

MADISON PACIFIC PROPERTIES INC.

MANAGEMENT DISCUSSION AND ANALYSIS

(as of January 12, 2024)

(\$000's)

Basis of Discussion and Analysis

This management discussion and analysis ("MD&A") of the consolidated financial condition of Madison Pacific Properties Inc. ("Madison" or the "Company") as of November 30, 2023 and the results of its operations for the three months ended November 30, 2023 was prepared as of January 12, 2024. 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, 2023 and the audited consolidated financial statements and accompanying notes to the consolidated financial statements and MD&A for the year ended August 31, 2023.

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

The unaudited condensed interim consolidated financial statements include the operating results of Madison, its subsidiaries, and on a proportionate 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 interest on 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 when they become due, with terms comparable to those currently in place except for higher interest rates and lower loan-to-value ratios; the Company's expectation that the Bank of Canada will continue to adjust its overnight interest rate until it achieves its target inflation range; the Company's expectation to hold interest rate swap contracts and the related floating rate mortgages until maturity; the Company's belief that there will be sufficient future taxable income to utilize income tax losses. The material factors and assumptions used to develop forward-looking information include the current level of interest rates in the market, current relationships with the Company's lenders, current capitalization rates and long-term lease agreements supporting income expectations to utilize tax losses.

These forward-looking statements involve known and unknown risks and uncertainties that may cause Madison's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied in these forward-looking statements. These risks include risks related to the real estate industry generally such as, financing and interest rates, demand for office, industrial, commercial, and multi-family rentals, illiquidity of real estate investments, non-renewal of tenant leases, risks associated with residential development and related zoning and other permit approvals, joint ventures and co-ownerships, fluctuation in real estate values, geographic concentration of the business, environmental matters and uninsured losses and income tax risk including reassessment and interest thereon.

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.

Business Overview

Madison is in the business of acquiring, developing and managing revenue-producing office, industrial, commercial, and multi-family rental properties located in British Columbia, Alberta, and Ontario. Madison also has investments in joint ventures that develop residential properties.

Industrial, Retail and Office Properties

The following table shows the leasable area and base annual rent (except for properties under development and the Company's 50% interest in three residential apartment properties) as of the date of this MD&A, for the three real estate income property asset classes held by Madison:

Province	Area and Rent ⁽¹⁾⁽²⁾	(in 000's except for leasable area)			
		Industrial	Retail	Office	Total
British Columbia	Leasable area (sq. ft.)	1,352,182	120,089	116,689	1,588,960
	Base annual rent (\$)	21,156	2,847	4,848	28,851
Alberta	Leasable area (sq. ft.)	283,078	-	-	283,078
	Base annual rent (\$)	3,081	-	-	3,081
Ontario	Leasable area (sq. ft.)	63,030	-	-	63,030
	Base annual rent (\$)	676	-	-	676
Total	Leasable area (sq. ft.)	1,698,290	120,089	116,689	1,935,068
	Base annual rent (\$)	24,913	2,847	4,848	32,608

- (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.

Madison manages good quality properties combined with a diverse tenant base. As at November 30, 2023, no one commercial tenant accounted for more than 11.19% (August 31, 2023 – 11.40%) of the commercial rental revenue of Madison and lease maturities are staggered such that as at November 30, 2023, no more than 28.45% (August 31, 2023 – 28.45%) of the commercial rental space was subject to renewal in any one year.

Multi-Family Rental Properties

The Company has a 50% interest in three apartment buildings with a total of 109 rental units in Vancouver, British Columbia as of the date of this MD&A.

Joint Venture Residential Developments

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

Silverdale Hills Limited Partnership (the “Silverdale Hills LP”)

Madison has a 50% interest in the Silverdale Hills LP which owns approximately 1,400 acres of residential development lands in Mission, British Columbia as of the date of this MD&A. For the three months ended November 30, 2023, 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 (see “Liquidity and Capital Resources”). In the year ended August 31, 2023, the Company received distributions of \$18,300 from the Silverdale Hills LP. In June 2020, the Silverdale Hills LP commenced development of 162 townhomes and 65 single family lots on the site, which consumed approximately 38 acres of land inventory. As of the date of this MD&A, all of the townhome units have been completed and sold and 64 single family lots have been sold to a single developer. Redevelopment of further properties on this site is subject to economic feasibility and obtaining all necessary approvals, including rezoning, none of which are certain as of the date of this MD&A.

