

MADISON PACIFIC PROPERTIES INC.

MANAGEMENT DISCUSSION AND ANALYSIS

(as of July 13, 2021)

(\$000's)

Overview

Madison Pacific Properties Inc. (“Madison” or the “Company”) is in the business of acquiring, developing and managing revenue-producing office, industrial, commercial, and multi-family rental properties located in British Columbia, Alberta, and Ontario. Madison also has investments in joint ventures that develop residential properties.

The following table shows the leasable area and base annual rent (except for properties under development and the Company’s 50% interest in a 54-unit residential apartment) as of July 13, 2021, for the three real estate income property portfolios held by Madison:

Province	Area and Rent ⁽¹⁾⁽²⁾	(in 000's except for leasable area)			
		Industrial	Retail/highway-commercial	Office	Total
British Columbia	Leasable area (sq. ft.)	1,264,261	127,066	116,689	1,508,016
	Base annual rent (\$)	15,789	3,027	4,478	23,294
Alberta	Leasable area (sq. ft.)	269,036	-	-	269,036
	Base annual rent (\$)	2,761	-	-	2,761
Ontario	Leasable area (sq. ft.)	63,030	-	-	63,030
	Base annual rent (\$)	467	-	-	467
Total	Leasable area (sq. ft.)	1,596,327	127,066	116,689	1,840,082
	Base annual rent (\$)	19,017	3,027	4,478	26,522

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

Basis of Discussion and Analysis

This management discussion and analysis (“MD&A”) of the consolidated financial condition of Madison as of May 31, 2021 and the results of its operations for the nine months ended May 31, 2021 was prepared as of July 13, 2021. The MD&A should be read in conjunction with the Company’s unaudited condensed interim consolidated financial statements and accompanying notes for the nine months ended May 31, 2021 and the audited consolidated financial statements and accompanying notes to the consolidated financial statements and MD&A for the year ended August 31, 2020.

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

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

Forward-Looking Statements

This MD&A contains forward-looking statements regarding the future success of Madison's business that are subject to risk and uncertainties. Forward-looking information typically contains statements with words such as "expect", "believe", "plan", "forecast", "intend" or similar words suggesting future outcomes. Examples of such forward-looking statements include statements regarding the Company's expectation to renew mortgage loans as they become due; the estimated amount of potential tax reassessments; the Company's belief that loan facilities together with funds on hand and cash generated from operations should provide adequate liquidity and sufficient funds to pay for potential tax reassessments; the Company's expectation to renew all credit facilities maturing in fiscal 2021 at interest rates and with terms comparable to those currently in place; the Company's expectation to hold interest rate swap contracts and the related floating rate mortgages until maturity; the Company's belief that there will be sufficient future taxable income to utilize income tax losses and undeducted expenditures; and the Company's belief that the recoverability of unrecognized investment tax credits is still in doubt. The material factors and assumptions used to develop forward-looking information include the current level of interest rates in the market, current relationships with the Company's lenders, current capitalization rates and long-term lease agreements supporting income expectations to utilize tax losses.

These forward-looking statements involve known and unknown risks and uncertainties that may cause Madison's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied in these forward-looking statements. These risks include the uncertainties surrounding the COVID-19 pandemic and the impact of related current and future government countermeasures to the Company's business activities. These risks also include risks related to the real estate industry generally such as, changes in interest rates, demand for office, industrial, commercial, and multi-family rentals, illiquidity of real estate investments, non-renewal of tenant leases, risks associated with residential development and related zoning and other permit approvals, joint ventures and co-ownerships, fluctuation in real estate values, geographic concentration of the business, environmental matters and uninsured losses and income tax risk including reassessment and the sufficiency of taxable income to utilize losses. Although the forward-looking statements contained herein are based upon what management believes to be current and reasonable assumptions, Madison cannot assure readers that actual results will be consistent with these forward-looking statements. The forward-looking statements contained herein are made as of the date of this MD&A and are expressly qualified in their entirety by this cautionary statement. Except as required by law, the Company undertakes no obligation to publicly update or revise any such forward-looking statements to reflect any change in its expectations or in events, conditions or circumstances on which any such forward-looking statements may be based, or that may affect the likelihood that actual results will differ from those set forth in the forward-looking statements.

