

Madison Pacific Properties Inc.

Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended May 31, 2023 and 2022

(expressed in thousands of Canadian dollars)

Notice of No Auditor Review of Interim Financial Statements

Under National Instrument 51-102 “Continuous Disclosure Obligations”, Part 4, Subsection 4.3(3a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company’s management.

The Company’s independent auditor, PricewaterhouseCoopers LLP, has not performed a review of these financial statements in accordance with standards established by CPA (Chartered Professional Accountants) Canada for a review of interim financial statements by an entity’s auditor.

July 13, 2023

Madison Pacific Properties Inc.

Interim Consolidated Balance Sheets

As at May 31, 2023 and August 31, 2022

(unaudited)

(expressed in thousands of Canadian dollars)

	May 31, 2023 \$	August 31, 2022 \$
Assets		
Non-current assets		
Investment properties (note 3)	689,738	678,783
Investment in associate and joint ventures (note 5)	89,454	94,219
Other non-current assets (note 6)	23,386	23,193
	<u>802,578</u>	<u>796,195</u>
Current assets		
Cash and cash equivalents	29,495	41,959
Amounts receivable and other current assets	2,886	3,733
Income taxes receivable (note 11)	1,137	262
Asset held for sale (note 3 and note 4)	3,495	-
	<u>37,013</u>	<u>45,954</u>
Total assets	<u>839,591</u>	<u>842,149</u>
Liabilities		
Non-current liabilities		
Debt on investment properties (note 7)	209,170	222,952
Deferred income tax liabilities (note 11)	58,213	56,277
	<u>267,383</u>	<u>279,229</u>
Current liabilities		
Current portion of debt on investment properties (note 7)	77,250	87,504
Accounts payable and accrued liabilities	7,864	9,644
Income taxes payable (note 11)	1,071	2,659
	<u>86,185</u>	<u>99,807</u>
Total liabilities	<u>353,568</u>	<u>379,036</u>
Equity		
Equity attributable to shareholders of the Company		
Share capital (note 9)	72,715	72,715
Retained earnings	399,887	377,598
	<u>472,602</u>	<u>450,313</u>
Non-controlling interests	<u>13,421</u>	<u>12,800</u>
Total equity	<u>486,023</u>	<u>463,113</u>
Total liabilities and equity	<u>839,591</u>	<u>842,149</u>

Subsequent event (note 16)

Approved by the Board of Directors

“John DeLucchi” Director

“Marvin Haasen” Director

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

Madison Pacific Properties Inc.

Interim Consolidated Statements of Changes in Equity

For the Nine Months Ended May 31, 2023 and 2022

(unaudited)

(expressed in thousands of Canadian dollars)

	Attributable to shareholders of the Company				Non-controlling interests \$	Total equity \$
	Share capital \$	Contributed surplus \$	Retained earnings \$	Total \$		
Balance – August 31, 2021	67,472	-	320,540	388,012	11,139	399,151
Net income and comprehensive income	-	-	35,716	35,716	1,563	37,279
Dividends (note 10)	-	-	(3,122)	(3,122)	-	(3,122)
Distributions to non-controlling interest	-	-	-	-	(182)	(182)
Purchase of subsidiary shares from non-controlling interest	-	-	-	-	(3)	(3)
Shares issued (note 3(b) and note 13(b))	5,243	-	-	5,243	-	5,243
Balance – May 31, 2022	72,715	-	353,134	425,849	12,517	438,366
Balance – August 31, 2022	72,715	-	377,598	450,313	12,800	463,113
Net income and comprehensive income	-	-	25,411	25,411	739	26,150
Dividends (note 10)	-	-	(3,122)	(3,122)	-	(3,122)
Distributions to non-controlling interest	-	-	-	-	(118)	(118)
Balance – May 31, 2023	72,715	-	399,887	472,602	13,421	486,023

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

Madison Pacific Properties Inc.

