

MADISON PACIFIC PROPERTIES INC.

MANAGEMENT DISCUSSION AND ANALYSIS

(as of July 14, 2022)

(\$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 14, 2022, 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.)	1,324,597	132,474	116,689	1,573,760
	Base annual rent (\$)	17,963	3,127	4,530	25,620
Alberta	Leasable area (sq. ft.)	269,036	-	-	269,036
	Base annual rent (\$)	2,703	-	-	2,703
Ontario	Leasable area (sq. ft.)	63,030	-	-	63,030
	Base annual rent (\$)	467	-	-	467
Total	Leasable area (sq. ft.)	1,656,663	132,474	116,689	1,905,826
	Base annual rent (\$)	21,133	3,127	4,530	28,790

- (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, 2022 and the results of its operations for the nine months ended May 31, 2022 was prepared as of July 14, 2022. 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, 2022 and the audited consolidated financial statements and accompanying notes to the consolidated financial statements and MD&A for the year ended August 31, 2021.

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 unaudited 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 2022 with terms comparable to those currently in place except for higher interest rates; the Company's expectation that the Bank of Canada will continue to increase its overnight interest rate until it achieves its target inflation range; 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 the Company's belief that the recoverability of unrecognized investment tax credits is still in doubt. The material factors and assumptions used to develop forward-looking information include the current level of interest rates in the market, current relationships with the Company's lenders, current capitalization rates and long-term lease agreements supporting income expectations to utilize tax losses.

These forward-looking statements involve known and unknown risks and uncertainties that may cause Madison's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied in these forward-looking statements. These risks include risks related to the real estate industry generally such as, financing and 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 and the COVID-19 pandemic. 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, 2022	May 31, 2021	May 31, 2022	May 31, 2021
Property revenues	28,011	23,894	9,456	8,195
Property operating expenses	8,510	6,761	2,589	2,294
General and administrative expenses	3,207	2,924	1,141	842
Net gain on fair value adjustment on investment properties	21,580	31,432	10,500	14,053
Equity earnings of associate and joint ventures	9,303	1,871	4,381	155
Interest income	357	370	152	101
Interest expense	7,739	7,087	2,643	2,344
Gains on fair value adjustment on interest rate swaps	5,592	1,660	2,449	81
Income before income taxes	45,387	42,455	20,565	17,105
Income taxes	8,108	5,466	3,635	2,438
Net income and comprehensive income	37,279	36,989	16,930	14,667
Net income and comprehensive income attributable to the shareholders of the Company	35,716	34,106	16,321	14,416
Income per share	\$0.60	\$0.58	\$0.27	\$0.24
Total assets	810,787	707,465	810,787	707,465
Non-current financial liabilities	247,216	196,698	247,216	196,698
Total debt on investment properties	309,176	264,562	309,176	264,562
Dividends per share	\$0.0525	\$0.3925	\$0.0000	\$0.3400

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, 2021 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 (“Class B shares”) and Class C non-voting share (“Class C shares”) payable on May 4, 2021.

Investment property acquisitions:

On May 26, 2022, the Company entered into a contract to purchase a light industrial property with a 17,540 square foot building located in Vancouver, British Columbia for \$18,000 excluding closing costs and taxes. The closing date for the purchase is July 27, 2022.

During the nine months ended May 31, 2022, the Company purchased a highway-commercial property with a 5,484 square foot building and a site area of 31,260 square feet located in Chilliwack, British Columbia for \$3,939 including closing costs and taxes.

During the nine months ended May 31, 2022, the Company acquired the remaining 50% interest it did not hold in a property located at 8155 North Fraser Way, Burnaby, British Columbia from a company controlled by a shareholder of the Company for \$7,735 excluding closing costs. Payment for the property included the

issuance of 99,928 Class B shares and 792,046 Class C shares for a total of \$5,243, and the assumption of debt on the property of \$2,492.

