

MADISON PACIFIC PROPERTIES INC.

MANAGEMENT DISCUSSION AND ANALYSIS

(as of July 11, 2019)

(\$000's)

Overview

Madison Pacific Properties Inc. (“Madison” or the “Company”) is in the business of acquiring, developing and managing revenue producing office, industrial, and commercial real estate properties located in British Columbia, Alberta, and Ontario.

The following table shows the leasable area and base annual rent (except for properties under development) as of July 11, 2019, for the three real estate income property portfolios held by Madison:

Province	Area and Rent ^{(1), (2)}	(in 000's except for leasable area)			
		Industrial	Retail/highway-commercial	Office	Total
British Columbia	Leasable area (sq. ft.)	1,248,136	120,559	116,689	1,485,384
	Base annual rent (\$)	14,191	2,708	4,171	21,070
Alberta	Leasable area (sq. ft.)	269,036	-	-	269,036
	Base annual rent (\$)	2,640	-	-	2,640
Ontario	Leasable area (sq. ft.)	63,030	-	-	63,030
	Base annual rent (\$)	444	-	-	444
Total	Leasable area (sq. ft.)	1,580,202	120,559	116,689	1,817,450
	Base annual rent (\$)	17,275	2,708	4,171	24,154

- (1) Leasable area includes 100% of the total leasable area of properties in the MT Properties Limited Partnership of which the Company holds a 60.9% interest, 50% of the total leasable area of joint operations that are proportionally consolidated (at 50%) for financial statement purposes and 50% of the total leasable area of the property in the 2798 Barnet Development Limited Partnership, which is accounted for using the equity method.
- (2) Base annual rent is rent excluding recoveries for operating costs and property taxes and rents based on tenant revenue.

Basis of Discussion and Analysis

This management discussion and analysis (“MD&A”) of the consolidated financial condition of Madison as of May 31, 2019 and the results of its operations for the nine months ended May 31, 2019 was prepared as of July 11, 2019. The MD&A should be read in conjunction with the Company’s unaudited condensed interim consolidated financial statements and accompanying notes for the nine months ended May 31, 2019 and the audited consolidated financial statements and accompanying notes to the consolidated financial statements and MD&A for the year ended August 31, 2018.

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

The condensed interim consolidated financial statements include the operating results of Madison, its subsidiaries, and on a proportional basis, the accounts of its joint operations. All financial information is presented in Canadian dollars.

Forward-Looking Statements

This MD&A contains forward-looking statements regarding the future success of Madison's business that are subject to risk and uncertainties. Forward-looking information typically contains statements with words such as "expect", "believe", "plan", "forecast", "intend" or similar words suggesting future outcomes. Examples of such forward-looking statements include statements regarding the Company's expectation to renew mortgage loans as they become due; the estimated amount of potential tax reassessments; the Company's belief that loan facilities together with funds on hand and cash generated from operations should provide adequate liquidity and sufficient funds to pay for potential tax reassessments; the Company's expectation to renew all credit facilities maturing in fiscal 2019 at interest rates and with terms comparable to those currently in place; the Company's expectation to hold interest rate swap contracts and the related floating rate mortgages until maturity; the Company's belief that there will be sufficient future taxable income to utilize income tax losses and undeducted expenditures; and the Company's belief that the recoverability of unrecognized investment tax credits is still in doubt. The material factors and assumptions used to develop forward-looking information include the current level of interest rates in the market, current relationships with the Company's lenders, current capitalization rates and long-term lease agreements supporting income expectations to utilize tax losses.

These forward-looking statements involve known and unknown risks and uncertainties that may cause Madison's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied in these forward-looking statements. These risks include risks related to the real estate industry generally such as, changes in interest rates, demand for office, industrial, and commercial rentals, illiquidity of real estate investments, non-renewal of tenant leases, fluctuation in real estate values, geographic concentration of the business, environmental matters and uninsured losses and income tax risk including reassessment and the sufficiency of taxable income to utilize losses. Although the forward-looking statements contained herein are based upon what management believes to be current and reasonable assumptions, Madison cannot assure readers that actual results will be consistent with these forward-looking statements. The forward-looking statements contained herein are made as of the date of this MD&A and are expressly qualified in their entirety by this cautionary statement. Except as required by law, the Company undertakes no obligation to publicly update or revise any such forward-looking statements to reflect any change in its expectations or in events, conditions or circumstances on which any such forward-looking statements may be based, or that may affect the likelihood that actual results will differ from those set forth in the forward-looking statements.