Interim Consolidated Statements of Income and Comprehensive Income

For the Three and Nine Months Ended May 31, 2023 and 2022

(unaudited)

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

	Nine Months Ended		Three Months Ended	
	May 31, 2023	May 31, 2022	May 31, 2023	May 31, 2022
	\$	\$	\$	\$
Property revenues (note 13)	30,622	28,011	10,527	9,456
Property operating expenses (note 13)	9,233	8,510	3,140	2,589
	<u>21,389</u>	<u>19,501</u>	<u>7,387</u>	<u>6,867</u>
General and administrative expenses (note 13)	2,853	3,207	1,002	1,141
	<u>18,536</u>	<u>16,294</u>	<u>6,385</u>	<u>5,726</u>
Net gain (loss) on fair value adjustment on investment properties (note 3)	13,365	21,580	(679)	10,500
Equity earnings of associate and joint ventures (note 5(a))	7,535	9,303	1,109	4,381
	<u>39,436</u>	<u>47,177</u>	<u>6,815</u>	<u>20,607</u>
Interest income (note 13(b))	854	357	262	152
Interest expense	7,786	7,739	2,576	2,643
(Losses) gains on fair value adjustment on interest rate swaps (note 7)	(71)	5,592	(308)	2,449
	<u>32,433</u>	<u>45,387</u>	<u>4,193</u>	<u>20,565</u>
Income before income taxes	6,283	8,108	1,062	3,635
Income taxes (note 11)				
	<u>26,150</u>	<u>37,279</u>	<u>3,131</u>	<u>16,930</u>
Net income and comprehensive income attributable to:				
Shareholders of the Company	25,411	35,716	2,975	16,321
Non-controlling interests	739	1,563	156	609
	<u>26,150</u>	<u>37,279</u>	<u>3,131</u>	<u>16,930</u>
Income per share (note 12)	\$0.43	\$0.60	\$0.05	\$0.27

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

Madison Pacific Properties Inc.
Interim Consolidated Statements of Cash Flows
For the Nine Months Ended May 31, 2023 and 2022
(unaudited)

(expressed in thousands of Canadian dollars)

Cash flows from (used in):	May 31, 2023	May 31, 2022
	\$	\$
Operating activities		
Net income	26,150	37,279
Items not affecting cash		
Net gain on fair value adjustment on investment properties	(13,365)	(21,580)
Amortization	1,140	1,225
Allowance for expected credit (recoveries) losses	(125)	42
Equity earnings of associate and joint ventures	(7,535)	(9,303)
Unrealized loss (gains) on fair value adjustment on interest rate swaps	71	(4,609)
Recognition of rental revenue on a straight-line basis	(23)	79
Deferred income taxes	1,936	4,232
	<u>8,249</u>	<u>7,365</u>
Decrease in amounts receivable and other assets	680	10
Increase in income taxes receivable	(875)	(3)
Increase in accounts payable and accrued liabilities	1,387	1,646
(Decrease) increase in income taxes payable	(1,588)	273
	<u>7,853</u>	<u>9,291</u>
Investing activities		
Acquisition of investment properties (note 3(b))	-	(3,939)
Additions to investment properties and property development costs	(1,053)	(22)
Other investment property expenditures	(957)	(1,127)
Distributions received from (investments in) joint ventures (note 5(a))	12,300	(8,571)
Repayment of loans receivable	26	40
	<u>10,316</u>	<u>(13,619)</u>
Financing activities		
Net proceeds from debt on investment properties (note 7)	30,474	81,856
Repayment of debt on investment properties (note 7)	(54,745)	(55,453)
Distributions to non-controlling interests	(118)	(182)
Purchase of subsidiary shares from non-controlling interest	-	(3)
Dividends paid	(6,244)	(6,197)
	<u>(30,633)</u>	<u>20,021</u>
(Decrease) increase in cash and cash equivalents	(12,464)	15,693
Cash and cash equivalents - beginning of period	41,959	42,254
Cash and cash equivalents - end of period	<u>29,495</u>	<u>57,947</u>
Supplemental cash flow information		
Interest received	743	288
Interest paid	7,654	7,451
Significant non-cash investing and financing transactions		
Issuance of shares as consideration for acquisition of investment property (notes 3(b) and 9)	-	5,243
Assumed debt adjusted to fair value on acquisition of investment property (notes 3(b) and 7)	-	2,492

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

Madison Pacific Properties Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended May 31, 2023 and 2022

(unaudited)

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

1. General information

Madison Pacific Properties Inc. (the “Company”) owns, develops and operates office, industrial, commercial, and multi-family rental properties located in British Columbia, Alberta, and Ontario. The Company also has investments in joint ventures that develop residential properties. The Company is incorporated and domiciled in Canada. The head office of the Company is located at 389 West 6th Avenue, Vancouver, British Columbia, V5Y 1L1, and its registered office is located at 25th Floor, Toronto-Dominion Bank Tower, 700 West Georgia Street, Vancouver, British Columbia, V7Y 1B3.