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

2798 Barnet Development Limited Partnership (the “Barnet LP”)

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

Q1 Fiscal 2024 Financial Results Overview

The Company’s net loss and comprehensive loss attributable to the shareholders of the Company for the three months ended November 30, 2023 was \$57,481, compared to the Company’s net income and comprehensive income attributable to the shareholders of the Company of \$6,422 for the three months ended November 30, 2022. The decrease was due primarily to the recognition of a loss provision for uncertain tax positions on the Company’s tax appeals (see “Uncertain Tax Positions”), net loss on fair value adjustment on investment properties, equity losses of associate and joint ventures, losses on fair value adjustment on interest rate swaps and an increase in general and administrative expenses. The decrease was partially offset by an increase in net property income.

Selected Financial Information

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

(in \$000's except per share amounts)	November 30, 2023	November 30, 2022
Property revenues	10,419	9,631
Property operating expenses	3,125	2,721
General and administrative expenses	1,366	850
Net (loss) gain on fair value adjustment on investment properties	(8,047)	324
Equity (losses) earnings of associate and joint ventures	(442)	4,641
Interest income	791	301
Interest expense	3,224	2,657
Interest expense on uncertain tax positions	14,555	-
(Losses) gains on fair value adjustment on interest rate swaps	(1,453)	81
(Loss) income before income taxes	(21,002)	8,750
Income taxes	36,815	2,127
Net (loss) income and comprehensive (loss) income	(57,817)	6,623
Net (loss) income and comprehensive (loss) income attributable to the shareholders of the Company	(57,481)	6,422
(Loss) income per share	(\$0.97)	\$0.11
Cash flow from operations before changes in non-cash operating accounts	1,584	1,771
Cash generated from operating activities	5,497	3,814
Dividends per share	\$0.00	\$0.00

The following table provides selected financial information as at:

(in \$000's)	November 30, 2023	August 31, 2023
Investment properties	687,385	695,150
Investments in associates and joint ventures	47,838	83,280
Other non-current assets	3,085	23,413
Total debt on investment properties	301,281	308,781
Uncertain tax liabilities	31,588	-

Results of Operations

Property revenues: Property revenues include rental revenue and property management revenue. Property revenues for the three months ended November 30, 2023 increased by 8.2% compared to the three months ended November 30, 2022, due to higher rental rates on certain properties, an increase in recoverable operating expenses, and the addition of an investment property and a 50% interest in another investment property. The increase was partially offset by certain vacancies throughout the period.

Excluding committed space and properties under development, commercial vacancies were 1.25% as at November 30, 2023 and 0.97% as at November 30, 2022. Commercial vacancies were 1.25% as of the date of this MD&A.

Property operating expenses: Property operating expenses for the three months ended November 30, 2023 increased by 14.8% compared to the three months ended November 30, 2022, primarily due to an increase

in property taxes, building maintenance and repair costs and non-recoverable operating costs related to vacancies.

General and administrative expenses: General and administrative expenses for the three months ended November 30, 2023 increased by \$516 compared to the three months ended November 30, 2022. The increase compared to the prior period is primarily due to an increase in employee compensation and an increase in corporate management fees.

Net (loss) gain on fair value adjustment on investment properties: Net loss on fair value adjustment on investment properties was \$8,047 for the three months ended November 30, 2023. The loss for the three months ended November 30, 2023 is primarily attributable to an increase in capitalization rates on some industrial and office properties, which was partially offset by lease rate increases on renewals and new leases. The weighted average capitalization rate on commercial properties except for properties under development, the Company's 50% interest in two residential apartment properties and a right-of-use asset applied at November 30, 2023 was 4.55%, compared to 4.41% at August 31, 2023 (November 30, 2022 – 4.30%).

Equity (losses) earnings of associate and joint ventures: Equity losses of the associate, Grant Street Properties Inc. ("GSP"), for the three months ended November 30, 2023 was \$507 compared to the equity earnings of \$52 for the three months ended November 30, 2022. The equity losses compared to the prior period equity earnings are primarily attributable to the loss on fair value adjustments on investment properties. Equity earnings of the Barnet LP and the Silverdale Hills LP joint ventures was \$65 for the three months ended November 30, 2023 compared to \$4,589 for the three months ended November 30, 2022. The decrease in equity earnings in joint ventures compared to the prior period is due primarily to the completion of sales of townhomes and single family lots on this development in the Silverdale Hills LP (see "Business Overview – Joint Venture Residential Developments").