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

Investment property dispositions:

For the nine months ended May 31, 2022, and year ended August 31, 2021, 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, 2022 increased by 17.2% compared to the nine months ended May 31, 2021, due to higher rental rates on some properties, an increase in recoverable operating expenses, the addition of two investment properties since fiscal 2020 and the addition of a 50% interest in an investment property in the first quarter of fiscal 2022. Property taxes, which are recoverable from tenants, increased in the nine months ended May 31, 2022 compared to the nine months ended May 31, 2021 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 0.97% as at May 31, 2022 and 1.23% as at May 31, 2021. Commercial vacancies were 0.97% as of the date of this MD&A.

Property operating expenses: Property operating expenses for the nine months ended May 31, 2022 increased by 25.9% compared to the nine months ended May 31, 2021, due to an increase in recoverable and non-recoverable operating expenses, including a significant 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 \$51 (nine months ended May 31, 2021 - \$173). The provision for expected credit losses was recorded as an estimate of uncollectible rents for the nine months ended May 31, 2022.

General and administrative expenses: General and administrative expenses for the nine months ended May 31, 2022, increased by \$283 compared to the nine months ended May 31, 2021. The increase compared to the prior period is primarily due to an increase in management consulting fees and public reporting fees. The increase was partially offset by a decrease in employee compensation.

Net gain on fair value adjustment on investment properties: Net gain on fair value adjustment on investment properties was \$21,580 for the nine months ended May 31, 2022. 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 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, 2022 is primarily attributable to 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, 2022 as it relates to the Metro Vancouver market where approximately 79% of the Company's properties are located.

	Company average cap rate	Market range
Industrial	4.05%	3.75% to 5.00%
Retail/highway-commercial ⁽¹⁾	4.32%	3.50% to 4.75%
Office	4.18%	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, 2022 except for properties under development and a right-of-use asset of \$2,336:

Capitalization rate increase (decrease)	Weighted average capitalization rate	Fair value of investment properties (at Company's ownership) \$	Fair value variance \$	% Change
(0.75%)	3.45%	782,059	155,811	24.9%
(0.50%)	3.75%	719,457	93,209	14.9%
(0.25%)	4.03%	668,942	42,694	6.8%
May 31	4.31%	626,248	-	-
0.25%	4.58%	589,303	(36,945)	(5.9%)
0.50%	4.85%	556,846	(69,402)	(11.1%)
0.75%	5.11%	528,018	(98,230)	(15.7%)

Equity earnings of associate and joint ventures: Equity earnings of the associate, Grant Street Properties Inc. ("GSP"), for the nine months ended May 31, 2022 was \$969 compared to \$1,633 for the nine months ended May 31, 2021. The decrease in equity earnings compared to the prior period is primarily attributable to lower 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 \$8,334 for the nine months ended May 31, 2022 compared to \$238 for the nine months ended May 31, 2021. The increase in equity earnings in joint ventures compared to the prior period is primarily attributable to sales of townhomes and single family lots in the Silverdale Hills LP that completed during the nine months ended May 31, 2022 (see "Risks and Uncertainties – Silverdale Hills LP").

Interest income: For the nine months ended May 31, 2022, the Company earned interest income from surplus cash of \$357 compared to \$370 for the nine months ended May 31, 2021. The decrease in interest income was due primarily to a lower average cash balance in the current period and was partially offset by higher interest rates.

Interest expense: The increase in interest expense by \$652 for the nine months ended May 31, 2022 compared to the nine months ended May 31, 2021 is due primarily to a higher average balance of debt on investment properties compared to the prior period.

Gains 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, 2022 of \$5,592 is comprised of unrealized gains of \$4,609 for the period on five interest rate swaps with a total notional amount of \$88,735 and realized gains of \$983 on

the termination of one interest rate swap. For the nine months ended May 31, 2021, the Company had net gains on the fair value adjustment on interest rate swaps of \$1,660. 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 \$8,108 for the nine months ended May 31, 2022 and \$5,466 for the nine months ended May 31, 2021. 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, 2022 compared to the nine months ended May 31, 2021 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, 2022, Madison generated \$7,365 of cash flows from continuing operations (before changes in non-cash balances). Madison has an operating line of credit of up to \$20,000 with a Canadian chartered bank. The Company had drawn \$nil on the line of credit as at May 31, 2022 (August 31, 2021 - \$nil). Madison has been able to obtain new mortgage financing and renew its existing mortgages on terms comparable to fiscal 2021 except for higher interest rates.

