

Madison Pacific Properties Inc.

Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended May 31, 2024 and 2023

(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 Chartered Professional Accountants of Canada (CPA Canada) for a review of interim financial statements by an entity’s auditor.

July 12, 2024

Madison Pacific Properties Inc.

Interim Consolidated Statements of Financial Position

As at May 31, 2024 and August 31, 2023

(unaudited)

(expressed in thousands of Canadian dollars)

	May 31, 2024 \$	August 31, 2023 \$
Assets		
Non-current assets		
Investment properties (note 3)	706,347	695,150
Investments in associate and joint ventures (note 4)	54,853	83,280
Other non-current assets (note 5)	299	23,413
	<u>761,499</u>	<u>801,843</u>
Current assets		
Cash and cash equivalents	26,982	45,157
Amounts receivable and other current assets	5,054	4,777
Income taxes receivable (note 11)	1,112	1,575
	<u>33,148</u>	<u>51,509</u>
Total assets	<u>794,647</u>	<u>853,352</u>
Liabilities		
Non-current liabilities		
Debt on investment properties (note 6)	196,881	251,449
Deferred income tax liabilities (note 11)	56,693	57,595
Other non-current liabilities (note 6)	327	-
	<u>253,901</u>	<u>309,044</u>
Current liabilities		
Current portion of debt on investment properties (note 6)	102,666	57,332
Accounts payable and accrued liabilities	9,350	10,323
Income taxes payable (note 11)	7	1,079
Uncertain tax liabilities (note 11)	500	-
	<u>112,523</u>	<u>68,734</u>
Total liabilities	<u>366,424</u>	<u>377,778</u>
Equity		
Equity attributable to shareholders of the Company		
Share capital (note 8)	72,715	72,715
Retained earnings	342,771	389,976
	<u>415,486</u>	<u>462,691</u>
Non-controlling interests	<u>12,737</u>	<u>12,883</u>
Total equity	<u>428,223</u>	<u>475,574</u>
Total liabilities and equity	<u>794,647</u>	<u>853,352</u>

Commitments and contingencies (notes 4 and 11)

Subsequent events (note 17)

Approved by the Board of Directors

“Sam Grippo” Director

“John DeLucchi” Director

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

Madison Pacific Properties Inc.

Interim Consolidated Statements of Changes in Equity

For the Nine Months Ended May 31, 2024 and 2023

(unaudited)

(expressed in thousands of Canadian dollars)

	Attributable to shareholders of the Company			Non-controlling interests \$	Total equity \$
	Share capital \$	Retained earnings \$	Total \$		
Balance – September 1, 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 9)	-	(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
Balance – September 1, 2023	72,715	389,976	462,691	12,883	475,574
Net loss and comprehensive loss	-	(44,083)	(44,083)	(146)	(44,229)
Dividends (note 9)	-	(3,122)	(3,122)	-	(3,122)
Balance – May 31, 2024	72,715	342,771	415,486	12,737	428,223

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

Madison Pacific Properties Inc.

Interim Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income For the Three and Nine Months Ended May 31, 2024 and 2023 (unaudited)

