

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Halmont Properties Corporation

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Halmont Properties Corporation and its subsidiaries, which comprise the statements of financial position as at December 31, 2016 and December 31, 2015 and the consolidated statements of comprehensive income, changes in equity, and cash flows for the years ended December 31, 2016 and December 31, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Halmont Properties Corporation and its subsidiaries as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the years ended December 31, 2016 and December 31, 2015 in accordance with International Financial Reporting Standards.

Crowe Soberman LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
April 26, 2017

**HALMONT PROPERTIES
CORPORATION**

Year Ended December 31, 2016

Forward-Looking Information

This report contains forward-looking information concerning the company's business and operations. The words "expects", "believes", "continue", "intends", "objective", "likely", and other expressions of similar import, or the negative variations thereof, and similar expressions of future or conditional verbs such as "can", "may", "will", "would", "should" or "could" are predictions of or indicate future events, trends or prospects and which do not relate to historical matters or identify forward-looking information. Forward-looking information in this report includes, among others, differences related to equity accounted investments as a result of the implementation of IFRS, the value of our investments, future income taxes, our ability to generate stable income returns and capital appreciation, fund cash requirements, finance our obligations, determine fair values and other statements with respect to the company's beliefs, outlooks, plans, expectations and intentions.

Although the company believes that the anticipated future results or achievements expressed or implied by the forward-looking information and statements are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking information and statements because they involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the company to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking information and statements.

Factors that could cause actual results to differ materially from those contemplated or implied by the forward-looking information include general economic conditions, the behavior of financial markets including fluctuations in interest and exchange rates, the availability of equity and debt financing and other risks and factors detailed from time to time in the company's other documents filed with the Canadian securities regulators.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking information to make decisions with respect to the company, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Except as may be required by law, the company undertakes no obligation to publicly update or revise any forward-looking information or statements, whether written or oral, that may be as a result of new information, future events or otherwise.

Year End Report to Shareholders

Net income for the year ended December 31, 2016 attributable to common shareholders increased to \$2,012,000, compared to \$1,970,000 in 2015.

The book value of each common share has increased to 44¢ from 13¢ in 2006 following the restructuring of the Company's operations and the appointment of new management.

In accordance with IFRS accounting principles we revalue our principal assets each year taking into account available market information and the relevant terms of our joint-venture and partnership agreements. As a result the book value of our common shares approximates their realizable values. Should the Company's shares trade at meaningful discounts to their realizable values for extended periods, we plan to repurchase shares through normal course issuer bids.

The capital committed to each of our four principal areas of investment and the related revenues for the year ended December 31, 2016 are summarized below:

(thousands)	Invested Capital		Revenues	
Commercial Properties	\$ 29,856	32%	\$ 2,521	54%
Forest Properties	27,325	29%	828	17%
Residential Properties	250	~	-	~
Corporate Investments	31,115	33%	895	19%
Other Assets	5,379	6%	454	10%
Net Invested Capital	\$ 93,925	100%	\$ 4,698	100%

Commercial Properties

Halmont's directly-owned commercial real estate assets, which represented approximately 32% of the Company's invested capital at December 31, 2016, comprised two heritage commercial office buildings and the ground and second floor retail premises of a luxury residential condominium complex located in the Toronto entertainment district. A fourth property was acquired in April 2017 for \$19,500,000.

We plan to increase the capital we have invested in commercial properties by acquiring other heritage category properties where there is a strong likelihood of achieving rental rate increases as adjacent properties undergo redevelopment.

Our objective is to enhance the value of our commercial property portfolio by upgrading and re-tenanting the buildings, while also exploring redevelopment opportunities in conjunction with neighboring property owners.

Forest Properties

Our investment in forest properties is comprised of a 24% common share interest in Haliburton Forest, Ontario, and approximately 13,000 acres of mature hardwood forests adjacent to Haliburton Forest's 80,000 acres of forest lands encompassing 80 pristine lakes, as well as a sawmill and other wood processing facilities. In aggregate these investments represent approximately 29% of the Company's invested capital.

We plan to increase the Company's investment in forest lands, either indirectly through the acquisition of a larger ownership interest in Haliburton Forest, or the purchase of additional freehold forest properties where there is opportunity to increase their values over time.

Our objective is to apply disciplined forest enhancement practices, invest in long-life infrastructure such as logging roads, bridges and processing equipment, while supplementing forest product revenues by generating income from recreational activities, including campsite rentals and the sale of lake frontage for cottage properties.

