

MADISON PACIFIC PROPERTIES INC.

MANAGEMENT DISCUSSION AND ANALYSIS

(as of January 13, 2020)

(\$000's)

Overview

Madison Pacific Properties Inc. ("Madison" or the "Company") is in the business of acquiring, developing and managing revenue-producing office, industrial, and commercial real estate properties located in British Columbia, Alberta, and Ontario. Madison also has investments in joint ventures that intend to develop residential properties.

The following table shows the leasable area and base annual rent (except for properties under development) as of January 13, 2020, for the three real estate income property portfolios held by Madison:

Province	Area and Rent ⁽¹⁾⁽²⁾	(in 000's except for leasable area)			
		Industrial	Retail/highway-commercial	Office	Total
British Columbia	Leasable area (sq. ft.)	1,248,136	120,559	116,689	1,485,384
	Base annual rent (\$)	14,369	2,702	4,230	21,301
Alberta	Leasable area (sq. ft.)	269,036	-	-	269,036
	Base annual rent (\$)	2,640	-	-	2,640
Ontario	Leasable area (sq. ft.)	63,030	-	-	63,030
	Base annual rent (\$)	444	-	-	444
Total	Leasable area (sq. ft.)	1,580,202	120,559	116,689	1,817,450
	Base annual rent (\$)	17,453	2,702	4,230	24,385

(1) Leasable area includes 100% of the total leasable area of properties in the MT Properties Limited Partnership, of which the Company holds a 60.9% interest, 50% of the total leasable area of joint operations that are proportionally consolidated (at 50%) for financial statement purposes and 50% of the total leasable area of the property in the 2798 Barnet Development Limited Partnership, which is accounted for using the equity method.

(2) Base annual rent is rent excluding recoveries for operating costs and property taxes and rents based on tenant revenue.

Basis of Discussion and Analysis

This management discussion and analysis ("MD&A") of the consolidated financial condition of Madison as of November 30, 2019 and the results of its operations for the three months ended November 30, 2019 was prepared as of January 13, 2020. The MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and accompanying notes for the three months ended November 30, 2019 and the audited consolidated financial statements and accompanying notes to the consolidated financial statements and MD&A for the year ended August 31, 2019.

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

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

Forward-Looking Statements

This MD&A contains forward-looking statements regarding the future success of Madison's business that are subject to risk and uncertainties. Forward-looking information typically contains statements with words such as "expect", "believe", "plan", "forecast", "intend" or similar words suggesting future outcomes. Examples of such forward-looking statements include statements regarding the Company's expectation to renew mortgage loans as they become due; the estimated amount of potential tax reassessments; the Company's belief that loan facilities together with funds on hand and cash generated from operations should provide adequate liquidity and sufficient funds to pay for potential tax reassessments; the Company's expectation to renew all credit facilities maturing in fiscal 2020 at interest rates and with terms comparable to those currently in place; the Company's expectation to hold interest rate swap contracts and the related floating rate mortgages until maturity; the Company's belief that there will be sufficient future taxable income to utilize income tax losses and undeducted expenditures; and the Company's belief that the recoverability of unrecognized investment tax credits is still in doubt. The material factors and assumptions used to develop forward-looking information include the current level of interest rates in the market, current relationships with the Company's lenders, current capitalization rates and long-term lease agreements supporting income expectations to utilize tax losses.

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

Selected Financial Information

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

(in \$000's except per share amounts)	November 30, 2019	November 30, 2018
Property revenues	7,810	7,484
Property operating expenses	2,107	1,975
General and administrative expenses	786	782
Net gain on fair value adjustment on investment properties	6,300	3,038
Equity earnings of associate and joint ventures	88	119
Interest income	315	290
Interest expense	2,034	1,936
Gains (losses) on fair value adjustment on interest rate swaps	78	(38)
Income before income taxes	9,664	6,200
Income taxes	1,588	934
Net income and comprehensive income	8,076	5,266
Net income and comprehensive income attributable to the shareholders of the Company	7,568	4,920
Income per share	\$0.13	\$0.08
Total assets	636,256	590,268
Non-current financial liabilities	157,239	183,539
Total debt on investment properties	232,066	222,973
Dividends per share	\$0.00	\$0.00

Results of Operations

The following discussion highlights the significant activities that have occurred from the beginning of the comparative three months period ended November 30, 2018 and up to the date of this MD&A:

Investment property acquisitions:

For the three months ended November 30, 2019 and year ended August 31, 2019, the Company had no acquisitions of investment properties.