Interest income: For the three months ended November 30, 2023, the Company earned interest income from surplus cash of \$791 compared to \$301 for the three months ended November 30, 2022. The increase in interest income was due primarily to higher interest rates and higher cash balances.

Interest expense: Interest expense for the three months ended November 30, 2023 increased by \$567 compared to the three months ended November 30, 2022. The increase was primarily due to higher interest rates in the current period.

Interest expense on uncertain tax positions: The interest expense on uncertain tax positions for the three months ended November 30, 2023 of \$14,555 relates to an estimate for interest accrued on the unpaid portion of reassessed taxes related to the Company and its subsidiaries tax court appeals. See "Results of Operations – Income Taxes" and "Uncertain Tax Positions" for the details of the Company's tax appeals.

(Losses) gains on fair value adjustment on interest rate swaps: The losses on fair value adjustment on interest rate swaps for the three months ended November 30, 2023 of \$1,453 relate to the total unrealized losses for the year on six interest rate swaps with a total notional amount of \$106,040. For the three months ended November 30, 2022, the Company had total unrealized gains on the fair value adjustment on interest rate swaps of \$81. The Company mitigates some interest rate risk by entering into fixed rate interest rate swaps on some of its mortgages. The losses on fair value adjustment on interest rate swaps were primarily due to decreasing interest rates in the three months ended November 30, 2023.

Income taxes: Income tax expense was \$36,815 for the three months ended November 30, 2023 compared to income tax expense of \$2,127 for the three months ended November 30, 2022. During the three months ended November 30, 2023, the Company recorded a full provision of \$51,227 for uncertain tax positions

recognizing a tax liability for unpaid taxes and estimated interest and provisions against the carrying value of the Company's tax deposits and deferred tax assets related to unused carryforward amounts. Of the total \$51,227 provision recorded, \$36,672 was recognized to income tax expense and \$14,555 to interest expense on uncertain tax positions during the three months ended November 30, 2023. See "Uncertain Tax Positions" for the details of the Company's tax appeals. A reconciliation of the income tax provision can be found in note 11 of the consolidated financial statements.

Net (loss) income and comprehensive (loss) income: The overall net loss and comprehensive loss for the three months ended November 30, 2023 compared to the overall net income and comprehensive income for the three months ended November 30, 2022 is explained in the analysis provided above.

Cash flows from operating activities: For the three months ended November 30, 2023, Madison generated \$1,584 of cash flows from its operating activities (before changes in non-cash operating accounts) compared to \$1,771 for the three months ended November 30, 2022. The decrease compared to the prior period is due primarily to an increase in current income tax expense, general and administrative expenses and net interest expense, which was partially offset by an increase in net property income.

Investment properties: Investment properties as at November 30, 2023 decreased by \$7,765 compared to August 31, 2023. The decrease in investment properties is primarily attributable to net loss on fair value adjustment on investment properties of \$8,047. The decrease in investment properties was partially offset by other additions and property development costs of \$306.

The fair value of investment properties is based primarily using internally prepared valuations applying the income approach, derived from the capitalization rate method. In applying the capitalization rate method, stabilized net operating income ("stabilized NOI") of each property is divided by an appropriate capitalization rate with adjustments for items such as vacancy rates, non-recoverable capital expenditures and other non-recurring items. Stabilized NOI is determined from the terms of an existing lease or market rents for similar properties. The capitalization rates used are generally based on ranges provided by external valuation experts. 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 table below provides the average capitalization rates on commercial properties (excluding properties under development) and the ranges for each market category as at November 30, 2023 as it relates to the Metro Vancouver market where approximately 79% of the Company's properties are located.

	Company average cap rate	Market range⁽²⁾
Industrial	4.16%	4.25% to 6.25%
Retail/highway-commercial ⁽¹⁾	4.84%	5.00% to 5.50%
Office	5.13%	5.00% to 6.00%

(1) Excludes retail property held under leasehold interest.

(2) Assumes current market rents on income producing properties.