Residential Properties

Halmont's initial land development investment involved the acquisition of agricultural land adjacent to a proposed transit hub in Markham, Ontario. This property was subsequently exchanged for a high-yield mortgage receivable, with partial principal repayments negotiated from time-to-time.

On October 28, 2016, we received a principal payment of \$750,000, leaving a balance of \$5 million owing on the land mortgage, which was collected in March 2017 to fund a 60% joint venture interest acquired in January 2017 in the peripheral lands associated with the Muskoka Grandview Resort, in Huntsville. In this regard, we have agreed to provide a \$10 million revolving loan facility to the joint venture to finance the sequential construction of a series of residential condominium buildings, each containing 15 to 20 units.

We plan to mitigate the risks associated with the development of the Grandview Resort's peripheral lands by subdividing them into six or more distinct land parcels on which separate condominium projects will be built by the joint venture on a phased basis after achieving targeted pre-sale levels.

Corporate Investments

Halmont, through its subsidiary Continental Properties Inc., holds directly and indirectly shares of Brookfield Asset Management and other corporations owning and providing investment management services principally in the real estate, energy and infrastructure sectors. These investments represent approximately 33% of the Company's total invested capital. Halmont's net effective interest in these entities is \$16 million, after deducting \$15.1 million of participating equity securities issued by Continental.

Changes in the carried value of our corporate investments since January 1, 2012 are as follows:

<u>(thousands)</u>	<u>Dec 31 2016</u>	<u>Dec 31 2015</u>	<u>Dec 31 2014</u>	<u>Dec 31 2013</u>	<u>Dec 31 2012</u>
Balance, beginning of period	\$ 27,970	\$ 26,935	\$ 25,885	\$ 24,876	\$ 23,904
Additional investment	2,250	-	-	-	-
Equity accounted income	895	1,035	1,050	1,009	972
Balance, end of period	31,115	27,970	26,935	25,885	24,876
<u>Non-controlling interests</u>	<u>15,117</u>	<u>14,692</u>	<u>14,091</u>	<u>13,481</u>	<u>13,330</u>
<u>Net effective interest</u>	<u>\$ 15,998</u>	<u>\$ 13,278</u>	<u>\$ 12,844</u>	<u>\$ 12,404</u>	<u>\$ 11,546</u>

Our objective is to hold our current corporate investments for the long term as we expect them to continue to generate a reliable source of income, as well as provide access to professional relationships which assist us in pursuing new investment opportunities.

We account for our corporate investments using the equity method whereby the investments are initially recorded at cost and adjusted for the Company's contractual share of income and distributions, while taking into account non-controlling interests in determining their realizable value on ultimate disposition.

Capital Notes

Over the past five years the revenue generating assets supporting each dollar of common share equity has more than doubled. This has been accomplished in part through increased borrowings. In order to rebalance and strengthen our capital structure and provide for further growth, we issued \$10 million Subordinated Convertible Capital Notes in December 2016, with a ten year term and a 5% interest rate.

The Capital Notes are structured with equity type attributes, including providing the company with the right to pay interest in kind and redeem them at the Company's option after December 31, 2020, or earlier in the event of a debt default, by delivering 2,000 Class B Non-Voting Common Shares to the holders for each \$1,000 Capital Note. Therefore the notes are classified and presented as equity instruments.

The issuance of Capital Notes will allow us to prudently assume greater operating risks in acquiring assets which provide higher investment returns than those targeted to date.

Should you wish to learn more about our investments, visit any of our commercial or forest properties, please write or email us at admin@halmontproperties.com or call me directly at 416-956-5247.

On behalf of the board,



David W. Kerr
April 10, 2017

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) for the year ended December 31, 2016 is intended to provide an assessment of the Company's performance for the year ended December 31, 2016 and the comparable period in the prior year, as well as provide information on our financial position and other relevant matters. The information in the MD&A should be read in conjunction with the Company's year-end report to shareholders and audited consolidated financial statements for the year ended December 31, 2016.

DESCRIPTION OF THE BUSINESS

The Company invests directly and indirectly in real assets, including forest properties, and in securities of companies holding property, energy and infrastructure assets.

The Company's common shares are listed on the TSX Venture Exchange under the symbol HMT.

