

## Independent Auditor's Report

To the Shareholders of Halmont Properties Corporation

We have audited the accompanying consolidated financial statements of Halmont Properties Corporation, which comprise the consolidated balance sheet as at December 31, 2017, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, 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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 auditor's 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 audit 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 as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Other Matter

The consolidated financial statements of Halmont Properties Corporation for the year ended December 31, 2016, were audited by another auditor who expressed an unmodified opinion on those statements on April 26, 2017.

*Deloitte LLP*

Chartered Professional Accountants  
Licensed Public Accountants  
April 30, 2018



**HALMONT PROPERTIES**  
**CORPORATION**

Year ended December 31, 2017

## 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, 2017 attributable to common shareholders increased to \$2,601,000, compared to \$2,012,000 in 2016.

Investment initiatives undertaken during 2017 included the acquisition of:

- A fourth commercial office property located at 22 College Street in the Discovery District of Toronto for \$20 million.
- A 25% interest in 51 Yonge Street, Toronto in exchange for 2,740,000 Class A common shares to increase our ownership of this property to 100%.
- The Muskoka Grandview lakefront lands with a view to developing multi-residential buildings.
- An additional 6% common share equity interest in Haliburton Forest and \$14.8 million senior participating preferred shares to increase our effective equity interest in Haliburton Forest to approximately 40%, in exchange for 6,200,000 Class A common shares and the Company's interest in the Haliburton Forest Investment Fund, respectively.

The two share issuances mentioned above, together with earnings for the year, increased our common shareholders' equity by 17% to \$39.9 million, representing 48¢ per common share compared to 44¢ in 2016.

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 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.

Thank you for your continued interest and please email us at [admin@halmontproperties.com](mailto:admin@halmontproperties.com) or call me directly at 647-448-7147 with any comments or enquiries you may have.

On behalf of the board,

Heather M. Fitzpatrick  
April 30, 2018

# 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.

## Management's Discussion and Analysis

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:

(thousands)	Dec. 31 2017	Dec. 31 2016
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
Company's net investment	\$ 17,016	\$ 15,998

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.

# Management's Discussion and Analysis

## 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](http://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

# Consolidated Balance Sheet

(in thousands of Canadian dollars)	Note	December 31, 2017	December 31, 2016
<b>ASSETS</b>			
Cash		\$ 31	\$ 187
Loans and other receivables	4	7,165	5,192
Commercial properties	5	52,349	29,856
Forest properties	6	31,748	27,325
Residential properties	7	5,431	250
Other corporate investments	8	32,589	31,115
<b>Total Assets</b>		<b>\$ 129,313</b>	<b>\$ 93,925</b>
<b>LIABILITIES AND EQUITY</b>			
Accounts payable and other		\$ 754	\$ 204
Bank loan	9	4,870	-
Mortgages payable	10	18,381	8,641
Secured loans	11	25,000	15,000
Due to affiliates	12	11,263	8,966
Deferred taxes	13	3,523	3,033
Equity			
Non-controlling shareholders' interest	14(a)	15,573	15,117
Common shareholders' equity	14(b)	39,949	32,964
Subordinated convertible capital notes	14(c)	10,000	10,000
Total equity		65,522	58,081
<b>Total Liabilities and Equity</b>		<b>\$ 129,313</b>	<b>\$ 93,925</b>

See accompanying notes.

Approved by the Board on April 30, 2018 and signed on its behalf by:



Heather M. Fitzpatrick  
President

David W. Kerr  
Chairman

## Consolidated Statement of Comprehensive Income

(in thousands of Canadian dollars)	Year ended December 31	
	2017	2016
<b>REVENUE</b>		
Rental revenue	\$ 2,957	\$ 1,897
Interest and other investment income	1,535	1,282
Equity accounted income	990	895
Fair value gains on commercial properties	490	624
	<b>5,972</b>	<b>4,698</b>
<b>EXPENSES</b>		
Interest	1,298	1,024
Property operations	1,046	686
General and administrative	145	83
Income taxes	426	468
	<b>2,915</b>	<b>2,261</b>
<b>NET INCOME</b>	<b>\$ 3,057</b>	<b>\$ 2,437</b>
<b>Net income attributable to:</b>		
Non-controlling interests	\$ 456	\$ 425
Common shareholders	<b>2,601</b>	<b>2,012</b>
<i>Earnings per share - Basic and diluted (Note 15)</i>	<b>3 ¢</b>	<b>3 ¢</b>
Other comprehensive income	\$ 414	\$ -

