

HALMONT PROPERTIES
CORPORATION

Year ended December 31, 2018

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.

Independent Auditor's Report

To the Shareholders and the Board of Directors of Halmont Properties Corporation

Opinion

We have audited the consolidated financial statements of Halmont Properties Corporation (the "Company"), which comprise the consolidated balance sheet as at December 31, 2018 and 2017, and the consolidated statement of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis and Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Matthew Welchinski.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Ontario
April 30, 2019

Year End Report to Shareholders

Net income for the year ended December 31, 2018 attributable to common shareholders increased to \$2,885,000 compared to \$2,601,000, in 2017.

Investment initiatives undertaken during 2018 included:

- The acquisition of a fifth commercial office property in Toronto, located at 221 Yonge Street, for \$5.5 million.
- The funding of a \$14 million participating mortgage on a student residence with the right to 40% of the increase in the value of the property from capital improvements completed prior to 2023.
- The issuance of \$25 million Senior Debentures and \$10 million Class B Non-Voting Common Shares to refinance the Company's recent investment initiatives and strengthen its capital structure for future growth.

The capital issuance mentioned above, together with earnings for the year, increased our common shareholders' equity by 31% to \$52.3 million, representing 50.3¢ per common share compared to 47.5¢ in 2017.

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 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, 2019

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, 2018 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, 2018.

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	\$ 58,794	37%	\$ 3,818	49%
Forest properties	33,038	21%	1,289	17%
Residential properties	12,115	8%	-	
Corporate investments	32,147	20%	1,238	16%
Other assets	20,978	13%	1,463	19%
	\$ 157,072	100%	\$ 7,808	100%

Commercial Properties

Halmont's directly-owned commercial real estate assets, which represented approximately 37% of the Company's total assets at December 31, 2018, comprised four 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 downtown Toronto for approximately \$5.5 million.

Property	Year Acquired	Ownership Interest	Assets
(thousands)			
51 Yonge Street	2006	100%	\$ 6,010
220 King Street West	2014	100%	20,270
224 King Street West	2016	75%	6,581
<i>Ground and second floors</i>			
22 College Street	2017	100%	20,400
221 Yonge Street	2018	100%	5,533
			\$ 58,794

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.

Management's Discussion and Analysis

Forest Properties

Our investment in forest properties is comprised of both common and participating preferred shares in Haliburton Forest & Wildlife Reserve Limited ("Haliburton Forest"), representing an effective 40% equity interest. In aggregate, these investments represent approximately 21% of the Company's total assets. We expect to increase our investment in adjacent forest lands in the future through Haliburton Forest, should 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

In January 2017, the Company acquired a 60% participation in the development of the peripheral lands of the Muskoka Grandview Resort property in Huntsville, Ontario, in return for providing a \$10 million revolving loan facility to the joint operation to finance the sequential construction of a series of residential condominium buildings.

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 on a phased basis after achieving targeted pre-sale levels.

60% of the units comprising the initial three condominium buildings have been sold at a premium to the original listed price.

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 the real estate, energy and infrastructure sectors. After deducting \$16.1 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:

	Dec. 31 2018	Dec. 31 2017
(thousands)		
Balance, beginning of period	\$ 32,589	\$ 31,115
Investments sold	(1,635)	-
Other comprehensive income	(45)	484
<u>Equity accounted income</u>	<u>1,238</u>	<u>990</u>
Balance, end of period	32,147	32,589
<u>Non-controlling interests</u>	<u>16,112</u>	<u>15,573</u>
<u>Company's net investment</u>	<u>\$ 16,035</u>	<u>\$ 17,016</u>

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 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 values.

Management's Discussion and Analysis

Other Assets

Other assets are principally comprised of high-yield property loans including 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 \$3,424,000 for year ended December 31, 2018 compared with \$3,057,000 for the same period in the preceding year. Net income attributable to common shareholders increased to \$2,885,000 compared to \$2,601,000 in 2017.

Revenue and expenses for the year ended December 31, 2018 increased compared with the previous year due principally to the additional capital invested in commercial properties and mortgage loans receivable.

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)	Year ended Dec. 31, 2018	Year ended Dec. 31, 2017	Year ended Dec. 31, 2016	Year ended Dec. 31, 2015	Year ended Dec. 31, 2014
Total assets	\$ 157,072	\$ 129,313	\$ 93,925	\$ 76,755	\$ 72,533
Total revenue	7,808	5,972	4,698	4,538	2,361
Net income to common shareholders	2,885	2,601	2,012	1,970	1,482

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.