Selected Financial Information

The following table provides selected financial information as at and for the three and nine months ended:

(in \$000's except per share amounts)	Nine months ended		Three months ended	
	May 31, 2019	May 31, 2018	May 31, 2019	May 31, 2018
Property revenues	23,111	23,574	7,759	7,582
Property operating expenses	6,542	6,410	2,236	2,006
General and administrative expenses	2,438	2,196	774	844
Net gain on fair value adjustment on investment properties	19,687	27,905	5,693	5,654
Equity earnings of associate and joint ventures	1,129	1,504	75	1
Interest income	874	321	282	237
Interest expense	5,923	5,698	2,014	1,951
(Losses) gains on fair value adjustment on interest rate swaps	(941)	715	(385)	(24)
Income before income taxes	28,957	39,715	8,400	8,649
Income taxes	4,533	6,606	1,278	1,496
Net income and comprehensive income	24,424	33,109	7,122	7,153
Net income and comprehensive income attributable to the shareholders of the Company	23,457	31,759	6,789	6,912
Income per share	\$0.40	\$0.54	\$0.12	\$0.12
Total assets	617,836	571,872	617,836	571,872
Non-current financial liabilities	199,963	181,719	199,963	181,719
Total debt on investment properties	231,360	220,840	231,360	202,840
Dividends per share	\$0.0525	\$0.0525	\$0.00	\$0.00

Results of Operations

The following discussion highlights the significant activities that have occurred from the beginning of the comparative nine months period ended May 31, 2018 and up to the date of this MD&A:

Investment property acquisitions:

For the nine months ended May 31, 2019, the Company had no acquisitions of investment properties.

Investment property dispositions:

For the nine months ended May 31, 2019, the Company had no dispositions of investment properties.

For the year ended August 31, 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. The Company's 50% interest retained in the investment property was transferred to the 2798 Barnet Development Limited Partnership (the "Barnet LP") in the year ended August 31, 2018 and is accounted for as an investment in joint venture using the equity method. Rezoning and redevelopment of the property is subject to receipt of all necessary approvals, none of which are certain as of the date of this MD&A.

Operating results:

Property revenues: Property revenues include rental revenue, and property and project management revenue. Property revenues for the nine months ended May 31, 2019 decreased by 2.0% compared to the nine months ended May 31, 2018, due to lower project management fees, the disposition of the Company's 50% interest in a commercial property located at 2800 Barnet Highway, Coquitlam in fiscal 2018, and the accounting for revenue of the Company's remaining 50% interest in the property in the Barnet LP using the equity method.

Excluding committed space, properties under development, and properties held for sale, vacancies were 1.09% as at May 31, 2019 and 1.13% as at May 31, 2018. Vacancies were 1.09% as of the date of this MD&A.

Property operating expenses: Property operating expenses for the nine months ended May 31, 2019 were comparable to the nine months ended May 31, 2018.

General and administrative expenses: General and administrative expenses were \$2,438 for the nine months ended May 31, 2019, an increase of \$242 compared to the nine months ended May 31, 2018. The increase for the current period is primarily attributable to an increase in compensation costs from the addition of staff and overall wage increases, and higher professional fees.

Net gain on fair value adjustment on investment properties: Net gain on fair value adjustment on investment properties was \$19,687 for the nine months ended May 31, 2019. 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 valuation specialists. 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 gain for the nine months ended May 31, 2019 is primarily attributable to a reduction in capitalization rates on some industrial and office assets in Metro Vancouver and lease rate increases on some investment properties.

The table below provides the average capitalization rates (excluding properties under development) and the ranges for each market category as at May 31, 2019 as it relates to the Metro Vancouver market where 79% of the Company's properties are located.

	Company average cap rate	Market range
Industrial	4.37%	3.75% to 5.00%
Retail/highway-commercial	5.16%	3.50% to 4.75%
Office	4.15%	3.25% to 4.75%

The following table provides a sensitivity analysis for the weighted average capitalization rate applied at May 31, 2019, except for 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%)	3.78%	596,674	108,344	22.2%
(0.50%)	4.07%	554,150	65,820	13.5%
(0.25%)	4.34%	518,787	30,457	6.2%
May 31	4.61%	488,330	-	-
0.25%	4.88%	461,609	(26,721)	(5.5%)
0.50%	5.15%	437,878	(50,452)	(10.3%)
0.75%	5.41%	416,610	(71,720)	(14.7%)

Equity earnings of associate and joint ventures: Equity earnings of the associate, Grant Street Properties Inc., for the nine months ended May 31, 2019 was \$945 compared to \$1,504 for the nine months ended May 31, 2018. The decrease in equity earnings is primarily attributable to lower fair value adjustments on investment properties compared to the prior period. Equity earnings of the Barnet LP and the Silverdale Hills Limited Partnership ("Silverdale Hills LP") joint ventures was \$184 for the nine months ended May 31, 2019.

