

HALMONT PROPERTIES
CORPORATION

Year ended December 31, 2020

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

Net income for the year ended December 31, 2020 decreased to \$6,107,000 compared to \$7,073,000 in 2019. Net income attributable to common shareholders in 2020 decreased to \$4,821,000 compared to \$6,481,000 in 2019. Excluding the sale of a commercial property in 2019, net income for the previous year was \$3,715,000 and net income attributable to common shareholders was \$2,595,000.

Investment initiatives undertaken during 2020 included:

- Collection of a mortgage receivable on a student housing residency resulting in an after-tax gain of \$1.3 million.
- Further funding of \$16 million on residential developments located in Oakville, Ontario.
- Delivery of the first units of the Muskoka Resort development project with registration and handover to the condo corporation in January 2021.
- Redemption of the subordinated convertible capital notes by issuing Class B common shares to note holders.

The share capital issuance mentioned above, together with earnings for the year increased our fully diluted permanent equity base by 20% to \$110.5 million, representing 60 ¢ per common share.

With respect to the impact of COVID-19, our businesses have overall performed well, with the exception of, our commercial property operations and we are working to mitigate the consequences.

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 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
April 30, 2021

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.

Management's Discussion and Analysis

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.

Management's Discussion and Analysis

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.

Management's Discussion and Analysis

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

Independent Auditor's Report

To the Shareholders and 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, 2020 and 2019, and the consolidated statements of net income and 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, 2020 and 2019, 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 Report to Shareholders.

Our opinion on the financial statements does not cover the other information and we do 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 the Report to Shareholders 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 William Cunningham.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Ontario
April 30, 2021

Consolidated Balance Sheet

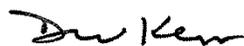
(thousands of Canadian dollars)	Note	December 31, 2020	December 31, 2019
ASSETS			
Cash		\$ 64	\$ 58
Loans and other receivables	4	21,629	30,235
Commercial properties	5	61,666	60,033
Forest properties	6	54,568	53,600
Residential properties	7	47,087	28,282
Corporate investments	8	35,171	33,941
Total Assets		\$ 220,185	\$ 206,149
LIABILITIES AND EQUITY			
Accounts payable and other	9	\$ 3,545	\$ 1,823
Bank loan	10	2,523	3,747
Mortgages payable	11	17,870	18,413
Other loans payable	12	50,000	50,000
Due to affiliates	13	30,720	21,192
Deferred taxes	14	5,007	5,473
		109,665	100,648
Equity			
Non-controlling shareholders' interest	15(a)	17,190	16,704
Common and convertible preferred equity	15(b)	93,330	78,797
Subordinated convertible capital notes	15(c)	-	10,000
Total equity		110,520	105,501
Total Liabilities and Equity		\$ 220,185	\$ 206,149

See accompanying notes.

Approved by the Board on April 30, 2021 and signed on its behalf by:



Heather M. Fitzpatrick
President



David W. Kerr
Chairman

Consolidated Statement of Net and Comprehensive Income

		Year ended December 31	
(thousands of Canadian dollars)	Note	2020	2019
REVENUES AND OTHER INCOME			
Commercial property revenue	5	\$ 3,708	\$ 3,834
Interest and other investment income		4,890	1,729
Forest properties	6	2,207	1,341
Equity accounted income	8	1,077	1,396
Fair value (loss) gain on commercial properties		(663)	5,174
		11,219	13,474
EXPENSES AND OTHER COSTS			
Commercial property operations		1,557	1,776
Interest		3,600	2,514
General and administrative		362	501
Income taxes (recovery) expense		(407)	1,610
		5,112	6,401
NET INCOME		\$ 6,107	\$ 7,073
Net income attributable to:			
Common shareholders		\$ 4,821	\$ 6,481
Preferred shareholders		800	-
Non-controlling interests		486	592
Total		\$ 6,107	\$ 7,073
Other comprehensive income		92	397
Comprehensive income		\$ 6,199	\$ 7,470
Net income per share:			
Basic	15	4.28 ¢	5.88 ¢
Diluted	15	3.63 ¢	5.20 ¢

See accompanying notes.

