

Madison Pacific Properties Inc.

Consolidated Financial Statements
For the Years Ended August 31, 2021 and 2020

(expressed in thousands of Canadian dollars)



Independent auditor's report

To the Shareholders of Madison Pacific Properties Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Madison Pacific Properties Inc. and its subsidiaries (together, the Company) as at August 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at August 31, 2021 and 2020;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of income and comprehensive income for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended August 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matter	How our audit addressed the key audit matter
<p data-bbox="261 457 699 489">Valuation of investment properties</p> <p data-bbox="261 520 873 640"><i>Refer to note 2 – Summary of significant accounting policies and critical accounting estimates and note 3 – Investment properties to the consolidated financial statements.</i></p> <p data-bbox="261 674 873 1071">The Company measures its investment properties at fair value and, as at August 31, 2021, these assets were valued at \$605 million. The fair value of investment properties is determined based on the income approach, using the capitalization rate (cap rate) method. In the cap rate method, stabilized net operating income (NOI) of each property is divided by an appropriate cap rate. The cap rates used are generally based on ranges provided by external valuers (management's experts). Stabilized NOI is determined from the terms of an existing lease or market rents for similar properties.</p> <p data-bbox="261 1104 808 1192">The significant assumptions in the valuation of investment properties include cap rates and stabilized NOI.</p> <p data-bbox="261 1226 857 1449">We considered this a key audit matter due to the significant judgments made by management when determining the fair values of the investment properties including the use of management's experts. This resulted in a high degree of auditor judgment, subjectivity and effort in assessing audit evidence related to the significant assumptions.</p>	<p data-bbox="899 457 1507 520">Our approach to addressing the matter included the following procedures, among others:</p> <ul data-bbox="899 554 1490 1791" style="list-style-type: none"><li data-bbox="899 554 1490 646">• Tested how management determined the fair value of a sample of investment properties, which included the following:<ul data-bbox="948 680 1490 1791" style="list-style-type: none"><li data-bbox="948 680 1490 806">– Tested the appropriateness of the method used by management and the mathematical accuracy of the related models.<li data-bbox="948 840 1490 1192">– Compared stabilized NOI figures used in the models to the accounting records and/or comparable market rents, respectively, and evaluated whether stabilization was reasonable considering (i) the current and past leasing activity of the investment properties, (ii) the comparability with external market and industry data and (iii) whether these assumptions were aligned with evidence obtained in other areas of the audit.<li data-bbox="948 1226 1490 1701">– The work of management's experts was used in performing the procedures to evaluate the reasonableness of the cap rates. As a basis for using this work, management's experts' competence, capability and objectivity were evaluated, their work performed was understood and the appropriateness of their work as audit evidence was evaluated. The procedures performed included evaluation of the methods and assumptions used by the management experts, tests of the data used by the management experts, and an evaluation of the management experts' findings.<li data-bbox="948 1734 1490 1791">– Tested the underlying data used in the models.



Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is David Neale.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
November 25, 2021

Madison Pacific Properties Inc.

Consolidated Balance Sheets

As at August 31, 2021 and 2020

(expressed in thousands of Canadian dollars)

	2021 \$	2020 \$
Assets		
Non-current assets		
Investment properties (note 3)	605,096	542,581
Other non-current assets (note 4)	89,879	79,684
	<u>694,975</u>	<u>622,265</u>
Current assets		
Cash and cash equivalents	42,254	71,450
Amounts receivable and other current assets (note 5)	3,849	3,519
Income taxes receivable (note 13)	261	285
	<u>46,364</u>	<u>75,254</u>
Total assets	<u>741,339</u>	<u>697,519</u>
Liabilities		
Non-current liabilities		
Debt on investment properties (note 6)	226,132	234,768
Deferred income tax liabilities (note 13)	49,175	42,672
	<u>275,307</u>	<u>277,440</u>
Current liabilities		
Current portion of debt on investment properties (note 6)	53,915	34,428
Accounts payable and accrued liabilities (note 7)	11,778	12,370
Income taxes payable (note 13)	1,188	58
	<u>66,881</u>	<u>46,856</u>
Total liabilities	<u>342,188</u>	<u>324,296</u>
Equity		
Equity attributable to shareholders of the Company		
Share capital (note 9)	67,472	67,472
Contributed surplus	-	1,105
Retained earnings	320,540	296,316
	<u>388,012</u>	<u>364,893</u>
Non-controlling interests	<u>11,139</u>	<u>8,330</u>
Total equity	<u>399,151</u>	<u>373,223</u>
Total liabilities and equity	<u>741,339</u>	<u>697,519</u>

Subsequent event (note 21)

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.
Consolidated Statements of Changes in Equity
For the Years Ended August 31, 2021 and 2020

(expressed in thousands of Canadian dollars)

	Attributable to shareholders of the Company				Non-controlling interests \$	Total equity \$
	Share capital \$	Contributed surplus \$	Retained earnings \$	Total \$		
Balance – August 31, 2019	67,472	1,105	272,482	341,059	11,603	352,662
Net income and comprehensive income	-	-	29,984	29,984	128	30,112
Dividends (note 10)	-	-	(6,150)	(6,150)	-	(6,150)
Distributions to non-controlling interest	-	-	-	-	(3,401)	(3,401)
Balance – August 31, 2020	67,472	1,105	296,316	364,893	8,330	373,223
Net income and comprehensive income	-	-	50,288	50,288	3,278	53,566
Dividends (note 10)	-	-	(26,064)	(26,064)	-	(26,064)
Distributions to non-controlling interest	-	-	-	-	(469)	(469)
Reduction in contributed surplus (note 15(b))	-	(1,105)	-	(1,105)	-	(1,105)
Balance – August 31, 2021	67,472	-	320,540	388,012	11,139	399,151

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

Madison Pacific Properties Inc.