Interest income: For the nine months ended May 31, 2019, the Company earned interest income from surplus cash of \$874 compared to \$321 for the nine months ended May 31, 2018. The increase in interest income was due primarily to an increase in cash on hand.

Interest expense: The increase in interest expense by \$225 for the nine months ended May 31, 2019 compared to the nine months ended May 31, 2018 is due primarily to a higher average balance of debt on investment properties compared to the prior period.

(Losses) gains on fair value adjustment on interest rate swaps: The losses on the fair value adjustment on interest rate swaps for the nine months ended May 31, 2019 of \$941 relate to the total net unrealized losses for the period on four interest rate swaps with a total notional amount of \$62,935. The losses are attributable to declining interest rates since August 31, 2018 and the decreasing term to maturity of the related loans. For the nine months ended May 31, 2018, the Company had gains on the fair value adjustment on interest rate swaps of \$715. The Company mitigates some interest rate risk by entering into fixed rate interest rate swaps on some of its mortgages.

Income taxes: Income tax expense was \$4,533 for the nine months ended May 31, 2019 and \$6,606 for the nine months ended May 31, 2018. The decrease in income tax expense compared to the prior period is partially due to lower income in the current period and partially due to the recognition of higher deferred income tax liabilities in the prior period resulting from a 1% increase in corporate income tax rates in British Columbia in 2018. A reconciliation of the income tax provision can be found in note 11 of the consolidated financial statements.

Net income and comprehensive income: The overall decrease in net income and comprehensive income for the nine months ended May 31, 2019 compared to the nine months ended May 31, 2018 is explained in the analysis provided above.

Operating capital: Madison funds its current operations from its cash flows from operating activities, mortgages, construction loans and a bank line of credit. For the nine months ended May 31, 2019,

Madison generated \$9,463 of cash flows from continuing operations (before changes in non-cash balances). Madison has a \$20,000 operating line of credit with a Canadian chartered bank. The Company and its subsidiaries had collectively drawn \$nil on the line of credit as at May 31, 2019 (August 31, 2018 - \$nil). Madison has been able to obtain new mortgage financing and renew its existing mortgages at interest rates and on terms comparable to fiscal 2018.

Summary of Quarterly Results (in \$000's except per share amounts)

Quarter ended	Property revenues	Net gain on fair value adjustment on investment properties	Net income and comprehensive income	Net income attributable to shareholders of the Company	Income per share attributable to shareholders of the Company
August 31, 2017	7,682	14,683	16,771	15,531	\$0.27
November 30, 2017	7,847	9,087	10,035	9,759	\$0.17
February 28, 2018	8,145	13,164	15,921	15,088	\$0.26
May 31, 2018	7,582	5,654	7,153	6,912	\$0.12
August 31, 2018	7,654	9,545	10,888	10,222	\$0.17
November 30, 2018	7,484	3,038	5,266	4,920	\$0.08
February 28, 2019	7,868	10,956	12,036	11,748	\$0.20
May 31, 2019	7,759	5,693	7,122	6,789	\$0.12

2019 Quarterly Comparison

Overview: Quarterly net income and comprehensive income is significantly impacted by the net gain on fair value adjustment on investment properties. The table above highlights the property revenues and net income and comprehensive income by quarter.

Property revenues: Property revenues for the first quarter of fiscal 2019 decreased compared to the quarterly revenues of fiscal 2018 due to the sale of one industrial property and a 50% interest in a commercial property in the second quarter of fiscal 2018, lower project management fees and the accounting for revenue of the Company's 50% interest in the property in the Barnet LP using the equity method. Property revenues for the second and third quarter of fiscal 2019 increased compared to the previous quarter due to an increase in recoverable operating expenses and the addition of rental income from the completion of two properties under development in the second and third quarter of fiscal 2019, respectively.

Net income and comprehensive income: Net income and comprehensive income was significantly impacted by the net gain on fair value adjustment on investment properties. As a result, the quarterly net income and comprehensive income amounts are not comparable.

2018 Quarterly Comparison

Overview: Quarterly net income and comprehensive income is significantly impacted by the net gain on fair value adjustment on investment properties. The table above highlights the property revenues and net income and comprehensive income by quarter.

Property revenues: Property revenues for the first two quarters of fiscal 2018 increased compared to the quarterly revenues of fiscal 2017 due to the completion of two properties under development in the latter half of 2017, project management revenues received on the completion of certain developments and lease

rate increases on some investment properties. Property revenues for the third and fourth quarters of 2018 decreased compared to the prior quarters of fiscal 2018 due to the sale of one industrial property and a 50% interest in a commercial property in the second quarter of fiscal 2018.