Consolidated Statement of Changes in Equity

	Common and Convertible Preferred Shares	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity Attributable to Shareholders of the Company	Non- Controlling Interests	Subordinated Convertible Capital Notes	Total Equity
<small>(thousands of Canadian dollars)</small>							
For the year ended December 31, 2020							
Balance, December 31, 2019	\$ 48,460	\$ 28,384	\$ 1,953	\$ 78,797	\$ 16,704	\$ 10,000	\$ 105,501
Issuance of common shares	10,000	-	-	10,000	-	(10,000)	-
Other comprehensive income	-	-	92	92	-	-	92
Capital notes interest	-	(500)	-	(500)	-	-	(500)
Preferred share dividends	-	(800)	-	(800)	-	-	(800)
Tax	-	132	(12)	120	-	-	120
Net income	-	5,621	-	5,621	486	-	6,107
Balance, December 31, 2020	\$ 58,460	\$ 32,837	\$ 2,033	\$ 93,330	\$ 17,190	\$ -	\$ 110,520

	Common and Convertible Preferred Shares	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity Attributable to Shareholders of the Company	Non- Controlling Interests	Subordinated Convertible Capital Notes	Total Equity
<small>(thousands of Canadian dollars)</small>							
For the year ended December 31, 2019							
Balance, December 31, 2018	\$ 28,460	\$ 22,266	\$ 1,556	\$ 52,282	\$ 16,112	\$ 10,000	\$ 78,394
Issuance of common shares	20,000	-	-	20,000	-	-	20,000
Other comprehensive income	-	-	397	397	-	-	397
Capital notes interest	-	(500)	-	(500)	-	-	(500)
Tax	-	137	-	137	-	-	137
Net income	-	6,481	-	6,481	592	-	7,073
Balance, December 31, 2019	\$ 48,460	\$ 28,384	\$ 1,953	\$ 78,797	\$ 16,704	\$ 10,000	\$ 105,501

See accompanying notes.

Consolidated Statement of Cash Flows

(thousands of Canadian dollars)	Year ended December 31	
	2020	2019
OPERATING		
Net income	\$ 6,107	\$ 7,073
Items not involving cash:		
Equity accounted income	(1,077)	(1,396)
Fair value adjustments	663	(5,174)
Fair value gains on forest properties	(189)	(562)
Deferred taxes	(407)	1,477
Changes in non-cash working capital and other	(3,962)	565
	1,135	1,983
FINANCING		
Bank loan	(1,224)	2,371
Mortgages payable	(543)	(487)
Issuance of shares	-	20,000
Due to affiliates	8,194	15,019
Preferred share dividends	(800)	-
Capital notes interest	(500)	(500)
	5,127	36,403
INVESTING		
Commercial properties, net	-	5,324
Residential properties advances	(19,632)	(17,621)
Residential properties repayments	2,209	120
Forest properties	(779)	(20,000)
Property loan advances	(11,494)	(6,190)
Property loan repayments	23,440	-
	(6,256)	(38,367)
Net cash flow	6	19
Cash, beginning of period	58	39
Cash, end of period	\$ 64	\$ 58
<i>Cash interest paid - \$5.2 million (2019 - \$6.2 million)</i>		
<i>Cash dividend received - \$0.8 million (2019 - 0.7 million)</i>		

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 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, 2021, 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 ventures 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 venture 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 discounted cash flow ("DCF") approach, based on future free cash flow, when determining the fair value of its commercial properties.

d) Financial Instruments

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

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

In accordance with IFRS 9 the Company's assets and financial liabilities are classified as amortized cost with the exception of forest properties which are classified as fair value through profit and loss (FVTPL) and corporate investments which are classified as fair value through other comprehensive income (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 on the ex-dividend date.

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

Notes to the Consolidated Financial Statements

f) Income taxes

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. Due to the novel Coronavirus (Covid-19) pandemic and the duration of the pandemic, it is difficult to predict the extent of economic uncertainty and measure the impact on future financial results.

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.

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 mortgages 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.

A 100 basis point increase or decrease in interest rate would impact interest expense by \$0.418 million and interest and other investment income by \$0.393 million.

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 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.

Notes to the Consolidated Financial Statements

4. LOANS AND OTHER RECEIVABLES

The Company's loans and other receivables include approximately \$16 million in secured mortgages, with maturities through to 2022, \$3 million of management share investments loans, which bear interest at the prime rate and are subject to renewal from time to time, and \$2.6 million in accounts receivable.

The Company's loans are structured to ensure they can be realized prior to their maturity dates to fund long-term investment opportunities as they arise.

Interest and other investment income include \$1.01 million of interest revenue from loans and other receivables which are classified at amortized cost.

