

**HALMONT PROPERTIES**  
**CORPORATION**

**Nine months ended September 30, 2019**



## Forward-Looking Information

This report contains forward-looking information concerning the company's business and operations. The words "expects", "believes", "continue", "intends", "objective", "likely", "estimates", 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 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.



## Report to Shareholders

Income for the nine months ended September 30, 2019 increased to \$4,138,000 compared to \$2,080,000 in 2018. Net income attributable to common shareholders for the first nine months of 2019 increased to \$3,697,000 compared to \$1,685,000 in 2018.

During the third quarter, the Company sold a commercial property located at 220 King Street West resulting in a gain of approximately \$3 million after provision for taxes and the revaluation of our adjacent property.

Excluding the aforementioned property, net income for the nine months was \$2,225,000 and net income attributable to shareholders was \$1,784,000.

The book value of each common share increased to 53.2 ¢ per common share at September 30, 2019. The book value of each common share at September 30, 2018 was 49.5¢.

In accordance with IFRS accounting principles we revalue our commercial properties and other investments at the end of 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 a meaningful discount to their realizable value 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 - President  
November 27, 2019

# Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") of Halmont Properties Corporation ("Halmont", the "Company") is intended to provide an assessment of the Company's performance for the nine months ended September 30, 2019 and the comparable period in the prior year, as well as provide information on our financial position and other relevant matters. This MD&A should be read in conjunction with the unaudited consolidated financial statements and related notes as of September 30, 2019.

## OVERVIEW 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	\$ 58,485	34%	\$ 2,905 *	48%
Forest Properties	34,036	20%	998	16%
Residential Properties	24,498	14%	-	-
Corporate Investments	33,496	19%	1,038	17%
Other Assets	21,913	13%	1,157	19%
	\$ 172,428	100%	\$ 6,098	100%

\* Excluding gain on sale of a commercial property

### Commercial Properties

Halmont's directly owned commercial real estate assets, which represent approximately 34% of the Company's total assets at September 30, 2019, comprised four heritage commercial buildings and the ground and second floor premises of a residential condominium complex located in the Toronto Entertainment District.

During the quarter the Company sold a commercial building located at 220 King Street West for a gain of \$3 million after provision for taxes and the revaluation of our adjacent property.

Property	Year Acquired	Ownership Interest	Assets
(thousands)			
51 Yonge Street	2006	100%	\$ 6,010
224 King Street West	2016	75%	5,927
22 College Street	2017	100%	20,400
221 Yonge Street	2018	100%	5,532
401 Yonge Street	2019	100%	20,616
			\$ 58,485

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 neighbouring property owners.

# Management's Discussion and Analysis

## Forest Properties

Our investment in forest properties is comprised of both common shares and participating preferred shares in Haliburton Forest & Wildlife Reserve Limited ("Haliburton Forest"), representing an effective 40% equity interest. In aggregate, these investments represent approximately 20% of the Company's total assets. We expect to increase our investment in forest lands in the future when opportunities arise.

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

## Residential Properties

The Company acquired a 60% participation in the redevelopment of the peripheral lands of the Muskoka Grandview Resort in Huntsville, Ontario, in return for arranging construction financing and a committing to finance the sequential development of a series of residential condominium buildings.

We aim 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 on a phased basis after achieving targeted pre-sale levels. Currently, 71% of the units comprising the initial three buildings have been sold.

## Corporate Investments

Halmont, through a subsidiary, holds an indirect interest in corporations owning and providing investment management services principally in the real estate, energy and infrastructure sectors. After deducting \$16.5 million of non-recourse participating equity securities issued by a subsidiary, Halmont's net effective investment in these entities represents approximately 10% of its total assets.

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

	Sept. 30, 2019	Dec. 31, 2018
(thousands)		
Balance, beginning of period	\$ 32,147	\$ 32,589
Investments sold	-	(1,635)
Other comprehensive income	312	(45)
Equity accounted income	1,038	1,238
Balance, end of period	33,496	32,147
Non-controlling interests	16,553	16,112
Company's net investment	\$ 16,943	\$ 16,035

Our objective is to hold our 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 business relationships which assist 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 values.