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

	Nine Months Ended		Three Months Ended	
	May 31, 2024	May 31, 2023	May 31, 2024	May 31, 2023
	\$	\$	\$	\$
Property revenues (notes 10 and 13)	33,129	30,622	11,604	10,527
Property operating expenses (note 13)	10,109	9,233	3,684	3,140
	<u>23,020</u>	<u>21,389</u>	<u>7,920</u>	<u>7,387</u>
General and administrative expenses (note 13)	4,081	2,853	1,272	1,002
	<u>18,939</u>	<u>18,536</u>	<u>6,648</u>	<u>6,385</u>
Net gain (loss) on fair value adjustment on investment properties (note 3)	1,608	13,365	(2,678)	(679)
Equity earnings of associate and joint ventures (note 4(a))	355	7,535	64	1,109
	<u>20,902</u>	<u>39,436</u>	<u>4,034</u>	<u>6,815</u>
Interest income (note 13)	2,110	854	469	262
Interest expense	9,548	7,786	3,154	2,576
Interests expense and other costs on uncertain tax positions (note 11)	14,778	-	1,246	-
Losses on fair value adjustment on interest rate swaps (note 6)	(2,590)	(71)	(578)	(308)
	<u>(3,904)</u>	<u>32,433</u>	<u>(475)</u>	<u>4,193</u>
(Loss) income before income taxes	40,325	6,283	325	1,062
Income taxes expense (note 11)				
Net (loss) income and comprehensive (loss) income	<u>(44,229)</u>	<u>26,150</u>	<u>(800)</u>	<u>3,131</u>
Net (loss) income and comprehensive (loss) income attributable to:				
Shareholders of the Company	(44,083)	25,411	(908)	2,975
Non-controlling interests	(146)	739	108	156
	<u>(44,229)</u>	<u>26,150</u>	<u>(800)</u>	<u>3,131</u>
(Loss) income per share (note 12)	(\$0.74)	\$0.43	(\$0.02)	\$0.05

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

Madison Pacific Properties Inc.
Interim Consolidated Statements of Cash Flows
For the Nine Months Ended May 31, 2024 and 2023
(unaudited)

(expressed in thousands of Canadian dollars)

Cash flows from (used in):	May 31, 2024 \$	May 31, 2023 \$
Operating activities		
Net (loss) income	(44,229)	26,150
Items not affecting cash		
Net gain on fair value adjustment on investment properties	(1,608)	(13,365)
Amortization	1,080	1,140
Allowance for expected credit losses (recoveries)	121	(125)
Equity earnings of associate and joint ventures	(355)	(7,535)
Unrealized losses on fair value adjustment on interest rate swaps	2,590	71
Recognition of rental revenue on a straight-line basis (note 3)	(125)	(23)
Deferred income taxes (recovery) expense	(1,010)	1,936
Provision for uncertain tax liabilities	51,450	-
Cash flow from operations before changes in non-cash operating accounts	7,914	8,249
Changes in non-cash operating accounts		
Amounts receivable and other assets	1,174	680
Income taxes receivable	202	(875)
Accounts payable and accrued liabilities	1,593	1,387
Income taxes payable	(1,072)	(1,588)
Uncertain tax liabilities (note 11)	(31,310)	-
Cash (used in) generated from operating activities	(21,499)	7,853
Investing activities		
Acquisition of investment properties (note 3(b))	(8,484)	-
Additions to investment properties and property development costs	(437)	(1,053)
Other investment property expenditures	(843)	(957)
Investments in associate and joint ventures (note 4)	(6,218)	-
Distributions received from joint ventures (note 4)	35,000	12,300
Repayment of loans receivable	9	26
Cash generated from investing activities	19,027	10,316
Financing activities		
Net proceeds from debt on investment properties (note 6)	36,051	30,474
Repayment of debt on investment properties (note 6)	(45,510)	(54,745)
Distributions to non-controlling interests	-	(118)
Dividends paid	(6,244)	(6,244)
Cash used in financing activities	(15,703)	(30,633)
Decrease in cash and cash equivalents	(18,175)	(12,464)
Cash and cash equivalents - beginning of period	45,157	41,959
Cash and cash equivalents - end of period	26,982	29,495
Supplemental cash flow information		
Interest received	2,737	743
Interest paid	9,768	7,654
Interest paid for uncertain tax liabilities	14,327	-
Income tax instalments paid (note 11)	22,565	-
Significant non-cash operating accounts		
Other non-current assets – deposits (notes 5 and 11)	19,270	-
Income taxes receivable (note 11)	261	-
Uncertain tax liabilities (note 11)	500	-

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

Madison Pacific Properties Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended May 31, 2024 and 2023

(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, 2024 have been prepared in accordance with International Accounting Standard (“IAS”) 34, “*Interim Financial Reporting*”. The condensed interim consolidated financial statements do not include all the information and disclosures required in the annual consolidated statements and should be read in conjunction with the Company’s annual consolidated financial statements for the year ended August 31, 2023, 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, 2023. 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 12, 2024.

