

Madison Pacific Properties Inc.

Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended February 29, 2020 and February 28, 2019

(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 13, 2020

Madison Pacific Properties Inc.

Interim Consolidated Balance Sheets

As at February 29, 2020 and August 31, 2019

(unaudited)

(expressed in thousands of Canadian dollars)

	February 29, 2020 \$	August 31, 2019 \$
Assets		
Non-current assets		
Investment properties (note 4)	512,710	498,456
Other non-current assets (note 5)	73,142	70,300
	<u>585,852</u>	<u>568,756</u>
Current assets		
Cash and cash equivalents (note 2(d))	60,690	56,955
Amounts receivable and other current assets	2,766	3,157
Income taxes receivable (note 10)	229	262
	<u>63,685</u>	<u>60,374</u>
Total assets	<u>649,537</u>	<u>629,130</u>
Liabilities		
Non-current liabilities		
Debt on investment properties (note 6)	214,304	148,921
Deferred income tax liabilities (note 10)	39,793	37,036
	<u>254,097</u>	<u>185,957</u>
Current liabilities		
Current portion of debt on investment properties (note 6)	27,637	81,429
Accounts payable and accrued liabilities	6,664	9,082
	<u>34,301</u>	<u>90,511</u>
Total liabilities	<u>288,398</u>	<u>276,468</u>
Equity		
Equity attributable to shareholders of the Company		
Share capital (note 8)	67,472	67,472
Contributed surplus	1,105	1,105
Retained earnings	283,928	272,482
	<u>352,505</u>	<u>341,059</u>
Non-controlling interests	<u>8,634</u>	<u>11,603</u>
Total equity	<u>361,139</u>	<u>352,662</u>
Total liabilities and equity	<u>649,537</u>	<u>629,130</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 29, 2020 and February 28, 2019

(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 \$			
Balance – August 31, 2018	67,472	1,105	243,882	312,459	10,770	323,229
Net income and comprehensive income	-	-	16,668	16,668	634	17,302
Dividends (note 9)	-	-	(3,075)	(3,075)	-	(3,075)
Distributions to non-controlling interests	-	-	-	-	(403)	(403)
Balance – February 28, 2019	67,472	1,105	257,475	326,052	11,001	337,053
Balance – August 31, 2019	67,472	1,105	272,482	341,059	11,603	352,662
Net income and comprehensive income	-	-	14,521	14,521	158	14,679
Dividends (note 9)	-	-	(3,075)	(3,075)	-	(3,075)
Distributions to non-controlling interests	-	-	-	-	(3,127)	(3,127)
Balance – February 29, 2020	67,472	1,105	283,928	352,505	8,634	361,139

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 29, 2020 and February 28, 2019

(unaudited)

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

	Six Months Ended		Three Months Ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
	\$	\$	\$	\$
Property revenues (note 12)	15,980	15,352	8,170	7,868
Property operating expenses (note 12)	4,467	4,306	2,360	2,331
	<u>11,513</u>	<u>11,046</u>	<u>5,810</u>	<u>5,537</u>
General and administrative expenses (note 12)	1,658	1,664	872	882
	<u>9,855</u>	<u>9,382</u>	<u>4,938</u>	<u>4,655</u>
Net gain on fair value adjustment on investment properties (note 4)	12,049	13,994	5,749	10,956
Equity earnings of associate and joint ventures	1,180	1,054	1,092	935
	<u>23,084</u>	<u>24,430</u>	<u>11,779</u>	<u>16,546</u>
Interest income	657	592	342	302
Interest expense	4,195	3,909	2,161	1,973
Losses on fair value adjustment on interest rate swaps (note 6)	1,813	556	1,891	518
	<u>17,733</u>	<u>20,557</u>	<u>8,069</u>	<u>14,357</u>
Income before income taxes	17,733	20,557	8,069	14,357
Income taxes (note 10)	3,054	3,255	1,466	2,321
	<u>14,679</u>	<u>17,302</u>	<u>6,603</u>	<u>12,036</u>
Net income and comprehensive income	<u>14,679</u>	<u>17,302</u>	<u>6,603</u>	<u>12,036</u>
Net income (loss) and comprehensive income (loss) attributable to:				
Shareholders of the Company	14,521	16,668	6,953	11,748
Non-controlling interests	158	634	(350)	288
	<u>14,679</u>	<u>17,302</u>	<u>6,603</u>	<u>12,036</u>
Income per share (note 11)	\$0.25	\$0.28	\$0.12	\$0.20