Net income and comprehensive income: Net income and comprehensive income was significantly impacted by the net gain on fair value adjustment on investment properties. As a result, the quarterly net income and comprehensive income amounts are not comparable.

2017 Quarterly Comparison

Overview: Quarterly net income and comprehensive income is significantly impacted by the net gain on fair value adjustment on investment properties. The table above highlights the property revenues and net income and comprehensive income by quarter.

Property revenues: Property revenues remained relatively consistent in fiscal 2017.

Net income and comprehensive income: Net income and comprehensive income was significantly impacted by the net gain on fair value adjustment on investment properties. As a result, the quarterly net income and comprehensive income amounts are not comparable.

Liquidity and Capital Resources

As at May 31, 2019, the Company had cash on hand of \$56,817 (August 31, 2018 - \$46,207) and had drawn \$nil (August 31, 2018 - \$nil) against its line of credit. The Company has a maximum line of credit of \$20,000. The line of credit with a Canadian chartered bank bears interest at bank prime rate plus 1.0% or the Bankers Acceptance rate. The line of credit may be used for general business purposes and the amount available for such uses varies with the 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 the line of credit are repayable on demand. The line of credit agreement contains financial ratios which must be maintained for which the Company is in compliance.

The primary objective of the Company's capital management is to ensure that it maintains adequate capital 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 its 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 and construction loans, a line of credit and shareholders' equity.

The Company's principal source of financing is from mortgage loans. The ability to obtain a mortgage loan is dependent upon the value of the property and the cash flows the specific 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.

The Company believes it has sufficient funds and sources of funds to pay for potential tax reassessments.

Risks and Uncertainties

Real Estate Industry

Investment properties are subject to varying degrees of risk. Such risks include changes in general economic conditions (such as the availability and cost of mortgage funds), local conditions (such as an over-supply of space or a reduction in demand for real estate in the area), the attractiveness of the properties to tenants, competition from others with available space and the ability of Madison to provide adequate maintenance at an economic cost.

Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges, must be made regardless of whether a property is producing sufficient income to cover such expenses. Madison's real estate properties are subject to mortgages that require ongoing debt payments and repayments of outstanding amounts on maturity. If Madison is unable or unwilling to make mortgage repayments on any property, losses could be sustained as a result of the lenders exercising their rights of foreclosure or sale.

Real estate is relatively illiquid. Such illiquidity will tend to limit Madison's ability to vary its portfolio promptly in response to changing economic or investment conditions. Financial difficulties of other property owners resulting in distress sales may further depress real estate values in many of the markets in which Madison operates.

Madison manages these risks through ownership of good quality properties combined with a diverse tenant base. As at May 31, 2019, no one tenant accounted for more than 13.94% (August 31, 2018 - 14.60%) of the rental revenue of Madison and lease maturities are staggered such that as at May 31, 2019, no more than 21.26% (August 31, 2018 - 21.04%) of the rental space was subject to renewal in any one year.

Revenue Producing Properties

Madison's revenue producing properties generate income through rental receipts from tenants. Upon the expiry of any lease, there is no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favourable to Madison than the existing lease. Furthermore, at any time, a tenant of Madison's properties may seek the protection of bankruptcy, insolvency or similar laws which could result in the rejection and termination of such tenant's lease and a resultant reduction in cash flow available to Madison.

Joint Venture Residential Developments

Madison has two properties held through separate 50/50 joint ventures where the lands have residential and mixed-use development potential under the current respective official community plans. The Company, in conjunction with its joint venture partners, is currently investigating the feasibility and redevelopment potential of the properties, including rezoning requirements. The joint ventures, which are described below, are accounted for using the equity method of accounting.

Silverdale Hills Limited Partnership

Madison has a 50% interest in the Silverdale Hills LP which owns approximately 1,373 acres of undeveloped residential lands in Mission, British Columbia. In October 2018, the Silverdale Hills LP obtained approval from the District of Mission to develop 160 townhomes and 66 single family lots, which would consume approximately 38 acres of land inventory. Development of the project will be

managed by Madison's partner, a major residential developer. Development of the project is projected to commence in late calendar 2019. Redevelopment of further properties on this site is subject to economic feasibility and obtaining all necessary approvals, including rezoning, none of which are certain as of the date of this MD&A.

2798 Barnet Development Limited Partnership

Madison has a 50% interest in the Barnet LP which owns a retail property in Coquitlam, British Columbia. The Barnet LP is investigating the redevelopment of this site into a residential and mixed-use property. Redevelopment of this site is subject to economic feasibility and obtaining all necessary approvals, including rezoning, none of which are certain as of the date of this MD&A.