Investment property dispositions:

For the three months ended November 30, 2019 and year ended August 31, 2019, the Company had no dispositions of investment properties.

Operating results:

Property revenues: Property revenues include rental revenue, and property and project management revenue. Property revenues for the three months ended November 30, 2019 increased by 4.4% compared to the three months ended November 30, 2018, due to the addition of rental income from the completion of two properties under development in fiscal 2019, higher rental rates on some properties and an increase in recoverable operating costs.

Excluding committed space, properties under development, and properties held for sale, vacancies were 1.30% as at November 30, 2019 and 1.13% as at November 30, 2018. Vacancies were 1.30% as of the date of this MD&A.

Property operating expenses: Property operating expenses for the three months ended November 30, 2019 increased by 6.7% compared to the three months ended November 30, 2018 due to an increase in recoverable operating costs and non-recoverable tenant costs.

General and administrative expenses: General and administrative expenses for the three months ended November 30, 2019, were comparable to the three months ended November 30, 2018.

Net gain on fair value adjustment on investment properties: Net gain on fair value adjustment on investment properties was \$6,300 for the three months ended November 30, 2019. Valuations are prepared by management based primarily on assumptions relating to cash flows from current leases, rental income from future leases in light of current market conditions and capitalization rates. The capitalization rates used are generally based on ranges provided by external valuation specialists. These assumptions are further compared against information obtained from independent industry experts. Adjustments are made to the carrying values of the investment properties when changes in the underlying valuation assumptions occur. The gain for the three months ended November 30, 2019 is primarily attributable to a reduction in capitalization rates on some industrial and retail assets in Metro Vancouver and lease rate increases on some investment properties.

The table below provides the average capitalization rates (excluding properties under development) and the ranges for each market category as at November 30, 2019 as it relates to the Metro Vancouver market where 79% of the Company's properties are located.

	Company average cap rate	Market range
Industrial	4.31%	3.75% to 5.00%
Retail/highway-commercial ⁽¹⁾	4.52%	3.50% to 4.75%
Office	4.15%	3.25% to 4.75%

(1) Excludes retail property held under leasehold interest.

The following table provides a sensitivity analysis for the weighted average capitalization rate applied at November 30, 2019, except for properties under development and a right-of-use asset of \$2,207:

Capitalization rate increase (decrease)	Weighted average capitalization rate	Fair value of investment properties (at Company's ownership) \$	Fair value variance \$	% Change
(0.75%)	3.68%	623,207	118,150	23.4%
(0.50%)	3.99%	575,734	70,677	14.0%
(0.25%)	4.27%	537,532	32,475	6.4%
November 30	4.54%	505,057	-	-
0.25%	4.81%	476,769	(28,288)	(5.6%)
0.50%	5.08%	451,764	(53,293)	(10.6%)
0.75%	5.34%	429,432	(75,625)	(15.0%)

Equity earnings of associate and joint ventures: Equity earnings of the associate, Grant Street Properties Inc., for the three months ended November 30, 2019 was \$25 compared to \$56 for the three months ended

November 30, 2018. The decrease in equity earnings compared to the prior period is primarily attributable to the loss on fair value adjustment recognized on its interest rate swap. Equity earnings of the 2798 Barnet Development Limited Partnership (the “Barnet LP”) and the Silverdale Hills Limited Partnership (“Silverdale Hills LP”) joint ventures was \$63 for the three months ended November 30, 2019, compared to \$63 for the three months ended November 30, 2018.

Interest income: For the three months ended November 30, 2019, the Company earned interest income from surplus cash of \$315 compared to \$290 for the three months ended November 30, 2018. The increase in interest income was due primarily to a higher average balance of cash on hand.

Interest expense: The increase in interest expense by \$98 for the three months ended November 30, 2019 compared to the three months ended November 30, 2018 is due primarily to a higher average balance of debt on investment properties compared to the prior period, as a result of the refinancing of properties in fiscal 2019.

Gains (losses) on fair value adjustment on interest rate swaps: The gains on the fair value adjustment on interest rate swaps for the three months ended November 30, 2019 of \$78 relate to the total net unrealized gains for the period on five interest rate swaps with a total notional amount of \$64,871. For the three months ended November 30, 2018, the Company had losses on the fair value adjustment on interest rate swaps of \$38. The Company mitigates some interest rate risk by entering into fixed rate interest rate swaps on some of its mortgages.