Selected Financial Information

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

(in \$000's except per share amounts)	Nine months ended		Three months ended	
	May 31, 2021	May 31, 2020	May 31, 2021	May 31, 2020
Property revenues	23,894	23,383	8,195	7,403
Property operating expenses	6,761	6,244	2,294	1,777
General and administrative expenses	2,924	2,321	842	663
Net gain on fair value adjustment on investment properties	31,432	23,072	14,053	11,023
Equity earnings of associate and joint ventures	1,871	1,241	155	61
Interest income and unrealized gains on short-term investments	370	1,180	101	523
Interest expense	7,087	6,569	2,344	2,374
Gains (losses) on fair value adjustment on interest rate swaps	1,660	(3,519)	81	(1,706)
Income before income taxes	42,455	30,223	17,105	12,490
Income taxes	5,466	5,093	2,438	2,039
Net income and comprehensive income	36,989	25,130	14,667	10,451
Net income and comprehensive income attributable to the shareholders of the Company	34,106	25,227	14,416	10,706
Income per share	\$0.58	\$0.43	\$0.24	\$0.18
Total assets	707,465	676,791	707,465	676,791
Non-current financial liabilities	196,698	213,198	196,698	213,198
Total debt on investment properties	264,562	244,309	264,562	244,309
Dividends per share	\$0.3925	\$0.0525	\$0.0000	\$0.0000

Results of Operations

The following discussion highlights the significant activities that have occurred from the beginning of the comparative nine month period ended May 31, 2020 and up to the date of this MD&A:

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

Investment property acquisitions:

On June 30, 2021, the Company entered into a contract to purchase an industrial property with a 37,418 square foot building located in Delta, British Columbia for \$12,250 excluding closing costs. The closing date for the purchase is July 29, 2021.

For the nine months ended May 31, 2021, the Company had no acquisitions of investment properties.

In 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 located in Vancouver, British Columbia for \$8,532, including closing costs and taxes.

Investment property dispositions:

For the nine months ended May 31, 2021, and year ended August 31, 2020, the Company had no dispositions of investment properties.

Operating results:

Property revenues: Property revenues include rental revenue, and property and project management revenue. Property revenues for the nine months ended May 31, 2021 increased by 2.2% compared to the nine months ended May 31, 2020, due to an increase in recoverable operating expenses, the addition of a 50% interest in four investment properties in fiscal 2020, and higher rental rates on some properties. Property taxes, which are recoverable from tenants, increased in the nine months ended May 31, 2021 compared to 2020 as a result of the British Columbia government eliminating property tax relief provided in 2020 as financial relief for businesses affected by the COVID-19 pandemic.

Excluding committed space and properties under development, commercial vacancies were 1.23% as at May 31, 2021 and 1.54% as at May 31, 2020. Commercial vacancies were 1.23% as of the date of this MD&A.

Property operating expenses: Property operating expenses for the nine months ended May 31, 2021 increased by 8.3% compared to the nine months ended May 31, 2020, due to an increase in recoverable and non-recoverable operating expenses. There was an increase in recoverable property taxes compared to the prior period (see “Property revenues”). Included in property operating expenses is a provision for expected credit losses of \$173 (nine months ended May 31, 2020 - \$201). The provision for expected credit losses was recorded as an estimate of uncollectible rents and amounts written off for rent abatements for the nine months ended May 31, 2021, due primarily to the COVID-19 pandemic (see “Risks and Uncertainties - COVID-19 Pandemic”).

General and administrative expenses: General and administrative expenses for the nine months ended May 31, 2021, increased by \$603 compared to the nine months ended May 31, 2020. The increase compared to the prior period is primarily due to an increase in legal fees related to litigating our tax case (see “Risks and Uncertainties - Income Taxes”) and an increase in consulting fees.

Net gain on fair value adjustment on investment properties: Net gain on fair value adjustment on investment properties was \$31,432 for the nine months ended May 31, 2021. Valuations are prepared by management based primarily on assumptions relating to cash flows from current leases, rental income from future leases in light of current market conditions and capitalization rates. The capitalization rates used are generally based on ranges provided by external valuation specialists. These assumptions are further compared against information obtained from independent industry experts. Adjustments are made to the carrying values of the investment properties when changes in the underlying valuation assumptions occur. The gain for the nine months ended May 31, 2021 is primarily attributable to a reduction in capitalization rates on some industrial properties and lease rate increases on renewals and new leases.