5. COMMERCIAL PROPERTIES

The Company holds a 100% interest in four Toronto, Ontario commercial properties, and a 75% interest in the ground and second floor premises of a 47-storey residential complex. Total lease income from our operating leases totalled \$3.71 million (2019 - \$3.83 million), including \$1.21 million (2019 - \$1.33 million) of income related to variable lease income that is not dependent on an index or rate.

The property land lease, or right – of – use ("ROU") asset, is depreciated applying a straight-line method over the term of the lease to 2031. The corresponding lease liability was established using a 4% discount rate. Cash payments for the land leases during 2020 amounted to \$250,000.

The weighted average discount rate used in our valuations during 2020 was 5.38% and a weighted average terminal rate of 4.27%.

	December 31, 2020	December 31, 2019
(thousands)		
Balance, beginning of period	\$ 60,033	\$ 58,794
Property land lease	2,296	-
Additional net investment	-	(3,935)
Fair value adjustments	(663)	5,174
	\$ 61,666	\$ 60,033

The commercial property revenue is comprised of approximately 60 % base rent and 40 % variable lease payments for common area and property tax reimbursement. Minimum rental commitments under non-cancellable tenant operating lease are as follows: 2021 – \$2.10 million, 2022 – \$2.10 million, 2023 – \$1.94 million, 2024 - \$1.90 million, 2025 - \$1.94 million, thereafter – \$10.03 million.

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, and a \$20 million convertible preferred share investment in Macer Forest Holdings Inc. During the year, the Company received dividend income of \$2 million.

	December 31, 2020	December 31, 2019
(thousands)		
Balance, beginning of period	\$ 53,600	\$ 33,037
Additional investment	779	20,000
Fair value adjustments	189	562
	\$ 54,568	\$ 53,600

7. RESIDENTIAL PROPERTIES

Residential properties include construction loans to, and a 60% limited net profit partnership interest in, a residential development project in Huntsville, Ontario. Three of twenty planned residential condominium buildings were completed in 2020.

The Company accounts for its joint venture limited partnership interest using the equity method of accounting, initially recognised at cost. Assets and liabilities in the joint venture are approximately \$47 million, revenue and expenses were approximately \$17.4 million for the year ended December 31, 2020.

The Company has outstanding letters of credit amounting to approximately \$1 million relating to a residential development project.

Notes to the Consolidated Financial Statements

8. CORPORATE INVESTMENTS

The Company holds, directly and indirectly, investment interests in Brookfield Asset Management, Trisura Group Ltd. and other corporations with real estate and related infrastructure interests. Corporate investments include assets carried at fair value of \$1.6 million and equity accounted investment of \$35.1 million. Changes in the carrying amounts of these investments are as follows:

	December 31, 2020	December 31, 2019
(thousands)		
Balance, beginning of period	\$ 33,941	\$ 32,147
Adjustment	61	-
Other comprehensive income	92	398
Equity accounted income	1,077	1,396
Balance, end of period	35,171	33,941
Non-controlling interests	17,190	16,704
Company's net investment	\$ 17,981	\$ 17,237

9. ACCOUNTS PAYABLE AND OTHER

Accounts payable include a \$2.3 million land lease liability related to a commercial property.

10. BANK LOAN

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

11. MORTGAGES PAYABLE

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

	Maturity Date	Interest Rate	December 31, 2020	December 31, 2019
(thousands)				
22 College Street	August 1, 2022	2.79%	\$ 8,714	\$ 9,120
401 Yonge Street	May 1, 2028	3.95%	9,156	9,293
			\$ 17,870	\$ 18,413

12. OTHER LOANS PAYABLE

	Maturity Date	Interest Rate	December 31, 2020	December 31, 2019
(thousands)				
Secured Loans	January 1, 2022	prime + 0.5%	\$ 15,000	\$ 15,000
	March 31, 2022	4.00%	10,000	10,000
Senior Debentures	December 31, 2028	4.50%	25,000	25,000
			\$ 50,000	\$ 50,000

Secured lenders have the option to secure their loan interests with a first charge on certain assets of the company.

13. DUE TO AFFILIATES

The Company has available a \$40 million credit facility from an affiliate which bears interest at the prime rate plus 0.5%, is unsecured and due on ten days written notice or after September 30, 2022.

An affiliate holds \$5 million of the Company's senior debentures.