2. Summary of significant accounting policies and critical accounting estimates

a. Basis of presentation

These condensed interim consolidated financial statements for the nine months ended May 31, 2023 have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”. The condensed interim consolidated financial statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended August 31, 2022, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The condensed interim consolidated financial statements have been prepared using the same accounting policies and methods as those used in the annual consolidated financial statements for the year ended August 31, 2022. The condensed interim consolidated financial statements have been presented in Canadian dollars rounded to the nearest thousand unless otherwise indicated.

These condensed interim consolidated financial statements were approved by the Board of Directors for issue on July 13, 2023.

b. Principles of consolidation

Subsidiaries

These condensed interim consolidated financial statements incorporate the assets and liabilities of all entities controlled by the Company and the results of all controlled entities. Controlled entities are those entities over which the Company has i) the power to govern the financial and operating policies, ii) the right to receive benefits from that entity, and iii) the ability to use its operating decisions to alter the benefits received. These criteria are met by having a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. In addition, for consolidation purposes, factors may exist where an entity may consolidate without having more than 50% of the voting power through ownership or agreements, or in the circumstances of enhanced minority rights, as a consequence of *de facto* control. *De facto* control is control without the legal right to exercise unilateral control, and involves decision-making abilities that are not shared with others and the ability to give direction with respect to the operating and financial policies of the entity concerned. Where control of a subsidiary ceases during a financial year, its results are included up to the point in the year when control ceases. Where control of an entity is acquired during a financial year, its results are

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

The Company's subsidiaries are Metro Vancouver Properties Corp. ("Metro"), MP Western Properties Inc., 1073774 Properties Inc., 3530639 Canada Inc., 801325 B.C. Ltd., the MPW Properties Partnership, Madison Silverdale Developments Corp., Madison Developments 2800 Barnet Ltd., the MT Properties Limited Partnership, and MT Management Inc. The Company holds a 100% interest in MP Western Properties Inc., 1073774 Properties Inc., 3530639 Canada Inc., Madison Silverdale Developments Corp. and a 99.8% interest in Metro which holds a 100% interest in the MPW Properties Partnership, 801325 B.C. Ltd., and Madison Developments 2800 Barnet Ltd., a 60.9% interest in the MT Properties Limited Partnership, and a 75% interest in MT Management Inc.

All inter-company balances, transactions, and unrealized profits resulting from inter-company transactions are eliminated.

Non-controlling interests

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. Changes in the parent company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Joint arrangements

The Company classifies its interests in joint arrangements as either a joint venture or a joint operation. A joint arrangement is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control. A joint arrangement is classified as a joint venture when the parties to the joint arrangement have rights over the net assets of the joint arrangement, whereas a joint arrangement is classified as a joint operation when the arrangement provides rights to assets and obligations for liabilities for the parties sharing joint control. Joint operations are accounted for using the proportionate consolidation method whereby the Company's share of assets, liabilities, income, expenses and cash flows of jointly controlled operations are combined with the equivalent items in the results on a line-by-line basis. Joint ventures are accounted for using the equity method as follows:

- Investments are initially recognized at cost.
- Investments in joint ventures include goodwill and intangible assets identified on acquisition, net of any accumulated impairment loss.
- The Company's share of its joint ventures' post-acquisition profits or losses is recognized in the consolidated statement of income and comprehensive income.
- Dividends and distributions receivable from joint ventures reduce the carrying amount of the investment.
- The Company's liability with respect to its joint ventures is limited to its net investment where it has no obligation to fund any subsequent losses should they arise. There is no obligation beyond the initial investment.
- Joint ventures are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Madison Pacific Properties Inc.

Notes to the Condensed Interim Consolidated Financial Statements

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(unaudited)

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

Associates

Associates are entities over which the Company has significant influence but not control. Investments in associates are accounted for using the equity method as follows:

- Investments are initially recognized at cost.
- Investments in associates include goodwill and intangible assets identified on acquisition, net of any accumulated impairment loss.
- The Company's share of its associates' post-acquisition profits or losses is recognized in the consolidated statement of income and comprehensive income.
- Dividends and distributions receivable from associates reduce the carrying amount of the investment.
- The Company's liability with respect to its associates is limited to its net investment where it has no obligation to fund any subsequent losses should they arise. There is no obligation beyond the initial investment.
- Associates are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

c. Critical accounting estimates and judgements

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The critical accounting estimates and judgements have been set out in Note 2 to the Company's consolidated financial statements for the year ended August 31, 2022.