The table below provides the average capitalization rates on commercial properties (excluding properties under development) and the ranges for each market category as at May 31, 2021 as it relates to the Metro Vancouver market where 78% of the Company's properties are located.

	Company average cap rate	Market range
Industrial	4.11%	3.75% to 5.00%
Retail/highway-commercial ⁽¹⁾	4.51%	3.50% to 4.75%
Office	4.15%	3.25% to 4.75%

(1) Excludes retail property held under leasehold interest.

The following table provides a sensitivity analysis for the weighted average capitalization rate on commercial properties applied at May 31, 2021, except for properties under development and a right-of-use asset of \$2,361:

Capitalization rate increase (decrease)	Weighted average capitalization rate	Fair value of investment properties (at Company's ownership) \$	Fair value variance \$	% Change
(0.75%)	3.51%	706,549	140,616	24.8%
(0.50%)	3.82%	649,442	83,509	14.8%
(0.25%)	4.11%	604,082	38,419	6.7%
May 31	4.39%	565,933	-	-
0.25%	4.66%	532,966	(32,967)	(5.8%)
0.50%	4.93%	504,003	(61,930)	(10.9%)
0.75%	5.19%	478,264	(87,669)	(15.5%)

Equity earnings of associate and joint ventures: Equity earnings of the associate, Grant Street Properties Inc. ("GSP"), for the nine months ended May 31, 2021 was \$1,633 compared to \$1,052 for the nine months ended May 31, 2020. The increase in equity earnings compared to the prior period is primarily attributable to an increase in rental income from the addition of interests in five investment properties in fiscal 2020 and the completion of a development property in December 2019, and higher fair value adjustments on its investment properties. Equity earnings of the 2798 Barnet Development Limited Partnership (the "Barnet LP") and the Silverdale Hills Limited Partnership (the "Silverdale Hills LP") joint ventures was \$238 and \$nil, respectively, for the nine months ended May 31, 2021 compared to \$189 and \$nil, respectively, for the nine months ended May 31, 2020.

Interest income and unrealized gains on short-term investments: For the nine months ended May 31, 2021, the Company earned interest income from surplus cash of \$370 compared to \$823 for the nine months ended May 31, 2020. The decrease in interest income was due primarily to lower interest rates. The unrealized gain on short-term investments of \$357 for the nine months ended May 31, 2020 relates to investments of surplus cash in dividend bearing public company shares. These shares were sold in the fourth quarter of fiscal 2020.

Interest expense: The increase in interest expense by \$518 for the nine months ended May 31, 2021 compared to the nine months ended May 31, 2020 is due primarily to a higher average balance of debt on investment properties compared to the prior period.

Gains (losses) on fair value adjustment on interest rate swaps: The gains on fair value adjustment on interest rate swaps for the nine months ended May 31, 2021 of \$1,660 relate to the total unrealized gains

for the period on six interest rate swaps with a total notional amount of \$89,027. For the nine months ended May 31, 2020, the Company had net losses on the fair value adjustment on interest rate swaps of \$3,519, comprised of realized gains of \$107 and unrealized losses of \$3,626. The Company mitigates some interest rate risk by entering into fixed rate interest rate swaps on some of its mortgages.

Income taxes: Income tax expense was \$5,466 for the nine months ended May 31, 2021 and \$5,093 for the nine months ended May 31, 2020. The increase in income tax expense compared to the prior period is consistent with the increase in income before taxes compared to the prior period. A reconciliation of the income tax provision can be found in note 9 of the consolidated financial statements.

Net income and comprehensive income: The overall increase in net income and comprehensive income for the nine months ended May 31, 2021 compared to the nine months ended May 31, 2020 is explained in the analysis provided above.

Operating capital: Madison funds its current operations from its cash flows from operating activities, mortgages, construction loans, a lease liability and a bank line of credit. For the nine months ended May 31, 2021, Madison generated \$7,588 of cash flows from continuing operations (before changes in non-cash balances). Madison has a \$20,000 operating line of credit with a Canadian chartered bank. The Company had drawn \$nil on the line of credit as at May 31, 2021 (August 31, 2020 - \$nil). Madison has been able to obtain new mortgage financing and renew its existing mortgages at interest rates and on terms comparable to fiscal 2020.