Consolidated Statements of Income and Comprehensive Income

For the Years Ended August 31, 2021 and 2020

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

	2021	2020
	\$	\$
Property revenues (note 11 and 15)	32,791	31,077
Property operating expenses (note 12 and 15)	<u>9,404</u>	8,240
	23,387	22,837
General and administrative expenses (note 12 and 15)	<u>3,818</u>	3,186
	19,569	19,651
Net gain on fair value adjustment on investment properties (note 3)	46,031	26,173
Equity earnings of associate and joint ventures (note 4)	<u>3,668</u>	1,451
	69,268	47,275
Interest income and gain on sale of short-term investments (note 15)	463	1,499
Interest expense	9,515	8,892
Gains (losses) on fair value adjustment on interest rate swaps (note 6)	<u>1,655</u>	(3,578)
Income before income taxes	61,871	36,304
Income taxes (note 13)	<u>8,305</u>	6,192
Net income and comprehensive income	<u>53,566</u>	30,112
Net income and comprehensive income attributable to:		
Shareholders of the Company	50,288	29,984
Non-controlling interests	<u>3,278</u>	128
	<u>53,566</u>	30,112
Income per share (note 14)		
Basic	<u>\$0.86</u>	\$0.51
Diluted	<u>\$0.86</u>	\$0.51

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

Madison Pacific Properties Inc.
Consolidated Statements of Cash Flows
For the Years Ended August 31, 2021 and 2020

(expressed in thousands of Canadian dollars)

Cash flows from (used in):	2021	2020
	\$	\$
Operating activities		
Net income	53,566	30,112
Items not affecting cash		
Net gain on fair value adjustment on investment properties	(46,031)	(26,173)
Amortization	1,261	1,290
Allowance for expected credit losses	125	84
Equity earnings of associate and joint ventures	(3,668)	(1,451)
Gain on sale of short-term investments	-	(480)
Unrealized (gains) losses on fair value adjustment on interest rate swaps	(1,655)	3,685
Recognition of rental revenue on a straight-line basis	280	386
Deferred income taxes	6,503	5,636
	<u>10,381</u>	<u>13,089</u>
Increase in amounts receivable and other assets	(1,609)	(1,915)
Decrease (increase) in income taxes receivable	24	(23)
(Decrease) increase in accounts payable and accrued liabilities	(375)	221
Increase (decrease) in income taxes payable	1,130	(339)
	<u>9,551</u>	<u>11,033</u>
Investing activities		
Acquisition of investment properties (note 3(b))	(12,297)	(15,648)
Additions to investment properties and property development costs	(3,667)	(1,285)
Other investment property expenditures	(1,451)	(87)
Investment in associate (note 4(a))	-	(1,194)
Investments in joint ventures (note 4(b))	(5,555)	(5,550)
Repayment of loans receivable	183	92
Gain on sale of short-term investments	-	480
	<u>(22,787)</u>	<u>(23,192)</u>
Financing activities		
Net proceeds from debt on investment properties (note 6)	37,774	113,122
Repayment of debt on investment properties (note 6)	(27,201)	(76,917)
Distributions to non-controlling interests	(469)	(3,401)
Dividends paid	(26,064)	(6,150)
	<u>(15,960)</u>	<u>26,654</u>
(Decrease) increase in cash and cash equivalents	(29,196)	14,495
Cash and cash equivalents - beginning of year	71,450	56,955
Cash and cash equivalents - end of year	<u>42,254</u>	<u>71,450</u>
Supplemental cash flow information		
Interest received	469	959
Interest paid	9,190	8,519

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

Madison Pacific Properties Inc.

Notes to the Consolidated Financial Statements

For the Years Ended August 31, 2021 and 2020

(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, commercial, and multi-family rental properties located in British Columbia, Alberta, and Ontario. The Company also has investments in joint ventures that 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

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). IFRS comprises IFRS, International Accounting Standards (“IAS”), and interpretations issued by the IFRS Interpretations Committee (“IFRIC”) and the former Standing Interpretations Committee (“SIC”).

These consolidated financial statements were approved by the Board of Directors on November 23, 2021.

b. Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for investment properties and financial derivatives, which are measured at fair value.

c. New accounting standards and amendments

During the year ended August 31, 2021, the Company did not adopt any new accounting standards or amendments, or make changes to its accounting policies.

d. Principles of consolidation

Subsidiaries

These 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

Madison Pacific Properties Inc.

Notes to the Consolidated Financial Statements

For the Years Ended August 31, 2021 and 2020

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

control ceases. Where control of an entity is acquired during a financial year, its results are included in the consolidated statement of income and comprehensive income from the date on which control commences.

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.

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(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.

e. Investment properties

Investment properties are held to earn rental income, for capital appreciation, or for both. Investment properties also include properties being constructed or developed for future use, including existing investment properties which undergo redevelopment for continued future use. Property interests held under operating leases are included as investment properties.

An investment property is initially measured at cost, which includes the cost of the acquisition, property transfer taxes, due diligence costs, and standard closing costs. Property interests held under operating leases are recognized at the date of the initial application at an amount equal to the lease liability, using the Company's incremental borrowing rate (note 2(h)(iv)).

After initial recognition, investment properties are carried at fair value. Fair value represents the estimated 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. The fair value of investment properties is based primarily using internally prepared valuations applying the income approach, derived from the capitalization rate method. In applying the capitalization rate method, stabilized net operating income ("stabilized NOI") of each property is divided by an appropriate capitalization rate with adjustments for items such as vacancy rates, non-recoverable capital expenditures and other non-recurring items. Stabilized NOI is determined from the terms of an existing lease or market rents for similar properties.