3. Investment properties

	Nine months ended May 31, 2023 \$	Year ended August 31, 2022 \$
Balance at beginning of period	678,783	605,096
Additions:		
Acquisitions (note 3(b))	-	29,723
Other additions and property development costs	1,076	-
Recognition of rental revenue on a straight-line basis	22	(53)
Tenant improvements	277	913
Amortization of tenant improvements	(566)	(822)
Leasing commissions	613	252
Amortization of leasing commissions	(337)	(426)
Net gain on fair value adjustment	13,365	44,100
	<u>693,233</u>	<u>678,783</u>
Asset held for sale (note 4)	(3,495)	-
	<u>689,738</u>	<u>678,783</u>
Balance at end of period	689,738	678,783

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

a. Valuations

When performing fair value assessments for its investment properties, the Company incorporates a number of factors including recent market transactions, recent leasing activity, market vacancy, non-recoverable capital expenditures and other information obtained from market research and recently completed leases and acquisitions. The capitalization rates used are generally based on ranges provided by external valuers and these assumptions are further compared against information obtained from independent industry experts. The geopolitical events in the world has caused global economic disruption and rising inflation and interest rates. This 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 these events 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.

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

b. Investment property acquisitions

For the nine months ended May 31, 2023, the Company had no acquisitions of investment properties.

During the year ended August 31, 2022, the Company purchased a light industrial property with a 20,040 square foot building located in Vancouver, British Columbia for \$18,049 including closing costs and taxes.

During the year ended August 31, 2022, the Company purchased a highway-commercial property with a 5,484 square foot building and a site area of 31,363 square feet located in Chilliwack, British Columbia for \$3,939 including closing costs and taxes.

During the year ended August 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 for \$7,735 excluding closing costs. The purchase price for the investment property was settled by the assumption of a mortgage (adjusted to fair value) of \$2,492 and the issuance of shares for \$5,243 (note 9 and 13(b)).

c. Investment property dispositions

For the nine months ended May 31, 2023 and year ended August 31, 2022, the Company had no dispositions of investment properties.

d. Right-of-use asset

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

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e. Sensitivity

The following table provides a sensitivity analysis for the weighted average capitalization rate on commercial properties applied at May 31, 2023, excluding properties under development, a property held for sale and a ROU Asset of \$2,308 (note 3(d)):

Capitalization rate increase (decrease)	Weighted average capitalization rate	Fair value of investment properties (at Company's ownership) \$	Fair value variance \$	% change
(0.75%)	3.33%	857,824	180,395	26.6%
(0.50%)	3.64%	784,503	107,074	15.8%
(0.25%)	3.93%	726,146	48,717	7.2%
May 31	4.21%	677,429	-	-
0.25%	4.49%	635,703	(41,726)	(6.2%)
0.50%	4.76%	599,352	(78,077)	(11.5%)
0.75%	5.03%	567,284	(110,145)	(16.3%)

4. Asset held for sale

The carrying values of assets held for sale are established to be the lower of their carrying values or their estimated fair values less selling costs.

As at May 31, 2023, the Company classified one retail investment property located in British Columbia as held for sale.

As at August 31, 2022, no investment properties were classified as held for sale.

5. Investments in associate and joint ventures

	May 31, 2023 \$	August 31, 2022 \$
Investment in associate (note 5(a))	22,191	21,403
Investments in joint ventures (note 5(a))	67,263	72,816
	<u>89,454</u>	<u>94,219</u>

a. Investments in associate and joint ventures

The investment in associate includes an equity investment in Grant Street Properties Inc. ("GSP"), a related private company with a December 31st fiscal year-end that owns and manages commercial, industrial and multi-family rental properties. The Company holds an ownership interest of 33.85% in GSP. This investment has

Madison Pacific Properties Inc.

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been accounted for using the equity method and includes equity earnings for the nine months ended May 31, 2023 of \$788 (nine months ended May 31, 2022 - \$969).

The investment in joint ventures includes equity investments in the Silverdale Hills Limited Partnership (the “Silverdale Hills LP”) and the 2798 Barnet Development Limited Partnership (the “Barnet LP”). The Company holds an ownership interest of 50% in each of the Silverdale Hills LP and the Barnet LP. These limited partnerships have November 30th fiscal year-ends and have been accounted for using the equity method and include equity earnings for the nine months ended May 31, 2023 of \$6,747 (nine months ended May 31, 2022 - \$8,334).

As at May 31, 2023, the Silverdale Hills LP owns approximately 1,400 acres of residential development designated lands in Mission, British Columbia. 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. As at May 31, 2023, all townhome units have been completed and sold. As at May 31, 2023, 64 single family lots have been sold or were committed for sale to a single developer.