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

Quarter ended	Property revenues	Net gain on fair value adjustment on investment properties	Net income and comprehensive income	Net income attributable to shareholders of the Company	Income per share attributable to shareholders of the Company
August 31, 2019	8,006	9,717	11,814	11,293	\$0.19
November 30, 2019	7,810	6,300	8,076	7,568	\$0.13
February 29, 2020	8,170	5,749	6,603	6,953	\$0.12
May 31, 2020	7,403	11,023	10,451	10,706	\$0.18
August 31, 2020	7,694	3,101	4,982	4,757	\$0.08
November 30, 2020	7,619	1,771	3,740	3,478	\$0.06
February 28, 2021	8,080	15,608	18,582	16,212	\$0.28
May 31, 2021	8,195	14,053	14,667	14,416	\$0.24

2021 Quarterly Comparison

Overview: Quarterly net income and comprehensive income is significantly impacted by the net gain on fair value adjustment on investment properties, the gains on fair value adjustment on interest rate swaps, and the provision for expected credit losses. The table above highlights the property revenues and net income and comprehensive income by quarter.

Property revenues: Property revenues for the first quarter of fiscal 2021 decreased compared to the fourth quarter of fiscal 2020, due to a decrease in recoverable operating expenses. Property revenues for the second and third quarter of fiscal 2021 increased compared to the first quarter of fiscal 2021, due primarily to an increase in lease rates on some properties and recoverable operating costs.

Net income and comprehensive income: Net income and comprehensive income was significantly impacted by the net gain on fair value adjustment on investment properties, the gains on fair value adjustment on interest rate swaps and the provision for expected credit losses. As a result, the quarterly net income and comprehensive income amounts are not comparable.

2020 Quarterly Comparison

Overview: Quarterly net income and comprehensive income is significantly impacted by the net gain on fair value adjustment on investment properties, the losses on fair value adjustment on interest rate swaps and the provision for expected credit losses. The table above highlights the property revenues and net income and comprehensive income by quarter.

Property revenues: Property revenues for the first quarter of fiscal 2020 decreased compared to the fourth quarter of fiscal 2019, due to a non-recurring lease termination fee recognized in the prior quarter. Property revenues for the second quarter of fiscal 2020 increased compared to the first quarter of fiscal 2020 due primarily to an increase in lease rates and recoverable operating costs. Property revenues for the third and fourth quarters of fiscal 2020 decreased compared to the second quarter due to a decrease in recoverable operating costs. Property taxes, recoverable from tenants, decreased as a result of the British Columbia government reducing 2020 property taxes to provide financial relief for businesses affected by the COVID-19 pandemic. The reduction in property taxes for the first five months of 2020 was recognized in the third quarter of fiscal 2020.

Net income and comprehensive income: Net income and comprehensive income was significantly impacted by the net gain on fair value adjustment on investment properties, the losses on fair value adjustment on interest rate swaps and the provision for expected credit losses. As a result, the quarterly net income and comprehensive income amounts are not comparable.

2019 Quarterly Comparison

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

Property revenues: Property revenues for the fourth quarter of fiscal 2019 was relatively consistent with prior quarters of 2019.

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

Liquidity and Capital Resources

As at May 31, 2021, the Company had cash on hand of \$43,426 (August 31, 2020 - \$71,450) and had drawn \$nil (August 31, 2020 - \$nil) against its line of credit. Cash and cash equivalents comprise primarily cash held in interest bearing accounts with major Canadian financial institutions. The Company has a maximum line of credit of \$20,000. The line of credit with a Canadian chartered bank bears interest at bank prime rate plus 1% or the Banker's Acceptance rate plus 2.50%. The line of credit may be used for general business purposes and the amount available for such uses varies with the value of investment properties pledged, up to a maximum of \$20,000. Second mortgages against certain of the Company's investment properties, assignments of rents and insurance, as well as general security agreements creating floating charges over all of the Company's assets, have been provided as security. Amounts advanced under the line of credit are

repayable on demand. The line of credit agreement contains financial ratios which must be maintained, for which the Company is in compliance.

The primary objective of the Company's capital management is to ensure that it maintains adequate capital in order to support its business and maximize shareholder value. The Company manages its capital structure with the goal of minimizing risk to the stability of cash flows from properties. Other goals include maintaining its debt service coverage, interest coverage and debt to equity ratios as well as maintaining minimum amounts of shareholders' equity as required by the Company's line of credit agreement. The Company's capital includes mortgage and construction loans, a lease liability, a line of credit and shareholders' equity. The Company maintains larger cash balances from time to time for investment opportunities that may become available. From time to time and subject to board of directors approval, the Company may invest a small portion of surplus cash in highly liquid dividend paying investments.

