)	(165)
Repayment of debt	(17,312)	(16,507)
	<hr/>	<hr/>
Balance at end of period	202,668	201,166
Less: current portion	26,868	35,881
Non-current portion	<hr/> <u>175,800</u>	<hr/> <u>165,285</u>

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), \$199,396 (August 31, 2017 - \$193,381) bears interest at fixed rates ranging from 2.40% to 5.68% (August 31, 2017 - 2.40% to 5.68%) per annum and \$3,759 (August 31, 2017 - \$8,220) bears interest at bank prime rate plus 0.70% to 0.75% (August 31, 2017 - 0.70% to 1.25%) per annum. The weighted average interest rate on fixed rate debt as at February 28, 2018 was 3.54% (August 31, 2017 - 3.58%).

#### Interest rate swaps

The Company has entered into interest rate swaps with Canadian chartered banks on four mortgages to fix the Company's interest rates on those mortgages. The swaps had notional amounts as at February 28, 2018 totalling \$65,787 (August 31, 2017 - \$64,173), fixed swap rates ranging from 2.92% to 3.90%, and maturity dates ranging from June 2020 to September 2022. The total notional amount of the interest rate swaps represented 32.4% as at February 28, 2018 (August 31, 2017 - 31.8%) of the total debt on investment properties (before netting of deferred financing costs and fair value adjustments on assumed debt) and bank indebtedness. The Company anticipates holding the mortgages and interest rate swap contracts until maturity.

# Madison Pacific Properties Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

For the Six Months Ended February 28, 2018 and 2017

(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 unrealized gains on those contracts are as follows:

	Fair value assets		Net unrealized gains on interest rate swaps	
	February 28, 2018	August 31, 2017	February 28, 2018	February 28, 2017
Interest rate swaps	\$ 1,290	\$ 548	\$ 739	\$ 838

### 7. Bank indebtedness

The Company has a line of credit of up to \$20,000 (August 31, 2017 - \$20,000) bearing interest at bank prime rate plus 1% or the Bankers Acceptance rate (August 31, 2017 - bank prime rate plus 1% or the Bankers Acceptance rate) with a Canadian chartered bank. As at February 28, 2018, \$nil (August 31, 2017 - \$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 February 28, 2018:

- 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 Six Months Ended February 28, 2018 and 2017

(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 February 28, 2018 and August 31, 2017:

	Class B common shares		Class C common shares		Total	
	Number	Amount \$	Number	Amount \$	Number	Amount \$
Balance – February 28, 2018 and August 31, 2017	7,255,500	7,720	51,315,089	59,752	58,570,589	67,472

No shares were issued or cancelled during the six month period ended February 28, 2018.

### 9. Dividends

On January 11, 2018, the Company declared a dividend of \$0.0525 per Class B common share and Class C common share payable on February 22, 2018.

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.

### 10. Income taxes

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

	February 28, 2018 \$	February 28, 2017 \$
Current income tax expense	112	278
Deferred income tax expense	4,998	2,501
	<u>5,110</u>	<u>2,779</u>

## Madison Pacific Properties Inc.

### Notes to the Condensed Interim Consolidated Financial Statements

For the Six Months Ended February 28, 2018 and 2017

(unaudited)

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

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 six months ended:

	February 28, 2018		February 28, 2017	
	\$		\$	
Income before income taxes	31,066		28,709	
	\$	%	\$	%
Expected income taxes at statutory rates	8,199	26.4	7,469	26.0
Adjustments				
Non-taxable portion of realized and unrealized capital gains	(2,708)	(8.7)	(2,018)	(7.0)
Recognition of previously unrecognized tax assets	(428)	(1.4)	(730)	(2.6)
Adjustment in respect of prior years	(60)	(0.2)	(482)	(1.8)
Effect of future income tax rate increases	863	2.8	-	-
Equity earnings in investee	(396)	(1.3)	(812)	(2.8)
Other items	(360)	(1.1)	(648)	(2.3)
Income taxes	5,110	16.5	2,779	9.5

Deferred income tax liabilities comprise the following:

	February 28, 2018	August 31, 2017
	\$	\$
Benefit of non-capital losses carried forward	(534)	(1,507)
Benefit of capital losses carried forward	(942)	(907)
Undeducted expenditures	(4,937)	(9,342)
Deferred income tax assets not recognized	946	946
Investment tax credits	-	140
Investment properties	31,407	31,667
Tenant improvements and leasing costs	1,274	1,269
Straight-line rental revenue in excess of base rents	867	821
	28,081	23,087

The entire change in deferred income tax liabilities for the six months ended February 28, 2018 and year ended August 31, 2017 has been recognized in net income for those respective periods.