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 29, 2020 and February 28, 2019
(unaudited)

(expressed in thousands of Canadian dollars)

Cash flows from (used in):	February 29, 2020	February 28, 2019
	\$	\$
Operating activities		
Net income	14,679	17,302
Items not affecting cash		
Net gain on fair value adjustment on investment properties	(12,049)	(13,994)
Amortization	682	512
Equity earnings of associate and joint ventures	(1,180)	(1,054)
Unrealized losses on fair value adjustment on interest rate swaps	1,920	556
Recognition of rental revenue on a straight-line basis	177	14
Deferred income taxes	2,757	2,990
	<u>6,986</u>	<u>6,326</u>
Decrease in amounts receivable and other assets	191	747
Decrease in income taxes receivable	33	117
Decrease in accounts payable and accrued liabilities	(825)	(311)
	<u>6,385</u>	<u>6,879</u>
Investing activities		
Additions to investment properties and property development costs	(914)	(3,987)
Other investment property expenditures	(22)	(670)
Investments in joint ventures (note 5(b))	(1,700)	(5,701)
Repayment of loans receivable	48	45
	<u>(2,588)</u>	<u>(10,313)</u>
Financing activities		
Net proceeds from debt on investment properties (note 6)	65,251	18,632
Repayment of debt on investment properties (note 6)	(56,036)	(7,375)
Distributions to non-controlling interests	(3,127)	(403)
Dividends paid	(6,150)	(6,150)
	<u>(62)</u>	<u>4,704</u>
Increase in cash and cash equivalents	3,735	1,270
Cash and cash equivalents - beginning of period	56,955	46,207
Cash and cash equivalents - end of period	<u>60,690</u>	<u>47,477</u>
Supplemental cash flow information		
Interest received	657	592
Interest paid	4,059	3,902

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 29, 2020 and February 28, 2019

(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 also has investments in joint ventures that intend to develop residential properties. 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 six months ended February 29, 2020 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, 2019, 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, 2019 except for the adoption of new standards and amendments effective as of September 1, 2019 (see note 3). 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 13, 2020.

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

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

results are included in the consolidated statement of income and comprehensive income from the date on which control commences.

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, Madison Silverdale Developments Corp., Madison Developments 2800 Barnet Ltd., the MT Properties Limited Partnership, 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 Limited Partnership, 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 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. Joint ventures are accounted for using the equity method as follows:

- Investments are initially recognized at cost.
- Investments in joint ventures include goodwill and intangible assets identified on acquisition, net of any accumulated impairment loss.
- The Company's share of its joint ventures' post-acquisition profits or losses is recognized in the consolidated statement of income and comprehensive income.
- Dividends and distributions receivable from joint ventures reduce the carrying amount of the investment.
- The Company's liability with respect to its joint ventures 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.
- Joint ventures are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Madison Pacific Properties Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Six Months Ended February 29, 2020 and February 28, 2019

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

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.
- 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 judgement 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, 2019.

d. Cash and cash equivalents

Cash and cash equivalents comprise primarily cash held in interest bearing accounts with major Canadian financial institutions.