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

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

Risks and Uncertainties

Real Estate Industry

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

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

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

Madison manages these risks through ownership of good quality properties combined with a diverse tenant base. As at May 31, 2021, no one commercial tenant accounted for more than 13.75% (August 31, 2020 - 13.31%) of the commercial rental revenue of Madison and lease maturities are staggered such that as at May 31, 2021, no more than 27.60% (August 31, 2020 - 25.59%) of the commercial rental space was subject to renewal in any one year.

Revenue-Producing Properties

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

The Company made its first investment in residential apartments in August 2020 by investing in a 50% interest of a 54-unit apartment building in Vancouver, British Columbia. In addition to risks similar to commercial income properties, residential apartments are typically subject to greater government regulation.

COVID-19 Pandemic

The COVID-19 pandemic has caused financial market disruption, social dislocation, and temporary business closures or curtailed operations, particularly in the restaurant and retail sectors. Certain tenants of the Company have had to reduce services provided and in some cases close operations or face mandatory closure orders from government. Other tenants have seen their operations reduced due to reduced on-site employees and disruptions in supply chains. While governments have eased COVID-19 restrictions and businesses have reopened, there are still restrictive measures in place. Some tenants of the Company are facing business challenges that have adversely affected their ability to pay rent in a timely manner. The inability to collect rents in a timely manner or any inability to enforce remedies for rent not paid as a landlord could adversely affect the Company's business and financial results. During the COVID-19 pandemic, the Company offered short-term rent deferrals and minor rent abatements to certain tenants. As at May 31, 2021, outstanding rent deferrals amounted to approximately \$473. The Company previously applied on behalf of some tenants for the Canada Emergency Commercial Rent Assistance ("CECRA") program and provided rent abatements to certain tenants, which resulted in rent abatements for the nine months ended May 31, 2021 of \$105 (nine months ended May 31, 2020 - \$159).

Joint Venture Residential Developments

Madison has two properties held through separate 50/50 joint ventures where the lands have residential and mixed-use development potential under the current respective official community plans. The Company, in conjunction with its joint venture partners is at various stages with the properties, including commencing development of a small section of one site (see "Silverdale Hills LP"), and is currently investigating the feasibility and redevelopment potential of other properties, including rezoning requirements. The joint ventures, which are described below, are accounted for using the equity method of accounting.

Silverdale Hills LP

Madison has a 50% interest in the Silverdale Hills LP which owns approximately 1,389 acres of undeveloped residential lands in Mission, British Columbia. In the nine month period ended May 31, 2021, the Company made additional equity investments of \$1,150 in the Silverdale Hills LP. In the year ended August 31, 2020, the Company made equity investments of \$5,550 in the Silverdale Hills LP. The additional equity was required to fund development costs and the acquisition of additional parcels of undeveloped residential land. In October 2018, the Silverdale Hills LP obtained approval from the District of Mission to develop 162 townhomes and 65 single family lots, which consumes approximately 38 acres of land inventory. Sales for the first and second phases of the townhome development, which comprises 80 units, and sales of the 65 single family lots commenced in the fourth quarter of fiscal 2021. Development of this

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

Barnet LP

Madison has a 50% interest in the Barnet LP which owns a retail property in Coquitlam, British Columbia. The Barnet LP has submitted an application to the City of Coquitlam to redevelop this site into a residential and mixed-use property. The proposal to the City of Coquitlam is to construct three buildings with a total of 1,061 residential units, and one building with 300 residential rental units and 145,700 square feet of commercial space. Redevelopment of this site is subject to economic feasibility and obtaining all necessary approvals, including rezoning and development approvals, none of which are certain as of the date of this MD&A.

Risks Associated with Residential Development Activities

There are a variety of risks associated with the Company's development activities such as municipal regulatory requirements and environmental considerations that affect the approval for planning, subdivision and use of land. During this period, market conditions may change dramatically. Other risks include increasing costs of construction, reduced demand for new residential units, changes in regulations and taxes, and general market risk. The Company is also subject to risk that the actual performance of development properties acquired by the Company may be materially different from the assumptions made by management of the Company when purchasing the properties or initiating development. The Company manages the risks associated with its development activities by entering into joint ventures with experienced developers with a long history of successful development in Metro Vancouver.