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

Madison Pacific Properties Inc.

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For the Nine Months Ended May 31, 2024 and 2023

(unaudited)

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

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

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

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

Non-controlling interests

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

Joint arrangements

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

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

Madison Pacific Properties Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended May 31, 2024 and 2023

(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 applied during the nine months ended May 31, 2024, are consistent with those set out in Note 2 to the Company's consolidated financial statements for the year ended August 31, 2023 except for those described below.

Management uses judgement based on underlying facts and assumptions when determining whether a provision for a tax liability or derecognition of a deferred income tax asset and cash tax deposits are required for tax positions in dispute with tax authorities.

During the nine months ended May 31, 2024, based on the decision of the Tax Court of Canada ("TCC") in respect of the Company's appeal (note 11) and other related factors, including the criteria under IFRS regarding tax contingencies, the Company has recorded a provision for the uncertain tax positions in dispute with tax authorities, related accrued interest payable and awarded legal costs based on Management's best estimate. Tax authorities may disagree with the interpretation and application of tax laws and rules related to Management's computation of interest expense and awarded legal costs. As a result, the actual interest expense and awarded legal costs paid in future periods may differ from current estimates.

Madison Pacific Properties Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended May 31, 2024 and 2023

(unaudited)

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

3. Investment properties

	Nine months ended May 31, 2024 \$	Year ended August 31, 2023 \$
Balance at beginning of period	695,150	678,783
Additions:		
Acquisitions (note 3(b))	8,484	13,492
Other additions and property development costs	929	1,321
Dispositions (note 3(c))	-	(3,495)
Recognition of rental revenue on a straight-line basis	125	(338)
Tenant improvements	229	469
Amortization of tenant improvements	(528)	(746)
Leasing commissions	677	814
Amortization of leasing commissions	(327)	(825)
Net gain on fair value adjustment	1,608	5,675
	<hr/>	<hr/>
Balance at end of period	706,347	695,150

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 have 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 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. Adjustments are made to the carrying values of the investment properties when changes in the underlying assumptions occur.

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

b. Investment property acquisitions

For the nine months ended May 31, 2024, the Company acquired a 50% interest in a 15-unit residential apartment property in Metro Vancouver for \$2,225 including closing costs and taxes and a 42-unit residential apartment property in Metro Vancouver for \$6,259 including closing costs and taxes (note 13).

Madison Pacific Properties Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended May 31, 2024 and 2023

(unaudited)

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

During the year ended August 31, 2023, the Company purchased an industrial property with a 14,042 square foot building and a site area of 4.26 acres located in Calgary, Alberta for \$7,697 including closing costs and taxes. The purchase price for the investment property was settled by the assumption of a mortgage of \$5,408 and cash for \$2,289.

During the year ended August 31, 2023, the Company acquired a 50% interest in a 40-unit residential apartment property in Metro Vancouver for \$5,795 including closing costs and taxes (note 13).

c. Investment property dispositions

For the nine months ended May 31, 2024, the Company had no dispositions of investment properties.

During the year ended August 31, 2023, the Company sold its 50% interest in a retail property with a 9,643 square foot building and a site area of 0.48 acres located in Richmond, British Columbia for net proceeds of \$3,495.

d. Right-of-use asset

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

e. Sensitivity

The following table provides a sensitivity analysis for the weighted average capitalization rate applied at May 31, 2024, excluding properties under development and a ROU Asset of \$2,278 (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%)	3.60%	870,846	166,777	23.7%
(0.50%)	3.90%	803,612	99,543	14.1%
(0.25%)	4.18%	749,705	45,636	6.5%
May 31	4.45%	704,069	-	0.0%
0.25%	4.71%	664,454	(39,615)	(5.6%)
0.50%	4.97%	629,530	(74,539)	(10.6%)
0.75%	5.23%	598,402	(105,667)	(15.0%)