Income taxes: Income tax expense was \$1,588 for the three months ended November 30, 2019 and \$934 for the three months ended November 30, 2018. The increase in income tax expense compared to the prior period is consistent with the increase in income before taxes compared to the prior period. A reconciliation of the income tax provision can be found in note 10 of the consolidated financial statements.

Net income and comprehensive income: The overall increase in net income and comprehensive income for the three months ended November 30, 2019 compared to the three months ended November 30, 2018 is explained in the analysis provided above.

Operating capital: Madison funds its current operations from its cash flows from operating activities, mortgages, construction loans and a bank line of credit. For the three months ended November 30, 2019, Madison generated \$3,456 of cash flows from continuing operations (before changes in non-cash balances). Madison has a \$20,000 operating line of credit with a Canadian chartered bank. The Company and its subsidiaries had collectively drawn \$nil on the line of credit as at November 30, 2019 (August 31, 2019 - \$nil). Madison has been able to obtain new mortgage financing and renew its existing mortgages at interest rates and on terms comparable to fiscal 2019.

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

Quarter ended	Property revenues	Net gain on fair value adjustment on investment properties	Net income and comprehensive income	Net income attributable to shareholders of the Company	Income per share attributable to shareholders of the Company
February 28, 2018	8,145	13,164	15,921	15,088	\$0.26
May 31, 2018	7,582	5,654	7,153	6,912	\$0.12
August 31, 2018	7,654	9,545	10,888	10,222	\$0.17
November 30, 2018	7,484	3,038	5,266	4,920	\$0.08
February 28, 2019	7,868	10,956	12,036	11,748	\$0.20
May 31, 2019	7,759	5,693	7,122	6,789	\$0.12
August 31, 2019	8,006	9,717	11,814	11,293	\$0.19
November 30, 2019	7,810	6,300	8,076	7,568	\$0.13

2020 Quarterly Comparison

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

Property revenues: Property revenues for the first quarter of fiscal 2020 decreased compared to the fourth quarter of fiscal 2019, due to a non-recurring lease termination fee recognized in the prior quarter.

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

2019 Quarterly Comparison

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

Property revenues: Property revenues for the first quarter of fiscal 2019 decreased compared to the quarterly revenues of fiscal 2018 due to the sale of one industrial property and a 50% interest in a commercial property in the second quarter of fiscal 2018, lower project management fees and the accounting for revenue of the Company's 50% interest in the property in the Barnet LP using the equity method. Property revenues for the last three quarters of fiscal 2019 increased compared to the first quarter of fiscal 2019 due to the addition of rental income from the completion of two properties under development and an increase in recoverable operating expenses.

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

2018 Quarterly Comparison

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

Property revenues: Property revenues for the third and fourth quarters of 2018 decreased compared to the prior quarters of fiscal 2018 due to the sale of one industrial property and a 50% interest in a commercial property in the second quarter of fiscal 2018.

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

Liquidity and Capital Resources

As at November 30, 2019, the Company had cash on hand of \$53,422 (August 31, 2019 - \$56,955) and had drawn \$nil (August 31, 2019 - \$nil) against its line of credit. The Company has a maximum line of credit of \$20,000. The line of credit with a Canadian chartered bank bears interest at bank prime rate plus 1.0% or the Bankers Acceptance rate. The line of credit may be used for general business purposes and the amount available for such uses varies with the value of investment properties pledged, up to a maximum of \$20,000. Second mortgages against certain of the Company's investment properties, assignments of rents and insurance, as well as general security agreements creating floating charges over all of the Company's assets, have been provided as security. Amounts advanced under the line of credit are repayable on demand. The line of credit agreement contains financial ratios which must be maintained, for which the Company is in compliance.

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

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

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

Risks and Uncertainties

Real Estate Industry

Investment properties are subject to varying degrees of risk. Such risks include changes in general economic conditions (such as the availability and cost of mortgage funds), local conditions (such as an over-supply of space or a reduction in demand for real estate in the area), the attractiveness of the

properties to tenants, competition from others with available space and the ability of Madison to provide adequate maintenance at an economic cost.

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

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

Madison manages these risks through ownership of good quality properties combined with a diverse tenant base. As at November 30, 2019, no one tenant accounted for more than 13.80% (August 31, 2019 - 13.85%) of the rental revenue of Madison and lease maturities are staggered such that as at November 30, 2019, no more than 22.82% (August 31, 2019 - 21.26%) of the rental space was subject to renewal in any one year.