Joint Ventures and Co-ownerships

The Company participates in joint ventures, partnerships and similar arrangements that may involve risks and uncertainties not present absent third-party involvement, including, but not limited to, Madison's dependency on partners, co-tenants or co-venturers that are not under the Company's control and that might become bankrupt or otherwise fail to fund their share of required capital contributions, or suffer reputational damage that could have an adverse impact on the Company. Additionally, the Company's partners might at any time have economic or other business interests or goals that are different than or inconsistent with those of Madison, and the Company may be required to take actions that are in the interest of the partners collectively, but not in Madison's sole best interests. Accordingly, Madison may not be able to favourably resolve issues with respect to such decisions, or the Company could become engaged in a dispute with any of them that might affect its ability to operate the business or assets in question.

Fluctuations in Real Estate Values

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

Geographic Concentration

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

Environmental Matters

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

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

General Uninsured Losses

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

Income Taxes

The Company and certain subsidiaries have received from the Canada Revenue Agency ("CRA") and Alberta Tax and Revenue Administration ("ATRA") tax notices of reassessment for various taxation years. The reassessments deny the application and usage of certain non-capital losses, capital losses, deductions

and investment tax credits arising from prior years. In addition, the CRA and ATRA are disallowing unclaimed 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 \$38,074. 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 \$18,440 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 \$5,079 as at May 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 the consolidated financial statements for the reassessed taxes payable and related interest described above nor has it reduced the carrying value of deferred income tax assets recorded for unused 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.

Interest Rate Fluctuations

Madison's capital structure involves risks primarily associated with leverage and interest rates. Madison's financing includes some indebtedness with interest rates set on a floating rate basis which could result in fluctuations in Madison's cost of borrowing. Madison has mitigated interest rate risk by refinancing over 97% of its debt on investment properties (mortgage loans, excluding lease liabilities) at fixed rates ranging from 1.97% to 4.13% per annum and staggering maturities up to five years so that no more than 33.2% of such debt matures in one year. The Company has variable rate borrowings as of May 31, 2021 of \$7,750 (August 31, 2020 - \$7,750), which bear interest ranging from bank prime rate plus 0.60% to 0.75%, and Banker's Acceptance rate plus 2.35% (August 31, 2020 - prime rate plus 0.60% to 0.75%). The Company has not experienced any difficulties in renewing mortgages as they have become due. The Company also mitigates interest rate risk by entering into interest rate swaps. As at May 31, 2021, the Company had entered into interest rate swaps with Canadian chartered banks on six mortgages to reduce the impact of fluctuating interest rates and fix the Company's interest rates on those mortgages. The swaps had notional amounts as at May 31, 2021 totalling \$89,027, fixed swap rates ranging from 2.92% to 3.90%, and maturity dates ranging from June 2021 to July 2025. The total notional amount of the interest rate swaps represented 33.9% as at May 31, 2021 (August 31, 2020 - 34.0%) of the total debt on investment properties (before netting of deferred financing costs and fair value adjustments to assumed debt and excluding lease liabilities). The Company anticipates holding the mortgages and interest rate swap contracts until maturity.

The weighted average interest rate on fixed rate mortgage debt as at May 31, 2021 was 3.40% (August 31, 2020 - 3.42%). Madison has approximately \$7,750 in floating rate mortgages. The Barnet LP, of which the Company owns a 50% interest and is accounted for using the equity method, has a floating rate demand loan of \$29,250. The Silverdale Hills LP, of which the Company owns a 50% interest and is accounted for using the equity method, has a floating rate demand construction loan facility to a maximum of \$61,796. As at May 31, 2021, \$12,424 and letters of credit totalling \$11,223 had been drawn against the facility.

The Company has a line of credit that bears interest at bank prime rate plus 1% or the Banker's Acceptance rate plus 2.50%. The line of credit may be used for general business purposes and the amount available for such uses varies with the value of investment properties pledged, up to a maximum of \$20,000. As at May 31, 2021, \$nil had been drawn on the line of credit. The Company's variable rate borrowings represent 3.0% (August 31, 2020 - 2.9%) of total borrowings. The impact of a 1.0% interest rate change on the Company's variable rate debt would increase or decrease interest expense and pre-tax earnings by \$78 per year.