The Company's principal areas of investment and the proportion of the Company's invested capital are:

(thousands)	Invested Capital		Revenues	
Commercial Properties	\$ 29,856	32%	\$ 2,521	54%
Forest Properties	27,325	29%	828	17%
Residential Properties	250	~	-	~
Corporate Investments	31,115	33%	895	19%
Other Assets	5,379	6%	454	10%
Net Invested Capital	\$ 93,925	100%	\$ 4,698	100%

The Company's directly-owned commercial real estate property assets, which represent approximately 32% of its invested capital, comprise:

A 75% ownership and management interest in 51 Yonge Street, Toronto, acquired in 2006 for \$2.5 million. Our 75% interest in this property is centrally located in the financial district and currently has an appraised value of \$4.12 million, not taking into account its long-term redevelopment potential.

100% ownership and management of 220 King Street West, Toronto, located in the entertainment district. This property was acquired in 2014 for \$19.8 million.

A 75% ownership and joint management interest in 224 King Street West, Toronto. This property is comprised of the ground floor and second floor retail premises of a 47-storey luxury residential condominium complex in the entertainment district. It is currently carried at cost pending completion and leasing to commercial tenants.

The Company's forest investments include a 24% common share interest in Haliburton Forest & Wild Life Reserve Limited, and an interest in 13,000 acres of adjacent forest properties, representing approximately 29% of the Company's total invested capital. The objective is to increase the Company's ownership of Haliburton Forest over time in support of its plans to expand its freehold hardwood forest and related recreational land holdings.

The Company also holds, through Continental Properties Inc., investment interests in other corporations providing asset management services, principally in the real estate, energy and infrastructure sectors. These investments are accounted for using the equity method whereby the investments are initially recognized at cost and adjusted for the Company's contractual share of income and distributions, which takes into account non-controlling shareholder interests in determining the expected realizable value of these investments on ultimate disposition.

CONSOLIDATED OPERATING RESULTS

The Company reported net income and comprehensive income of \$2,437,000 for year ended December 31, 2016 compared with \$2,571,000 for the same period in the preceding year. Net income attributable to common shareholders increased to \$2,012,000 compared to \$1,970,000 in 2015.

Revenue and expenses for the year ended December 31, 2016 increased compared with the previous year due to the additional capital invested and associated debt.

The Company's financial results have been prepared in accordance with International Financial Reporting Standards. All inter-company transactions and balances have been eliminated on consolidation.

LIQUIDITY AND CAPITAL RESOURCES

The Company has a \$15 million revolving credit facility from a related party and a short term mortgage receivable in the amount of \$5,000,000.

Management's Discussion and Analysis

SUMMARY FINANCIAL INFORMATION

(in thousands)	Year ended Dec 31 2016	Year ended Dec 31 2015	Year ended Dec 31 2014	Year ended Dec 31 2013
Total revenue	\$ 4,698	\$ 4,538	\$ 2,361	\$ 2,832
Net income to common shareholders	2,012	1,970	1,482	2,236
Total assets	93,925	76,755	72,533	47,820

The following table summarizes selected consolidated financial information of the Company for the eight recently completed quarters:

(in thousands)	2016				2015			
	Dec	Sept	June	March	Dec	Sept.	June	March
Revenue	\$ 1,432	\$ 1,232	\$ 1,009	\$ 1,025	\$ 1,664	\$ 952	\$ 989	\$ 933
Net income	878	597	440	522	1,167	517	324	563

RISKS AND ACCOUNTING ESTIMATES

A description of the principal risks to which the Company is exposed is described in the notes to the financial statements accompanying the MD&A.

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the carried amounts of certain assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. This subject is more fully dealt with in the notes to the consolidated financial statements accompanying this MD&A.

The carrying values of the cash, receivables, and payables approximate their fair values due to the short-term maturity of these financial instruments.

EQUITY SECURITIES ISSUED AND OUTSTANDING

The Company's equity capital is comprised of 75 million Class A Common Voting Shares.

In December 2016 the Company issued Subordinated Convertible Capital Notes, which have been classified and presented as equity, and has set aside \$20 million of Class B non-voting common shares to redeem the Capital Notes, if required.

CONTROLS AND PROCEDURES

The Company's management has evaluated the effectiveness of the Company's controls and procedures and has concluded that such controls and procedures are effective for the year ended December 31, 2016. No changes were made in internal controls over financial reporting during the year ended December 31, 2016 that have materially affected, or are reasonably likely to affect, the internal control over financial reporting.

RELATED PARTY TRANSACTIONS

Related party transactions are in the normal course of operations and are recorded at the exchange amounts agreed to between the parties.