The following table provides a sensitivity analysis for the weighted average capitalization rate on commercial properties applied at November 30, 2023 except for properties under development, the Company's 50% interest in two residential apartment properties and a right-of-use asset of \$2,293:

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%	826,960	158,475	23.7%
(0.50%)	3.99%	763,372	94,887	14.2%
(0.25%)	4.27%	712,014	43,529	6.5%
November 30	4.55%	668,485	-	-
0.25%	4.83%	630,698	(37,787)	(5.7%)
0.50%	5.10%	597,395	(71,090)	(10.6%)
0.75%	5.36%	567,721	(100,764)	(15.1%)

Investments in associates and joint ventures: Investments in associates and joint ventures as at November 30, 2023 decreased by \$35,442 compared to August 31, 2023. The decrease in investment in associates and joint ventures is primarily attributable to a distribution received of \$35,000 (see "Business Overview – Joint Venture Residential Developments") and the equity losses of associate of \$507.

Other non-current assets: Other non-current assets as at November 30, 2023 decreased by \$20,328 compared to August 31, 2023. The Company and its subsidiaries had previously made deposits of \$19,270 to the CRA and ATRA related to its tax court appeals. During the three months ended November 30, 2023, the Company recorded a full provision of \$19,270 against the carry value of these deposits. See "Uncertain Tax Positions" for the details of the Company's tax appeals.

Total debt on investment properties: Total debt on investment properties outstanding as at November 30, 2023 decreased by \$7,500 compared to August 31, 2023. The decrease is primarily due to the repayment of \$5,500 of debt upon the maturity of a mortgage and monthly principal payments.

Uncertain tax liabilities: The Company has recorded a liability of approximately \$31,588 for unpaid taxes, estimated interest and awarded legal costs for all three sets of tax reassessments. See "Uncertain Tax Positions" for the details of the Company's tax court appeals.

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

Quarter ended	Property revenues	Net gain (loss) on fair value adjustment on investment properties	Net income (loss) and comprehensive income (loss)	Net income (loss) attributable to shareholders of the Company	Income (loss) per share attributable to shareholders of the Company
February 28, 2022	9,577	7,242	11,038	10,649	\$0.18
May 31, 2022	9,456	10,500	16,930	16,321	\$0.27
August 31, 2022	9,379	22,520	28,118	27,585	\$0.47
November 30, 2022	9,631	324	6,623	6,422	\$0.11
February 28, 2023	10,464	13,720	16,396	16,014	\$0.27
May 31, 2023	10,527	(679)	3,131	2,975	\$0.05
August 31, 2023	9,845	(7,690)	(7,171)	(6,789)	(\$0.12)
November 30, 2023	10,419	(8,047)	(57,817)	(57,481)	(\$0.97)

Quarterly Comparison

Overview: Quarterly net income and comprehensive income is significantly impacted by current income tax expense, interest expense on uncertain tax positions, the net gain (loss) on fair value adjustment on investment properties, the gains (losses) on fair value adjustment on interest rate swaps and the equity earnings (losses) of associate and joint ventures. The table above highlights the property revenues and net income and comprehensive income by quarter.

Property revenues: Property revenues for the first quarter of fiscal 2024 increased compared to the fourth quarter of fiscal 2023, due to an increase in lease rates on certain properties.

Net (loss) income and comprehensive (loss) income: Net (loss) income and comprehensive (loss) income was significantly impacted by current income tax expense, interest expense on uncertain tax positions (see “Uncertain Tax Positions”), the net gain (loss) on fair value adjustment on investment properties, the gains (losses) on fair value adjustment on interest rate swaps and the equity earnings (losses) of associate and joint ventures. As a result, the quarterly net (loss) income and comprehensive (loss) income amounts are not comparable.

Liquidity and Capital Resources

The Company funds its current operations from its cash flows from operating activities, mortgages, construction loans, a lease liability and a bank line of credit. The Company manages liquidity by maintaining adequate cash balances and by having an appropriate line of credit available.

As at November 30, 2023, the Company had cash on hand of \$74,680 (August 31, 2023 - \$45,157) and had drawn \$nil (August 31, 2023 - \$nil) against its line of credit. Cash and cash equivalents comprise primarily cash held in interest bearing accounts with major Canadian financial institutions.

For the three months ended November 30, 2023, Madison generated \$1,584 of cash flows from continuing operations (before changes in non-cash operating accounts) compared to \$1,771 for the three months ended November 30, 2022. See “Results of Operations” for the explanations of changes in the cash flows from operations.