Fluctuations in Real Estate Values

The commercial and industrial real estate industry is subject to variability and fluctuations in real estate values. The Company has elected to report its investment properties at fair value. Fair value represents the amount at which the properties could be exchanged between a knowledgeable and willing buyer and seller in an arm's length transaction at the date of valuation. Adjustments will be made to the fair values when changes in the underlying valuation assumptions occur.

Geographic Concentration

Madison currently carries on the majority of its business in British Columbia, and predominantly Metro Vancouver. However, the Company has some geographic diversification with properties located in Alberta and Ontario. An economic downturn in any of these markets could cause leasing rates to decline, which could have a material adverse effect on the business and negatively affect the results of operations and financial condition of Madison.

Environmental Matters

As an owner of investment properties, Madison is subject to various Canadian federal, provincial, and municipal laws relating to environmental matters. Such laws provide that Madison could be liable for costs of removal and remediation of certain hazardous substances or wastes released or deposited on or in its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could adversely affect Madison's ability to sell such real estate or pledge real estate as collateral for borrowing. In addition, such a situation could potentially result in claims against Madison. Madison is not aware of any material pending or threatened investigations or actions by environmental regulatory authorities in connection with any of its properties or any material pending or threatened claims relating to environmental conditions at its properties. It is also possible that asbestos containing material ("ACM") and polychlorinated biphenyls ("PCB") in light fixtures may be present at some properties which may result in future removal and disposal costs; however, management is not aware of any such presence.

Madison has formal procedures to review and monitor environmental exposure on an ongoing basis and conducts thorough environmental due diligence as part of its acquisition process. Madison has made and will continue to make the necessary capital expenditures to ensure compliance with environmental laws and regulations. Environmental laws and regulations can change at any time and Madison may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have a material adverse effect on Madison's business, financial condition and results of operations.

General Uninsured Losses

Madison carries comprehensive general liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar properties. There are, however, certain types of risks (generally of a catastrophic nature such as from wars or environmental contamination) which are either uninsurable or not insurable on an economic basis. Madison currently has insurance for earthquake risks, subject to certain policy limits, deductibles, and self-insurance arrangements, and will continue to carry such insurance so long as it is economical to do so. Should an uninsured or underinsured loss occur, Madison could lose its investment in, and anticipated profits and cash flows from, one or more of its properties, while still being obligated to repay any recourse mortgage indebtedness on such properties. If a loss occurs in excess of insured limits, Madison could lose all or part of its investment in, and anticipated profits and cash flows from such property.

Income Taxes

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 \$417, carry-forward capital losses of \$6,974, carry-forward scientific research and development expenditures of \$12,991, and investment tax credits of \$7,409. As a result, additional taxes payable for the reassessed years, including interest, total \$33,601. 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 \$16,245 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 \$3,045 as at May 31, 2019.

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 the 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.

Interest Rate Fluctuations

Madison’s capital structure involves risks primarily associated with leverage and interest rates. Madison’s financing includes some indebtedness with interest rates set on a floating rate basis which could result in fluctuations in Madison’s cost of borrowing. Madison has mitigated interest rate risk by refinancing 97.6% of its debt on investment properties (mortgage loans) at fixed rates ranging from 2.40% to 4.83% per annum and staggering maturities up to five years so that no more than 34% of such debt matures in one year. The Company has not experienced any difficulties in renewing mortgages as they have become due. The Company also mitigates interest rate risk by entering into interest rate swaps. As at May 31, 2019, the Company had entered into interest rate swaps with Canadian chartered banks on four mortgages to reduce the impact of fluctuating interest rates and fix the Company’s interest rates on those mortgages. The swaps had notional amounts as at May 31, 2019 totalling \$62,935, 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 27.1% as at May 31, 2019 (August 31, 2018 - 30.7%) of the total debt on investment properties (before netting of deferred financing costs and fair value adjustments to assumed debt). The Company anticipates holding the mortgages and interest rate swap contracts until maturity.

The weighted average interest rate on fixed rate mortgage debt as at May 31, 2019 was 3.30% (August 31, 2018 - 3.40%). Madison has approximately \$5,472 of floating rate mortgages and construction loans and the Barnet LP, of which the Company owns a 50% interest, has a floating rate demand loan of \$29,250.

The Company has a line of credit that bears interest at bank prime rate plus 1.0% or the Banker's Acceptance rate. The line of credit may be used for general business purposes and the amount available for such uses varies with the value of investment properties pledged, up to a maximum of \$20,000. As at May 31, 2019, \$nil had been drawn on the line of credit. The Company's variable interest rate borrowings represent 2.4% of total borrowings. The impact of a 1.0% interest rate change on the Company's variable rate debt would increase or decrease interest expense and pre-tax earnings by \$55 per year.