REVIEW OF THE ANNUAL FINANCIAL STATEMENTS

The accompanying audited consolidated financial statements of the Company for the year ended December 31, 2016, have been prepared by and are the responsibility of the Company's management.

Additional information has been filed on SEDAR at www.sedar.com or may be obtained upon request from the Secretary of the Company at Suite 400 – 51 Yonge Street, Toronto, Ontario, M5E 1J1.

April 26, 2017

Consolidated Balance Sheets

(audited, in thousands)	Note	Year ended December 31	
		2016	2015
ASSETS			
Cash		\$ 187	\$ 82
Accounts and other receivables	4	5,192	6,014
Commercial properties	5	29,856	23,345
Forest properties	6	27,325	19,344
Residential properties	16	250	-
Other corporate investments	7	31,115	27,970
		\$ 93,925	\$ 76,755
LIABILITIES			
Accounts and other payables		\$ 161	\$ 137
Prepaid rent		43	107
Mortgage payable	8	8,641	8,792
Secured loan	9	15,000	15,000
Due to affiliate	10	8,966	4,510
Deferred taxes	11	3,033	2,565
		35,844	31,111
EQUITY			
Non-controlling shareholders' interests	12(a)	15,117	14,692
Common shareholders' equity	12(b)	32,964	30,952
Subordinated convertible capital notes	12(c)	10,000	-
		58,081	45,644
		\$ 93,925	\$ 76,755

See accompanying notes.

Approved by the Board on April 26, 2017 and signed on its behalf by:



Edward C. Kress
Director



David W. Kerr
Director

Consolidated Statements of Comprehensive Income

(audited, in thousands)	Note	Year ended December 31	
		2016	2015
REVENUE			
Equity accounted income		\$ 895	\$ 1,035
Interest and other investment income		1,282	1,108
Rental revenue		1,897	1,747
Fair value gains for commercial properties		624	648
		4,698	4,538
EXPENSES			
Interest and mortgage costs		1,024	837
Property operations		686	639
General and administrative		83	86
Income taxes	11	468	405
		2,261	1,967
NET INCOME AND COMPREHENSIVE INCOME		\$ 2,437	\$ 2,571
Net income attributable to:			
Non-controlling interests		\$ 425	\$ 601
Common shareholders		2,012	1,970
Earnings per share – Basic and diluted		\$ 0.03	\$ 0.03

Consolidated Statement of Changes in Equity

(audited, in thousands)	Common Shares	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity Attributable to Shareholders of the Company	Non-Controlling Interests	Subordinated Convertible Capital Notes	Total Equity
Year ended December 31, 2016							
Balance, January 1, 2016	\$ 13,990	\$ 15,538	\$ 1,424	\$ 30,952	\$ 14,692	\$ -	\$ 45,644
Issuance of subordinated convertible capital notes	-	-	-	-	-	10,000	10,000
Net income	-	2,012	-	2,012	425	-	2,437
Balance, December 31, 2016	\$ 13,990	\$ 17,550	\$ 1,424	\$ 32,964	\$ 15,117	\$ 10,000	\$ 58,081
Year ended December 31, 2015							
Balance, January 1, 2015	\$ 13,990	\$ 13,568	\$ 1,424	\$ 28,982	\$ 14,091	\$ -	\$ 43,073
Net income	-	1,970	-	1,970	601	-	2,571
Balance, December 31, 2015	\$ 13,990	\$ 15,538	\$ 1,424	\$ 30,952	\$ 14,692	\$ -	\$ 45,644

See accompanying notes.

Consolidated Statements of Cash Flows

(audited, in thousands)	Note	Year Ended December 31	
		2016	2015
CASH FLOW FROM (USED IN) THE FOLLOWING ACTIVITIES:			
OPERATING			
Net income		\$ 2,437	\$ 2,571
Items not involving cash:			
Equity accounted income		(895)	(1,035)
Fair value gains for commercial properties		(624)	(648)
Forest properties		(828)	(761)
		<u>90</u>	127
Net change in non-cash working capital	14	33	639
Taxes		468	405
		<u>591</u>	1,171
INVESTING			
Commercial properties		(5,887)	(78)
Forest properties		(7,153)	(2,451)
Residential properties		(250)	-
Other corporate investments		(2,250)	-
		<u>(15,540)</u>	(2,529)
FINANCING			
Mortgage receivable		750	-
Mortgage payable		(152)	8,792
Secured loan		-	(80)
Advances from affiliate		4,456	(7,348)
Subordinated convertible capital notes		10,000	-
		<u>15,054</u>	1,364
Net cash flow		105	6
Cash, beginning of period		82	76
Cash, end of period		\$ 187	\$ 82

See accompanying notes.