3. New accounting standards and amendments to standards

The Company has applied, for the first time, certain standards and amendments, which are effective for annual periods beginning on or after September 1, 2019. The nature and the impact of the new standards and amendments are described below:

IFRS 16, *Leases*

The Company adopted IFRS 16, *Leases* ("IFRS 16") with an effective date of September 1, 2019 using the modified retrospective basis with no restatement of comparative periods. IFRS 16 replaces IAS 17, *Leases* and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"). Under IFRS 16, a lessee records all leases on the consolidated statement of financial position, except for those leases that meet a limited exception criteria. Upon adoption of IFRS 16, a right-of-use asset ("ROU Asset") is recognized at the date of the initial application at an amount equal to the lease liability, using the Company's incremental borrowing rate. On the date of adoption, the Company recognized a ROU Asset of \$2,210 with respect to a land lease on a property. This ROU Asset was included in investment properties on its consolidated balance sheet with a

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Notes to the Condensed Interim Consolidated Financial Statements

For the Six Months Ended February 29, 2020 and February 28, 2019

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

corresponding current and long-term lease liability of \$12 and \$2,198, respectively. The adoption of IFRS 16 did not have a material impact on the Company's consolidated statement of income and comprehensive income and consolidated statement of cash flows.

The Company has elected not to apply this standard to short-term leases and leases for which the underlying asset is of low value. The Company recognizes these lease payments as an expense on a straight-line basis over the lease term.

Accounting for leases by lessors remains relatively unchanged. Accordingly, the Company will continue to recognize the property revenue generated through operating leases over the term of the lease agreement.

IFRIC 23, Uncertainty Over Income Tax Treatments

The Company adopted IFRIC 23, *Uncertainty over Income Tax Treatments* ("IFRIC 23") with an effective date of September 1, 2019 using the modified retrospective basis with no restatement of comparative periods. IFRIC 23 provides clarification on the application of various recognition and measurement requirements under IAS 12, *Income Taxes* when there is uncertainty over income tax treatments. This interpretation addresses whether uncertain tax treatments should be considered separately; assumptions made about the examination of tax treatments by taxation authorities; the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and tax rates; and, the impact of changes in facts and circumstances. The adoption of IFRIC 23 did not have a material impact on the Company's consolidated financial statements.

4. Investment properties

	Six months ended February 29, 2020 \$	Year ended August 31, 2019 \$
Balance at beginning of period	498,456	464,285
Initial recognition right-of-use asset (notes 3 and 4(d))	2,210	-
Other additions and property development costs	672	4,303
Recognition of rental revenue on a straight-line basis	(177)	(36)
Tenant improvements	1	1,254
Amortization of tenant improvements	(382)	(673)
Leasing commissions	15	169
Amortization of leasing commissions	(134)	(250)
Net gain on fair value adjustment	12,049	29,404
	<hr/>	<hr/>
Balance at end of period	512,710	498,456

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

Madison Pacific Properties Inc.

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

valuators. 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 six months ended February 29, 2020 and year ended August 31, 2019, the Company had no acquisitions of investment properties.

c. Investment property dispositions

For the six months ended February 29, 2020 and year ended August 31, 2019, the Company had no dispositions of investment properties.

d. Right-of-use asset

Included in investment properties is a ROU Asset arising from a land lease. The ROU Asset was recognized effective September 1, 2019 upon the adoption of IFRS 16 (note 3).

e. Sensitivity

The following table provides a sensitivity analysis for the weighted average capitalization rate applied at February 29, 2020, excluding properties under development and ROU Asset of \$2,204 (note 4(d)):

Capitalization rate increase (decrease)	Weighted average capitalization rate	Fair value of investment properties (at Company's ownership) \$	Fair value variance \$	% change
(0.75%)	3.71%	629,374	118,868	23.3%
(0.50%)	4.01%	581,638	71,132	13.9%
(0.25%)	4.30%	543,198	32,692	6.4%
February 29	4.57%	510,506	-	-
0.25%	4.84%	482,019	(28,487)	(5.6%)
0.50%	5.11%	456,830	(53,676)	(10.5%)
0.75%	5.37%	434,328	(76,178)	(14.9%)