The capitalization rates used are generally based on ranges provided by external valuers and these assumptions are further compared against information obtained from independent industry experts. On a quarterly basis, the Company primarily uses the capitalization rate method to evaluate the fair value of its investment properties. Changes in fair values are recognized in the consolidated statement of income and comprehensive income.

Fair value measurement on property under construction is only applied if the fair value is considered to be reliably measurable.

Madison Pacific Properties Inc.

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

Subsequent expenditures are capitalized to the asset's carrying amount only when it is probable that the Company will receive future economic benefits associated with the expenditures and the fair value of the investment property exceeds its carrying amount plus subsequent expenditures. All other repair and maintenance costs are expensed when incurred.

For investment properties being constructed, developed or redeveloped for future use, all direct expenditures incurred in connection with the construction or development are capitalized during the development period. This period begins from the date that activities commence to prepare the property for its intended use and ends when such activities are substantially complete.

Depreciation is not taken on investment properties.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss arising on the derecognition of an investment property is recognized as a net gain in the fair value adjustment on investment properties in the consolidated statement of income and comprehensive income in the period in which the investment property is derecognized.

Investment properties are classified as held for sale when the criteria in IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, are met. The resulting sale is recognized when title passes to the purchaser, all or substantially all of the proceeds have been received or are receivable, and all material conditions of the sales agreement have been met.

f. Leases

The Company has retained substantially all of the risks and benefits of ownership of its revenue properties and therefore accounts for leases with its tenants as operating leases. Properties leased out under operating leases are included in investment properties in the consolidated balance sheet.

When a tenant lease provides for free rent periods and/or periodic increases in base rent over the lease term, the total amount of net rental revenue to be received from these leases is accounted for on a straight-line basis over the term of the applicable lease. Accordingly, an asset is recorded for the current difference between the straight-line rent recorded as rental revenue and the rent that is contractually due from the tenant. As the lease term progresses and the step-rate increase is received, the asset is drawn down. The asset is included in the carrying amount of the related investment property.

Tenant incentives comprise costs incurred to make leasehold improvements to tenants' space and are included in the carrying amount of the related investment property. Such incentives are recognized as a reduction of rental income on a straight-line basis over the term of the applicable lease.

Leasing commissions are fees paid in connection with negotiating lease contracts with lessees. Such fees are included in the carrying amount of the related investment property and are amortized on a straight-line basis over the term of the applicable lease.

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

g. Cash and cash equivalents

Cash and cash equivalents comprise primarily cash held in interest bearing accounts with major Canadian financial institutions, and other short-term highly liquid investments with original maturities of three months or less.

h. Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the financial instruments were acquired:

- i. Financial assets and liabilities at fair value through profit or loss (“FVTPL”): A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Derivatives, including interest rate swaps, are also included in this category unless they are designated as hedges.
- ii. Financial assets at fair value through other comprehensive income (“FVOCI”): A financial asset is classified in this category if the asset is held for both the collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, and to sell the financial asset. The Company currently has no financial instruments classified as financial assets at FVOCI.

Financial assets at FVOCI are initially recognized at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. These financial assets are classified as non-current, unless the financial asset matures within 12 months, or management expects to dispose of it within 12 months. When these financial assets are derecognized, the accumulated gains or losses are moved from accumulated other comprehensive income to the consolidated statement of income and comprehensive income.

- iii. Financials assets at amortized cost: The Company’s financial assets at amortized cost comprise loans receivable, cash and cash equivalents, and amounts receivable. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. These financial assets are initially recognized at the amount expected to be received net of any transaction costs incurred, and less, when material, a discount to reduce the amount to fair value. Subsequently, these financial assets are measured at amortized cost using the effective interest method. At each reporting period, each financial asset measured at amortized cost is assessed for impairment. The expected credit loss impairment is 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. Impairment losses are recognized in the consolidated statement of income and comprehensive income.

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

The current portions of loans receivable, cash and cash equivalents, and amounts receivable are included in current assets due to their short-term nature. The balance of loans receivable that is not current is included in non-current assets.

- iv. Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities, bank indebtedness drawn on the line of credit, and debt on investment properties. Accounts payable and accrued liabilities and bank indebtedness drawn on the line of credit are recognized at the amount required to be paid. Debt on investment properties is recognized initially at fair value, net of any transaction costs incurred. Included in debt on investment properties is the lease liability related to property interests held under operating leases. The lease liability is initially measured at the present value of the remaining lease payments that have not been paid as at the commencement date, discounted by using the Company's incremental borrowing rate. Debt on investment properties is subsequently measured at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

i. Derivative financial instruments

The Company enters into interest rate swaps from time to time to manage interest rate risk. Interest rate swaps are financial derivatives and are classified as carried at FVTPL. The fair value of an interest rate swap is included in the consolidated balance sheet within accounts payable and accrued liabilities if the fair value of the interest rate swap results in an unrealized loss, and the fair value of an interest rate swap is included within other current assets if the fair value of the interest rate swap results in an unrealized gain. Gains and losses on re-measurement are included in the consolidated statement of income and comprehensive income (note 6).

j. Revenue recognition

Property revenues include rental revenue and property management revenue. Rental revenue includes the recovery of certain operating expenses and property taxes.

Rental revenue from operating leases is recognized on a straight-line basis over the applicable lease term. The cost of tenant incentives is recognized over the term of the applicable lease as a reduction in rental revenue.

Unearned revenue represents deposits received in advance of rent being earned and property taxes recovered prior to their due date.