The Company has a maximum line of credit of \$20,000. The line of credit with a Canadian chartered bank bears interest at bank prime rate plus 1% or the Banker's Acceptance rate plus 2.50%. The line of credit may be used for general business purposes and the amount available for such uses varies with the value of investment properties pledged and the cash flows the properties generate, up to a maximum of \$20,000. Second mortgages against certain of the Company's investment properties, assignments of rents and insurance, as well as general security agreements creating floating charges over all of the Company's assets, have been provided as security. Amounts advanced under the line of credit are repayable on demand. The line of credit agreement contains financial ratios which must be maintained, for which the Company is in compliance.

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

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

As at November 30, 2023, the Company has total of \$301,281 (August 31, 2023 – \$308,781) mortgage loans with leverage ratio of 43.9% (August 31, 2023 – 44.5%). Leverage ratio is a non-GAAP measure and is not a generally accepted measure under IFRS but management uses it as a supplementary financial measure. The leverage ratio is calculated as total debt on investment properties (before netting of deferred financing costs and fair value adjustments to assumed debt) divided by the fair value of investment properties. The Company's calculation of leverage may differ from other companies and, accordingly, may not be comparable to other companies' calculation of leverage.

The weighted average interest rate on fixed rate mortgage debt as at November 30, 2023 was 4.08% (August 31, 2023 – 3.87%) with fixed interest rates ranging from 1.97% to 6.35% per annum. Mortgage maturities were staggered up to ten years such that at November 30, 2023, no more than 33.16% (August 31, 2023 – 32.60%) of such debt matures in one year (see "Contractual Obligations"). The Company has been able to obtain new mortgage financing and renew its existing mortgages at higher interest rates and lower loan-to-value ratios.

As at November 30, 2023, the Company had entered into interest rate swaps with Canadian chartered banks on six mortgages to reduce the impact of fluctuating interest rates and fix the Company's interest rates on those mortgages. The swaps had notional amounts as at November 30, 2023 totaling \$106,040, fixed swap rates ranging from 2.52% to 5.94%, and maturity dates ranging from August 2024 to June 2028. The total notional amount of the interest rate swaps represented 35.4% as at November 30, 2023 (August 31, 2023 – 34.8%) 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.

Borrowings under the Company's line of credit bear interest at variable rates. The Company has no variable rate borrowings as of November 30, 2023 (August 31, 2023 – \$nil). The Barnett LP, of which the Company

owns a 50% interest and is accounted for using the equity method, has a floating rate demand loan of \$29,250. The Silverdale Hills LP, of which the Company owns a 50% interest and is accounted for using the equity method, has a floating rate demand construction loan facility to a maximum of \$776 as at November 30, 2023. As at November 30, 2023, letters of credit totaling \$776 had been drawn against the facility. In October 2022, the Silverdale Hill LP obtained a floating rate bank loan of \$11,100. Additionally, the Silverdale Hills LP has a committed floating rate bank loan facility to a maximum of \$70,000. As at November 30, 2023, \$70,000 has been drawn against the facility by the Silverdale Hills LP to fund further development costs.

The 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.

The Company believes it has sufficient funds and sources of funds to pay the balance of the unpaid taxes reassessed plus estimated interest totalling approximately \$31,588. See "Uncertain Tax Positions" for the details of the Company's tax appeals.

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.

Revenue-Producing Properties

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

The Company has a 50% interest in three apartment buildings with a total of 109 rental units in Vancouver, British Columbia. In addition to risks similar to commercial income properties, residential apartments are typically subject to greater government regulations.

Risks Associated with Residential Development Activities

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

Joint Ventures and Co-ownerships

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

Fluctuations in Real Estate Values

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

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. Downturns in the real estate market could negatively impact the fair values of the Company's investment properties.

Geographic Concentration

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

Environmental Matters and Climate Change Risk

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

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

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

General Uninsured Losses

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

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.

Since the beginning of 2022, the Bank of Canada has increased its overnight interest rate by 475 basis points in an attempt to bring inflation under control. During 2022, inflation in Canada rose to its highest level in four decades and was a result of, but not limited to the effects of, the tight labour market, global supply chain disruptions, strong economic growth and the war in Ukraine. The Bank of Canada is expected to continue to adjust its overnight interest rate until it achieves its target inflation range. Rising interest rates directly affect the Company's cost of debt capital and cash flows.

Madison has also mitigated interest rate risk by refinancing 100% of its debt on investment properties (mortgage loans, excluding lease liabilities) at fixed rates and maintaining a balanced maturity schedule. 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.