Madison Pacific Properties Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended May 31, 2024 and 2023

(unaudited)

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

4. Investments in associate and joint ventures

	May 31, 2024 \$	August 31, 2023 \$
Investment in associate (note 4(a))	24,590	21,566
Investments in joint ventures (note 4(a))	30,263	61,714
	<u>54,853</u>	<u>83,280</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. On January 31, 2024, the Company acquired 328,240 newly issued shares in GSP for cash consideration of \$2,137. On April 9, 2024, the Company acquired additional 153,610 GSP shares for a total cost of \$1,000 from a GSP shareholder. As at May 31, 2024, the Company owns a total ownership interest of 36.04% (August 31, 2023 – 33.85%) in GSP. This investment has been accounted for using the equity method and includes equity losses for the nine months ended May 31, 2024 of \$113 (nine months ended May 31, 2023 – earnings of \$788).

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, 2024 of \$468 (nine months ended May 31, 2023 – \$6,747).

As at May 31, 2024, 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 bank. As at May 31, 2024, all townhome units have been completed and sold and 64 single family lots have been sold 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. A deposit of \$10,000 has been paid.

During the year ended August 31, 2023, the Silverdale Hills LP purchased approximately 21 acres of residential development lands in Mission, British Columbia for \$19,589 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.

Madison Pacific Properties Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended May 31, 2024 and 2023

(unaudited)

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

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

	Associate		Joint ventures		Total	
	As at and for the period ended May 31, 2024	As at and for the year ended August 31, 2023	As at and for the period ended May 31, 2024	As at and for the year ended August 31, 2023	As at and for the period ended May 31, 2024	As at and for the year ended August 31, 2023
	\$	\$	\$	\$	\$	\$
Balance at beginning of period	21,566	21,403	61,714	72,816	83,280	94,219
Share of (losses) earnings for the period	(113)	163	468	7,198	355	7,361
Contribution made	3,137	-	3,081	-	6,218	-
Distributions received	-	-	(35,000)	(18,300)	(35,000)	(18,300)
Balance at end of period	24,590	21,566	30,263	61,714	54,853	83,280

For the nine months ended May 31, 2024, the Company drew \$35,000 of cash from the Silverdale Hills LP. This was funded from a \$70,000 loan facility secured by the Silverdale Hills LP (note 4(b)).

When applying the equity method, financial statements of associates and joint ventures are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company. 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		Total	
	Nine months ended May 31, 2024	Nine months ended May 31, 2023	Nine months ended May 31, 2024	Nine months ended May 31, 2023	Nine months ended May 31, 2024	Nine months ended May 31, 2023
	\$	\$	\$	\$	\$	\$
Revenue and other income	1,202	1,603	1,768	26,813	2,431	28,416
Expenses	1,315	815	1,300	20,066	2,076	20,881
Net (loss) income	(113)	788	468	6,747	355	7,535

	Associate		Joint ventures	
	May 31, 2024	August 31, 2023	May 31, 2024	August 31, 2023
	\$	\$	\$	\$
Assets	37,089	32,933	87,911	101,933
Liabilities	12,585	11,486	57,585	40,147
Net assets	24,504	21,447	30,326	61,786

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For the Nine Months Ended May 31, 2024 and 2023

(unaudited)

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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 \$290. As at May 31, 2024, outstanding letters of credit totalling \$290 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 August 2024. Additionally, the Silverdale Hills LP has a committed bank loan facility to a maximum of \$70,000, which matures in calendar year 2025. 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. As at May 31, 2024, \$70,000 has been drawn against the facility by the Silverdale Hills LP. During the nine months ended May 31, 2024, the Company drew \$35,000 of cash from 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 September 2024.