Property management revenue is recorded monthly as earned.

k. Stock-based compensation

The Company determines the fair value of stock-based awards at the date of grant using the Black-Scholes option pricing model and recognizes the fair value over the vesting period as stock-based compensation expense with a corresponding adjustment to contributed surplus (note 9(b)).

Madison Pacific Properties Inc.

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l. Provisions

Provisions for restructuring costs, warranties and legal claims, where applicable, are recognized in other liabilities when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material.

m. Income taxes

The Company follows the asset and liability method of accounting for income taxes whereby deferred income tax assets and liabilities are recognized for differences between the bases of assets and liabilities used for financial statement and income tax purposes. Deferred income tax assets and liabilities are calculated using substantively enacted tax rates for the period in which the differences are expected to reverse. Deferred income tax assets are recognized only to the extent that management determines that it is more likely than not that the deferred income tax assets will be realized. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment.

n. Income per share

Basic income per share is calculated by dividing the net income or loss for the year attributable to shareholders of the Company by the weighted average number of Class B voting common shares and Class C non-voting shares outstanding during the year.

Diluted income per share is calculated by adjusting the weighted average number of Class B voting common shares and Class C non-voting shares outstanding for dilutive instruments.

o. Fair value

Fair value measurements recognized in the consolidated balance sheet are categorized in accordance with the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

p. Critical accounting estimates and judgements

The preparation of consolidated financial statements requires management to use judgement in applying its accounting policies and to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period.

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Significant areas requiring the use of management judgements, estimates, and assumptions relate to:

i. Fair value of investment properties

Judgements are made in respect of the fair values of investment properties. The fair values of these investment properties are reviewed at least quarterly by management with reference to independent capitalization rate ranges and market conditions existing at the reporting date, using generally accepted market practices. The capitalization rates used are generally based on ranges provided by external valuers and these assumptions are further compared against information obtained from independent industry experts.

Assumptions used in estimating the fair values of investment properties include capitalization rates, components of stabilized NOI, non-recoverable capital expenditures and vacancy rates. The Company examines the significant assumptions at the end of each reporting period and updates these assumptions based on recent leasing activity and external market data available at that time. If there is any change in these assumptions or in regional, national or international economic conditions, the fair value of investment properties may change materially.

ii. Income taxes

Management has estimated the income tax provision and deferred income tax balances in accordance with its interpretation of the various income tax laws and regulations. It is possible, due to the complexity inherent in estimating income taxes, that the tax provision and deferred income tax balances could change.

In accordance with IAS 12, *Income Taxes*, the Company has recognized income tax losses as deferred income tax assets. At this time, management has estimated that there will be sufficient future taxable income to utilize the losses.

The Company has unrecognized investment tax credits. At this time, management has estimated that the recoverability is still in doubt as the Company has not established when it will be in a taxable position.

Management uses judgement based on underlying facts and assumptions when determining whether a provision for a tax liability or derecognition of a deferred income tax asset is required for tax positions in dispute with tax authorities (note 13).

iii. Allocation of purchase price on investment property acquisitions

On the acquisition of an investment property, the Company is required to make an allocation for the building component of the property in order to calculate depreciation for income tax purposes.

iv. Stock-based compensation

The Company determines the fair value of the stock options and other stock awards at the date of grant using the Black-Scholes option pricing model.

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v. Fair value of debt

The Company makes estimates and assumptions related to fair value disclosure of long-term debt. The critical assumptions underlying the fair value disclosure include credit spread. The Company reviews various comparable debt securities and determines a reasonable credit spread applicable to the debt securities (note 18).

3. Investment properties

	August 31, 2021 \$	August 31, 2020 \$
Balance at beginning of year	542,581	498,456
Recognition of right-of-use asset (notes 3(d))	-	2,353
Additions:		
Acquisitions (note 3(b))	12,297	15,648
Other additions and property development costs	3,557	1,238
Recognition of rental revenue on a straight-line basis	(280)	(386)
Tenant improvements	550	33
Amortization of tenant improvements	(708)	(751)
Leasing commissions	1,343	69
Amortization of leasing commissions	(275)	(252)
Net gain on fair value adjustment	46,031	26,173
	<hr/>	<hr/>
Balance at end of year	605,096	542,581

a. Valuations

When performing fair value assessments for its investment properties, the Company incorporates a number of factors including recent market transactions, recent leasing activity, market vacancy, non-recoverable capital expenditures and other information obtained from market research and recently completed leases and acquisitions. The capitalization rates used are generally based on ranges provided by external valuers and these assumptions are further compared against information obtained from independent industry experts. The COVID-19 pandemic has increased the risk and uncertainty surrounding valuation estimates due to limited market activity for comparable transactions, as well as uncertainty regarding the expected length of the pandemic and the resulting impact on the Company's cash flows from investment properties. In developing its estimates, management performed an assessment of its tenants and portfolio of investment properties, as well as an evaluation of the changes in the overall market conditions for the asset classes in the Company's portfolio since the impact of the pandemic began in early March 2020.

The fair value of the Company's investment properties is considered to be at Level 3 in the fair value hierarchy (note 2(o)), as significant unobservable inputs are required to determine fair value.

b. Investment property acquisitions

During the year ended August 31, 2021, the Company acquired an industrial property with a building totalling 37,418 square feet located in Delta, British Columbia for \$12,297, including closing costs and taxes.