In March 2022, the Silverdale Hills LP entered into a contract to purchase approximately 19 acres of residential development lands in Mission, British Columbia for \$25,000 excluding closing costs and taxes. The purchase is scheduled to close in March 2025 and required an initial deposit of \$7,500 and an additional deposit of \$2,500 in September 2023. In September 2022 and December 2022, the Silverdale Hills LP purchased approximately 20 acres of residential development lands in Mission, British Columbia for \$18,060 including closing costs and taxes.

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

The Company’s share of the associate and joint ventures consists of the following:

	Associate		Joint ventures	
	As at and for the nine months ended May 31, 2023 \$	As at and for the year ended August 31, 2022 \$	As at and for the nine months ended May 31, 2023 \$	As at and for the year ended August 31, 2022 \$
Balance, beginning of period	21,403	19,010	72,816	51,819
Additional equity investments	-	-	-	8,571
Share of earnings for the period	788	2,393	6,747	12,426
Distributions received	-	-	(12,300)	-
Balance, end of period	22,191	21,403	67,263	72,816

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

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The following is the summarized financial information for the Company's associate and joint ventures, reported in the Company's share of ownership.

	Associate		Joint ventures	
	Nine months ended		Nine months ended	
	May 31, 2023	May 31, 2022	May 31, 2023	May 31, 2022
	\$	\$	\$	\$
Revenue and other income	1,603	1,708	26,813	23,526
Expenses	815	739	20,066	15,192
Net income for the period	788	969	6,747	8,334

	Associate		Joint ventures	
	May 31, 2023	August 31, 2022	May 31, 2023	August 31, 2022
	\$	\$	\$	\$
Assets	34,013	33,248	107,003	99,417
Liabilities	11,941	11,964	39,668	26,531
Net assets	22,072	21,284	67,335	72,886

b. Corporate guarantees

The Silverdale Hills LP, of which the Company has a 50% interest, has a committed construction loan facility to a maximum of \$1,046. As at May 31, 2023, outstanding letters of credit totalling \$1,046 had been drawn against the facility by the Silverdale Hills LP. The loan is repayable on demand, and the Company has provided a guarantee for 50% of this construction loan. In October 2022, the Silverdale Hills LP obtained a bank loan of \$11,100 for which the Company provided a guarantee of \$5,550. The Silverdale Hills LP bank loan of \$11,100 is payable on demand and matures in 2024. Additionally, the Silverdale Hills LP has a committed bank loan facility to a maximum of \$70,000, which matures in 2025. As at May 31, 2023, \$35,000 has been drawn against the facility by the Silverdale Hills LP. The Company has advanced its 50% share of the \$35,000 drawn to the Company's joint venture partner at market rates. The loan is payable on demand, and the Company has provided a guarantee for 50% of the loan amount drawn against the facility by the Silverdale Hills LP.

The Company has provided a guarantee of \$14,625 for a \$29,250 bank loan owed by the Barnet LP of which the Company has a 50% interest. The loan is repayable on demand and matures in 2023.

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

6. Other non-current assets

	May 31, 2023	August 31, 2022
	\$	\$
Deposits (note 11)	19,270	18,799
Loans receivable, deferred rents receivable and other	60	267
Fair value assets on interest rate swaps (note 7)	4,056	4,127
	<u>23,386</u>	<u>23,193</u>

7. Debt on investment properties

	Nine months ended May 31, 2023	Year ended August 31, 2022
	\$	\$
Balance at beginning of period	310,456	280,047
Net proceeds from debt issuances	30,474	90,746
Assumed debt (note 3(b))	-	2,435
Amortization of deferred financing costs	235	380
Repayment of debt	<u>(54,745)</u>	<u>(63,152)</u>
Balance at end of period	286,420	310,456
Less: current portion	<u>77,250</u>	<u>87,504</u>
Non-current portion	<u>209,170</u>	<u>222,952</u>

Mortgage and construction loans are secured by charges against the related properties and corporate guarantees. Of the total mortgage and construction loans (before netting of deferred financing costs and fair value adjustments to assumed debt and excluding lease liabilities), \$284,783 (August 31, 2022 - \$301,053) bears interest at fixed rates ranging from 1.97% to 5.62% (August 31, 2022 - 1.97% to 4.33%) per annum and \$nil (August 31, 2022 - \$7,750) bears interest at variable rates (August 31, 2022 - bank prime rate plus 0.60% to 0.75%, and Banker's Acceptance rates plus 2.35%). The weighted average interest rate on fixed rate debt as at May 31, 2023 was 3.51% (August 31, 2022 - 3.34%).

a. Interest rate swaps

The Company has entered into interest rate swaps with Canadian chartered banks on four mortgages to fix the Company's interest rates on those mortgages. The swaps had notional amounts as at May 31, 2023 totalling \$81,496 (August 31, 2022 - \$88,087), fixed swap rates ranging from 2.52% to 3.66%, and maturity dates ranging from August 2024 to February 2025. The total notional amount of the interest rate swaps represented 28.6% as at May 31, 2023 (August 31, 2022 - 28.5%) of the total debt on investment properties (before netting

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of deferred financing costs and fair value adjustments on assumed debt and excluding lease liabilities). The Company anticipates holding the mortgages and interest rate swap contracts until maturity.