As at February 28, 2018, the Company has approximately \$18,294 of scientific research and development expenditures available for unlimited carry forward and approximately \$1,572 of non-capital losses which begin to expire in 2037, which may be used to reduce future Canadian income taxes otherwise payable. The Company also has approximately \$7,409 of unrecognized federal investment tax credits which begin to expire in 2019, and can also be carried forward to be used to reduce future Canadian income taxes otherwise payable.

# Madison Pacific Properties Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

For the Six Months Ended February 28, 2018 and 2017

(unaudited)

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

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

	<b>Federal investment tax credits</b>	<b>Non-capital losses carried forward</b>
	\$	\$
2019	602	-
2020	679	-
2021	625	-
2022	880	-
2023	1,048	-
2024	934	-
2025	865	-
2026	727	-
2027	689	-
2028	360	-
2037	-	416
2038	-	1,156
	<hr/>	<hr/>
	7,409	1,572

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

The Company and certain subsidiaries have received from the Canada Revenue Agency (“CRA”) and Alberta Tax and Revenue Administration (“ATRA”) tax notices of reassessment for various taxation years. The reassessments deny the application and usage of certain non-capital losses, capital losses, deductions and investment tax credits arising from prior years. In addition, the CRA and ATRA are disallowing unclaimed carry-forward non-capital losses of \$5,326, carry-forward capital losses of \$6,974, carry-forward scientific research and development expenditures of \$35,381, and investment tax credits of \$7,758. As a result, additional taxes payable for the reassessed years, including interest, total \$25,430. The Company and its subsidiaries have filed notices of objection to the reassessments with the CRA and ATRA. To object to the reassessments, the Company and its subsidiaries were required to make deposits totalling \$12,123 for a portion of the taxes and interest the CRA and ATRA have claimed are owed. The Company and its subsidiaries have made these deposits and they are included in other non-current assets. Additional estimated interest accruing on the unpaid portion of the reassessments was approximately \$2,006 as at February 28, 2018.

The Company and its counsel believe that its filing positions for the Company and subsidiaries 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.

# Madison Pacific Properties Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

For the Six Months Ended February 28, 2018 and 2017

(unaudited)

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

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

	Six months ended		Three months ended	
	February 28, 2018 \$	February 28, 2017 \$	February 28, 2018 \$	February 28, 2017 \$
Net income attributable to shareholders of the Company	24,847	25,275	15,088	14,233
Weighted average number of common shares outstanding	<u>58,570,589</u>	<u>58,570,589</u>	<u>58,570,589</u>	<u>58,570,589</u>
Basic and diluted income per share	<u>\$0.42</u>	<u>\$0.43</u>	<u>\$0.26</u>	<u>\$0.24</u>

### 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.

#### a. Transactions and balances with related parties

The Company has engaged the services of a landscaping company owned by a related party. During the six months ended February 28, 2018, landscaping and maintenance expenses paid to this company were \$147 (six months ended February 28, 2017 - \$83).

#### b. Transactions and balances with affiliates

During the six months ended February 28, 2018, the Company engaged the services of an electrical contractor controlled by a shareholder of the Company for which it paid fees of \$10 (six months ended February 28, 2017 - \$nil).

During the six months ended February 28, 2018, rental revenues of \$1,054 (six months ended February 28, 2017 - \$950) were received from tenants that are companies controlled by a shareholder of the Company.

During the six months ended February 28, 2018, the Company paid management consulting fees of \$20 to a shareholder and a party related to a shareholder of the Company (six months ended February 28, 2017 - \$78).

The Company has provided a limited guarantee of \$16,830 on the MT Properties LP mortgage debt. During the six months ended February 28, 2018, a guarantee fee of \$26 (six months ended February 28, 2017 - \$26) was paid to the Company.

# Madison Pacific Properties Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

For the Six Months Ended February 28, 2018 and 2017

(unaudited)

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

On December 11, 2017, the Company acquired through its interest in the Silverdale Hills Limited Partnership, a 50% interest in 459 acres of undeveloped residential land in Mission, British Columbia for \$14,757. The vendor in the transaction is a party related to a significant shareholder of the Company.

### 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 six months ended:

	February 28, 2018	February 28, 2017
	\$	\$
Salaries and short-term employee benefits	584	581
Stock-based compensation	10	34
	<u>594</u>	<u>615</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 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 six months ended February 28, 2018.

## **Madison Pacific Properties Inc.**

### Notes to the Condensed Interim Consolidated Financial Statements

For the Six Months Ended February 28, 2018 and 2017

(unaudited)

---

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

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

	<b>February 28, 2018</b>	<b>August 31, 2017</b>
	\$	\$
Fixed rate mortgage loans	199,396	193,381
Variable rate mortgages and construction loans	3,759	8,220
	<u>203,155</u>	<u>201,601</u>
Equity	298,399	276,616
	<u>501,554</u>	<u>478,217</u>