5. Other non-current assets

	May 31, 2024	August 31, 2023
	\$	\$
Deposits (note 11)	-	19,270
Loans receivable, deferred rents receivable and other	299	238
Fair value assets on interest rate swaps (note 6)	-	3,905
	<u>299</u>	<u>23,413</u>

6. Debt on investment properties

	Nine months ended May 31, 2024	Year ended August 31, 2023
	\$	\$
Balance at beginning of period	308,781	310,456
Net proceeds from debt issuances	36,051	80,657
Assumed debt (note 3(b))	-	5,408
Amortization of deferred financing costs	225	306
Repayment of debt	<u>(45,510)</u>	<u>(88,046)</u>
Balance at end of period	299,547	308,781
Less: current portion	<u>102,666</u>	<u>57,332</u>
Non-current portion	<u>196,881</u>	<u>251,449</u>

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Notes to the Condensed Interim Consolidated Financial Statements

For the Nine Months Ended May 31, 2024 and 2023

(unaudited)

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Mortgage and construction loans are secured by charges against the related properties and corporate guarantees. Of the total mortgage and construction loans (before netting of deferred financing costs and fair value adjustments to assumed debt and excluding lease liabilities), \$297,935 (August 31, 2023 – \$307,237) bears interest at fixed rates ranging from 2.23% to 6.35% (August 31, 2023 – 1.97% to 5.96%) per annum. The weighted average interest rate on fixed rate debt as at May 31, 2024 was 4.18% (August 31, 2023 – 3.87%).

a. Interest rate swaps

The Company has entered into interest rate swaps with Canadian chartered banks on eight mortgages to fix the Company's interest rates on those mortgages. The swaps had notional amounts as at May 31, 2024 totalling \$109,807 (August 31, 2023 – \$106,790), fixed swap rates ranging from 2.52% to 5.94%, and maturity dates ranging from August 2024 to September 2029. The total notional amount of the interest rate swaps represented 36.9% as at May 31, 2024 (August 31, 2023 – 34.8%) of the total debt on investment properties (before netting of deferred financing costs and fair value adjustments on assumed debt and excluding lease liabilities). The Company anticipates holding the mortgages and interest rate swap contracts until maturity.

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

	Fair value assets		Fair value liabilities	
	May 31, 2024 \$	August 31, 2023 \$	May 31, 2024 \$	August 31, 2023 \$
Interest rate swaps - current	1,746	104	-	-
Interest rate swaps - non-current	-	3,905	327	-
	Net unrealized losses on interest rate swaps			
	Nine months ended		Three months ended	
	May 31, 2024 \$	May 31, 2023 \$	May 31, 2024 \$	May 31, 2023 \$
Interest rate swaps	2,590	71	578	308

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b. Lease liability

Future minimum payments under the land lease associated with the ROU Asset (note 3(d)) are as follows:

	May 31, 2024
	\$
Within twelve months	102
Two to five years	428
Over five years	2,855
Total future minimum lease payments	<u>3,385</u>
Less: future interest costs	<u>(1,107)</u>
Present value of lease payments	<u>2,278</u>

7. Bank indebtedness

The Company has a line of credit of up to \$20,000 (August 31, 2023 - \$20,000) bearing interest at bank prime rate plus 1% (August 31, 2023 – bank prime rate plus 1% or the Banker’s Acceptance rate plus 2.50%) with a Canadian chartered bank. As at May 31, 2024, \$nil (August 31, 2023 – \$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, 2024:

- 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.

8. Share capital

a. Authorized and issued shares

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

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The following table summarizes the issued share capital as at May 31, 2024 and August 31, 2023:

	Class B Shares		Class C Shares		Total	
	Number	Amount \$	Number	Amount \$	Number	Amount \$
Balance – May 31, 2024 and August 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, 2024 and the year ended August 31, 2023.