Notes to the Consolidated Financial Statements

1. CORPORATE INFORMATION

Halmont Properties Corporation ("the Company") is incorporated and domiciled in Canada. The Company invests in real assets, including forest properties and securities of companies with property interests. The Company is listed on the TSX Venture Exchange (the "Exchange"), and has its registered office at 51 Yonge Street, Suite 500, Toronto, Ontario, M5E 1J1.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements were authorized for issuance by the Board of Directors of the Company on April 26, 2017, and have been prepared by, and are the responsibility of the Company's management.

b) Basis of Presentation

The consolidated financial statements are presented in thousands of Canadian dollars unless otherwise noted.

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

- (i) The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries, which are the entities over which the Company has control. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain full benefit from its activities. Non-controlling interests in the equity of the Company's subsidiaries are included in equity.
- (ii) Corporate investments are entities over which the Company has significant influence on their financial and operating policies. These investments are accounted for using the equity method whereby the investments are initially recognized at cost and adjusted for the Company's contractual share of income and distributions.
- (iii) Forest properties consist of investments in Haliburton Forest & Wild Life Reserve and a Forest Investment Fund. Haliburton Forest & Wildlife Reserve is classified as available for sale and accounted for at fair value and adjusted for the Company's contractual rights. The Forest Investment Fund has a fixed maturity date and is classified as held to maturity, and is recorded at amortized cost using the effective interest rate method.
- (iv) Jointly controlled assets involve investments where the economic activities and decision-making is shared. The Company accounts for its interests in and results from jointly controlled assets, whereby the Company's share of each of the assets, liabilities, income and expenses of the joint venture are recorded in the financial statements.

c) Commercial Properties

Commercial properties are recorded at fair value at the balance sheet date. The changes in fair value are recorded in the consolidated statements of income at year end. The fair value is determined based upon external information and appraisals performed periodically by independent qualified valuers.

d) Financial Instruments

Financial assets and financial liabilities are measured at fair value, except where otherwise noted, with changes in those fair values recognized in net income. Fair values of these instruments are based on published market prices or on cost, where the maturities are short, such as accounts payable and receivable. Financial assets classified as held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost, net of associated transaction costs, using the effective interest method. The Company includes transaction costs associated with the origination of interest-bearing financial assets and liabilities as a component of the initial carrying amount of the instrument.

The Company's financial assets comprise a mortgage receivable, accounts and other receivables, forest properties (see note 2 b) (iii)) and cash. The mortgage receivable and Forest Investment Fund have fixed maturity dates and are classified as being held to maturity; and are recorded at amortized cost using the effective interest rate method. The Company's financial liabilities comprise accounts and other payables, a secured loan and loans due to an affiliate. All of the Company's non-derivative financial liabilities are classified as other financial liabilities. The subordinated convertible capital notes have none of the features of a liability and are classified as equity.

e) Revenue recognition

The Company has retained substantially all of the risks and benefits of ownership of commercial properties and therefore accounts for leases with its tenants as operating leases. Revenue recognition under a lease begins when the tenant takes possession of, or controls, the physical use of the property subject to the lease. Generally, this occurs on the lease commencement date or, where the Company is required to make additions to the property in the form of tenant improvements, upon substantial completion of those improvements. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease where lease rate step-ups are material; a straight-line or free rent receivable, as applicable, is recorded for the difference between the rental revenue recorded and the contractual amount received. Rental revenue also includes recoveries of operating expenses, including property tax.

Interest income is recognized on the accrual basis and dividends from marketable securities are recognized when received. Gains (losses) in fair value of marketable securities are included in (charged to) income as they occur.

Gains on the sale of real estate are recognized when title passes to the purchaser and collection of proceeds is reasonably assured.

f) Income taxes

Current income tax assets and liabilities are measured at the amount expected to be paid to tax authorities, net of recoveries based on the tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred income tax liabilities are provided for using the liability method on temporary differences between the tax bases and carrying amounts of assets and liabilities. Deferred income tax assets are recognized for all deductible temporary differences and for the carry forward of unused tax credits and unused tax losses only to the extent that it is more likely than not that deductions, tax credits and tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability settled, based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

g) Use of estimates, judgments and assumptions

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the carried amounts of certain assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses recorded during the period. Actual results could differ from those estimates.

