

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.

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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.

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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.

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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