Revenue-Producing Properties

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

Joint Venture Residential Developments

Madison has two properties held through separate 50/50 joint ventures where the lands have residential and mixed-use development potential under the current respective official community plans. The Company, in conjunction with its joint venture partners, is currently investigating the feasibility and redevelopment potential of the properties, including rezoning requirements. The joint ventures, which are described below, are accounted for using the equity method of accounting.

Silverdale Hills Limited Partnership

Madison has a 50% interest in the Silverdale Hills LP which owns approximately 1,380 acres of undeveloped residential lands in Mission, British Columbia. In the three months ended November 30, 2019, the Company made additional equity investments of \$1,700 in the Silverdale Hills LP. The additional equity was required to fund development costs and the acquisition of additional parcels of undeveloped residential land. In October 2018, the Silverdale Hills LP obtained approval from the District of Mission to develop 161 townhomes and 66 single family lots, which would consume approximately 38 acres of land inventory. Development of the project will be managed by Madison's partner, a major residential developer. Construction of this project is projected to commence in the second quarter of fiscal 2020. Redevelopment of further properties on this site is subject to economic feasibility and obtaining all necessary approvals, including rezoning, none of which are certain as of the date of this MD&A.

2798 Barnet Development Limited Partnership

Madison has a 50% interest in the Barnet LP which owns a retail property in Coquitlam, British Columbia. The Barnet LP is investigating the redevelopment of this site into a residential and mixed-use property. Redevelopment of this site is subject to economic feasibility and obtaining all necessary approvals, including rezoning, none of which are certain as of the date of this MD&A.

Risks Associated with Residential Development Activities

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

Joint Ventures and Co-ownerships

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

Fluctuations in Real Estate Values

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

Geographic Concentration

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

Environmental Matters

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

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

General Uninsured Losses

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

Income Taxes

The Company and certain subsidiaries have received from the Canada Revenue Agency ("CRA") and Alberta Tax and Revenue Administration ("ATRA") tax notices of reassessment for various taxation years. The reassessments deny the application and usage of certain non-capital losses, capital losses, deductions and investment tax credits arising from prior years. In addition, the CRA and ATRA are disallowing unclaimed carryforward non-capital losses of \$417, carryforward capital losses of \$6,974, carryforward scientific research and development expenditures of \$12,991, and investment tax credits of \$7,409. As a result, additional taxes payable for the reassessed years, including interest, total \$33,601. 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 \$16,248 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 \$3,567 as at November 30, 2019.

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

Interest Rate Fluctuations

Madison's capital structure involves risks primarily associated with leverage and interest rates. Madison's financing includes some indebtedness with interest rates set on a floating rate basis which could result in fluctuations in Madison's cost of borrowing. Madison has mitigated interest rate risk by refinancing all of its debt on investment properties (mortgage loans, excluding lease liabilities) at fixed rates ranging from 2.40% to 4.83% per annum and staggering maturities up to five years so that no more than 30% of such debt matures in one year. The Company has not experienced any difficulties in renewing mortgages as they have become due. The Company also mitigates interest rate risk by entering into interest rate swaps. As at November 30, 2019, the Company had entered into interest rate swaps with Canadian chartered banks on five mortgages to reduce the impact of fluctuating interest rates and fix the Company's interest rates on those mortgages. The swaps had notional amounts as at November 30, 2019 totalling \$64,871, fixed swap rates ranging from 2.92% to 3.90%, and maturity dates ranging from June 2020 to August 2024. The total notional amount of the interest rate swaps represented 28.2% as at November 30, 2019 (August 31, 2019 - 28.4%) of the total debt on investment properties (before netting of deferred financing costs and fair value adjustments to assumed debt and excluding lease liabilities). The Company anticipates holding the mortgages and interest rate swap contracts until maturity.

The weighted average interest rate on fixed rate mortgage debt as at November 30, 2019 was 3.40% (August 31, 2019 - 3.38%). Madison has no floating rate mortgages or construction loans. The Barnet LP, of which the Company owns a 50% interest, has a floating rate demand loan of \$29,250.

The Company has a line of credit that bears interest at bank prime rate plus 1.0% or the Banker's Acceptance rate. The line of credit may be used for general business purposes and the amount available for such uses varies with the value of investment properties pledged, up to a maximum of \$20,000. As at November 30, 2019, \$nil had been drawn on the line of credit. As at November 30, 2019, the Company had no variable interest rate borrowings.