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 12, 2024, 1,189,251 Class B Shares are reserved for the issuance under the Plan. The Plan provides that share options may be issued only to executives, employees and outside directors of the Company or of any of its subsidiaries and that options granted to insiders (as defined by Toronto Stock Exchange rules) shall not exceed 10% of the outstanding Class B Shares.

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

As at July 12, 2024, no share options had been granted under the Plan.

9. Dividends

On July 12, 2024, the Company declared a dividend of \$0.0525 per Class B Share and Class C Share payable on September 4, 2024.

On January 12, 2024, the Company declared a dividend of \$0.0525 per Class B Share and Class C Share payable on February 21, 2024.

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.

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10. Property revenues

The following table summarizes the components of property revenues for the three and nine months ended:

	Nine months ended		Three months ended	
	May 31, 2024	May 31, 2023	May 31, 2024	May 31, 2023
Rental Revenue	32,223	29,776	11,253	10,244
Property management revenue	906	846	351	283
	<u>33,129</u>	<u>30,622</u>	<u>11,604</u>	<u>10,527</u>

11. Income taxes

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

	Nine months ended		Three months ended	
	May 31, 2024	May 31, 2023	May 31, 2024	May 31, 2023
Current income tax expense	4,663	4,347	903	776
Provision for uncertain tax positions	36,672	-	-	-
Deferred income tax (recovery) expense	<u>(1,010)</u>	<u>1,936</u>	<u>(578)</u>	<u>286</u>
	<u>40,325</u>	<u>6,283</u>	<u>325</u>	<u>1,062</u>

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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 (loss) income before income taxes as shown in the following table for the nine months ended:

	May 31, 2024		May 31, 2023	
	\$		\$	
(Loss) income before income taxes	(3,904)		32,433	
	\$	%	\$	%
Expected income taxes at statutory rates	(1,059)	27.1	8,688	26.8
Adjustments				
Provision for uncertain tax positions	37,098	(950.3)	-	-
Non-deductible interest expense	3,974	(101.8)	-	-
Non-taxable portion of unrealized capital gains	(282)	7.2	(1,796)	(5.5)
Recognition of previously unrecognized tax assets	-	-	(484)	(1.5)
Equity earnings in associate and joint ventures	(96)	2.5	(2,035)	(6.3)
Taxable portion of earnings from joint ventures	109	(2.8)	1,799	5.5
Other items	542	(13.9)	111	0.3
Adjustments in respect of prior years	39	(1.0)	-	-
Income taxes	40,325	(1,033.0)	6,283	19.3

Deferred income tax liabilities (assets) comprise the following:

	May 31, 2024	August 31, 2023
	\$	\$
Benefit of non-capital losses carried forward	(4,915)	(4,621)
Benefit of capital losses carried forward	-	(503)
Deferred income tax assets not recognized	-	946
Deferred partnership income	(301)	640
Investment properties	60,068	59,098
Tenant improvements and leasing costs	1,228	1,220
Straight-line rental revenue in excess of base rents	613	579
Investment tax credits	-	236
	<u>56,693</u>	<u>57,595</u>

The entire change in deferred income tax liabilities for the nine months ended May 31, 2024 and the year ended August 31, 2023 has been recognized in net income for those respective periods.

As at May 31, 2024, the Company has approximately \$18,207 of non-capital losses which begin to expire in 2033, which may be used to reduce future Canadian income taxes otherwise payable.

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The non-capital losses expire as follows:

	Non-capital losses carried forward
	\$
2033	40
2034	29
2035	108
2036	14
2037	38
2038	2,393
2039	1,411
2040	1,076
2041	3,520
2042	3,538
2043	2,991
2044	3,049
	<hr/>
	18,207
	<hr/>

Uncertain tax positions

The Company and certain subsidiaries received tax notices of reassessment for various taxation years from the Canada Revenue Agency (“CRA”) and Alberta Tax and Revenue Administration (“ATRA”). The reassessments denied 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 disallowed unclaimed carryforward non-capital losses of \$657, carryforward capital losses of \$6,494, and carryforward investment tax credits of \$4,457. The Company and its subsidiaries filed notices of objection and notices of appeal to the reassessments with the CRA and ATRA. 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 claim are owed. The Company and its subsidiaries paid these deposits.