# Management's Discussion and Analysis

## Other Assets

Other assets are principally comprised of high-yield property loans including a \$5 million mortgage, due in 2020, secured by a prime residential property and a \$14 million participating second mortgage, with the right to receive 40% of the increase in the value of the property from capital improvements completed prior to 2023. These loans are structured to ensure they can be realized prior to their maturity dates to fund long-term investment opportunities as they arise.

## **CONSOLIDATED OPERATING RESULTS**

The Company reported net income of \$4,138,000 for the nine months ended September 30, 2019 compared with \$2,080,000 for the same period in the preceding year. Net income attributable to common shareholders increased to \$3,697,000 compared to \$1,685,000 in 2018.

Revenue and expenses for the nine months ended September 30, 2019 increased compared with the previous year due principally to the additional capital invested in commercial properties, loans receivable and a gain realized on the sale of a commercial property.

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 \$20 million revolving credit facility from a related party and a \$10 million operating loan from a commercial bank. In addition, loans and mortgages receivable in the amount of approximately \$20 million can be liquidated, if necessary, for cash in the short term.

## **SUMMARY FINANCIAL INFORMATION**

(thousands)	Nine months ended		Year ended	Year ended	Year ended	Year ended
	Sept. 30, 2019	Sept. 30, 2018	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015
Total assets	\$ 172,428	\$ 152,259	\$ 157,072	\$ 129,313	\$ 93,925	\$ 76,755
Total revenue	9,828	5,067	7,808	5,972	4,698	4,538
Net income to common shareholders	3,697	1,685	2,885	2,601	2,012	1,970

## **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 payable and other, bank loan, mortgages payable, senior debentures, secured loans and due to affiliates approximate their fair values due to the short-term nature of these financial instruments.

# Management's Discussion and Analysis

## **EQUITY**

The Company's issued equity capital is comprised of 83,940,000 Class A Common Voting Shares and 20,000,000 Class B Non-Voting Common Shares.

In addition the Company's Subordinated Convertible Capital Notes, which are classified and presented as equity, are redeemable by the Company after December 31, 2020 by issuing to 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 disclosure, controls and procedures and has concluded that such controls and procedures are effective for the interim period ended September 30, 2019. No changes were made in internal controls over financial reporting during the interim period September 30, 2019 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 unaudited consolidated financial statements of the Company for the nine months ended September 30, 2019, 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

November 27, 2019

# Consolidated Balance Sheet

(unaudited)

(thousands of Canadian dollars)

Note

September 30, 2019

December 31, 2018

## ASSETS

Cash		\$ 50	\$ 39
Loans and other receivables	4	21,863	20,939
Commercial properties	5	58,485	58,794
Forest properties	6	34,036	33,038
Residential properties	7	24,498	12,115
Corporate investments	8	33,496	32,147
<b>Total Assets</b>		<b>\$ 172,428</b>	<b>\$ 157,072</b>

## LIABILITIES AND EQUITY

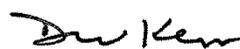
Accounts payable and other		\$ 2,224	\$ 713
Bank loan	9	4	1,376
Mortgages payable	10	18,546	17,833
Other loans payable	11	50,000	50,000
Due to affiliates	12	13,071	4,760
Deferred taxes		6,109	3,996
		<b>89,954</b>	<b>78,678</b>
Equity			
Non-controlling shareholders' interest	13(a)	16,553	16,112
Common shareholders' equity	13(b)	55,921	52,282
Subordinated convertible capital notes	13(c)	10,000	10,000
Total equity		<b>82,474</b>	<b>78,394</b>
<b>Total Liabilities and Equity</b>		<b>\$ 172,428</b>	<b>\$ 157,072</b>

See accompanying notes.