In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates and judgments have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties that the Company believes will materially affect the methodology or assumptions utilized in making these estimates and judgments in these financial statements.

Notes to the Consolidated Financial Statements

The judgments used in determining the recorded amount for assets and liabilities in the financial statements include the following:

(i) **Commercial Properties**

The critical judgments and estimates used when determining the fair value of commercial properties relate to identifying sales of comparable properties and estimates of expected future cash flows and of the suitable discount rates for the cash flows.

(ii) **Degree of Significant Influence**

When determining the appropriate basis of accounting for the Company's corporate investments, the Company uses the following critical judgments and assumptions: the degree of control or influence that the Company exerts; the amount of potential voting rights which provide the Company or unrelated parties voting powers; the terms of shareholder or other contractual agreements; the ability to appoint directors; and the amount of benefit that the company receives relative to other investors.

Other critical estimates utilized in the preparation of the Company's financial statements include the assessment of net recoverable amount for loans and other receivables, net realizations from the investment in the Forest Investment Fund and Haliburton Forest & Wild Life Reserve, estimation of tax provision and the ability to utilize tax losses in the normal course.

h) Future changes in accounting policies

The following standards and amendments have not been adopted as they apply to future periods. They may result in future changes to the Company's existing accounting policies and disclosures. The Company is currently evaluating the impact that these standards will have on its results of operations and financial position:

Revenue Recognition

The IASB issued IFRS 15, "revenues from contracts with customers", which establishes principles for recognizing revenues based on a five-step model which is to be applied to all contracts with customers. Revenue arising from lease contracts accounted for under IAS 17 is outside the scope of the new standard. The company plans to adopt the new standard for the year ending December 31, 2018.

Financial instruments

IFRS 9 replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements; credit risk is recorded in OCI rather than net earnings, unless this creates an accounting mismatch. In addition, a new expected credit loss model for calculating impairment on financial assets replaces the incurred loss impairment model used in IAS 39. IFRS 9 introduces a simplified hedge accounting model, aligning hedge accounting more closely with risk management.

IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. Adoption is not expected to have a material impact on the Company's financial statements.

Leases

In January 2016, the IASB published a new standard IFRS 16, Leases ("IFRS 16"). The standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 Leases and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 has also been applied. Adoption is not expected to have a material impact on Company's financial statements.

3. RISK MANAGEMENT

The Company is exposed to the following risks as a result of holding financial instruments: market risk (i.e. interest rate risk, currency risk and other price risks that impact the fair value of financial instruments); credit risk; and liquidity risk. There have been no changes in the Company's objectives, policies and processes for managing and measuring risk since the previous year. The following is a description of these risks and how they are managed.

a) Market risk

Market risk is defined for these purposes as the risk that the fair value or future cash flows of a financial instrument held by the Company will fluctuate because of changes in market prices. Market risk includes the risk of changes in interest rates, currency exchange rates and changes in market prices due to factors other than interest rates or currency exchange rates such as equity prices, commodity prices or credit spreads.

The observable impacts on the fair values and future cash flows of financial instruments that can be directly attributable to interest rate risk include changes in the net income from financial instruments whose cash flows are determined with reference to floating interest rates and changes in the fair value of financial instruments whose cash flows are fixed in nature. Financial instruments held by the Company that are exposed to fair value risk include the mortgage receivable, forest fund and due to and from an affiliate.

The Company has no currency risk.

Other price risk is the risk of variability in fair value due to movements in equity prices or other market prices such as commodity prices and credit spreads.

b) Credit risk

Credit risk is the risk of loss due to the failure of a borrower or counterparty to fulfill its contractual obligations regarding the mortgage receivable, forest fund and accounts and other receivables. Exposure to credit risk in respect of financial instruments relates primarily to counterparty obligations. The Company has retained mortgage security over the mortgage receivable and assesses the credit worthiness of each counterparty before entering into contracts and ensures that they meet the minimum credit quality requirements.

c) Liquidity risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund an obligation as it comes due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. In addition to holding cash and having an undrawn credit facility from an affiliate, the land sale mortgage receivable is realizable in order to deploy into new investment opportunities should they arise or alternatively to repay debt. The primary source of liquidity consists of cash and financial assets, net of other liabilities, and undrawn committed credit facilities.