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Notes to the Condensed Interim Consolidated Financial Statements

For the Six Months Ended February 29, 2020 and February 28, 2019

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

5. Other non-current assets

	February 29, 2020	August 31, 2019
	\$	\$
Deposits (note 10)	16,248	16,248
Investment in Grant Street Properties Inc. (“GSP” or “associate”)	14,992	13,937
Investments in joint ventures (notes 5(a) and 5(b))	41,299	39,474
Loans receivable and other	603	641
	<u>73,142</u>	<u>70,300</u>

a. Corporate guarantee

The Company has provided a guarantee of \$14,625 for a \$29,250 bank loan owed by the 2798 Barnet Development Limited Partnership of which the Company has a 50% interest.

b. Investment in the Silverdale Hills Limited Partnership

In the six months ended February 29, 2020, the Company made additional equity investments of \$1,700 in the Silverdale Hills Limited Partnership (the “Silverdale Hills LP”).

In the year ended August 31, 2019, the Company made additional equity investments of \$5,701 in the Silverdale Hills LP.

The additional equity investments were required to fund development costs and the acquisition of additional parcels of undeveloped residential land.

Madison Pacific Properties Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Six Months Ended February 29, 2020 and February 28, 2019

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

6. Debt on investment properties

	Six months ended February 29, 2020 \$	Year ended August 31, 2019 \$
Balance at beginning of period	230,350	210,210
Initial recognition of lease liability (notes 3 and 6(b))	2,210	-
Net proceeds from debt issuances	65,251	51,892
Amortization of deferred financing costs	166	265
Amortization of acquisition date fair value adjustments on assumed debt	-	(91)
Repayment of debt	(56,036)	(31,926)
	<hr/>	<hr/>
Balance at end of period	241,941	230,350
Less: current portion	27,637	81,429
Non-current portion	<hr/> 214,304	<hr/> 148,921

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 and excluding lease liabilities), \$240,375 (August 31, 2019 - \$230,920) bears interest at fixed rates ranging from 2.40% to 4.83% (August 31, 2019 - 2.40% to 4.83%) per annum and \$nil (August 31, 2019 - \$nil) bear interest at variable rates. The weighted average interest rate on fixed rate debt as at February 29, 2020 was 3.53% (August 31, 2019 - 3.38%).

a. Interest rate swaps

The Company has entered into interest rate swaps with Canadian chartered banks on five mortgages to fix the Company's interest rates on those mortgages. The swaps had notional amounts as at February 29, 2020 totalling \$75,437 (August 31, 2019 - \$65,478), fixed swap rates ranging from 2.92% to 3.90%, and maturity dates ranging from June 2021 to January 2025. The total notional amount of the interest rate swaps represented 31.4% as at February 29, 2020 (August 31, 2019 - 28.4%) of the total debt on investment properties (before netting of deferred financing costs and fair value adjustments on assumed debt and excluding lease liabilities). The Company anticipates holding the mortgages and interest rate swap contracts until maturity.

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For the Six Months Ended February 29, 2020 and February 28, 2019

(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 losses on those contracts are as follows:

	Fair value (liabilities) assets		Net realized and unrealized losses on interest rate swaps	
	February 29, 2020	August 31, 2019	Six months ended	
	\$	\$	February 29, 2020	February 28, 2019
			\$	\$
Interest rate swaps	(1,731)	189	1,813	556

b. Lease liability

Included in debt on investment properties is a lease liability arising from the recognition of a ROU Asset upon the adoption of IFRS 16 effective, September 1, 2019 (note 3 and note 4(d)).