Approved by the Board on November 27, 2019 and signed on its behalf by:



Heather M. Fitzpatrick  
President



David W. Kerr  
Chairman

# Consolidated Statement of Comprehensive Income

(unaudited) (thousands of Canadian dollars)	Note	Three months ended September,30		Nine months ended September,30	
		2019	2018	2019	2018
<b>REVENUE</b>					
Commercial property revenue		\$ 1,201	\$ 1,024	\$ 2,905	\$ 2,778
Interest and other investment income		391	177	1,157	430
Forest properties	6	339	326	998	959
Equity accounted income	8	354	318	1,038	900
Gain on sale and revaluation of commercial properties		3,730	-	3,730	-
		<b>6,015</b>	1,845	<b>9,828</b>	5,067
<b>EXPENSES</b>					
Commercial property operations		488	433	1,400	1,064
Interest		780	609	1,950	1,470
General and administrative		65	45	226	197
Income taxes		1,893	109	2,114	256
		<b>3,226</b>	1,196	<b>5,690</b>	2,987
<b>NET INCOME</b>		<b>\$ 2,789</b>	\$ 649	<b>\$ 4,138</b>	\$ 2,080
<b>Net income attributable to:</b>					
Common shareholders		\$ 2,640	\$ 511	\$ 3,697	\$ 1,685
Non-controlling interests		149	138	441	395
Total		<b>\$ 2,789</b>	\$ 649	<b>\$ 4,138</b>	\$ 2,080
<b>Net income per share:</b>					
Basic and diluted	14	<b>2.13 ¢</b>	0.50 ¢	<b>2.98 ¢</b>	1.62

See accompanying notes.

# Consolidated Statement of Changes in Equity

<small>(unaudited)</small> <small>(thousands of Canadian dollars)</small>	<small>Common Shares</small>	<small>Retained Earnings</small>	<small>Accumulated Other Comprehensive Income</small>	<small>Total Equity Attributable to Shareholders of the Company</small>	<small>Non- Controlling Interests</small>	<small>Subordinated Convertible Capital Notes</small>	<small>Total Equity</small>
<b>For the nine month period to September 30, 2019</b>							
<b>Balance, December 31, 2018</b>	<b>\$ 28,460</b>	<b>\$ 22,266</b>	<b>\$ 1,556</b>	<b>\$ 52,282</b>	<b>\$ 16,112</b>	<b>\$ 10,000</b>	<b>\$ 78,394</b>
Other comprehensive income	-	312	-	312	-	-	312
Capital notes interest	-	(375)	-	(375)	-	-	(375)
Net income	-	3,697	-	3,697	441	-	4,138
<b>Balance, September 30, 2019</b>	<b>\$ 28,460</b>	<b>\$ 25,905</b>	<b>\$ 1,556</b>	<b>\$ 55,921</b>	<b>\$ 16,553</b>	<b>\$ 10,000</b>	<b>\$ 82,474</b>

<small>(unaudited)</small> <small>(thousands of Canadian dollars)</small>	<small>Common Shares</small>	<small>Retained Earnings</small>	<small>Accumulated Other Comprehensive Income</small>	<small>Total Equity Attributable to Shareholders of the Company</small>	<small>Non- Controlling Interests</small>	<small>Subordinated Convertible Capital Notes</small>	<small>Total Equity</small>
<b>For the nine month period to September 30, 2018</b>							
<b>Balance, December 31, 2017</b>	<b>\$ 18,640</b>	<b>\$ 19,651</b>	<b>\$ 1,838</b>	<b>\$ 39,949</b>	<b>\$ 15,573</b>	<b>\$ 10,000</b>	<b>\$ 65,522</b>
Other comprehensive income	-	-	208	208	-	-	208
Capital notes interest	-	(375)	-	(375)	-	-	(375)
Net income	-	1,685	-	1,685	396	-	2,080
<b>Balance, September 30, 2018</b>	<b>\$ 18,640</b>	<b>\$ 20,966</b>	<b>\$ 2,046</b>	<b>\$ 41,472</b>	<b>\$ 15,969</b>	<b>\$ 10,000</b>	<b>\$ 67,437</b>

See accompanying notes.