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 December 2016 the Company issued Subordinated Convertible Capital Notes, which are classified and presented as equity. The Capital Notes are redeemable by the Company after December 31, 2020 by issuing to the holders 20 million Class B Non-Voting Common Shares.

In December 2018 the Company issued 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 year ended December 31, 2018. No changes were made in internal controls over financial reporting during the year ended December 31, 2018 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, 2018, have been prepared by and are the responsibility of the Company's management.

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

April 30, 2019

Consolidated Balance Sheet

(thousands of Canadian dollars)	Note	December 31, 2018	December 31, 2017
ASSETS			
Cash		\$ 39	\$ 31
Loans and other receivables	4	20,939	7,165
Commercial properties	5	58,794	52,349
Forest properties	6	33,038	31,748
Residential properties	7	12,115	5,431
Other corporate investments	8	32,147	32,589
Total Assets		\$ 157,072	\$ 129,313
LIABILITIES AND EQUITY			
Accounts payable and other		\$ 713	\$ 754
Bank loan	9	1,376	4,870
Mortgages payable	10	17,833	18,381
Secured loans	11	25,000	25,000
Senior Debentures	12	25,000	-
Due to affiliates	13	4,760	11,263
Deferred taxes	14	3,996	3,523
		78,678	63,791
Equity			
Non-controlling shareholders' interest	15(a)	16,112	15,573
Common shareholders' equity	15(b)	52,282	39,949
Subordinated convertible capital notes	15(c)	10,000	10,000
Total equity		78,394	65,522
Total Liabilities and Equity		\$ 157,072	\$ 129,313

See accompanying notes.

Approved by the Board on April 30, 2019 and signed on its behalf by:



Heather M. Fitzpatrick
President



David W. Kerr
Chairman

Consolidated Statement of Comprehensive Income

(thousands of Canadian dollars)	Note	Year ended December 31	
		2018	2017
REVENUE			
Rental revenue		\$ 3,818	\$ 2,957
Interest and other investment income		2,250	1,535
Equity accounted income	8	1,238	990
Fair value adjustments on commercial properties	5	502	490
		7,808	5,972
EXPENSES			
Interest		2,105	1,298
Property operations		1,584	1,046
General and administrative		213	145
Income taxes	14	482	426
		4,384	2,915
NET INCOME		\$ 3,424	\$ 3,057
Net income attributable to:			
Common shareholders		\$ 2,885	\$ 2,601
Non-controlling interests		539	456
Total		\$ 3,424	\$ 3,057
Net income per share:			
Basic and diluted	16	3 ¢	3 ¢

Consolidated Statement of Changes in Equity

(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
For the year ended December 31, 2018							
Balance, January 1, 2018	\$ 18,460	\$ 19,651	\$ 1,838	\$ 39,949	\$ 15,573	\$ 10,000	\$ 65,522
Issuance of common shares	10,000	-	-	10,000	-	-	10,000
Other comprehensive income	-	-	(52)	(52)	-	-	(52)
Gain on corporate investments	-	230	(230)	-	-	-	-
Capital notes	-	(500)	-	(500)	-	-	(500)
Net income	-	2,885	-	2,885	539	-	3,424
Balance, December 31, 2018	\$ 28,460	\$ 22,266	\$ 1,556	\$ 52,282	\$ 16,112	\$ 10,000	\$ 78,394

(thousands of Canadian dollars)

For the year ended December 31, 2017							
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

See accompanying notes.

Consolidated Statement of Cash Flows

(thousands of Canadian dollars)	Year ended December 31	
	2018	2017
OPERATING		
Net income	\$ 3,424	\$ 3,057
Items not involving cash:		
Equity accounted income	(1,238)	(990)
Fair value gains on commercial properties	(502)	(490)
Fair value gains on forest properties	(547)	(1,182)
Deferred Taxes	482	426
Changes in non-cash working capital and other	(387)	75
	1,232	896
FINANCING		
Bank loan	(3,494)	4,870
Mortgages payable	(548)	9,741
Secured loans	-	10,000
Senior debentures	25,000	-
Issuance of shares	10,000	-
Due to affiliates	(6,503)	2,297
Other	(500)	(500)
	23,955	26,408
INVESTING		
Commercial properties	(5,943)	(20,633)
Residential properties	(6,684)	(5,181)
Corporate investments	1,616	(7)
Forest properties	(743)	(139)
Property Loans	(13,425)	(1,500)
	(25,179)	(27,460)
Net cash flow	8	(156)
Cash, beginning of period	31	187
Cash, end of period	\$ 39	\$ 31

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, 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 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, 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 certain other corporate investments.