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During the year ended August 31, 2020, the Company acquired a 50% interest in three industrial properties, with buildings totalling 33,179 square feet located in Vancouver, British Columbia for \$7,116 including closing costs and taxes and a 50% interest in a 54-unit residential apartment property in Metro Vancouver for \$8,532, including closing costs and taxes.

c. Investment property dispositions

For the years ended August 31, 2021 and August 31, 2020, the Company had no dispositions of investment properties.

d. Right-of-use asset

Included in investment properties is a right-of-use asset (“ROU Asset”) arising from a land lease. The ROU Asset was recognized effective September 1, 2019 upon the adoption of IFRS 16, *Leases* (“IFRS 16”).

e. Sensitivity

The following table provides a sensitivity analysis for the weighted average capitalization rate on commercial properties applied at August 31, 2021, excluding properties under development and a ROU Asset of \$2,355 (note 3(d)):

Capitalization rate increase (decrease)	Weighted average capitalization rate	Fair value of investment properties (at Company’s ownership) \$	Fair value variance \$	% change
(0.75%)	3.47%	741,193	147,703	24.9%
(0.50%)	3.77%	681,723	88,233	14.9%
(0.25%)	4.06%	633,878	40,388	6.8%
August 31	4.33%	593,490	-	-
0.25%	4.60%	558,559	(34,931)	(5.9%)
0.50%	4.87%	527,877	(65,613)	(11.1%)
0.75%	5.13%	500,626	(92,864)	(15.6%)

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4. Other non-current assets

	August 31, 2021 \$	August 31, 2020 \$
Deposits	18,441	17,356
Investment in associate (note 4(a))	19,010	16,315
Investments in joint ventures (notes 4(b))	51,819	45,291
Loans receivable, deferred rents receivable and other	609	722
	<u>89,879</u>	<u>79,684</u>

Deposits include amounts for income reassessments in dispute (note 13).

a. Investment in associate

The investment in associate includes an equity investment in Grant Street Properties Inc. (“GSP”), a related private company with a December 31st fiscal year-end that owns and manages commercial, industrial and multi-family rental properties. In the year ended August 31, 2020, the Company acquired 240,247 newly issued shares in GSP for cash consideration of \$1,194, resulting in a change of total ownership interest from 33.83% to 33.85%. This investment has been accounted for using the equity method and include equity earnings for the year ended August 31, 2021 of \$2,695 (year ended August 31, 2020 - \$1,184). The Company’s share of assets, liabilities, revenue and other income, and expenses as at and for the year ended August 31, 2021 is \$30,735, \$11,843, \$3,888 and \$1,193, respectively (August 31, 2020 - \$27,894, \$11,697, \$1,959 and \$775, respectively).

b. Investments in joint ventures

The investment in joint ventures includes equity investments in the Silverdale Hills Limited Partnership (the “Silverdale Hills LP”) and the 2798 Barnet Development Limited Partnership (the “Barnet LP”). The Company holds an ownership interest of 50% in each of the Silverdale Hills LP and the Barnet LP. These limited partnerships have November 30th fiscal year-ends and have been accounted for using the equity method and include equity earnings for the year ended August 31, 2021 of \$973 (year ended August 31, 2020 – \$267). The Company’s share of cash and cash equivalents, other current assets, non-current assets, current financial liabilities (excluding trade and other payables), other current liabilities, revenue and other income, and expenses as at and for the year ended August 31, 2021 is \$3,365, \$17,872, \$58,534, \$23,943, \$3,940, \$3,729 and \$2,756, respectively (August 31, 2020 - \$181, \$3,372, \$57,552, \$14,625, \$1,120, \$612 and \$345, respectively).

The Silverdale Hills LP owns approximately 1,388 acres of residential development designated lands in Mission, British Columbia. Approximately 38 acres of these residential lands in Mission are currently under development as townhomes and single family lots for sale. Sales and presales for the first and second phases of the townhome development, which comprises 80 units, commenced in the fourth quarter of fiscal 2021 and as at August 31, 2021 61 single family lots were committed for sale to a single developer.

The Barnet LP owns a retail property in Coquitlam, British Columbia which has redevelopment potential into a residential and mixed-use property.

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During the year ended August 31, 2021, the Company made additional equity investments of \$5,555 in the Silverdale Hills LP. During the year ended August 31, 2020, the Company made additional equity investments of \$5,550 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.

c. Corporate guarantees

The Silverdale Hills LP, of which the Company has a 50% interest, has a committed construction loan facility to a maximum of \$85,369. As at August 31, 2021, \$18,635 and outstanding letters of credit totalling \$7,387 had been drawn against the facility by the Silverdale Hills LP. The loan is repayable on demand, and the Company has provided a guarantee for 50% of this construction loan.

The Company has provided a guarantee of \$14,625 for a \$29,250 bank loan owed by the Barnet LP of which the Company has a 50% interest. The loan is repayable on demand and matures in 2022.

5. Amounts receivable and other current assets

	August 31, 2021	August 31, 2020
	\$	\$
Accounts receivable and deferred rents receivable	243	838
Interest receivable and current portion of loans receivable	77	132
Prepaid expenses, deposits and other	3,529	2,549
	<u>3,849</u>	<u>3,519</u>

6. Debt on investment properties

	August 31, 2021	August 31, 2020
	\$	\$
Balance at beginning of year	269,196	230,350
Recognition of lease liability (notes 6(b))	-	2,353
Net proceeds from debt issuances	37,774	113,122
Amortization of deferred financing costs	278	288
Repayment of debt	(27,201)	(76,917)
	<u>280,047</u>	<u>269,196</u>
Balance at end of year	280,047	269,196
Less: current portion	53,915	34,428
Non-current portion	<u>226,132</u>	<u>234,768</u>

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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), \$270,610 (August 31, 2020 - \$259,911) bears interest at fixed rates ranging from 1.97% to 4.13% (August 31, 2020 - 2.77% to 4.13%) per annum and \$7,750 (August 31, 2020 - \$7,750) bear interest ranging from bank prime rate plus 0.60% to 0.75%, and Banker's Acceptance rates plus 2.35% (August 31, 2020 - bank prime rate plus 0.60% to 0.75%, and Banker's Acceptance rates plus 2.35%). The weighted average interest rate on fixed rate debt as at August 31, 2021 was 3.32% (August 31, 2020 - 3.42%).