A trial in the TCC for one of the reassessed companies, Madison Pacific Properties Inc., was heard in 2020, 2022 and in 2023 (the “MPP Appeal”). On December 27, 2023, the TCC released its decision for the MPP Appeal in favour of the CRA’s position, confirming the CRA’s reassessments. The decision denied Madison Pacific Properties Inc.’s ability to use certain carryforward losses as described above for certain taxation years within its 2009 to 2017 taxation years. On January 26, 2024, the Company filed a notice of appeal to the Federal Court of Appeal to appeal the decision issued by the TCC.

Based on the decision of the TCC in respect of the MPP Appeal and other related factors, including the accounting criteria under IFRS regarding tax contingencies, the Company has recorded a full provision against the carrying value of the deposits (note 5), deferred tax assets related to unused carryforward amounts and a liability for unpaid estimated awarded legal costs for all three sets of reassessments. The total of these amounts, \$51,450, is recognized as income tax expense of \$36,672 and interest expense and other costs on uncertain tax positions of \$14,778 in the Interim Consolidated Statement of (Loss) Income and Comprehensive (Loss) Income during the nine months ended May 31, 2024.

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The Company and its subsidiaries made an additional payment of \$31,310 to the CRA and ATRA during the nine months ended May 31, 2024. As of May 31, 2024, the Company has paid cash tax deposits totalling \$50,580 to the CRA and ATRA for the taxes and estimated interest the CRA and ATRA claimed are owed.

No trial dates have been set for the Company's other subsidiaries. As a result of the TCC decision in the MPP Appeal, the Company will evaluate its defense positions in respect of the two other reassessed subsidiaries. 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 deposits for potential tax liability would be forfeited to the CRA and ATRA.

12. (Loss) income per share

	Nine months ended		Three months ended	
	May 31, 2024	May 31, 2023	May 31, 2024	May 31, 2023
Net (loss) income attributable to shareholders of the Company	(\$44,083)	\$25,411	(\$908)	\$2,975
Weighted average number of shares outstanding	59,462,555	59,462,555	59,462,555	59,462,555
Basic and diluted (loss) income per share	(\$0.74)	\$0.43	(\$0.02)	\$0.05

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:

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, 2024, landscaping, maintenance, construction management and property management services paid to this company totalled \$540 (nine months ended May 31, 2023 – \$367).

On January 31, 2024, the Company acquired 328,240 newly issued shares in its equity investee GSP for \$2,137. On April 9, 2024, the Company also acquired 153,610 GSP shares from an unrelated GSP shareholder for \$1,000, resulting in a total interest of 36.04% (August 31, 2023 – 33.85%). GSP is a private company where certain of its shareholders and key management personnel are related to a director of Madison.

During the nine months ended May 31, 2024, the Company jointly acquired two residential apartment properties with its equity investee, GSP (note 3(b)). On June 24, 2024, the Company also jointly acquired a 14-unit residential apartment property with GSP (note 17). During the year ended August 31, 2023, the Company also jointly acquired a 40-unit residential apartment property with GSP (note 3(b)).

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During the year ended August 31, 2023, the Company made short-term interest bearing advances of \$3,500 to GSP. As at August 31, 2023, these 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%.

During the nine months ended May 31, 2024, the Company engaged the services of an electrical contractor controlled by a shareholder of the Company for which it paid fees of \$6 (nine months ended May 31, 2023 – \$8).