These loan facilities, together with funds on hand and cash generated from operations, should provide adequate liquidity to meet the Company's obligations as they become due.

Contractual Obligations

(in \$000's)	Payments due by fiscal year				
	Total	June 2019 - August 2019	September 2019 - August 2021	September 2021 - August 2023	September 2023 and thereafter
Debt on investment properties ⁽¹⁾⁽²⁾	231,948	10,681	101,730	85,556	33,981
Land lease	2,895	23	188	188	2,496

- (1) The amount in the period from June 2019 to August 2019 includes demand loans totalling \$6,415. Principal and interest payments on \$3,415 of these demand loans and interest only payments on the remaining demand loans, are made monthly until their maturities between 2020 and 2022.
- (2) Excluded from the table is the Company's 50% share of the \$29,250 bank loan owed by the Barnet LP which is accounted for using the equity method. The loan matures in March 2020 and the Company has provided a limited guarantee of \$14,625.

Off-Balance Sheet Arrangements

Madison is required to provide letters of credit to municipalities in connection with development charges and rezoning applications. As of July 11, 2019, there were no outstanding letters of credit.

The Company enters into interest rate swaps. See "Risks and Uncertainties" above.

Transactions with Related Parties

The Company has engaged the services of G.W. Property Services Ltd., a landscaping and building services company owned by a related party. During the nine months ended May 31, 2019, landscaping, maintenance, and construction management services paid to this company were \$263 (nine months ended May 31, 2018 - \$221). There are no long-term commitments with this company, which provides required landscaping and maintenance on some investment properties.

For the nine months ended May 31, 2019, the Company engaged the services of Western Integrated Electrical Ltd., an electrical contractor controlled by a shareholder of the Company, for which it paid fees of \$26 (nine months ended May 31, 2018 - \$13).

For the nine months ended May 31, 2019, rental revenues totalling \$1,450 (nine months ended May 31, 2018 - \$1,421) were received from Madison Venture Corporation (“MVC”), a shareholder of the Company, and Arrow Speed Controls Limited, Continental Electrical Motor Services Ltd., 0777061 B.C. Ltd., and Madison Industrial Equipment Inc. which are tenants and companies controlled by MVC. These companies have lease agreements with the Company.

For the nine months ended May 31, 2019, the Company paid consulting fees for various administration and support services, including assistance with challenges to our tax reassessments of \$117 (nine months ended May 31, 2018 - \$151) to MVC.

The Company has provided a limited guarantee of \$16,830 on the MT Properties LP mortgage debt. During the nine months ended May 31, 2019, a guarantee fee of \$39 (nine months ended May 31, 2018 - \$39) was paid to the Company.

On December 11, 2017, the Silverdale Hills LP, of which the Company owns a 50% interest, acquired 459 acres of undeveloped residential lands in Mission, British Columbia for \$29,514. The vendor in the transaction is a party related to MVC.

Key management personnel include the Company’s directors and officers. For the nine months ended May 31, 2019, compensation awarded to key management personnel included salaries and short-term employee benefits of \$1,232 (nine months ended May 31, 2018 - \$1,014) and stock-based compensation of \$nil (nine months ended May 31, 2018 - \$12).

The transactions with the related parties noted above have been recorded at their exchange amounts, which are the amounts agreed to by the related parties.

Outstanding Share Data

As of July 11, 2019, there were 7,255,500 Class B voting common shares and 51,315,089 Class C non-voting shares outstanding.

Share Option Plan

The Company implemented a share option plan (the “Plan”) effective January 1, 2019. Under the Plan, the Company reserves Class B voting common shares (“Class B Shares”) equal to 2% of aggregate outstanding Class B Shares and Class C non-voting shares (“Class C Shares”) for issuance upon the exercise of share options granted under the Plan. As at July 11, 2019, 1,171,411 Class B Shares are reserved for issuance under the Plan. The Plan provides that share options may be issued only to executives, employees and outside directors of the Company or of any of its subsidiaries and that options granted to insiders (as defined by Toronto Stock Exchange rules) shall not exceed 10% of the outstanding Class B Shares.

The Plan and the terms of options granted, including the exercise price, the expiry time, the vesting period and other terms and conditions relating to such options, shall be administered by the Board of Directors or any committee to which such authority is delegated by the Board of Directors.

As at July 11, 2019, no share options had been granted.