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

Contractual Obligations

(in \$000's)	Payments due by fiscal year				
	Total	June 2021 - August 2021	September 2021 - August 2023	September 2023 - August 2025	September 2025 and thereafter
Debt on investment properties ⁽¹⁾⁽²⁾	262,856	25,960	105,878	125,470	5,548
Undiscounted land lease liability	3,678	24	195	203	3,256

- (1) The amount in the period from June 2021 to August 2021 includes demand loans totalling \$7,750. Interest payments on these demand loans are made monthly until their maturities between 2022 and 2023.
- (2) Excluded from the table is the Company's 50% share of a \$29,250 bank loan owed by the Barnet LP and the Company's 50% share of \$12,424 drawn on a construction loan owed by the Silverdale Hills LP, both of which are accounted for using the equity method. The Barnet LP loan matures in September 2021, is payable on demand and the Company has provided a limited guarantee of \$14,625. The Silverdale Hills LP has a construction loan facility of up to \$61,796, which is payable on demand. The Company has provided a limited guarantee for 50% of the construction loan owed by the Silverdale Hills LP.

Off-Balance Sheet Arrangements

Madison is required to provide letters of credit to municipalities in connection with development charges and rezoning applications. As of July 13, 2021, there were no outstanding letters of credit held by the Company or its subsidiaries. The Silverdale Hills LP, of which the Company owns a 50% interest and is accounted for using the equity method, has outstanding letters of credit totalling \$8,837.

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

Transactions with Related Parties

The Company has engaged the services of G.W. Property Services Ltd., a landscaping and building services company owned by a related party. During the nine month period ended May 31, 2021, landscaping, maintenance, and construction management services paid to this company totaled \$359 (nine months ended May 31, 2020 - \$166). There are no long-term commitments with this company, which provides required landscaping and maintenance on some investment properties.

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 that owns and manages commercial, industrial and multi-family rental properties, where certain of its shareholders and key management personnel are related to a director of Madison. The Company holds an ownership interest of 33.85% in GSP. As at May 31, 2021 and August 31, 2020, the advances were fully repaid to the Company.

During the nine month period ended May 31, 2020, the Company earned \$31 of interest at bank prime rate plus 1%.

During the year ended August 31, 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%. The Company also jointly acquired three industrial properties and a 54-unit residential apartment property with GSP (see “Investment property acquisitions” above).

For the nine months ended May 31, 2021, the Company engaged the services of Western Integrated Electrical Ltd., an electrical contractor controlled by a shareholder of the Company, for which it paid fees of \$33 (nine months ended May 31, 2020 - \$156).

For the nine months ended May 31, 2021, rental revenues totalling \$1,581 (nine months ended May 31, 2020 - \$1,465) were received from Madison Venture Corporation (“MVC”), and Arrow Speed Controls Limited, Continental Electrical Motor Services Ltd., 0777061 B.C. Ltd., Madison Industrial Equipment Inc., GVIC Communications Corp., Glacier RIG Ltd. and REW Digital Ltd., which are tenants and companies controlled by MVC. These companies have lease agreements with the Company. MVC is a shareholder of the Company and certain of its directors are directors of the Company. Rental revenues received from GVIC Communications Corp., Glacier RIG Ltd. and REW Digital Ltd. include revenues received from April 15, 2021, the date at which these entities became related parties to MVC, up to the end of the reporting period. As at May 31, 2021, \$197 of accounts receivable was owing from GVIC Communications Corp. and for the nine month period ended May 31, 2021, the Company charged \$2 for interest on the receivable balance.

For the nine months ended May 31, 2021, the Company incurred consulting fees to MVC for various development, management, and administration services, including assistance with challenges to our tax reassessments of \$350 (nine months ended May 31, 2020 - \$105).

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

The Company has provided a limited guarantee of \$14,726 on the MT Properties Limited Partnership mortgage debt. During the nine month period ended May 31, 2021, a guarantee fee of \$33 (nine months ended May 31, 2020 - \$35) was paid to the Company.

Key management personnel include the Company’s directors and officers. For the nine months ended May 31, 2021, compensation awarded to key management personnel included salaries and short-term employee benefits of \$1,180 (nine months ended May 31, 2020 - \$1,210).