Notes to the Consolidated Financial Statements

4. ACCOUNTS AND OTHER RECEIVABLES

Included in other receivables is a \$5 million mortgage receivable due on October 28, 2017, and bearing interest at 8% per annum, payable monthly. The mortgage receivable is classified as held-to-maturity and is recorded at amortized cost.

5. COMMERCIAL PROPERTIES

The Company has a 75% interest in a commercial real estate property in the financial district in Toronto, Ontario, a 100% interest in a heritage building located in the entertainment district in Toronto, and a 75% interest in the ground and second floor retail premises of a 47 story luxury residential complex, adjacent to the Company's building in the entertainment district.

(thousands)	December 31, 2016	December 31, 2015
Balance, beginning of period	\$ 23,345	\$ 22,618
Additional investment	5,887	79
Fair value adjustments	624	648
	\$ 29,856	\$ 23,345

The fair values of the commercial properties were determined by independent valuers using the direct sales comparison and income based approaches, depending on the asset type and location. The Income approach was based on capitalization rates ranging from 4.25% to 4.50% and are supported by market evidence. The direct sales approach was based on recent sales and listings of properties with similar characteristics and features. The fair value measurements are classified as Level 2 in accordance with IFRS 13 hierarchy since the input to the valuation techniques are observable.

The purchase cost of a property acquired during the year approximates the fair value at year-end.

6. FOREST PROPERTIES

The Company holds a 24% common share equity interest in Haliburton Forest & Wild Life Reserve as well as 13,000 adjacent acres, held through a Forest Investment Fund which are accounted for at amortized cost, taking into account Haliburton Forest's right to acquire these properties on or before December 31, 2024 at prescribed values.

(thousands)	December 31, 2016	December 31, 2015
Investment in Haliburton Forest and Wildlife Reserve	\$ 13,277	\$ 12,910
Forest Investment Fund	14,048	6,434
	\$ 27,325	\$ 19,344

7. OTHER CORPORATE INVESTMENTS

The Company holds, directly and indirectly, investment interests in Brookfield Asset Management Inc. and other corporations with real estate and related infrastructure interests. Changes in the carrying amount of these investments are as follows:

(thousands)	2016	2015
Balance, beginning of period	\$ 27,970	\$ 26,935
Additional investment	2,250	-
Equity accounted income	895	1,035
Balance, end of period	31,115	27,970
Non-controlling interests	15,117	14,692
Company's net investment	\$ 15,998	\$ 13,278

Summarized financial information of corporate investments for the years ended December 31.

(thousands)	2016	2015
Assets	\$ 126	\$ 112
Revenue	13	18
Non-controlling interests	9	10
Net income	10	11

8. MORTGAGE PAYABLE

The mortgage payable, net of unamortized financing costs of \$129,000, is due on July 1, 2025 with annual principal repayments of approximately \$190,000 and bears interest at a rate of 3.81% per annum. The mortgage is secured by a first charge on a commercial real estate property with a carrying amount of \$19,520,000.

Notes to the Consolidated Financial Statements

9. SECURED LOAN

The loan bears interest at the prime lending rate plus half a percent, is due on ten days written notice after January 1, 2019, and is secured by a charge on the Company's assets.

10. DUE TO AFFILIATE

Amounts due to an affiliate are with an entity in which the Company exercises significant influence, bear interest at the prime rate plus half a percent, are unsecured and due on ten days written notice or January 1, 2019, whichever shall be earlier. Interest paid amounted to \$334,000 in 2016 (2015 - \$177,000).

11. INCOME TAXES

The reconciliation of income taxes computed at the statutory rates to income tax expense is as follows:

(thousands)	Year ended December 31	
	2016	2015
Statutory income tax rate	26.50%	26.50%
Tax at statutory rates on accounting income before provision	\$ 770	\$ 789
Non-taxable fair value adjustments	(83)	(86)
Non-taxable equity accounted income	(119)	(137)
Non-taxable investment income	(110)	(101)
Other	10	(60)
Income tax expense	\$ 468	\$ 405
Current	\$ -	\$ -
Deferred	468	405
	\$ 468	\$ 405

Deferred taxes consist of:	Commercial Properties				Corporate Investments	Forest Properties	Total
Balance as at December 31, 2015	\$	464	\$	1,712	\$	389	\$ 2,565
Charged to net income		239		119		110	468
Balance as at December 31, 2016	\$	703	\$	1,831	\$	499	\$ 3,033

The company has operating losses available to reduce taxable income in future years of \$67,000, which expire between 2028 and 2036.