Contractual Obligations

(in \$000's)	Payments due by fiscal year					
	Total	December 2023 - August 2024	September 2024 - August 2025	September 2025 - August 2026	September 2026 - August 2027	September 2027 and thereafter
Debt on investment properties ⁽¹⁾	299,696	26,346	101,269	23,265	84,807	64,009
Undiscounted land lease liability	3,436	76	102	104	107	3,047

(1) Excluded from the table is the Company's 50% share of a \$29,250 bank loan owed by the Barnet LP, the Company's 50% share of a \$11,100 bank loan owed by the Silverdale Hills LP, and the Company's 50% share of a \$70,000 bank loan owed by the Silverdale Hills LP, all of which are accounted for using the equity method. The Barnet LP loan matures in September 2024, is payable on demand and the Company has provided a limited guarantee of \$14,625. The Silverdale Hills LP bank loan of \$11,100 matures in August 2024, is payable on demand and the Company has provided a limited guarantee of \$5,550. The Silverdale Hills LP has a bank loan facility of up to \$70,000 which matures in January 2025, is payable on demand and the Company has provided a limited guarantee for 50% of the loan owed by the Silverdale Hills LP. As at November 30, 2023, \$70,000 has been drawn against the facility by the Silverdale Hills LP.

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. As a result, additional taxes payable for the reassessed years, including interest of \$3,406, totals \$39,660. 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 have made these deposits. Additional estimated interest accruing on the unpaid portion of the reassessments was approximately \$11,149 as at November 30, 2023.

The Company had previously recognized the deposits as other non-current assets and had not recorded a liability for the reassessed taxes payable and related interest described above, nor had it reduced the carrying value of deferred income tax assets recorded for unused carryforward amounts.

A trial in the Tax Court of Canada ("TCC") for one of the reassessed companies, Madison Pacific Properties Inc., was heard in 2020, 2022 and in 2023 (the "MPP Appeal"). On December 27th, 2023, the TCC released its decision for the MPP Appeal in favour of the CRA's position, confirming the CRA's, and by implication

ATRA'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. The Company and its counsel are evaluating whether to appeal the decision issued by the TCC. As a result of this decision, the Company is obligated to pay the balance of unpaid taxes reassessed plus estimated interest totalling approximately \$3,882.

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 of \$19,639 against the carrying value of the deposits and deferred tax assets related to unused carryforward amounts and a liability of approximately \$31,588 for unpaid taxes, estimated interest and awarded legal costs for all three sets of reassessments. The total of these amounts, \$51,227, is recognized as income tax expense of \$36,672 and interest expense on uncertain tax positions of \$14,555 in the Interim Consolidated Statement of (Loss) Income and Comprehensive (Loss) Income during the three months ended November 30, 2023.

One of the Company's subsidiaries has been advised by the Tax Court of Canada that a trial date will be scheduled for the summer of 2024. No trial date has been set for the Company's other subsidiary. 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 and the Company will be required to pay the balance of unpaid taxes reassessed plus estimated interest.

Off-Balance Sheet Arrangements

Madison is required to provide letters of credit to municipalities in connection with development charges and rezoning applications. As of the date of this MD&A, there were no outstanding letters of credit held by the Company or its subsidiaries. The Silverdale Hills LP, of which the Company owns a 50% interest and is accounted for using the equity method, has outstanding letters of credit totaling \$290.

The Company enters into interest rate swaps. See "Liquidity and Capital Resources" above.

Proposed Transactions

On September 26, 2023, the Company entered into a contract to purchase a 50% interest in a 15-unit residential apartment property in Metro Vancouver for \$2,225 excluding closing costs and taxes. The purchase closed on December 14, 2023.

On October 21, 2023, the Company entered into a contract to purchase a 50% interest in a 42-unit residential apartment property in Metro Vancouver for \$6,000 excluding closing costs and taxes. The closing date for the purchase is expected to be February 29, 2024.

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, 2023, landscaping, maintenance, and construction management services paid to this company totaled \$133 (three months ended November 30, 2022 – \$106). There are no long-term commitments with this company, which provides required landscaping and maintenance on some investment properties.

During the three months ended November 30, 2023, the Company entered into contracts to jointly acquire two residential apartment properties with its equity investee, GSP (see “Proposed Transactions” above). GSP is a private company where certain of its shareholders and key management personnel are related to a director of Madison.