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, 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
August 31, 2021	8,897	14,599	16,577	16,182	\$0.28
November 30, 2021	8,978	3,838	9,311	8,746	\$0.15
February 28, 2022	9,577	7,242	11,038	10,649	\$0.18
May 31, 2022	9,456	10,500	16,930	16,321	\$0.27

2022 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 equity earnings of associate and joint ventures. 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 2022 increased compared to the fourth quarter of fiscal 2021, due to the addition of an investment property in the fourth quarter of fiscal 2021, an addition of a 50% interest in an investment property in the first quarter of fiscal 2022 and an increase in lease rates on some properties. Property revenues for the second quarter of fiscal 2022 increased compared to the first quarter of fiscal 2022 due primarily to an increase in recoverable operating costs and an increase in lease rates on some properties. Property revenues for the third quarter of fiscal 2022 were comparable to the second quarter of fiscal 2022.

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 equity earnings of associate and joint ventures. As a result, the quarterly net income and comprehensive income amounts are not comparable.

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 last three quarters of fiscal 2021 increased compared to the first quarter of fiscal 2021 due primarily to an increase in recoverable operating costs and lease rates on some properties.

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 third and fourth quarters of fiscal 2020 were relatively consistent and decreased compared to the first and second quarters of fiscal 2020 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 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.

Liquidity and Capital Resources

As at May 31, 2022, the Company had cash on hand of \$57,947 (August 31, 2021 - \$42,254) and had drawn \$nil (August 31, 2021 - \$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 and the cash flows the properties generate, 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, 2022, no one commercial tenant accounted for more than 12.67% (August 31, 2021 - 13.45%) of the commercial rental revenue of Madison and lease maturities are staggered such that as at May 31, 2022, no more than 27.85% (August 31, 2021 - 27.73%) 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 has a 50% interest in 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 regulations.

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. While governments have eased COVID-19 restrictions and businesses have reopened, given the uncertainty regarding the expected length of the pandemic and the number of new variants, there are still some restrictive measures in place. The continuing risks and uncertainties arising from the COVID-19 pandemic include, but are not limited to, the tenants' ability to pay rent or to pay rent in a timely manner, the impact of related current and future government countermeasures, domestic and global supply chain disruption and demand and supply of the labour market.

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 1,400 acres of residential development lands in Mission, British Columbia as of the date of this MD&A. In the nine months ended May 31, 2022, the Company made additional equity investments of \$8,571 in the Silverdale Hills LP. In the year ended August 31, 2021, the Company made equity investments of \$5,555 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 June 2020, the Silverdale Hills LP commenced development of 162 townhomes and 65 single family lots on the site, which consumed approximately 38 acres of land inventory. The townhome development is being constructed in four phases. As of the date of this MD&A, approximately 60% of the four phase townhome development has been completed and sold and of the remaining townhome units, 100% have been presold. In respect of the single family lot development, 61 units have been committed for sale to a single developer of which 18 lots have been sold as of the date of this MD&A. 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.

In March 2022, the Silverdale Hills LP entered into two contracts to purchase approximately 30 acres of residential development lands in Mission, British Columbia for \$39,232 excluding closing costs and taxes. The purchases are scheduled to close in September 2022 and March 2025 and required an initial deposit of \$8,923 and an additional deposit of \$2,500 in September 2023.

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 rising costs of construction, contractual risk, shortage of experienced labour in the construction industry, 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.

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 and Climate Change Risk

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.