Cash Flows from Operating Activities

The following table provides the Company's cash flows from operating activities for the nine months ended:

(in \$000's)	May 31, 2019	May 31, 2018
Net income	24,424	33,109
Items not affecting cash		
Net gain on fair value adjustment on investment properties	(19,687)	(27,905)
Amortization	780	724
Equity earnings of associate and joint ventures	(1,129)	(1,504)
Stock-based compensation	-	12
Losses (gains) on fair value adjustment on interest rate swaps	941	(715)
Recognition of rental revenue on a straight-line basis	(1)	(96)
Deferred income taxes	4,135	6,473
	9,463	10,098
(Increase) decrease in amounts receivable and other assets	(2,684)	53
(Increase) decrease in income taxes receivable	(10)	13
Increase in accounts payable and accrued liabilities	1,005	1,053
	7,774	11,217

For the nine months ended May 31, 2019, Madison generated \$9,463 of cash flows from continuing operations (before changes in non-cash balances) compared to \$10,098 for the nine months ended May 31, 2018. The decrease compared to the prior period is due primarily to a decrease in property revenues and increase in general and administrative expenses for the nine months ended May 31, 2019 compared to the nine months ended May 31, 2018.

Financial Instruments

Madison finances its investment properties primarily through conventional mortgage loans. These mortgages have remaining terms of between one and five years, and as at May 31, 2019, had a weighted average interest rate of 3.30% (August 31, 2018 - 3.40%). Of the total amount of debt on investment properties outstanding as at May 31, 2019, \$2,472 of mortgages are scheduled to mature by August 31, 2019.

Madison anticipates being able to renew all credit facilities maturing in fiscal 2019 at interest rates and with terms comparable to those currently in place.

As at May 31, 2019, the Company had 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 May 31, 2019 totalling \$62,935 (August 31, 2018 - \$64,654) 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 27.1% as at May 31, 2019 (August 31, 2018 – 30.7%) of the total debt on investment properties (before the netting of deferred financing costs and fair value adjustments to assumed debt). The Company anticipates holding the mortgages and interest rate swap contracts until maturity.

Interest rate swaps are classified as financial assets and liabilities at fair value through profit or loss. The total fair value of the interest rate swaps and net unrealized (losses) gains on those contracts are as follows:

	<u>Fair value assets</u>		<u>Net unrealized (losses) gains on interest rate swaps</u>	
	<u>May 31,</u>	<u>August 31,</u>	<u>Nine months ended</u>	
	<u>2019</u>	<u>2018</u>	<u>May 31,</u>	<u>May 31,</u>
	\$	\$	\$	\$
Interest rate swaps	319	1,260	(941)	715

Critical Accounting Estimates and Judgements

It is necessary for the Company to use estimates in applying the significant accounting policies as described in note 2 of the August 31, 2018 consolidated financial statements. In determining estimates, management uses the information available to the Company at the time. Management reviews key estimates on a regular basis to determine their appropriateness. There is no material update from the critical accounting estimates disclosure contained in the August 31, 2018 MD&A.

Accounting Standard Changes

The Company has applied, for the first time, certain standards and amendments, which are effective for annual periods beginning on or after September 1, 2018. The nature and the impact of the new standards and amendments are described below.

IFRS 15, Revenue from Contracts with Customers (“IFRS 15”)

Effective September 1, 2018, the Company adopted IFRS 15 using the modified retrospective basis with no restatement of comparative periods. IFRS 15 replaces IAS 18, *Revenue* (“IAS 18”) and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Company’s assessment included a review of relevant contracts for the following key areas that are in scope of IFRS 15: common area maintenance recoveries and property management fees.

The Company has concluded that there is no material impact in revenue recognition for these revenue streams between the point of transfer of risks and rewards under IAS 18 and the point of transfer of control under IFRS 15. No transitional adjustment has been recorded as at September 1, 2018.

The Company has adopted each of the policies noted below on September 1, 2018:

i. Rental revenue

Rental revenue comprises the majority of the Company's revenue and is generated through operating leases, which create a legally enforceable right to use the underlying asset by the tenant and require the Company to provide other services. Base rent, property taxes and insurance recoveries are accounted for pursuant to IAS 17, *Leases* ("lease components") and are therefore outside the scope of IFRS 15, while common area maintenance ("CAM") recoveries ("non-lease components") are within the scope of IFRS 15.

CAM services are integrated property management services provided to tenants in exchange for CAM recoveries and property management fees. CAM services are considered to be a single performance obligation delivered to tenants over time. The Company receives variable consideration for the CAM recoveries and recognizes this as revenue over the period those services are provided.

ii. Property management fees

The Company has interests in various investment properties through joint arrangements and partnerships. The Company provides property management services, and construction and development services to co-owners, and partners for which it earns market-based fees.

Property management services and construction and development services are each considered a single performance obligation for which fees are recognized as revenue over the periods those services are provided. Revenue is recognized at the agreed transaction price in each contract.