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

	Fair value assets		Net realized and unrealized (losses) gains on interest rate swaps	
	May 31, 2023	August 31, 2022	Nine months ended	
	\$	\$	May 31, 2023	May 31, 2022
			\$	\$
Interest rate swaps	4,056	4,127	(71)	5,592

b. Lease liability

Future minimum lease payments under this lease are as follows:

	May 31, 2023
	\$
Within twelve months	100
Two to five years	419
Over five years	2,966
Total future minimum lease payments	3,485
Less: future interest costs	(1,177)
Present value of lease payments	2,308

8. Bank indebtedness

The Company has a line of credit of up to \$20,000 (August 31, 2022 - \$20,000) bearing interest at bank prime rate plus 1% or the Banker's Acceptance rate plus 2.50% (August 31, 2022 - bank prime rate plus 1% or the Banker's Acceptance rate plus 2.50%) with a Canadian chartered bank. As at May 31, 2023, \$nil (August 31, 2022 - \$nil) had been drawn against this line of credit. The amount available under this line of credit varies with the fair value of investment properties pledged 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 this line of credit are repayable on demand.

The line of credit agreement contains the following financial ratios that must be maintained, with which the Company was in compliance as at May 31, 2023:

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- Not permit the debt service coverage ratio to be less than 1.25 to 1.00;
- Not permit the ratio of EBITDA to interest expense on all debt secured by the investment properties pledged to be less than 1.50 to 1.00;
- Not permit the aggregate amount of all outstanding borrowings secured by the investment properties pledged to exceed 65% of their appraised values; and
- Not permit the tangible net worth of the Company to be at any time less than \$125,000.

9. Share capital

a. Authorized and issued shares

The authorized share capital of the Company consists of an unlimited number of Class A non-voting preferred shares without par value, an unlimited number of Class B voting common shares without par value (“Class B Shares”), and an unlimited number of Class C non-voting shares without par value (“Class C Shares”).

The following table summarizes the issued share capital as at May 31, 2023 and August 31, 2022:

	Class B Shares		Class C Shares		Total	
	Number	Amount \$	Number	Amount \$	Number	Amount \$
Balance – August 31, 2021	7,255,492	7,720	51,315,089	59,752	58,570,581	67,472
Shares issued	99,928	649	792,046	4,594	891,974	5,243
Balance – August 31, 2022 and May 31, 2023	7,355,420	8,369	52,107,135	64,346	59,462,555	72,715

No shares were issued or cancelled during the nine months ended May 31, 2023.

During the year ended August 31, 2022, the Company issued 99,928 Class B shares and 792,046 Class C shares as partial consideration for the purchase of an investment property (notes 3(b) and 13(b)).

b. Share option plan

The Company implemented a share option plan (the “Plan”) effective January 1, 2019. Under the Plan, the Company reserves Class B Shares equal to 2% of aggregate outstanding Class B Shares and Class C Shares for issuance upon the exercise of share options granted under the Plan. As at July 13, 2023, 1,189,251 Class B Shares are reserved for the issuance under the Plan. The Plan provides that share options may be issued only to executives, employees and outside directors of the Company or of any of its subsidiaries and that options granted to insiders (as defined by Toronto Stock Exchange rules) shall not exceed 10% of the outstanding Class B Shares.

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

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As at July 13, 2023, no share options had been granted under the Plan.

10. Dividends

On July 13, 2023, the Company declared a dividend of \$0.0525 per Class B Share and Class C Share payable on September 6, 2023.

On January 12, 2023, the Company declared a dividend of \$0.0525 per Class B Share and Class C Share payable on February 21, 2023.

On July 14, 2022, the Company declared a dividend of \$0.0525 per Class B Share and Class C Share payable on September 6, 2022.

On January 13, 2022, the Company declared a dividend of \$0.0525 per Class B Share and Class C Share payable on February 21, 2022.