See note 18 for minimum principal repayments.

a. Interest rate swaps

The Company has entered into interest rate swaps with Canadian chartered banks on six mortgages to fix the Company's interest rates on those mortgages. The swaps had notional amounts as at August 31, 2021 totalling \$105,817 (August 31, 2020 - \$91,101), fixed swap rates ranging from 2.52% to 3.90%, and maturity dates ranging from September 2022 to July 2025. The total notional amount of the interest rate swaps represented 38.0% as at August 31, 2021 (August 31, 2020 - 34.0%) 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.

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

	Fair value liabilities		Net realized and unrealized gains (losses) on interest rate swaps	
	August 31,		Year ended August 31,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Interest rate swaps	1,840	3,496	1,655	(3,578)

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(d)).

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Future minimum lease payments under this lease are as follows:

	August 31, 2021
	\$
Within twelve months	96
Two to five years	405
Over five years	3,153
Total future minimum lease payments	<u>3,654</u>
Less: future interest costs	<u>(1,299)</u>
Present value of lease payments	<u>2,355</u>

7. Accounts payable and accrued liabilities

	August 31, 2021	August 31, 2020
	\$	\$
Trade payables	550	737
Dividends payable	3,075	3,075
Accrued interest payable	568	500
Other accrued liabilities	1,842	1,263
Tenant deposits	1,432	1,114
Unearned revenue	2,471	2,185
Fair value liabilities on interest rate swaps (note 6)	<u>1,840</u>	<u>3,496</u>
	<u>11,778</u>	<u>12,370</u>

8. Bank indebtedness

The Company has a line of credit of up to \$20,000 (August 31, 2020 - \$20,000) bearing interest at bank prime rate plus 1% or the Banker's Acceptance rate plus 2.50% (August 31, 2020 - bank prime rate plus 1% or the Banker's Acceptance rate plus 2.50%) with a Canadian chartered bank. As at August 31, 2021, \$nil (August 31, 2020 - \$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 August 31, 2021:

- 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.

9. 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 August 31, 2021 and August 31, 2020:

	Class B Shares		Class C Shares		Total	
	Number	Amount \$	Number	Amount \$	Number	Amount \$
Balance – August 31, 2019	7,255,500	7,720	51,315,089	59,752	58,570,589	67,472
Shares cancelled	(8)	-	-	-	(8)	-
Balance – August 31, 2020 and August 31, 2021	7,255,492	7,720	51,315,089	59,752	58,570,581	67,472

No shares were issued or cancelled during the year ended August 31, 2021.

During the year ended August 31, 2020, the Company cancelled eight Class B Shares.

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 November 23, 2021, 1,189,251 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 November 23, 2021, no share options had been granted under the Plan.

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10. Dividends

On July 13, 2021, the Company declared a dividend of \$0.0525 per Class B Share and Class C Share payable on September 7, 2021.

On April 13, 2021, the Company declared the payment of a special cash dividend of \$0.34 per Class B Share and Class C Share payable on May 4, 2021.

On January 12, 2021, the Company declared a dividend of \$0.0525 per Class B Share and Class C Share payable on February 23, 2021.

On July 13, 2020, the Company declared a dividend of \$0.0525 per Class B Share and Class C Share payable on September 8, 2020.

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.

11. Property revenues

The following table summarizes the components of property revenues for the years ended:

	August 31, 2021 \$	August 31, 2020 \$
Rental revenue	31,907	30,202
Property management revenue	884	875
	<u>32,791</u>	<u>31,077</u>

Future minimum rental commitments on non-cancellable tenant operating leases on a calendar year basis beginning January 1, 2022 are summarized in the following table:

Not later than 1 year	\$ 25,499
Later than 1 year and not later than 5 years	65,709
Later than 5 years	<u>15,383</u>
	<u>106,591</u>

12. Property operating and general administrative expenses

For the year ended August 31, 2021, property operating expenses consisted of property taxes of \$6,088 (year ended August 31, 2020 - \$5,109) and other property-related expenses of \$3,316 (year ended August 31, 2020 - \$3,131). Other property-related expenses include credit losses of \$226 (year ended August 31, 2020 - \$390).

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Property operating expenses that relate to investment property vacancies amounted to \$397 for the year ended August 31, 2021 (year ended August 31, 2020 - \$154).

For the year ended August 31, 2021, general and administrative expenses consisted of employee compensation and benefits of \$1,895 (year ended August 31, 2020 - \$2,052), professional fees of \$1,324 (year ended August 31, 2020 - \$568), and other administrative expenses of \$599 (year ended August 31, 2020 - \$566).