Future minimum lease payments under this lease are as follows:

	February 29, 2020
	\$
Within twelve months	95
Two to five years	401
Over five years	3,375
Total future minimum lease payments	3,871
Less: future interest costs	(1,667)
Present value of lease payments	2,204

7. Bank indebtedness

The Company has a line of credit of up to \$20,000 (August 31, 2019 - \$20,000) bearing interest at bank prime rate plus 1% or the Bankers Acceptance rate (August 31, 2019 - bank prime rate plus 1% or the Bankers Acceptance rate) with a Canadian chartered bank. As at February 29, 2020, \$nil (August 31, 2019 - \$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 29, 2020:

- Not permit the debt service coverage ratio to be less than 1.25 to 1.00;

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- 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

a. Authorized and issued shares

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 (“Class B Shares”), and an unlimited number of Class C non-voting shares without par value (“Class C Shares”).

The following table summarizes the issued share capital as at February 29, 2020 and August 31, 2019:

	Class B Shares		Class C Shares		Total	
	Number	Amount \$	Number	Amount \$	Number	Amount \$
Balance – August 31, 2019 and August 31, 2018	7,255,500	7,720	51,315,089	59,752	58,570,589	67,472
Shares cancelled	(8)	-	-	-	(8)	-
Balance – February 29, 2020	7,255,492	7,720	51,315,089	59,752	58,570,581	67,472

During the six months ended February 29, 2020, the Company cancelled 8 Class B Shares.

No shares were issued or cancelled during the year ended August 31, 2019.

b. Share option plan

The Company implemented a share option plan (the “Plan”) effective January 1, 2019. Under the Plan, the Company reserves Class B Shares equal to 2% of aggregate outstanding Class B Shares and Class C Shares for issuance upon the exercise of share options granted under the Plan. As at April 13, 2020, 1,171,411 Class B Shares are reserved for the 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 Compensation Committee or any other committee to which such authority is delegated by the Board of Directors.

As at April 13, 2020, no share options had been granted under the Plan.

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

9. Dividends

On January 13, 2020, the Company declared a dividend of \$0.0525 per Class B Share and Class C Share payable on February 21, 2020.

On July 11, 2019, the Company declared a dividend of \$0.0525 per Class B Share and Class C Share payable on September 6, 2019.

On January 14, 2019, the Company declared a dividend of \$0.0525 per Class B Share and Class C Share payable on February 22, 2019.

10. Income taxes

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

	February 29, 2020	February 28, 2019
	\$	\$
Current income tax expense	297	265
Deferred income tax expense	2,757	2,990
	<u>3,054</u>	<u>3,255</u>

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 29, 2020		February 28, 2019	
	\$		\$	
Income before income taxes	17,733		20,557	
	\$	%	\$	%
Expected income taxes at statutory rates	4,773	26.9	5,549	27.0
Adjustments				
Non-taxable portion of realized and unrealized capital gains	(1,620)	(9.1)	(1,888)	(9.2)
Recognition of previously unrecognized tax assets	(249)	(1.4)	(220)	(1.1)
Adjustment in respect of prior years	75	0.4	98	0.5
Equity earnings in investee	(318)	(1.8)	(284)	(1.4)
Other items	393	2.2	-	-
Income taxes	<u>3,054</u>	<u>17.2</u>	<u>3,255</u>	<u>15.8</u>

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Deferred income tax liabilities (assets) comprise the following:

	February 29, 2020	August 31, 2019
	\$	\$
Benefit of non-capital losses carried forward	(1,344)	(1,244)
Benefit of capital losses carried forward	(942)	(942)
Undeducted expenditures	(983)	(1,896)
Deferred income tax assets not recognized	946	946
Investment properties	40,089	37,963
Tenant improvements and leasing costs	1,213	1,348
Straight-line rental revenue in excess of base rents	814	861
	<u>39,793</u>	<u>37,036</u>

The entire change in deferred income tax liabilities for the six months ended February 29, 2020 and year ended August 31, 2019 has been recognized in net income for those respective periods.

As at February 29, 2020, the Company has approximately \$3,672 of scientific research and development expenditures available for unlimited carryforward and approximately \$4,550 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 \$6,467 of unrecognized federal investment tax credits which begin to expire in 2020, and can also be carried forward to be used to reduce future Canadian income taxes otherwise payable.