11. Income taxes

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

	May 31, 2023	May 31, 2022
	\$	\$
Current income tax expense	4,347	3,876
Deferred income tax expense	1,936	4,232
	<hr/>	<hr/>
	6,283	8,108
	<hr/>	<hr/>

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Income taxes vary from the amount that would be expected if computed by applying the Canadian federal and provincial statutory income tax rates to the Company's income before income taxes as shown in the following table for the nine months ended:

	May 31, 2023		May 31, 2022	
	\$		\$	
Income before income taxes	32,433		45,387	
	\$	%	\$	%
Expected income taxes at statutory rates	8,688	26.8	12,131	26.7
Adjustments				
Non-taxable portion of unrealized capital gains	(1,796)	(5.5)	(2,897)	(6.4)
Recognition of previously unrecognized tax assets	(484)	(1.5)	(483)	(1.1)
Equity earnings in associate and joint ventures	(2,035)	(6.3)	(2,515)	(5.5)
Taxable portion of earnings from joint ventures	1,799	5.5	2,192	4.8
Other items	111	0.3	(320)	(0.7)
Income taxes	6,283	19.3	8,108	17.8

Deferred income tax liabilities (assets) comprise the following:

	May 31, 2023	August 31, 2022
	\$	\$
Benefit of non-capital losses carried forward	(4,347)	(3,437)
Benefit of capital losses carried forward	(877)	(877)
Deferred income tax assets not recognized	946	946
Deferred partnership income	338	-
Investment properties	59,969	57,272
Tenant improvements and leasing costs	1,332	1,334
Straight-line rental revenue in excess of base rents	675	669
Marketing costs	-	134
Investment tax credits	177	236
	58,213	56,277

The entire change in deferred income tax liabilities for the nine months ended May 31, 2023 and the year ended August 31, 2022 has been recognized in net income for those respective periods.

As at May 31, 2023, the Company has approximately \$16,259 of non-capital losses which begin to expire in 2033, which may be used to reduce future Canadian income taxes otherwise payable. The Company also has approximately \$3,796 of unrecognized federal investment tax credits which begin to expire in 2023, and can also be carried forward to be used to reduce future Canadian income taxes otherwise payable.

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

	Federal investment tax credits	Non-capital losses carried forward
	\$	\$
2023	221	-
2024	934	-
2025	865	-
2026	727	-
2027	689	-
2028	360	-
2033	-	40
2034	-	29
2035	-	108
2036	-	14
2037	-	403
2038	-	2,389
2039	-	1,396
2040	-	1,271
2041	-	3,520
2042	-	3,589
2043	-	3,500
	<u>3,796</u>	<u>16,259</u>

In addition, the Company has capital losses carried forward of approximately \$6,494 which may be used to reduce future taxable capital gains in Canada and do not expire.

Contingencies

The Company and certain subsidiaries have received from the Canada Revenue Agency (“CRA”) and Alberta Tax and Revenue Administration (“ATRA”) tax notices of reassessment for various taxation years. The reassessments deny the application and usage of certain non-capital losses, capital losses, deductions and investment tax credits arising from prior years. In addition, the CRA and ATRA are disallowing unclaimed carryforward non-capital losses of \$657, carryforward capital losses of \$6,494, and carryforward investment tax credits of \$4,457. As a result, additional taxes payable for the reassessed years, including interest, total \$39,734. 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 \$19,270 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 \$7,506 as at May 31, 2023.

The Company’s trial with the Tax Court of Canada completed in March 2022 with a decision not expected for several months. The Company’s subsidiary has been advised by the Tax Court of Canada that a trial date will be scheduled for 2024 although no specific date has been scheduled at this time. The previously scheduled trial date for the Company’s other subsidiary has been deferred and no new date has been confirmed. The Company and its counsel are evaluating a recent decision issued by the Supreme Court of Canada on a tax court case that

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may impact the Company and its subsidiaries tax cases. It will continue to defend its filing positions as required. The Company has not recorded a liability in these consolidated financial statements for the reassessed taxes payable and related interest described above nor has it reduced the carrying value of deferred income tax assets recorded for unused carryforward amounts. If the Company is ultimately successful in defending its positions, deposits made plus applicable interest will be refunded to the Company. There is no assurance that the Company's objections and appeals will be successful. If the CRA and ATRA are successful, the Company will be required to pay the balance of taxes reassessed plus applicable interest and derecognize deferred income tax assets related to the carryforward amounts.