## Consolidated Statement of Changes in Equity

(in thousands of Canadian dollars)	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
<b>For the year ended December 31, 2017</b>							
Balance, January 1, 2017	\$ 13,990	\$ 17,550	\$ 1,424	\$ 32,964	\$ 15,117	\$ 10,000	\$ 58,081
Issuance of common shares	4,470	-	-	4,470	-	-	4,470
Other comprehensive income	-	-	414	414	-	-	414
Capital notes	-	(500)	-	(500)	-	-	(500)
Net income	-	2,601	-	2,601	456	-	3,057
Balance, December 31, 2017	\$ 18,460	\$ 19,651	\$ 1,838	\$ 39,949	\$ 15,573	\$ 10,000	\$ 65,522
<b>For the year ended December 31, 2016</b>							
Balance, January 1, 2016	\$ 13,990	\$ 15,538	\$ 1,424	\$ 30,952	\$ 14,692	\$ -	\$ 45,644
Issuance of 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

See accompanying notes.

# Consolidated Statement of Cash Flows

(in thousands of Canadian dollars)	Year ended December 31	
	2017	2016
<b>OPERATING</b>		
Net income	\$ 3,057	\$ 2,437
Items not involving cash:		
Equity accounted income	(990)	(895)
Fair value gains on commercial properties	(490)	(624)
Fair value gains on forest properties	(1,182)	(828)
Deferred Taxes	426	468
Changes in non-cash working capital and other	75	33
	<b>896</b>	<b>591</b>
<b>FINANCING</b>		
Bank loan	4,870	-
Mortgages receivable	-	750
Mortgages payable	9,741	(152)
Secured loans	10,000	-
Advances from affiliates	2,297	4,456
Other	(500)	10,000
	<b>26,408</b>	<b>15,054</b>
<b>INVESTING</b>		
Commercial properties	(20,633)	(5,887)
Residential properties	(5,181)	(250)
Corporate investments	(7)	(2,250)
Forest properties	(139)	(7,153)
Loans and other receivables	(1,500)	-
	<b>(27,460)</b>	<b>(15,540)</b>
<b>Net cash flow</b>	<b>(156)</b>	<b>105</b>
<b>Cash, beginning of period</b>	<b>187</b>	<b>82</b>
<b>Cash, end of period</b>	<b>\$ 31</b>	<b>\$ 187</b>

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 commercial and forest properties and securities of companies holding property, energy and infrastructure assets. The Company is listed on the TSX Venture Exchange (the "Exchange"), and has its registered office at 51 Yonge Street, Suite 400, 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").

These financial statements were authorized for issuance by the Board of Directors of the Company on April 30, 2018, 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 over financial and operating policies. These investments are accounted for using the equity method whereby the investment is initially recognized at cost and adjusted for the Company's share of income and distributions. These investments are subject to shareholder agreements which determine the realizable value of the Company's investment on ultimate disposition.

(iii) The company enters into joint arrangements with one or more parties whereby economic activity and decision-making are shared. A jointly controlled asset involves joint ownership, whereby each party is entitled to its share of the assets, liabilities, revenue and expenses. The Company accounts for its share in interests in and results from jointly controlled assets, whereby the Company's shares of each of the assets, liabilities, income and expenses of the joint operations 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 comprehensive income at year end. Fair value is determined based upon internal valuations, verified on a rotational basis by independent external appraisals conducted by qualified and experienced valuers. The Company appraises its commercial properties using the direct sales approach, which analyses recent sales and listings of properties with similar characteristics and features, the income approach, which analyses the net operating income and capitalization rates, and finally the discounted cash flow approach, based on future free cash flows.