Notes to the Consolidated Financial Statements

14. INCOME TAXES

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

	December 31, 2020	December 31, 2019
(thousands)		
Tax at statutory rates on accounting income before provision	26.50%	26.50%
Portion of gain subject to different tax rates	(13.11)	(6.12)
Convertible note and other	(20.54)	(1.88)
	-7.15%	18.50%

Deferred tax liabilities principally arise on commercial properties - \$2.6 million, corporate investments - \$1.5 million, forest properties - \$0.6 million and residential properties - \$0.3 million.

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, 2020	December 31, 2019
(thousands)		
Preferred shares	\$ 8,000	\$ 8,000
Common shares	9,190	8,704
	\$ 17,190	\$ 16,704

b) Common and Convertible Preferred Equity

The Company's common and preferred equity is comprised as follows:

	December 31, 2020	December 31, 2019
(thousands)		
Class B convertible preferred shares	\$ 20,000	\$ 20,000
Class A voting & Class B non-voting common shares	73,330	58,797
	\$ 93,330	\$ 78,797

The Company is authorized to issue an unlimited number of preferred and common shares with no stated par value. Issued and outstanding shares as of December 31, 2020 were comprised of 83,940,000 Class A voting common, 40,000,000 Class B non-voting common and 20,000,000 Class B convertible preferred shares.

The Company's issued \$20,000,000 convertible preferred shares bear a 4% annual dividend and are convertible into 30,769,230 Class B non-voting common shares on or before December 31, 2024.

c) Subordinated Convertible Capital Notes

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.

Notes to the Consolidated Financial Statements

16. BASIC AND DILUTED EARNINGS PER COMMON SHARE

	December 31, 2020	December 31, 2019
(thousands, except per share amounts)		
Net income available to common shareholders - basic	\$ 4,453 *	\$ 6,113
Weighted average number of Common Shares issued	103,995	103,940
Basic earnings per Common Share	4.28 ¢	5.88 ¢
Net income available to common shareholders - diluted	\$ 5,621	\$ 6,481
Weighted average number of Common Shares issued plus dilution	154,764	124,614
Diluted earnings per Common Share	3.63 ¢	5.20 ¢

* Reflects a reduction for Capital Notes interest after tax

17. OTHER INFORMATION

a) Related Party Transactions

Related parties include subsidiaries, associates, joint ventures and key management personnel who have the authority and responsibility for planning and directing the Company's activities. The Company's directors provide oversight over the business and do not plan, direct, or control the activities of the Company directly.

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.

Associates include Brookfield Asset Management and Acadian Timber Corp.

The remuneration for key management personnel of the Company during the year totaled \$150,000.

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 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.

The following table presents the contractual maturities of the Company's financial liabilities at December 31, 2020:

Years	1 to 3			4 to 5		Thereafter	Total
(thousands)							
Bank Loan	\$	2,523	\$	-	\$	-	\$ 2,523
Mortgages payable	\$	8,714	\$	-	\$	9,156	\$ 17,870
Other loans payable	\$	25,000	\$	-	\$	25,000	\$ 50,000

d) Capital Management

The permanent capital available to pursue the Company's operations as at December 31, 2020 was \$ 110.5 million (December 31, 2019 – \$105.5 million) comprised of \$ 93.3 million (2019 – \$78.9 million) attributable to shareholders of the Company, \$17.2 million (2019 – \$16.6 million) attributable to non-controlling interests and \$nil (2019 – \$10.0 million) in respect of subordinated convertible capital notes which were redeemed during the year.

The Company's objectives when managing its capital are to maintain a sufficient amount of capital to support its operations and to enable it to respond to attractive investment opportunities should they arise. The Company is in compliance with all covenants and other capital requirements arising from the regulatory or contractual obligations of material consequence to the Company. There were no changes in the Company's approach to capital management during the year.

HALMONT PROPERTIES **CORPORATION**

DIRECTORS

Claude A. Doughty
Huntsville, ON

Heather M. Fitzpatrick, CPA
Toronto, ON

Randal L. Froebelius, P. Eng.
Toronto, ON

M. Diane Horton *
Toronto, ON

David W. Kerr *
Toronto, ON

Timothy R. Price*
Toronto, ON

** Members of the Audit & Corporate Governance Committee*

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

Euan J. Darling
Chief Investment Officer

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

51 Yonge Street, Suite 400
Toronto, ON M5E 1J1
(HMT.V)