13. Income taxes

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

	August 31, 2021	August 31, 2020
	\$	\$
Current income tax expense	1,802	556
Deferred income tax expense	6,503	5,636
	<u>8,305</u>	<u>6,192</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 years ended:

	August 31, 2021		August 31, 2020	
	\$	%	\$	%
Income before income taxes	<u>61,871</u>		<u>36,304</u>	
Expected income taxes at statutory rates	16,471	26.6	9,778	26.9
Adjustments				
Non-taxable portion of unrealized capital gains	(6,136)	(9.9)	(3,550)	(9.7)
Recognition of previously unrecognized tax assets	(457)	(0.7)	(497)	(1.3)
Equity earnings in associate and joint ventures	(990)	(1.6)	(392)	(1.1)
Other items	(583)	(1.0)	853	2.3
Income taxes	<u>8,305</u>	<u>13.4</u>	<u>6,192</u>	<u>17.1</u>

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Deferred income tax liabilities (assets) comprise the following:

	August 31, 2021	August 31, 2020
	\$	\$
Benefit of non-capital losses carried forward	(2,494)	(1,557)
Benefit of capital losses carried forward	(877)	(877)
Undeducted expenditures	-	(248)
Deferred income tax assets not recognized	946	946
Investment properties	49,567	42,545
Tenant improvements and leasing costs	1,351	1,106
Straight-line rental revenue in excess of base rents	682	757
	<u>49,175</u>	<u>42,672</u>

The entire change in deferred income tax liabilities for the years ended August 31, 2021 and August 31, 2020 has been recognized in net income for those respective years.

As at August 31, 2021, the Company has approximately \$8,953 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 \$5,503 of unrecognized federal investment tax credits which begin to expire in 2022, 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
	\$	\$
2022	880	-
2023	1,048	-
2024	934	-
2025	865	-
2026	727	-
2027	689	-
2028	360	-
2037	-	466
2038	-	2,450
2039	-	1,340
2040	-	1,280
2041	-	3,417
	<u>5,503</u>	<u>8,953</u>

In addition, the Company has capital losses carried forward of approximately \$6,494 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 \$657, carryforward capital losses of \$6,494, carryforward scientific research and development expenditures of \$1,515, and investment tax credits of \$6,127. As a result, additional taxes payable for the reassessed years, including interest, total \$38,099. 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 \$18,453 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 \$5,327 as at August 31, 2021.

The Company’s trial with the Tax Court of Canada commenced in November 2020, was adjourned, and is scheduled to resume in February 2022. The previously scheduled trial date for the Company’s subsidiary has been deferred and no new date has been confirmed. 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.

14. Income per share

	2021	2020
Net income attributable to shareholders of the Company	\$50,288	\$29,984
Weighted average number of shares outstanding	58,570,581	58,570,582
Basic and diluted income per share	\$0.86	\$0.51

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15. 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 year ended August 31, 2021, landscaping, maintenance, and construction management services paid to this company totalled \$470 (year ended August 31, 2020 - \$268).

During the year ended August 31, 2020, the Company made short-term interest bearing advances to a maximum of \$2,400 to its equity investee, GSP. GSP is a private company where certain of its shareholders and key management personnel are related to a director of the Company. As at August 31, 2020, the advances were fully repaid to the Company. During the year ended August 31, 2020, the Company earned \$31 of interest on the advances at bank prime rate plus 1%.

On August 6, 2020, the Company acquired 240,247 newly issued shares in GSP, for \$1,194, resulting in a change of total ownership interest from 33.83% to 33.85%. During the year ended August 31, 2020, the Company also jointly acquired three industrial properties and a 54-unit residential apartment property with GSP (Note 3(b)).

b. Transactions and balances with affiliates

During the year ended August 31, 2021, the Company engaged the services of an electrical contractor controlled by a shareholder of the Company for which it paid fees of \$34 (year ended August 31, 2020 - \$157).

During the year ended August 31, 2021, rental revenues of \$2,338 (year ended August 31, 2020 - \$1,940) were received from a shareholder of the Company and from tenants that are companies related to a shareholder of the Company.

During the year ended August 31, 2021, the Company incurred management consulting charges of \$542 from a shareholder of the Company for tax, development and other management support services (year ended August 31, 2020 - \$167).

During the year ended August 31, 2021, the Company recorded administration expenses of \$6 from a company controlled by a shareholder of the Company.

During the year ended August 31, 2021, the Company paid \$1,105 to a significant shareholder of the Company to reimburse the shareholder for shares of the significant shareholder that were issued to certain executives of the Company as compensation for services to the Company and expensed by the Company between 2013 and 2018.

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The Company has provided a limited guarantee of \$14,726 on the MT Properties Limited Partnership mortgage debt. During the year ended August 31, 2021, a guarantee fee of \$44 (year ended August 31, 2020 - \$46) 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 years ended:

	August 31, 2021 \$	August 31, 2020 \$
Salaries and short-term employee benefits	1,539	1,650

16. Interest in joint operations and the MT Properties LP

Joint operations

The Company's interests in investment properties owned through joint operations accounted for using proportionate consolidation are as follows:

Location	Description	Ownership interest as at	
		August 31, 2021	August 31, 2020
Richmond, British Columbia			
3351 Jacombs Road	Industrial	50%	50%
11388 No. 5 Road	Industrial	50%	50%
Burnaby, British Columbia			
7700 Riverfront Gate	Industrial	50%	50%
4750 Tillicum Street	Industrial	50%	50%
8155 North Fraser Way (Note 21)	Industrial	50%	50%
Vancouver, British Columbia			
1625 West 3 rd Avenue & 1855 Fir Street	Retail	50%	50%
148 West 6 th Avenue	Industrial	50%	50%
110-122 West 2 nd Avenue	Industrial	50%	50%
1209-1249 Adanac Street	Industrial	50%	50%
233 East 14 th Avenue	Residential apartments	50%	50%

For these joint operations, the fair value of investment properties and carrying value of debt on those investment properties, at 50%, as at August 31, 2021 were \$87,089 and \$29,950, respectively (August 31, 2020 - \$72,816 and \$29,662, respectively). The Company is contingently liable for the obligations of its joint operations.

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Management believes that the assets of its joint operations are available and sufficient for the purpose of satisfying such obligations.