# Consolidated Statement of Cash Flows

(unaudited)	<b>Nine months ended September, 30</b>	
(thousands of Canadian dollars)	<b>2019</b>	2018
<b>OPERATING</b>		
Net income	\$ 4,138	\$ 2,080
Items not involving cash:		
Equity accounted income	(1,038)	(900)
Fair value gains on forest properties	(998)	(960)
Deferred Taxes	2,114	256
Changes in non-cash working capital and other	291	(814)
	<b>4,507</b>	<b>(338)</b>
<b>FINANCING</b>		
Bank loan	(1,372)	(4,535)
Mortgages payable	713	(408)
Secured loans	300	300
Due to affiliates	8,311	25,291
Other	(375)	(375)
	<b>7,577</b>	<b>20,273</b>
<b>INVESTING</b>		
Commercial properties, net	309	(5,771)
Residential properties	(12,383)	(3,163)
Forest properties	-	1,350
Property Loans	-	(12,337)
	<b>(12,074)</b>	<b>(19,921)</b>
<b>Net cash flow</b>	<b>10</b>	<b>16</b>
Cash, beginning of period	40	31
<b>Cash, end of period</b>	<b>\$ 50</b>	<b>\$ 47</b>

See accompanying notes.

# Notes to the Consolidated Financial Statements

## 1. CORPORATE INFORMATION

Halmont Properties Corporation is incorporated and domiciled in Canada. The Company invests in commercial, residential 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 are unaudited and have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting, IAS 34, as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements do not include all the information and disclosures required in the annual financial statements prepared under International Financial Reporting Standards ("IFRS") for the year ended December 31, 2019.

These financial statements were authorized for issuance by the Board of Directors of the Company on November 27, 2019, 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, supplemented 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

The Company adopted IFRS 9 which replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"), beginning on January 1, 2018, the mandatory effective date. IFRS 9 contains a new classification and measurement approach which requires financial assets to be classified and measured based on the business model in which they are managed and the characteristics of their contractual cash flows. IFRS 9 contains 3 principal classification categories for financial assets: amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL), and eliminates existing categories of held to maturity, loans and receivables and available for sale. There was no material impact from the adoption of IFRS 9.

The Company's financial assets comprise cash, loans and other receivables, forest properties and corporate investments.

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

All the Company's assets and financial liabilities are classified as amortized cost with the exception of forest properties which is classified as FVTPL and corporate investments which is classified as FVOCI.

### 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.

**f) Income taxes**

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 and terminal capitalization rates used in the discounted cash flow model.

(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) Leases**

The Company adopted IFRS 16, Leases ("IFRS 16"), which supersedes IAS 17 Leases and related interpretations, beginning on January 1, 2019, the mandatory effective date. 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. There was no material impact from the adoption of IFRS 16.

**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 affiliates.

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.

# Notes to the Consolidated Financial Statements

## 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, a \$14 million participating second mortgage receivable due June 30, 2021, \$1 million of management share investment loans, and \$2 million of accounts receivable.

## 5. COMMERCIAL PROPERTIES

The Company holds a 100% interest in four Toronto, Ontario commercial office properties, and a 75% interest in the ground and second floor premises of a 47-storey residential complex.

	September 30, 2019	December 31, 2018
(thousands)		
Balance, beginning of period	\$ 58,794	\$ 52,349
Additional net investment	(309)	5,943
Fair value adjustments	-	502
	<b>\$ 58,485</b>	<b>\$ 58,794</b>

## 6. FOREST PROPERTIES

The Company's investment in forest properties is comprised of common and participating preferred shares in Haliburton Forest, which represents an effective 40% equity interest.

	September 30, 2019	December 31, 2018
(thousands)		
Balance, beginning of period	\$ 33,037	\$ 31,748
Additional investment	-	742
Fair value adjustments	998	547
	<b>\$ 34,036</b>	<b>\$ 33,037</b>

## 7. RESIDENTIAL PROPERTIES

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

## 8. CORPORATE INVESTMENTS

The Company holds, directly and indirectly, investment interests in corporations with real estate and related infrastructure interests. Changes in the carrying amounts of these investments are as follows:

	September 30, 2019	December 31, 2018
(thousands)		
Balance, beginning of period	\$ 32,147	\$ 32,589
Investment sold	-	(1,635)
Other comprehensive income	312	(45)
Equity accounted income	1,038	1,238
Balance, end of period	<b>33,496</b>	32,147
Non-controlling interests	<b>16,553</b>	16,112
Company's net investment	<b>\$ 16,943</b>	<b>\$ 16,035</b>

## 9. BANK LOAN

The Company has a \$10 million operating loan facility from a major Canadian Chartered Bank.