### d) Financial Instruments

Financial Assets and financial liabilities are measured at fair value with changes in those fair values recognized in net income. Fair values of these instruments are based on published market prices or on cost. Financial assets classified as held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost, net of 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 when measured at amortized cost.

The Company's financial assets comprise cash and loans and other receivables. Haliburton Forest and Wildlife Reserve is classified as fair value through profit or loss.

The Company's financial liabilities comprise accounts payable and other, bank loan, mortgages payable, secured loans and amounts due to affiliates.

### e) Revenue recognition

The Company has retained substantially all the risks and benefits of ownership of its 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; 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 an accrual basis and dividends from marketable securities are recognized when received.

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

# Notes to the Consolidated Financial Statements

## 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 probable 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 to determine when recoverable. 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.

The estimates and 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 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 power 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 receivables, 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 our 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:

### *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. 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. The Company is in the process of evaluating the impacts of adopting IFRS 9.

### *Leases*

In January 2016, the IASB published a new standard to 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 market value risk include the mortgage receivable and due to and from affiliates.

# Notes to the Consolidated Financial Statements

The Company has no foreign 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 accounts receivables and other. Exposure to credit risk in respect of financial instruments relates primarily to counterparty obligations.

## 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. The primary source of liquidity consists of cash and financial assets, net of other liabilities, and undrawn committed credit facilities.

## 4. LOANS AND OTHER RECEIVABLES

Included in loans and other receivables is a \$5 million mortgage receivable due on November 30, 2020 and \$1.5 million of management share plan loans.

## 5. COMMERCIAL PROPERTIES

The Company holds a 100% interest in three Toronto, Ontario commercial office properties, and a 75% interest in the ground and second floor retail premises of a 47-storey residential complex adjacent to one of the Company's commercial office properties. The fair value measurements are classified as Level 3 in accordance with IFRS 13.

( thousands)	December 31, 2017	December 31, 2016
Balance, beginning of period	\$ 29,856	\$ 23,345
Additional investment	22,003	5,887
Fair value adjustments	490	624
	<u>\$ 52,349</u>	<u>\$ 29,856</u>

## 6. FOREST PROPERTIES

During the year, the Company exchanged 13,000 adjacent acres of forest lands, held through a managed forest investment fund, for participating preferred shares of Haliburton Forest, increasing its effective equity interest from 30% to 40%. The fair value measurements are classified as Level 3 inputs in accordance with IFRS 13.

( thousands)	December 31, 2017	December 31, 2016
Balance, beginning of period	\$ 27,325	\$ 19,344
Additional investment	3,241	7,152
Fair value adjustments	1,182	829
	<u>\$ 31,748</u>	<u>\$ 27,325</u>

## 7. RESIDENTIAL PROPERTIES

The Company has a 60% interest in a proposed residential development in Huntsville, Ontario.

## 8. 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 amounts of these investments are as follows:

(thousands)	December 31 2017	December 30 2016
Balance, beginning of period	\$ 31,115	\$ 27,970
Additional investment	484	2,250
Equity accounted income	990	895
Balance, end of period	<u>32,589</u>	<u>31,115</u>
Non-controlling interests	<u>15,573</u>	<u>15,117</u>
Company's net investment	<u>\$ 17,016</u>	<u>\$ 15,998</u>

# Notes to the Consolidated Financial Statements

## 9. BANK LOAN

The Company has a \$10 million operating demand loan facility with a major Canadian Chartered Bank available until September 20, 2019.