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

Contractual Obligations

(in \$000's)	Payments due by fiscal year				
	Total	December 2019 - August 2020	September 2020 - August 2022	September 2022 - August 2024	September 2024 and thereafter
Debt on investment properties ⁽¹⁾	230,386	73,810	59,792	90,272	6,512
Undiscounted land lease liability	3,895	71	195	202	3,427

(1) Excluded from the table is the Company's 50% share of the \$29,250 bank loan owed by the Barnet LP which is accounted for using the equity method. The loan matures in March 2020 and the Company has provided a limited guarantee of \$14,625.

Off-Balance Sheet Arrangements

Madison is required to provide letters of credit to municipalities in connection with development charges and rezoning applications. As of January 13, 2020, there were no outstanding letters of credit.

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

Transactions with Related Parties

The Company has engaged the services of G.W. Property Services Ltd., a landscaping and building services company owned by a related party. During the three months ended November 30, 2019, landscaping, maintenance, and construction management services paid to this company totalled \$51 (three months ended November 30, 2018 - \$107). There are no long-term commitments with this company, which provides required landscaping and maintenance on some investment properties.

For the three months ended November 30, 2019, the Company engaged the services of Western Integrated Electrical Ltd., an electrical contractor controlled by a shareholder of the Company, for which it paid fees of \$53 (three months ended November 30, 2018 - \$9).

For the three months ended November 30, 2019, rental revenues totalling \$492 (three months ended November 30, 2018 - \$486) were received from Madison Venture Corporation ("MVC"), a shareholder of the Company, and Arrow Speed Controls Limited, Continental Electrical Motor Services Ltd., 0777061 B.C. Ltd., and Madison Industrial Equipment Inc. which are tenants and companies controlled by MVC. These companies have lease agreements with the Company.

For the three months ended November 30, 2019, the Company paid consulting fees for various administration and support services, including assistance with challenges to our tax reassessments of \$36 (three months ended November 30, 2018 - \$47) to MVC.

The Company has provided a limited guarantee of \$16,830 on the MT Properties Limited Partnership mortgage debt. During the three months ended November 30, 2019, a guarantee fee of \$13 (three months ended November 30, 2018 - \$13) was paid to the Company.

Key management personnel include the Company's directors and officers. For the three months ended November 30, 2019, compensation awarded to key management personnel included salaries and short-term employee benefits of \$413 (three months ended November 30, 2018 - \$344).

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

Outstanding Share Data

As of January 13, 2020, there were 7,255,492 Class B voting common shares (“Class B Shares”) and 51,315,089 Class C non-voting shares (“Class C Shares”) outstanding.

Share Option Plan

The Company implemented a share option plan (the “Plan”) effective January 1, 2019. Under the Plan, the Company reserves Class B Shares equal to 2% of aggregate outstanding Class B Shares and Class C Shares for issuance upon the exercise of share options granted under the Plan. As at January 13, 2020, 1,171,411 Class B Shares are reserved for issuance under the Plan. The Plan provides that share options may be issued only to executives, employees and outside directors of the Company or of any of its subsidiaries and that options granted to insiders (as defined by Toronto Stock Exchange rules) shall not exceed 10% of the outstanding Class B Shares.

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

As at January 13, 2020, no share options had been granted.

Cash Flows from Operating Activities

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

(in \$000’s)	November 30, 2019	November 30, 2018
Net income	8,076	5,266
Items not affecting cash		
Net gain on fair value adjustment on investment properties	(6,300)	(3,038)
Amortization	331	257
Equity earnings of associate and joint ventures	(88)	(119)
(Gains) losses on fair value adjustment on interest rate swaps	(78)	38
Recognition of rental revenue on a straight-line basis	76	(12)
Deferred income taxes	1,439	595
	3,456	2,987
Decrease in amounts receivable and other assets	88	1,274
Increase in income taxes receivable	(98)	(1)
(Decrease) increase in accounts payable and accrued liabilities	(1,105)	15
	2,341	4,275

For the three months ended November 30, 2019, Madison generated \$3,456 of cash flows from continuing operations (before changes in non-cash balances) compared to \$2,987 for the three months ended November 30, 2018. The increase compared to the prior period is due primarily to an increase in net property income for the three months ended November 30, 2019 compared to the three months ended November 30, 2018.