12. Income per share

	Nine months ended		Three months ended	
	May 31, 2023	May 31, 2022	May 31, 2023	May 31, 2022
Net income attributable to shareholders of the Company	\$25,411	\$35,716	\$2,975	\$16,321
Weighted average number of shares outstanding	59,462,555	59,367,803	59,462,555	59,462,555
Basic and diluted income per share	\$0.43	\$0.60	\$0.05	\$0.27

13. Related party transactions

The following transactions occurred in the normal course of operations and are measured at the exchange amounts, which are the amounts agreed upon by the related parties:

a. Transactions and balances with related parties

The Company has engaged the services of a landscaping and building services company owned by a related party. During the nine months ended May 31, 2023, landscaping, maintenance, and construction management services paid to this company totalled \$367 (nine months ended May 31, 2022 - \$278).

b. Transactions and balances with affiliates

During the nine months ended May 31, 2023, the Company made short-term interest bearing advances of \$3,500 to its equity investee, GSP. GSP is a private company where certain of its shareholders and key management personnel are related to a director of Madison. As at May 31, 2023, the advances were fully repaid to the Company. During the nine months ended May 31, 2023, the Company earned \$91 of interest at bank prime rate plus 0.5%. On June 15, 2023, the Company also jointly acquired a 40-unit residential apartment property with GSP (note 16).

During the nine months ended May 31, 2023, the Company engaged the services of an electrical contractor controlled by a shareholder of the Company for which it paid fees of \$8 (nine months ended May 31, 2022 - \$nil).

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During the nine months ended May 31, 2023, rental revenues of \$2,846 (nine months ended May 31, 2022 - \$2,634) were received from a shareholder of the Company and from tenants that are companies related to a shareholder of the Company.

During the nine months ended May 31, 2023, the Company incurred management consulting charges of \$575 from a shareholder of the Company for tax, development and other management support services (nine months ended May 31, 2022 - \$552).

During the nine months ended May 31, 2023, the Company recorded administration expenses of \$15 from a shareholder of the Company (nine months ended May 31, 2022 - \$9).

During the year ended August 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 a company controlled by a shareholder of the Company for \$7,735 excluding closing costs. Payment for the property included issuance of 99,928 Class B shares and 792,046 Class C shares, and assumption of debt on the property (notes 3(b), 7 and 9).

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, 2023, a guarantee fee of \$33 (nine months ended May 31, 2022 - \$33) was paid to the Company.

Key management personnel

Key management personnel include the Company's directors and officers. The following table summarizes compensation awarded to key management personnel for the nine months ended:

	May 31, 2023	May 31, 2022
	\$	\$
Salaries and short-term employee benefits	1,166	1,104

14. Segment information

The Company's chief executive officer and chief financial officer examined the Company's performance and have concluded that the Company has one reportable segment - that being the rental of office, industrial, commercial, and multi-family real estate properties located in Canada. Although properties are in different Canadian regions and in different asset classes, they have reasonably similar returns and risks.

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15. Capital management

The primary objective of the Company's capital management is to ensure that it maintains adequate capital resources in order to support its business and maximize shareholder value. The Company manages its capital structure with the goal of minimizing risk to the stability of cash flows from properties. Other goals include maintaining debt service coverage, interest coverage, and debt to equity ratios as well as maintaining minimum amounts of shareholders' equity as required by the Company's line of credit agreement. The Company's capital includes mortgage loans, construction loans, a lease liability, a line of credit, and equity.

The Company's principal source of financing is from mortgage loans. The ability to obtain a mortgage loan is dependent on the value of a specific property and the cash flows the property generates and the availability of funds from time to time from lending institutions. The Company expects to renew mortgage loans under similar terms as they become due except for higher interest rates.

There have been no changes in the Company's approach to capital management in the nine months ended May 31, 2023.

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

	May 31, 2023	August 31, 2022
	\$	\$
Fixed rate mortgage loans and lease liability	287,091	303,383
Variable rate mortgages	-	7,750
	<u>287,091</u>	<u>311,133</u>
Equity	<u>472,602</u>	<u>450,313</u>
	<u>759,693</u>	<u>761,446</u>

16. Subsequent event

On June 2, 2023, the Company entered into a contract to purchase an industrial property with a 14,042 square foot building and a site area of 4.26 acres located in Calgary, Alberta for \$7,675 excluding closing costs and taxes. The closing date for the purchase is August 4, 2023.

On June 14, 2023, the Company sold its 50% interest in a retail property located in Richmond, British Columbia for net proceeds of \$3,495.

On June 15, 2023, the Company acquired a 50% interest in a 40-unit residential apartment property in Metro Vancouver for \$5,550 excluding closing costs and taxes.