Natural disasters and severe weather such as floods, blizzards and rising temperatures may result in damage to the properties. The extent of Madison's casualty losses and loss in operating income in connection with such events is a function of the severity of the event and the total amount of exposure in the affected area. Madison is also exposed to risks associated with inclement winter weather, including increased need for maintenance and repair of its buildings. In addition, climate change, to the extent it causes changes in weather patterns, could have effects on the Company's business by increasing the cost of property insurance, and/or energy at the properties. As a result, the consequences of natural disasters, severe weather and climate change could negatively affect the results of operations and financial condition of Madison.

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, and carryforward investment tax credits of \$5,503. As a result, additional taxes payable for the reassessed years, including interest, total \$38,790. 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 \$18,797 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 \$6,065 as at May 31, 2022.

The Company’s trial with the Tax Court of Canada completed in March 2022 with a decision not expected for several months. 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 is defending 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.

The Bank of Canada has increased its overnight interest rate by 225 basis points in 2022 as of the date of this MD&A in an attempt to bring inflation under control. Inflation in Canada is at its highest level in three decades and is a result of, but not limited to the effects of, the tight labour market, global supply chain disruptions, strong economic growth and the war in Ukraine. The Bank of Canada is expected to continue to increase its overnight interest rate until it achieves its target inflation range. Rising interest rates directly affect the Company’s cost of debt capital.

The Company maintains a conservative approach to managing debt capital with leverage ratio of 48.5% at May 31, 2022 (August 31, 2021 - 46.4%). Leverage ratio is a non-GAAP measure and is not a generally accepted measure under IFRS but management uses it as a supplementary financial measure. The leverage ratio is calculated as total debt on investment properties (before netting of deferred financing costs) divided by the fair value of investment properties. The Company’s calculation of leverage may differ from other companies and, accordingly, may not be comparable to other companies’ calculation of leverage. Madison has also mitigated interest rate risk by refinancing over 97.5% 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 33.8% of such debt matures in one year. The Company has variable rate borrowings as of May 31, 2022 of \$7,750 (August 31, 2021 - \$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, 2021 - prime rate plus 0.60% to 0.75%, and Banker's Acceptance rate plus 2.35%). 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, 2022, the Company had entered into interest rate swaps with Canadian chartered banks on five 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, 2022 totalling \$88,735, fixed swap rates ranging from 2.52% to 3.90%, and maturity dates ranging from September 2022 to February 2025. The total notional amount of the interest rate swaps represented 28.9% as at May 31, 2022 (August 31, 2021 - 38.0%) 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, 2022 was 3.29% (August 31, 2021 - 3.32%). 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 \$58,954. As at May 31, 2022, \$21,305 and letters of credit totalling \$2,370 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 and the cash flows the properties generate, up to a maximum of \$20,000. As at May 31, 2022, \$nil had been drawn on the line of credit. The Company's variable rate borrowings represent 2.5% (August 31, 2021 - 2.8%) 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 (August 31, 2021 - \$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 2022 - August 2022	September 2022 - August 2024	September 2024 - August 2026	September 2026 and thereafter
Debt on investment properties ⁽¹⁾⁽²⁾	307,495	15,418	130,467	111,507	50,103
Undiscounted land lease liability	3,583	24	199	207	3,153

- (1) The amount in the period from June 2022 to August 2022 includes a demand loan totalling \$4,250. Interest payments on these demand loans are made monthly until its maturity in 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 \$21,305 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 2022, 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 \$58,954, 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 14, 2022, 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 \$2,370.

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

Transactions with Related Parties

The Company has engaged the services of G.W. Property Services Ltd., a landscaping and building services company owned by a related party. During the nine months ended May 31, 2022, landscaping, maintenance, and construction management services paid to this company totaled \$278 (nine months ended May 31, 2021 - \$359). There are no long-term commitments with this company, which provides required landscaping and maintenance on some investment properties.

For the nine months ended May 31, 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. The Company did not engage the services of the contractor in the nine months ended May 31, 2022.