Financial Instruments

Madison finances its investment properties primarily through conventional mortgage loans. These mortgages have remaining terms of between one and five years, and as at November 30, 2019, had a weighted average interest rate of 3.40% (August 31, 2019 - 3.38%). Of the total amount of debt on investment properties outstanding (excluding lease liabilities) as at November 30, 2019, \$70,103 of mortgages are scheduled to mature by August 31, 2020. Additionally, the Barnet LP, of which the Company owns a 50% interest, has a demand loan of \$29,250 which matures in March 2020.

Madison anticipates being able to renew all credit facilities maturing in fiscal 2020 at interest rates and with terms comparable to those currently in place.

As at November 30, 2019, the Company had entered into interest rate swaps with Canadian chartered banks on five mortgages to fix the Company's interest rates on those mortgages. The swaps had notional amounts as at November 30, 2019 totalling \$64,871 (August 31, 2019 - \$65,478) fixed swap rates ranging from 2.92% to 3.90%, and maturity dates ranging from June 2020 to August 2024. The total notional amount of the interest rate swaps represented 28.2% as at November 30, 2019 (August 31, 2019 - 28.4%) of the total debt on investment properties (before the netting of deferred financing costs and fair value adjustments to assumed debt and excluding lease liabilities). The Company anticipates holding the mortgages and interest rate swap contracts until maturity.

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

	<u>Fair value assets</u>		<u>Net unrealized gains (losses) on interest rate swaps</u>	
	November 30, 2019	August 31, 2019	Three months ended	
	\$	\$	November 30, 2019	November 30, 2018
	\$	\$	\$	\$
Interest rate swaps	267	189	78	(38)

Critical Accounting Estimates and Judgements

It is necessary for the Company to use estimates in applying the significant accounting policies as described in note 2 of the August 31, 2019 consolidated financial statements. In determining estimates, management uses the information available to the Company at the time. Management reviews key estimates on a regular basis to determine their appropriateness. There is no material update from the critical accounting estimates disclosure contained in the August 31, 2019 MD&A.

New Accounting Standards and Amendments to Standards

The Company has applied, for the first time, certain standards and amendments, which are effective for annual periods beginning on or after September 1, 2019. The nature and the impact of the new standards and amendments are described below:

IFRS 16, *Leases*

The Company adopted IFRS 16, *Leases* (“IFRS 16”) with an effective date of September 1, 2019 using the modified retrospective basis with no restatement of comparative periods. IFRS 16 replaces IAS 17, *Leases* and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (“lessee”) and the supplier (“lessor”). Under IFRS 16, a lessee records all leases on the consolidated statement of financial position, except for those leases that meet a limited exception criteria. Upon adoption of IFRS 16, a right-of-use asset is recognized at the date of the initial application at an amount equal to the lease liability, using the Company’s incremental borrowing rate. The Company has recognized a right-of-use asset of \$2,210 with respect to a land lease it has on a property. This right-of-use asset is included in investment properties on the consolidated balance sheet with a corresponding current and long-term lease liability of \$12 and \$2,198, respectively. The adoption of IFRS 16 did not have a material impact on the Company’s consolidated statement of income and comprehensive income and consolidated statement of cash flows.

The Company has elected not to apply this standard to short-term leases and leases for which the underlying asset is of low value. The Company recognizes these lease payments as an expense on a straight-line basis over the lease term.

Accounting for leases by lessors remains relatively unchanged. Accordingly, the Company will continue to recognize the property revenue generated through operating leases over the term of the lease agreement.

IFRIC 23, *Uncertainty Over Income Tax Treatments*

The Company adopted IFRIC 23, *Uncertainty over Income Tax Treatments* (“IFRIC 23”) with an effective date of September 1, 2019 using the modified retrospective basis with no restatement of comparative periods. IFRIC 23 provides clarification on the application of various recognition and measurement requirements under IAS 12, *Income Taxes* when there is uncertainty over income tax treatments. This interpretation addresses whether uncertain tax treatments should be considered separately; assumptions made about the examination of tax treatments by taxation authorities; the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and tax rates; and, the impact of changes in facts and circumstances. The adoption of IFRIC 23 did not have a material impact on the Company’s consolidated financial statements.

Effectiveness of the Internal and Disclosure Controls and Procedures

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

The Company did not make any changes to the design of its internal controls over financial reporting in the three months ended November 30, 2019 that would have materially affected, or would be reasonably likely to materially affect the Company’s internal controls over financial reporting.

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

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

Additional Information

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