

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") of Halmont Properties Corporation ("Halmont", and /or the "Company") is intended to provide an assessment of the Company's performance for the year ended December 31, 2020 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 audited consolidated financial statements and related notes for the year ended December 31, 2020.

OVERVIEW OF THE BUSINESS

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

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

	Assets		Revenues and Other Income	
(thousands)				
Commercial Properties	\$ 61,666	28%	\$ 4,440 *	40%
Forest Properties	54,568	25%	2,207	20%
Residential Properties	47,087	21%	-	0%
Corporate Investments	35,171	16%	1,077	10%
Other Assets	21,693	10%	2,100	19%
	\$ 220,185	100%	\$ 11,219	88%

* Includes Fair Value Changes

Commercial Properties

Halmont's directly owned commercial real estate assets, which represent approximately 28% of the Company's total assets as at December 31, 2020, comprised four heritage commercial buildings and the ground and second floor premises of a residential condominium complex located in the Toronto Entertainment District.

Property	Year Acquired	Interest	Assets
(thousands)			
51 Yonge Street	2006	100%	\$ 5,816
224 King Street West	2016	75%	4,535
22 College Street	2017	100%	22,700
221 Yonge Street	2018	100%	7,315
401 Yonge Street	2019	100%	21,300
			\$ 61,666

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.

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Forest Properties

Our investment in forest properties is comprised of a 40% equity interest in Haliburton Forest & Wildlife Reserve Limited ("Haliburton Forest"), as well as a \$20 million convertible preferred share equity interest in Macer Forest Holdings Inc. In aggregate, these investments represent approximately 25% of the Company's total assets. Haliburton Forest acquired a third hardwood sawmill in 2020, together with harvesting rights on one million acres of Central Ontario Crown Lands. We expect to increase our investment in the forest sector 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 has a 60% limited net profit partnership interest in the redevelopment of the peripheral lands of the Muskoka Grandview Resort in Huntsville, Ontario, which was acquired in return for providing construction financing and committing to finance the sequential development of a series of residential condominium buildings. Three of twenty buildings have been completed with registration and handover of the properties to the condo corporation commencing in January 2021.

The risks associated with the development of the Grandview Resort property have been mitigated 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.

Corporate Investments

Halmont, through a subsidiary, holds an indirect interest in corporations owning and providing investment management services principally in the property and infrastructure sectors. After deducting \$17.2 million of non-recourse participating equity securities issued by a subsidiary, Halmont's net effective investment in these entities represents approximately 8% of its total assets.

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

	December 31, 2020	December 31, 2019
(thousands)		
Balance, beginning of period	\$ 33,941	\$ 32,147
Other comprehensive income	153	398
<u>Equity accounted income</u>	<u>1,077</u>	<u>1,396</u>
Balance, end of period	35,171	33,941
<u>Non-controlling interests</u>	<u>17,190</u>	<u>16,704</u>
<u>Company's net investment</u>	<u>\$ 17,981</u>	<u>\$ 17,237</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 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.

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Loans and Other Receivables

The Company's loans and other receivables are comprised of approximately \$16 million high-yielding participating mortgages, with maturities through to 2022. 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 \$6,107,000 for the year ended December 31, 2020 compared with \$7,073,000 for the same period in the preceding year. Net income attributable to common shareholders decreased to \$4,821,000 compared to \$6,481,000 in 2019.

Revenue for the year ended December 31, 2020 increased compared with the same period in the previous year due principally to the additional capital invested in 2019 in forest properties, as well as participating loans receivables. Expenses decreased compared with the previous year principally due to the impacts of COVID-19.

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 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 \$16 million can be liquidated, if necessary, for cash in the short term.

SUMMARY FINANCIAL INFORMATION

(thousands)	Year ended Dec. 31, 2020	Year ended Dec. 31, 2019	Year ended Dec. 31, 2018	Year ended Dec. 31, 2017
Total assets	\$ 220,185	\$ 206,149	\$ 157,072	\$ 129,313
Total revenue	11,219	13,474	7,808	5,972
Net income to common shareholders	4,821	6,481	2,885	2,601

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 recent outbreak of COVID-19 has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. The duration and impact of the COVID-19 outbreak is unknown at this time and it is not possible to reliably estimate the length and severity of these developments as well as the impact on the financial results and condition of the Company in future periods.

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EQUITY

The Company redeemed its subordinated convertible capital notes on December 31, 2020 by issuing 20,000,000 Class B non-voting common shares of the Company.

The Company's issued common share capital now comprises of 83,940,000 Class A common voting shares and 40,000,000 Class B non-voting common shares.

The Company's issued \$20,000,000 convertible preferred shares are convertible into 30,769,230 Class B non-voting common shares on or before December 31, 2024.

CONTROLS AND PROCEDURES

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, 2020. No changes were made in internal controls over financial reporting during the year ended December 31, 2020 that have materially affected, or are reasonably likely to affect, the internal controls 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, 2020 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, 2021