During the nine months ended May 31, 2024, rental revenues of \$3,137 (nine months ended May 31, 2023 – \$2,846) 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, 2024, the Company incurred management consulting charges of \$1,044 from a shareholder of the Company for tax, development and other management support services (nine months ended May 31, 2023 – \$575), which included the compensation of the Company's chief executive officer from July 17, 2023, paid to the shareholder pursuant to a management service agreement. During the year ended August 31, 2023, the Company also incurred a one-time consulting charge of \$2,812 from a shareholder of the Company for asset management services related to the Company's investment in Silverdale Hills LP.

During the nine months ended May 31, 2024, the Company recorded administration expenses of \$21 from a shareholder of the Company (nine months ended May 31, 2023 – \$15).

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, 2024, a guarantee fee of \$33 (nine months ended May 31, 2023 – \$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, 2024	May 31, 2023
	\$	\$
Salaries and short-term employee benefits	1,465	1,166

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14. Financial instruments

Fair value of financial instruments

The following table categorizes financial assets or liabilities measured or disclosed at fair value by level according to the significance of inputs used in making measurements:

	Fair value hierarchy	May 31, 2024		August 31, 2023	
		Carrying Value	Fair Value	Carrying Value	Fair Value
<i>Recurring measurement</i>					
Fair value assets on interest rate swaps	Level 3	\$ 1,746	\$ 1,746	\$ 4,009	\$ 4,009
Fair value liabilities on interest rate swaps	Level 3	327	327	-	-
<i>Fair values disclosed</i>					
Debt on investment properties (Excluding land lease liability)	Level 3	(297,269)	(288,147)	(306,480)	(293,936)

Cash and cash equivalents, amounts receivable and other current assets, other non-current assets, and accounts payable and accrued liabilities have fair values that approximate their carrying values.

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

The fair value of debt on investment properties as at May 31, 2024 and August 31, 2023 is determined by discounting the expected cash flows of each mortgage using market discount rates. The fair value is estimated based on discounted cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. In determining the adjustment for credit risk, the Company considers market conditions, the fair value of the investment properties that the mortgages are secured by and other indicators of the Company's creditworthiness. As a result, these measurements are classified as level 3 in the fair value hierarchy.

The Company recognizes transfers into and transfers out of fair value hierarchy levels as at the date of the event or change in circumstances that caused the transfer. There were no transfers between hierarchy levels during the period.

15. 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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16. 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, 2024.

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

	May 31, 2024	August 31, 2023
	\$	\$
Fixed rate mortgage loans and lease liability	300,213	309,538
Equity	415,486	462,691
	<u>715,699</u>	<u>772,229</u>

17. Subsequent events

On May 27, 2024, the Company's 99.75% owned subsidiary Metro announced a proposed share consolidation and going private transaction (the "Transaction"). The Transaction is being structured as a consolidation of Metro's Class B Voting Common Shares (the "Metro Class B Shares") with all Metro Class B Shares being consolidated on the basis of one post-consolidation Metro Class B Share for each 1,941,489 pre-consolidation Metro Class B Shares, without any entitlement to receive fractional shares. In lieu of receiving a fractional share, minority shareholders will be paid cash consideration of \$0.36 per pre-consolidation Metro Class B share. As a result of the consolidation, the Company would become the holder of the sole post-consolidation Metro Class B Share. Upon the completion of the consolidation, the Company will be the sole remaining shareholder of Metro.

A special meeting of the shareholders of Metro was held on June 27, 2024 to vote on this Transaction. The vote in favour of completing the Transaction was approved by 94.63% of the votes cast by holders of Metro Class B Shares, excluding the votes cast by the Company and its related entities and their joint actors. The share consolidation was completed on July 3, 2024. Metro paid total consideration of \$1,000 to its minority shareholders. Following the completion of the share consolidation, Metro applied to the securities regulatory

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authorities to cease being qualified as a reporting issuer, which application is pending as of July 12, 2024. The Transaction will be accounted for as an equity transaction.

On June 24, 2024, the Company acquired a 50% interest in a 14-unit residential apartment property in Metro Vancouver for \$3,050 excluding closing costs and taxes.