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, the advances were fully repaid to the Company. During the three months ended November 30, 2022, the Company earned \$34 of interest at bank prime rate plus 0.5%. During the year ended August 31, 2023, the Company also jointly acquired a 40-unit residential apartment property with GSP.

During the three months ended November 30, 2023, 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 \$5 (three months ended November 30, 2022 – \$2).

During the three months ended November 30, 2023, rental revenues totaling \$1,023 (three months ended November 30, 2022 - \$904) were received from Madison Venture Corporation (“MVC”), and Arrow Speed Controls Limited, Continental Electrical Motor Services Ltd., Continental Electrical Motor Services (Northern) Ltd., 0777061 B.C. Ltd., Madison Industrial Equipment Inc., GVIC Communications Corp., Glacier RIG Ltd. and REW Digital Ltd., which are tenants and companies controlled by MVC. These companies have lease agreements with the Company. MVC is a shareholder of the Company and certain of its directors are directors of the Company.

During the three months ended November 30, 2023, the Company incurred consulting fees to MVC for various development, management, and administration services, including assistance with challenges to our tax reassessments of \$228 (three months ended November 30, 2022 – \$180), which included the compensation of the Company’s chief executive officer from July 17, 2023, paid through the shareholder pursuant to an arrangement 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 three months ended November 30, 2023, the Company incurred fees to MVC for administration services of \$5 (three months ended November 30, 2022 – \$4).

The Company has provided a limited guarantee of \$14,726 on the MT Properties Limited Partnership mortgage debt. During the three months ended November 30, 2023, a guarantee fee of \$11 (three months ended November 30, 2022 – \$11) was paid to the Company.

Key management personnel include the Company’s directors and officers. For the three months ended November 30, 2023, compensation awarded to key management personnel included salaries and short-term employee benefits of \$481 (three months ended November 30, 2022 – \$364).

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 the date of this MD&A, there were 7,355,420 Class B shares and 52,107,135 Class C shares outstanding.

Share Option Plan

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

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

As of the date of this MD&A, no share options had been granted.

Financial Instruments

Madison finances its investment properties primarily through conventional mortgage loans. These mortgages have remaining terms of between one and ten years, and as at November 30, 2023, had a weighted average interest rate of 4.08% (August 31, 2023 – 3.87%). Of the total amount of debt on investment properties outstanding (excluding lease liabilities) as at November 30, 2023, \$20,840 of mortgages are scheduled to mature by August 31, 2024. Additionally, the Barnet LP, of which the Company owns a 50% interest, has a demand loan of \$29,250 which matures in September 2024. The Silverdale Hills LP, of which the Company owns a 50% interest, has a demand construction loan facility of up to \$776 as at November 30, 2023. As at November 30, 2023, letters of credit totaling \$776 had been drawn against the facility. The Silverdale Hills LP also has a demand bank loan of \$11,100 which matures in August 2024. Additionally, the Silverdale Hills LP has a demand bank loan facility of \$70,000, \$35,000 of the loan matures in January 2025 and the remaining \$35,000 matures in September 2025.

Madison anticipates being able to renew all credit facilities maturing in the fiscal 2024 at terms comparable to those currently in place, except for higher interest rates and lower loan-to-value ratios.

As at November 30, 2023, the Company had entered into interest rate swaps with Canadian chartered banks to fix the Company’s interest rates on those mortgages. See “Liquidity and Capital Resources” above.

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

	<u>Fair value assets</u>		<u>Fair value liabilities</u>	
	November 30, 2023	August 31, 2023	November 30, 2023	August 31, 2023
	\$	\$	\$	\$
Interest rate swaps	2,936	4,009	381	-
			Net unrealized (losses) gains on interest rate swaps	
			Three months ended	
			November 30, 2023	November 30, 2022
			\$	\$
Interest rate swaps			(1,453)	81

Critical Accounting Estimates and Judgements

It is necessary for the Company to use estimates and judgements in applying the significant accounting policies as described in note 2 of the August 31, 2023 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 and judgements disclosure contained in the August 31, 2023 MD&A 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 is required for tax positions in dispute with tax authorities.

During the three months ended November 30, 2023, based on the decision of the TCC in respect of the Company's appeal and other related factors, including the criteria under IFRS regarding tax contingencies, the Company has recorded a provision for the unpaid portion of tax positions in dispute with tax authorities and accrued interest for the unpaid portions 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. As a result, the actual interest expense paid in future periods may differ from current estimates.

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, 2023 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.sedarplus.ca).