## 10. MORTGAGES PAYABLE

The Company's mortgage indebtedness is secured by commercial properties located in Toronto, Ontario as follows:

(thousands)	Interest Rate	December 31 2017	December 31 2016
220 King Street West	3.81%	\$ 8,483	\$ 8,641
22 College Street	2.79%	9,898	-
		\$ 18,381	\$ 8,641

## 11. SECURED LOANS

The secured loans are subordinate to the Company's bank borrowings and are repayable as follows:

(thousands)	Interest Rate	December 31 2017	December 31 2016
Due January 1, 2019	prime + 0.5%	\$ 15,000	\$ 15,000
Due March 31, 2022	4.00%	10,000	-
		\$ 25,000	\$ 15,000

## 12. DUE TO AFFILIATES

Amounts due to affiliates are with entities in which the Company exercises significant influence, bear interest at the prime lending rate plus half a percent, are unsecured and due on ten days written notice, received on or after October 30, 2020.

## 13. INCOME TAXES

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

(thousands)	December 31 2017	December 31 2016
Tax at statutory rates on accounting income before provision	26.50%	26.50%
Portion of gain subject to different tax rates	(10.13)	(10.71)
Convertible note and other	(4.14)	0.32
	12.23%	16.11%

The Company had tax losses available to reduce taxable income in future years of \$384,082.

## 14. EQUITY

### a) Non-controlling Interests

This amount includes participating preferred shares and a 33% common share equity interest held by other shareholders in a subsidiary through which the Company holds its corporate investments.

(thousands)	December 31 2017	December 31 2016
Preferred shares	\$ 8,000	\$ 8,000
Common shares	7,573	7,117
Company's net investment	\$ 15,573	\$ 15,117

# Notes to the Consolidated Financial Statements

## b) Common Shareholders' Equity

	December 31 2017	December 31 2016
Authorized		
Unlimited Class A Common Voting Shares without par value		
Unlimited Class B Common Non-Voting Shares without par value		
Issued and outstanding December 31, 2017 and December 31, 2016	<b>Number of Shares (in thousands)</b>	
Class A Common Shares	<b>83,940</b>	75,000

During the year, the Company issued 6,200,000 Class A common shares in exchange for a 6% common share interest in Haliburton Forest and Wildlife Reserve and 2,740,000 Class A common shares in exchange for a 25% interest in 51 Yonge Street, Toronto, Ontario.

## 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, 2017, the Company was in compliance with all debt covenants.

## 15. BASIC AND DILUTED EARNINGS PER COMMON SHARE

(thousands, except per share amounts)	December 31, 2017	December 31, 2016
Net income available to common shareholders	\$ 2,601	\$ 2,012
Weighted average number of Common Shares issued	79,121	75,000
Weighted average number of Common Shares issued plus dilution	99,121	75,822
Basic and diluted earnings per Class A Common Share	3 ¢	3 ¢

## 16. OTHER INFORMATION

### a) Related Party Transactions

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

The Company has available a \$20 million credit facility from a related party which bears interest at the prime rate plus 0.5% and is due on or after October 30, 2020.

The Company issued Subordinated Convertible Capital Notes to an affiliate in December 2016 (Note 14(c)).

### b) Segmented Information

Segments are determined by the nature of products produced or services rendered.

The Company operates in one reportable segment, real estate, based on the nature of services provided. All of the Company's assets and operations are located in Canada.

### c) Financial Instruments

The fair value of amounts due to affiliates 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 amounts receivable 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 forest investment fund are determined based on prescribed values per contractual agreements.

### d) Capital Management

The permanent capital available to pursue the Company's operations as at December 31, 2017 was \$65.5 million (December 31, 2016 – \$58.1 million) comprised of \$39.9 million (2016 – \$32.9 million) attributable to shareholders of the Company, \$15.6 million (2016 – \$15.1) attributable to non-controlling interests and \$10 million (2016 – \$10 million) attributable to Subordinated Convertible Capital Notes.

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.

**HALMONT PROPERTIES**  
**CORPORATION**

**DIRECTORS**

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Huntsville, Ont

**Heather M. Fitzpatrick, CPA**  
Toronto, Ont

**M. Diane Horton \***  
Toronto, Ont

**David W. Kerr \***  
Toronto, Ont

**Anthony E. Rubin, CPA**  
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**Heather M. Fitzpatrick, CPA**  
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Chief Financial Officer

**Anthony E. Rubin, CPA**  
Secretary and Treasurer

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**TSX - V: HMT**

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