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

Outstanding Share Data

As of July 13, 2021, there were 7,255,492 Class B voting common shares (“Class B Shares”) and 51,315,089 Class C non-voting shares (“Class C Shares”) outstanding.

Share Option Plan

The Company implemented a share option plan (the “Plan”) effective January 1, 2019. Under the Plan, the Company reserves Class B 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 July 13, 2021, 1,171,411 Class B Shares are reserved for issuance under the Plan. The Plan provides that share options may be issued only to executives, employees and outside directors of the Company or of any of its subsidiaries and that options granted to insiders (as defined by Toronto Stock Exchange rules) shall not exceed 10% of the outstanding Class B Shares.

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

As at July 13, 2021, no share options had been granted.

Cash Flows from Operating Activities

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

(in \$000’s)	May 31, 2021	May 31, 2020
Net income	36,989	25,130
Items not affecting cash		
Net gain on fair value adjustment on investment properties	(31,432)	(23,072)
Amortization	934	977
Allowance for expected credit losses	72	201
Equity earnings of associate and joint ventures	(1,871)	(1,241)
Unrealized gains on short-term investments	-	(357)
Unrealized (gains) losses on fair value adjustment on interest rate swaps	(1,660)	3,626
Recognition of rental revenue on a straight-line basis	341	278
Deferred income taxes	4,215	4,662
	7,588	10,204
Increase in amounts receivable and other assets	(416)	(758)
Decrease in income taxes receivable	24	-
Increase (decrease) in accounts payable and accrued liabilities	839	(4)
	8,035	9,442

For the nine months ended May 31, 2021, Madison generated \$7,588 of cash flows from continuing operations (before changes in non-cash balances) compared to \$10,204 for the nine months ended May 31, 2020. The decrease compared to the prior period is due primarily to an increase in professional fees, net interest expense and current income taxes for the nine months ended May 31, 2021 compared to the nine months ended May 31, 2020.

Financial Instruments

Madison finances its investment properties primarily through conventional mortgage loans. These mortgages have remaining terms of between one and five years, and as at May 31, 2021, had a weighted

average interest rate of 3.40% (August 31, 2020 - 3.42%). Of the total amount of debt on investment properties outstanding (excluding lease liabilities) as at May 31, 2021, \$16,456 of mortgages are scheduled to mature by August 31, 2021. Additionally, the Barnet LP, of which the Company owns a 50% interest, has a demand loan of \$29,250 which matures in September 2021. The Silverdale Hills LP, of which the Company owns a 50% interest, has a demand construction loan facility of up to \$61,796. As at May 31, 2021, \$12,424 and letters of credit totalling \$11,223 had been drawn against the facility.

Madison anticipates being able to renew all credit facilities maturing in fiscal 2021 at interest rates and with terms comparable to those currently in place.

As at May 31, 2021, the Company had 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 May 31, 2021 totalling \$89,027 (August 31, 2020 - \$91,101) fixed swap rates ranging from 2.92% to 3.90%, and maturity dates ranging from June 2021 to July 2025. The total notional amount of the interest rate swaps represented 33.9% as at May 31, 2021 (August 31, 2020 - 34.0%) of the total debt on investment properties (before the netting of deferred financing costs and fair value adjustments to assumed debt and excluding lease liabilities). The Company anticipates holding the mortgages and interest rate swap contracts until maturity.

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

	Fair value liabilities		Net realized and unrealized gains (losses) on interest rate swaps	
			Nine months ended	
	May 31, 2021	August 31, 2020	May 31, 2021	May 31, 2020
	\$	\$	\$	\$
Interest rate swaps	1,836	3,496	1,660	(3,519)

Critical Accounting Estimates and Judgements

It is necessary for the Company to use estimates and judgements in applying the significant accounting policies as described in note 2 of the August 31, 2020 consolidated financial statements. In determining estimates, management uses the information available to the Company at the time. Management reviews key estimates on a regular basis to determine their appropriateness. There is no material update from the critical accounting estimates disclosure contained in the August 31, 2020 MD&A.

Effectiveness of the Internal and Disclosure Controls and Procedures

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

The Company did not make any changes to the design of its internal controls over financial reporting in the nine months ended May 31, 2021 that would have materially affected, or would be reasonably likely to materially affect the Company's internal controls over financial reporting.

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

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

Additional Information

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