For the nine months ended May 31, 2022, rental revenues totalling \$2,634 (nine months ended May 31, 2021 - \$1,581) were received from Madison Venture Corporation (“MVC”), and Arrow Speed Controls Limited, Continental Electrical Motor Services Ltd., Continental Electrical Motor Services (Northern) 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 May 31, 2022.

For the nine months ended May 31, 2022, the Company incurred consulting fees to MVC for various development, management, and administration services, including assistance with challenges to our tax reassessments of \$557 (nine months ended May 31, 2021 - \$350).

For the nine months ended May 31, 2022, the Company incurred fees to GVIC Communications Corp. for administration services of \$4.

During the nine months ended May 31, 2022, the Company purchased the remaining 50% interest it did not hold in a property located at 8155 North Fraser Way, Burnaby, British Columbia from 0777061 BC Ltd., a company controlled by MVC, for \$7,735 excluding closing costs. Payment for the property included issuance of 99,928 Class B shares and 792,046 Class C shares for a total of \$5,243, and assumption of debt on the property of \$2,492.

During the year ended August 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 months ended May 31, 2022, a guarantee fee of \$33 (nine months ended May 31, 2021 - \$33) was paid to the Company.

Key management personnel include the Company's directors and officers. For the nine months ended May 31, 2022, compensation awarded to key management personnel included salaries and short-term employee benefits of \$1,104 (nine months ended May 31, 2021 - \$1,180).

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 14, 2022, there were 7,355,420 Class B shares and 52,107,135 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 14, 2022, 1,189,251 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 14, 2022, 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, 2022	May 31, 2021
Net income	37,279	36,989
Items not affecting cash		
Net gain on fair value adjustment on investment properties	(21,580)	(31,432)
Amortization	1,225	934
Allowance for expected credit losses	42	72
Equity earnings of associate and joint ventures	(9,303)	(1,871)
Unrealized gains on fair value adjustment on interest rate swaps	(4,609)	(1,660)
Recognition of rental revenue on a straight-line basis	79	341
Deferred income taxes	4,232	4,215
	7,365	7,588
Decrease (increase) in amounts receivable and other assets	10	(416)
(Increase) decrease in income taxes receivable	(3)	24
Increase in accounts payable and accrued liabilities	1,646	116
Increase in income taxes payable	273	723
	9,291	8,035

For the nine months ended May 31, 2022, Madison generated \$7,365 of cash flows from continuing operations (before changes in non-cash balances) compared to \$7,588 for the nine months ended May 31, 2021. The decrease compared to the prior period is due primarily to an increase in current income taxes and net interest expense, which was partially offset by an increase in net property income and the realized gain on the termination of one interest rate swap for the nine months ended May 31, 2022 compared to the nine months ended May 31, 2021.

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, 2022, had a weighted average interest rate of 3.29% (August 31, 2021 - 3.32%). Of the total amount of debt on investment properties outstanding (excluding lease liabilities) as at May 31, 2022, \$5,537 of mortgages are scheduled to mature by August 31, 2022. Additionally, the Barnet LP, of which the Company owns a 50% interest, has a demand loan of \$29,250 which matures in September 2022. The Silverdale Hills LP, of which the Company owns a 50% interest, has a demand construction loan facility of up to \$58,954. As at May 31, 2022, \$21,305 and letters of credit totalling \$2,370 had been drawn against the facility.

Madison anticipates being able to renew all credit facilities maturing in fiscal 2022 at terms comparable to those currently in place except for higher interest rates.

As at May 31, 2022, the Company had entered into interest rate swaps with Canadian chartered banks on five mortgages to fix the Company's interest rates on those mortgages. The swaps had notional amounts as at May 31, 2022 totalling \$88,735 (August 31, 2021 - \$105,817) fixed swap rates ranging from 2.52% to 3.90%, and maturity dates ranging from September 2022 to February 2025. The total notional amount of the interest rate swaps represented 28.9% as at May 31, 2022 (August 31, 2021 - 38.0%) of the total debt on investment properties (before the netting of deferred financing costs and fair value adjustments to

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).