

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) is intended to provide an assessment of the Company's performance for the year ended December 31, 2017 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 interim reports to shareholders and audited consolidated financial statements for the year ended December 31, 2017.

DESCRIPTION OF THE BUSINESS

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

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

	Assets		Revenues	
(thousands)				
Commercial Properties	\$ 52,349	40%	\$ 3,447	58%
Forest Properties	31,748	25%	1,183	20%
Residential Properties	5,431	5%	194	3%
Corporate Investments	32,589	25%	990	17%
Other Assets	7,196	5%	158	2%
	\$ 129,313	100%	\$ 5,972	100%

Commercial Properties

Halmont's directly-owned commercial real estate assets, which represented approximately 40% of the Company's total capital at December 31, 2017, comprised three heritage commercial office buildings and the ground and second floor retail premises of a residential condominium complex located in the Toronto Entertainment District. During the year, the Company acquired an office building located in Toronto's Discovery District for approximately \$20 million.

Property	Year Acquired	Ownership Interest	Assets
(thousands)			
51 Yonge Street	2006	100%	\$ 5,695
220 King Street West	2014	100%	20,180
224 King Street West Ground and second floors	2016	75%	6,171
22 College Street	2017	100%	20,303
			\$ 52,349

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 both common shares and participating preferred shares in Haliburton Forest and Wild Life Reserve Limited, Ontario ("Haliburton Forest"), representing an effective 40% equity interest. During the year, the Company exchanged 13,000 acres of mature hardwood forests adjacent to Haliburton Forest's 85,000 acres of freehold forest lands encompassing 80 pristine lakes, as well as a sawmill and other wood processing facilities, for participating preferred shares. In aggregate, these investments represent approximately 25% of the Company's total assets. We expect to increase the Company's investment in adjacent forest lands in the future through Haliburton Forest should opportunities arise.

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Haliburton Forest is managed on a sustainable basis and is certified by the Forest Stewardship Council (FSC®), by investing in long-life infrastructure such as logging roads, bridges and processing equipment. Forest product revenues are supplemental with income from recreational activities, including campsite rentals and the production of biochar for industrial and agricultural uses.

Residential Properties

In January 2017, the Company entered into an arrangement to develop the peripheral lands of the Muskoka Grandview Resort property in Huntsville, Ontario. 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 property by subdividing the lands into a number of distinct parcels on which separate residential condominium projects will be built by the joint venture on a phased basis after achieving targeted pre-sale levels.

Corporate Investments

Halmont, through a subsidiary holds directly and indirectly shares of Brookfield Asset Management Inc. and other corporations owning and providing investment management services principally in real estate, energy and infrastructure sectors. These investments represent approximately 25% of the Company's total invested capital. After deducting \$15.6 million of participating equity securities issued by Continental, Halmont's net effective investment in these entities represents approximately 15% of its total assets.

Changes in the carrying value of our corporate investments are as follows:

<u>(thousands)</u>	<u>Dec. 31 2017</u>	<u>Dec. 31 2016</u>
Balance, beginning of period	\$ 31,115	\$ 27,970
Additional investment	484	2,250
Equity accounted income	990	895
Balance, end of period	32,589	31,115
Non-controlling interests	15,573	15,117
<u>Company's net investment</u>	<u>\$ 17,016</u>	<u>\$ 15,998</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 participating equity interests in determining their realizable value on ultimate disposition.

Other Assets

Halmont's initial land development investment involved the acquisition of agricultural land adjacent to a proposed transit hub in Markham, Ontario, which was exchanged for a high-yield mortgage receivable, with partial principal repayments negotiated from time-to-time. Upon repayment during the year of the remaining balance owing on the land mortgage, the proceeds have been reinvested on a temporary basis in a \$5 million mortgage, due in 2020, secured by a prime residential property. This loan, together with other future high yield property loans, will be structured to ensure they can be realized to fund long-term investment opportunities as they arise.

CONSOLIDATED OPERATING RESULTS

The Company reported net income of \$3,057,000 for year ended December 31, 2017 compared with \$2,437,000 for the same period in the preceding year. Net income attributable to common shareholders increased to \$2,601,000 compared to \$2,012,000 in 2016.

Revenue and expenses for the year ended December 31, 2017 increased compared with the previous year due principally to the additional capital invested in commercial properties, as well as debt incurred to acquire these assets.

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.

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LIQUIDITY AND CAPITAL RESOURCES

The Company has a \$20 million revolving credit facility from a related party and a \$10 million operating demand loan from a commercial bank. In addition, a mortgage receivable in the amount of \$5 million can be monetized in the short term.

SUMMARY FINANCIAL INFORMATION

(in thousands)	Year ended Dec. 31, 2017	Year ended Dec. 31, 2016	Year ended Dec. 31, 2015	Year ended Dec. 31, 2014
Total assets	\$ 129,313	\$ 93,925	\$ 76,755	\$ 72,533
Total revenue	5,972	4,698	4,538	2,361
Net income to common shareholders	2,601	2,012	1,970	1,482

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

(in thousands)	2017				2016				2015	
	Dec	Sept	June	March	Dec	Sept	June	March	Dec	Sept
Revenue	\$ 2,003	\$ 1,497	\$ 1,324	\$ 1,148	\$ 1,432	\$ 1,232	\$ 1,009	\$ 1,025	\$ 1,664	\$ 952
Net income	\$ 1,466	\$ 580	\$ 523	\$ 488	\$ 878	\$ 597	\$ 440	\$ 522	\$ 1,167	\$ 517

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 this 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 cash, loans and other receivables, accounts payables, the bank loan, mortgages payable, secured loans and due to affiliates approximate their fair values due to the short-term nature of these financial instruments.

EQUITY SECURITIES ISSUED AND OUTSTANDING

The Company's equity capital is comprised of 83,940,000 million Class A Common Voting Shares.

In December 2016 the Company issued Subordinated Convertible Capital Notes, which have been classified and presented as equity. The Capital Notes are redeemable by the Company by issuing the holders 20 million Class B non-voting common shares.

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, 2017. No changes were made in internal controls over financial reporting during the year ended December 31, 2017 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, 2017, 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