IFRS 9, *Financial Instruments* ("IFRS 9")

Effective September 1, 2018, the Company adopted IFRS 9 using the modified retrospective basis with no restatement of comparative periods. IFRS 9 replaces IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") and all previous versions of IFRS 9. The standard introduces new requirements for: (i) classification and measurement of financial assets and financial liabilities, (ii) impairment of financial assets and (iii) hedge accounting.

i. Classification and measurement

Under IFRS 9, financial assets are classified and measured on the basis of both the business model in which the assets are managed and the contractual cash flow characteristics of the asset. Financial assets after initial recognition are classified and measured based on three categories: (i) amortized cost, (ii) fair value through other comprehensive income ("FVOCI") with fair value gains or losses recycled to net income on de-recognition, or (iii) fair value through profit and loss ("FVTPL"). Financial liabilities are classified and measured on two categories: (i) amortized cost or (ii) FVTPL.

Financial assets and liabilities are recognized at fair value at initial recognition, adjusted in some cases for transaction costs (i.e. when financial assets and liabilities are carried at amortized cost). The exception is for trade receivables that do not contain a significant financing component, as defined by IFRS 15. These are measured at the transaction price. Financial assets are recorded at amortized cost when financial assets are held with the objective of collecting contractual cash flows and those cash flows represent solely payments of principal and interest and are not designated as FVTPL.

The following table compares the classification of financial instruments under IFRS 9 and IAS 39, and reconciles the IAS 39 and IFRS 9 carrying amounts as at September 1, 2018:

	Classification Category		Changes due to:			
	IAS 39	IFRS 9	IAS 39	Reclassification	Remeasurement	IFRS 9
Financial Assets						
Cash and cash equivalents	Held for trading	Amortized cost	\$ 46,207	\$ -	\$ -	\$ 46,207
Amounts receivable and other current financial assets	Loans and receivables	Amortized cost	447	-	-	447
Other non-current financial assets	Loans and receivables	Amortized cost	12,628	-	-	12,628
Interest rate swap assets	FVTPL	FVTPL	1,260	-	-	1,260
Financial Liabilities						
Debt on investment properties	Other liabilities	Amortized cost	\$ 210,210	\$ -	\$ -	\$ 210,210
Accounts payable and other liabilities	Other liabilities	Amortized cost	9,644	-	-	9,644

The Company does not currently have any financial assets classified as FVOCI.

ii. Impairment of financial assets measured at amortized cost

IFRS 9 introduces a new single expected credit loss (“ECL”) impairment model for the Company’s financial assets measured at amortized cost. The ECL model results in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual loss event. ECLs are based on the difference in cash flows the Company expects to receive and the contractual cash flows due in accordance with the contract, discounted at the asset’s original effective interest rate.

At each reporting date, each financial asset measured at amortized cost is assessed for impairment under the ECL model.

The adoption of the ECL model did not have a material impact on the Company’s financial assets carried at amortized cost.

iii. Hedging

IFRS 9 introduces a new hedge accounting model that expands the scope of hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. The new model no longer specifies quantitative measures for effectiveness testing and does not permit hedge designation.

The Company uses fixed-for-floating interest rate swaps to manage interest rate risk. At the date of the initial application, none of the interest rate swaps were eligible to be treated as hedging relationships. As such, the adoption of the hedge accounting requirements of IFRS 9 had no material impact to the Company’s condensed interim consolidated financial statements.

Accounting Standards and Amendments Issued but Not Effective

In January 2016, the IASB issued IFRS 16, *Leases* (“IFRS 16”). 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 substantially completed its assessment of the effect of IFRS 16, and has determined that the new standard will not have a material 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.

Effectiveness of the Internal and Disclosure Controls and Procedures

An evaluation has been carried out on the effectiveness of the Company’s internal control over financial reporting and disclosure controls and procedures as defined in National Instrument 52-109. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer of the Company concluded that the design and operation of these internal and disclosure controls and procedures were effective.

The Company did not make any changes to the design of its internal controls over financial reporting in the nine months ended May 31, 2019 that would have materially affected, or would be reasonably likely to materially affect the Company’s internal controls over financial reporting.

Management of Madison is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Internal financial controls and procedures have been designed under the supervision of management of Madison.

It should be noted, that while Madison believes that the current disclosure controls and procedures and internal controls over financial reporting provide a reasonable level of assurance, it cannot be expected that existing disclosure controls and procedures or internal financial controls will prevent all human error and circumvention or overriding of the controls and procedures. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Additional Information

Additional information relating to Madison may be found in the Annual Information Form and the Information Circular for its most recent annual general meeting of shareholders. Both of these prescribed filings may be found on the SEDAR web site (www.sedar.com).