## 10. MORTGAGES PAYABLE

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

	Maturity Date	Interest Rate	September 30, 2019	December 31, 2018
(thousands)				
22 College Street	August 1, 2022	2.79%	\$ 9,327	\$ 9,515
401 Yonge Street	May 1, 2028	3.95%	9,219	-
			\$ 18,546	\$ 9,515

## 11. OTHER LOANS PAYABLE

	Maturity Date	Interest Rate	September 30, 2019	December 31, 2018
(thousands)				
Secured Loans	Due January 1, 2022	prime + 0.5%	\$ 15,000	\$ 15,000
	Due March 31, 2022	4.00%	10,000	10,000
Senior Debentures	Due December 31, 2028	4.50%	25,000	25,000
			\$ 50,000	\$ 50,000

## 12. DUE TO AFFILIATES

Amounts due to affiliates, 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, 2022.

## 13. 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.

	September 30, 2019	December 31, 2018
( thousands)		
Preferred shares	\$ 8,000	\$ 8,000
Common shares	8,553	8,112
Company's net investment	\$ 16,553	\$ 16,112

# Notes to the Consolidated Financial Statements

## b) Common Shareholders' Equity

Authorized	September 30, 2019	December 31, 2018
Unlimited Class A Common Voting Shares without par value		
Unlimited Class B Common Non-Voting Shares without par value		
	Number of Shares (thousands)	
Issued and outstanding at September 30, 2019 and December 31, 2018		
Class A Common Shares	83,940	83,940
Class B Common Shares	20,000	20,000

In December 2018, the Company issued 20 million Class B non-voting shares for \$10 million. The Class A and Class B Common Shares participate equally in any dividends and in the Company's net assets.

## 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 September 30, 2019 the Company was in compliance with all debt covenants.

## 14. BASIC AND DILUTED EARNINGS PER COMMON SHARE

	September 30, 2019	December 31, 2018
(thousands, except per share amounts)		
Net income available to common shareholders	\$ 3,697	\$ 2,885
Weighted average number of Common Shares issued	103,940	103,940
Weighted average number of Common Shares issued plus dilution	123,940	123,940
Basic and diluted earnings per Common Share	2.98 ¢	2.33 ¢

## 15. 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, 2022.

### 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 value of the Company's investment in forest properties is determined based on prescribed values per contractual agreements.

**d) Capital Management**

The permanent capital available to pursue the Company's operations as at September 30, 2019 was \$82.5 million (December 31, 2018 – \$78.4 million) comprised of \$55.9 million (2018 – \$52.3 million) attributable to shareholders of the Company, \$16.6 million (2018 – \$16.1 million) attributable to non-controlling interests and \$10 million (2018 – \$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**

## Shareholder and Corporate Information

### DIRECTORS

**Claude A. Doughty**  
Huntsville, Ont

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

**Randal L. Froebelius, P. Eng.**  
Toronto, Ont

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

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

**Timothy R. Price\***  
Toronto, Ont

*\* Members of the Audit & Corporate Governance Committee*

### BANK

Bank of Montreal

### HEAD OFFICE

51 Yonge Street, Suite 400  
Toronto, Ontario  
M5E 1J1

Telephone: (647) 448-7147  
Facsimile: (416) 203-9931

### OFFICERS

**David W. Kerr**  
Chairman

**Heather M. Fitzpatrick, CPA**  
President & CEO

**Randal L. Froebelius, P. Eng.**  
Property Management

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

**Ines N. Zaloshnja**  
Controller

### EXCHANGE

Toronto Stock Exchange - Venture  
**TSX - V: HMT**

### REGISTRAR AND TRANSFER AGENT

TMX Equity Transfer Service  
200 University Avenue, Suite 300  
Toronto, Ontario M5H 4H1

**HALMONT PROPERTIES**  
**CORPORATION**

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Toronto, ON M5E 1J1  
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