12. EQUITY

a) Non-controlling Interests

This amount includes \$8 million of participating preferred shares and a 33% common share equity interest held by other shareholders in Continental Properties Inc.

(thousands)	December 30, 2016	December 30, 2015
Preferred shares	\$ 8,000	\$ 8,000
Common shares	7,117	6,692
	\$ 15,117	\$ 14,692

b) Shareholders' Equity

Authorized

Unlimited Preferred Shares

Unlimited Class A Common Voting Shares without par value

Unlimited Class B Common Non-Voting Shares without par value

Issued and outstanding December 31, 2016 and December 31, 2015

	Number of Shares (thousands)	
Class A Common Shares	75,000	75,000

c) Subordinated Convertible Capital Notes

The Subordinated Convertible Capital Notes are due December 31, 2026, bear interest at a rate of 5% per annum and are redeemable by the Company after December 31, 2020 or earlier in the event of a material breach of a debt covenant, by issuing 2,000 Class B Non-Voting Common Shares of the Company for each \$1,000 Capital Note. Interest is payable at the Company's option in cash or the issuance of additional Capital Notes. At December 31, 2016, the Company was in compliance with all debt covenants.

13. BASIC AND DILUTED EARNINGS PER COMMON SHARE

(thousands, except per share amounts)	2016	2015
Net income attributable to common shareholders	\$ 2,012	\$ 1,970
Weighted average number of Class A Common Shares (in thousands)	75,000	75,000
Basic and diluted earnings per Class A Common Share	\$ 0.03	\$ 0.03

14. NET CHANGES IN NON-CASH WORKING CAPITAL

(thousands)	2016	2015
Accounts and other receivables	\$ 72	\$ 758
Accounts and other payables	25	(64)
Prepaid rent	(64)	(55)
	\$ 33	\$ 639

15. OTHER INFORMATION

a) Related Party Transactions

Related party transactions with corporate investees are conducted in the normal course of operations and are recorded at the exchange amounts agreed to between the parties.

The Company has available a \$15 million credit facility which bears interest at the prime lending rate plus half a percent and is due on twelve months' notice (Note 10).

Rental income from a related party amounted to \$116 (2015 - \$124).

The company issued subordinated convertible capital notes to an affiliate (Note 12).

No remuneration was paid to officers and directors of the Company during the current and prior years

b) Segmented Information

Segments are determined by the nature of products produced or services rendered. The Company operates in one reportable segment. All of the Company's assets and operations are located in Canada.

c) Financial Instruments

The fair value of amounts due from (to) an affiliate cannot be determined with sufficient reliability as no active market exists for such related party instruments. All of the Company's other financial instruments are carried at amounts that approximate fair value based on level 3 inputs in accordance with the IFRS 13 hierarchy. The fair values of the mortgage receivable and other receivables are estimated using the present value of future cash flows based on current interest rates for financial instruments with similar conditions and maturity. The fair values of Haliburton Forest and Wild Life Reserve and Forest Investment Fund are determined based on prescribed values per contractual agreements.

d) Capital Management

The capital available to pursue the Company's operations consists of shareholders' equity and as at December 31, 2016 was \$58.1 million (December 31, 2015 - \$45.6 million).

The Company's objectives when managing its capital are to maintain a sufficient amount of capital to support its operations and to enable it to respond to attractive investment opportunities should they arise. The Company is in compliance with all covenants and other capital requirements arising from the regulatory or contractual obligations of material consequence to the Company. There were no changes in the Company's approach to capital management during the year.

e) Contractual Rents

(thousands)	2016	2015
Within one year	\$ 908	\$ 974
Years two to five	3,058	3,941
Thereafter	1,637	273
	\$ 5,603	\$ 5,188

f) Components of Other Comprehensive Income

This balance arose from comprehensive income of equity accounted associates.

16. SUBSEQUENT EVENTS

In January 2017 the Company completed the acquisition of a 60% joint venture interest in the undeveloped lands comprising the Muskoka Grandview Resort, for \$5.5 million. At December 31, 2016 a deposit of \$250,000 had been paid.

In March 2017, the mortgage receivable of \$5 million was repaid in full.

In April 2017, the Company acquired a commercial office property located in the discovery district in Toronto, Ontario for \$19.5 million, partially financed by a \$10 million term loan due March 31, 2022.

HALMONT PROPERTIES **CORPORATION**

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