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

	Federal investment tax credits	Non-capital losses carried forward
	\$	\$
2020	339	-
2021	625	-
2022	880	-
2023	1,048	-
2024	934	-
2025	865	-
2026	727	-
2027	689	-
2028	360	-
2037	-	417
2038	-	2,383
2039	-	1,325
2040	-	425
	<u>6,467</u>	<u>4,550</u>

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.

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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 carryforward non-capital losses of \$417, carryforward capital losses of \$6,974, carryforward scientific research and development expenditures of \$7,531, and investment tax credits of \$6,807. As a result, additional taxes payable for the reassessed years, including interest, total \$35,728. The Company and its subsidiaries have filed notices of objection and notices of appeal to the reassessments with the CRA and ATRA. To object to the reassessments, the Company and its subsidiaries were required to make deposits totalling \$17,341 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 \$3,827 as at February 29, 2020.

The Company and certain subsidiaries have received scheduled trial dates with the Tax Court of Canada. The first trial is scheduled to begin in November 2020, and the second trial is scheduled to begin in April 2021. 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 carryforward 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 carryforward amounts.

11. Income per share

	Six months ended		Three months ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Net income attributable to shareholders of the Company	\$14,521	\$16,668	\$6,953	\$11,748
Weighted average number of shares outstanding	58,570,582	58,570,589	58,570,581	58,570,589
Basic and diluted income per share	\$0.25	\$0.28	\$0.12	\$0.20

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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 and building services company owned by a related party. During the six months ended February 29, 2020, landscaping, maintenance, and construction management services paid to this company totalled \$148 (six months ended February 28, 2019 - \$188).

During the six months ended February 29, 2020, a short-term loan of \$1,000 was provided to GSP. At February 29, 2020, the loan was fully repaid to the Company and during the six months ended February 29, 2020, the Company charged \$14 of interest at bank prime rate plus 1% on this loan.

b. Transactions and balances with affiliates

During the six months ended February 29, 2020, the Company engaged the services of an electrical contractor controlled by a shareholder of the Company for which it paid fees of \$156 (six months ended February 28, 2019 - \$24).

During the six months ended February 29, 2020, rental revenues of \$986 (six months ended February 28, 2019 - \$977) were received from a shareholder of the Company and from tenants that are companies related to a shareholder of the Company.

During the six months ended February 29, 2020, the Company paid management consulting fees of \$69 to a shareholder of the Company (six months ended February 28, 2019 - \$82).

The Company has provided a limited guarantee of \$14,726 on the MT Properties Limited Partnership mortgage debt. During the six months ended February 29, 2020, a guarantee fee of \$26 (six months ended February 28, 2019 - \$26) was paid to 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 29, 2020	February 28, 2019
	\$	\$
Salaries and short-term employee benefits	836	681

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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 lease liability, 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 under similar terms as they become due.

There have been no changes in the Company's approach to capital management in the six months ended February 29, 2020.

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

	February 29, 2020	August 31, 2019
	\$	\$
Fixed rate mortgage loans and lease liability	242,579	230,920
Equity	352,505	341,059
	<u>595,084</u>	<u>571,979</u>

15. Subsequent events

a. Acquisition

On March 19, 2020, the Company acquired a 50% interest in three industrial properties with total square feet of 33,179 located in Vancouver, British Columbia for \$7,092 including closing costs and taxes.

b. COVID-19

Subsequent to the six month period ended February 29, 2020, the COVID-19 pandemic began causing significant financial market declines, social dislocation, and temporary business closures or curtailed

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operations, particularly in the restaurant and retail sectors. The current conditions did not exist as at February 29, 2020, and the extent of the effect of the COVID-19 pandemic on the Company's business activities is uncertain. Accordingly, as required by IFRS, the Company has not reflected these subsequent conditions in the measurement of assets at February 29, 2020.