MT Properties LP

As at August 31, 2021 and August 31, 2020 and for the years then ended, the Company's 60.9% share of the MT Properties LP's assets, liabilities, revenue, expenses, and net gain on fair value adjustment on investment properties are as follows:

	August 31, 2021 \$	August 31, 2020 \$
Assets	42,343	39,323
Liabilities	25,956	27,157
Revenue	2,623	2,475
Expenses	830	2,786
Net gain on fair value adjustment on investment properties	3,160	430

17. 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, commercial, and multi-family 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.

18. Financial instruments

Financial assets and liabilities

The Company classifies its financial instruments as follows:

	Financial assets at amortized cost \$	Financial liabilities at amortized cost \$	Financial liabilities at fair value through profit or loss \$
August 31, 2021			
Other non-current financial assets	18,778	-	-
Cash and cash equivalents	42,254	-	-
Amounts receivable and other current financial assets	320	-	-
Debt on investment properties	-	(280,047)	-
Accounts payable and accrued liabilities	-	(9,938)	-
Fair value liabilities on interest rate swaps	-	-	(1,840)
Total	61,351	(289,985)	(1,840)

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	Financial assets at amortized cost	Financial liabilities at amortized cost	Financial liabilities at fair value through profit or loss
August 31, 2020	\$	\$	\$
Other non-current financial assets	17,762	-	-
Cash and cash equivalents	71,450	-	-
Amounts receivable and other current financial assets	970	-	-
Debt on investment properties	-	(269,196)	-
Accounts payable and accrued liabilities	-	(8,874)	-
Fair value liabilities on interest rate swaps	-	-	(3,496)
Total	90,182	(278,070)	(3,496)

Credit risk

The Company's credit risk is limited to the carrying amount of its cash and cash equivalents, amounts receivable, and long-term receivables.

a. Cash and cash equivalents

Deposits of cash are made with major Canadian banks and only with counterparties meeting certain credit criteria.

b. Amounts receivable

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments or repay loans advanced to assist them with leasehold improvements.

The Company follows a program of credit evaluations of tenants and limits the amount of credit extended when deemed necessary. The Company maintains provisions for expected credit losses, and any such losses to date have been within management's expectations. As at August 31, 2021, the Company has recorded a provision against amounts receivable of \$208 (August 31, 2020 - \$84).

Additionally, the Company mitigates tenant credit risk through staggered lease maturities and diversification of revenue sources resulting from a large tenant base and avoids dependence on any single tenant by ensuring no individual tenant contributes a significant percentage of the Company's gross revenue.

As at August 31, 2021, excluding revenue and leases related to properties under development:

- No one tenant accounted for more than 13.45% (August 31, 2020 – 13.31%) of the Company's rental revenue.

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- Lease maturities were staggered such that no more than 27.73% (August 31, 2020 – 25.59%) of the rental space was subject to renewal in any one year.

Interest rate risk

Borrowings under the Company's operating line of credit bear interest at variable rates. The majority of mortgages bear interest at fixed rates, and therefore, the Company is not exposed to significant interest rate risk on those fixed rate mortgages. As at August 31, 2021, \$nil (August 31, 2020 - \$nil) had been drawn on the line of credit and the Company had \$7,750 (August 31, 2020 - \$7,750) in variable rate mortgages. These variable rate borrowings represent 2.8% (August 31, 2020 – 2.9%) of the Company's total borrowings. The impact of a 1% change in the Company's variable rate borrowings would increase or decrease interest expense and pre-tax earnings for the year by \$78 (year ended August 31, 2020 - \$78). Additionally, the Company earns interest on its cash and cash equivalent balances at variable rates.

Liquidity risk

The Company manages liquidity by maintaining adequate cash balances and by having an appropriate line of credit available. In addition, the Company regularly monitors and reviews both actual and forecasted cash flows. Refinancing risks are minimized by ensuring debt on investment properties has a balanced maturity schedule. Management does not anticipate any difficulty in refinancing debt on investment properties under similar terms as the debt matures.

The following table details the minimum principal repayments for debt on investment properties excluding lease liabilities:

	\$
2022	54,141
2023	63,248
2024	46,982
2025	108,441
2026	5,548
	<hr/>
	278,360
	<hr/>

Fair value

Cash and cash equivalents, amounts receivable, and accounts payable and accrued liabilities have fair values that approximate their carrying values. The estimated fair value of debt on investment properties as at August 31, 2021 is \$284,135 (August 31, 2020 - \$276,927). The fair value of outstanding interest rate swaps is disclosed in note 6.

The estimated fair values of debt on investment properties and interest rate swaps are based on values derived using market interest rates of similar instruments and incorporate assumptions regarding current market interest rates, terms, and the related risk. Accordingly, changes in these assumptions would result in a variance in the fair value estimates.

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19. Commitments

At August 31, 2021, future minimum commitments with respect to a land lease are as follows:

	Direct commitment on land lease \$
2022	96
2023	98
2024	100
2025	102
2026	105
2027 and thereafter	3,153

20. 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 year ended August 31, 2021.

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

	August 31, 2021 \$	August 31, 2020 \$
Fixed rate mortgage loans and lease liability	272,965	262,266
Variable rate mortgages	7,750	7,750
	<u>280,715</u>	<u>270,016</u>
Equity	<u>388,012</u>	<u>364,893</u>
	<u>668,727</u>	<u>634,909</u>

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21. Subsequent event

On August 30, 2021, the Company entered into a contract to purchase the remaining 50% interest it currently does not hold in a property located at 8155 North Fraser Way, Burnaby, British Columbia (note 16) from a company controlled by a shareholder of the Company for \$7,735 excluding closing costs. Payment for the property includes issuance of 99,928 Class B shares and 792,046 Class C shares, and assumption of debt on the property. The acquisition completed on September 30, 2021.