The Company’s financial liabilities comprise accounts payable, bank loans, mortgages payable, secured loans, senior debentures and due to certain 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 other 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) Future changes in accounting policies

The following standard has not been adopted as it applies to future periods and may result in future changes to our existing accounting policies and disclosures. The Company is currently evaluating the impact that this standard will have on its results of operations and financial position:

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 the 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 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, and \$1.0 million of management share investment loans, and \$939,000 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 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.

	December 31, 2018	December 31, 2017
(thousands)		
Balance, beginning of period	\$ 52,349	\$ 29,856
Additional investment	5,943	22,003
Fair value adjustments	502	490
	\$ 58,794	\$ 52,349

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. The investment is classified as fair value through profit or loss as a Level 3 inputs in accordance with IFRS 13.

	December 31, 2018	December 31, 2017
(thousands)		
Balance, beginning of period	\$ 31,748	\$ 27,325
Additional investment	743	3,241
Fair value adjustments	547	1,182
	\$ 33,038	\$ 31,748

7. RESIDENTIAL PROPERTIES

The Company has a 60% interest in a residential condominium 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:

	December 31, 2018	December 31, 2017
(thousands)		
Balance, beginning of period	\$ 32,589	\$ 31,115
Investment sold	(1,635)	-
Other comprehensive income	(45)	484
Equity accounted income	1,238	990
Balance, end of period	32,147	32,589
Non-controlling interests	16,112	15,573
Company's net investment	\$ 16,035	\$ 17,016

9. BANK LOAN

The Company has a \$10 million operating 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:

	Maturity Date	Interest Rate	December 31, 2018	December 31, 2017
(thousands)				
220 King Street West	July 1, 2025	3.81%	\$ 8,318	\$ 8,483
22 College Street	August 1, 2022	2.79%	9,515	9,898
			\$ 17,833	\$ 18,381

11. SECURED LOANS

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

	Interest Rate	December 31 2018	December 31 2017
(thousands)			
Due January 1, 2022	prime + 0.5%	\$ 15,000	\$ 15,000
Due March 31, 2022	4.00%	10,000	10,000
		\$ 25,000	\$ 25,000

12. SENIOR DEBENTURES

On December 20, 2018, the Company issued \$25 million principal amount of Series I Senior Debentures due December 31, 2028. Interest is payable on the principal amount at a rate of 4.5% per annum.

13. 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, 2020.

14. INCOME TAXES

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

	December 31, 2018	December 31, 2017
(thousands)		
Tax at statutory rates on accounting income before provision	26.50%	26.50%
Portion of gain subject to different tax rates	(14.01)	(10.13)
Convertible note and other	(0.19)	(4.14)
Effective tax rate	12.30%	12.23%

The Company had tax losses available to reduce taxable income in future years of \$895,000 as at December 31, 2018.

Notes to the Consolidated Financial Statements

15. 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.

	December 31, 2018	December 31, 2017
(thousands)		
Preferred shares	\$ 8,000	\$ 8,000
Common shares	8,112	7,573
Company's net investment	\$ 16,112	\$ 15,573

b) Common Shareholders' Equity

Authorized			
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 December 31, 2018 and December 31, 2017			
Class A Common Shares	\$ 83,940	\$	83,940
Class B Common Shares	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 December 31, 2018, the Company was in compliance with all debt covenants.

16. BASIC AND DILUTED EARNINGS PER COMMON SHARE

	December 31, 2018	December 31, 2017
(thousands, except per share amounts)		
Net income available to common shareholders	\$ 2,885	\$ 2,601
Weighted average number of Common Shares issued	84,543	79,121
Weighted average number of Common Shares issued plus dilution	104,488	99,121
Basic and diluted earnings per Common Share	3 ¢	3 ¢

17. 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.

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 December 31, 2018 was \$78.4 million (December 31, 2017 – \$65.5 million) comprised of \$52.3 million (2017– \$39.9 million) attributable to shareholders of the Company, \$16.1 million (2017 – \$15.6 million) attributable to non-controlling interests and \$10 million (2017 - \$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 Froebelius, P. Eng.
Toronto, Ont

M. Diane Horton *
Toronto, Ont

David W. Kerr *
Toronto, Ont

Timothy R. Price*
Toronto, Ont

Anthony E. Rubin, CPA
Toronto, Ont

** Members of the Audit & Corporate Governance Committee*

OFFICERS

David W. Kerr
Chairman

Heather M. Fitzpatrick, CPA
President & CEO

Randal Froebelius, P. Eng.
Property Management

Anthony E. Rubin, CPA
Secretary and Treasurer

Ines N. Zaloshnja
Controller

BANK

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