

# Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") of Halmont Properties Corporation ("Halmont", the "Company", or "we") is intended to provide an assessment of the Company's performance for the nine months ended September 30, 2022, and the comparable period in the prior year, as well as provide information on our financial position and other relevant matters. This MD&A should be read in conjunction with the unaudited consolidated financial statements and related notes as of September 30, 2022.

## OVERVIEW OF THE BUSINESS

The Company invests directly and indirectly in real assets, including commercial, forest, and residential properties. The Company's principal areas of investment and the proportion of the Company's invested capital are as follows:

	Assets		Revenue and Other Income	
(thousands)				
Commercial Properties	\$ 45,741	20%	\$ 12,053	64%
Forest Properties	55,787	25%	1,757	9%
Residential Properties	16,357	7%	620	3%
Corporate Investments	36,223	16%	1,048	6%
Property Loans and Other	70,293	32%	3,296	18%
	\$ 224,401	100%	\$ 18,774	100%

### Commercial Properties

Halmont's directly owned commercial real estate assets, which represented approximately 20% of the Company's total assets as at September 30, 2022, comprised four heritage commercial buildings.

Property		Year Acquired	Interest	Assets
(thousands)				
51 Yonge Street	Toronto	2006	100%	\$ 6,300
22 College Street	Toronto	2017	100%	23,500
221 Yonge Street	Toronto	2018	100%	8,376
321 Lakeshore Road	Oakville	2021	100%	7,565
				\$ 45,741

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.

### Forest Properties

The Company's investment in forest properties is comprised of a 40% equity interest in Haliburton Forest & Wild Life Reserve Ltd. ("Haliburton Forest"), and a \$20 million preferred share convertible into common shares of Acadian Timber Corp. These investments represent approximately 25% of the Company's total assets. As opportunities arise, we expect to increase our investment in the forest sector.

Haliburton Forest is managed and harvested sustainably, according to 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 biochar production for industrial and agricultural uses.

### Residential Properties

The Company has a 60% net profit partnership interest in waterfront land in Huntsville, Ontario, which was acquired in return for providing construction financing for the development of a series of residential condominium buildings.

The risks associated with the development of the lands have been substantially mitigated by subdividing the property into several distinct parcels. On each parcel, separate residential projects will be built on a phased basis after achieving targeted pre-sale levels or sold in an orderly manner to other property developers. Phase 1 of the development was completed in 2021.

### Corporate Investments

The Company, through a subsidiary, holds an indirect interest in corporations providing investment management services principally in the property and infrastructure sectors. After deducting \$22.3 million of non-recourse participating preferred share equity interests, Halmont's net effective investment in these entities represents approximately 6% of its total assets.

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 and provide access to business relationships that 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 equity interests in determining their realizable values.

### Property Loans and Other Receivables

The Company's property loans and other receivables include approximately \$42 million of secured participating mortgages, with maturities through to 2025. These loans are structured to ensure they can be realized prior to their maturity dates to fund long-term investment opportunities as they arise. Property loans and other receivables represent approximately 32% of the Company's total assets.

## CONSOLIDATED OPERATING RESULTS

The Company reported net income of \$11,196,000 for the nine months ended September 30, 2022, compared with \$2,877,000 for the same period in the preceding year. Net income attributable to common shareholders increased to \$10,012,000 compared to \$1,887,000 in 2021.

Revenue for the nine months ended September 30, 2022, increased compared with the same period in the previous year principally due to a gain realized on the sale of a commercial property and higher interest earned on property loan advances.

The Company's financial results have been prepared in accordance with International Financial Reporting Standards. As a result, all inter-company transactions and balances have been eliminated on consolidation.

## LIQUIDITY AND CAPITAL RESOURCES

The Company has undrawn revolving credit facilities with an affiliate and commercial banks totaling \$90.5 million. In addition, loans and mortgages receivable in the amount of approximately \$42 million can be liquidated in the short term to raise cash if necessary.

## SUMMARY FINANCIAL INFORMATION

(thousands)	Nine months ended September 30,		Year ended December 31,		
	2022	2021	2021	2020	2019
Total assets	\$ 224,401	\$ 237,055	\$ 265,821	\$ 220,185	\$ 206,149
Total revenue	18,774	7,078	13,492	11,219	13,474
Net income to common shareholders	10,012	1,887	5,899	4,821	6,481

The following table summarizes selected consolidated financial information for the eight most recently completed quarters:

(thousands)	2022				2021			2020
	Sept	Jun	Mar	Dec	Sept	Jun	Mar	Dec
Total revenue	\$ 3,246	\$ 13,689	\$ 2,993	\$ 6,414	\$ 2,724	\$ 2,201	\$ 2,153	\$ 4,333
Net income to common shareholders	669	8,457	886	4,012	484	781	622	2,377

## **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.

## **EQUITY**

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

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

On December 31, 2021, the Company issued \$25,000,000 Series II subordinated convertible capital notes, which are convertible by the holders of the Company into 31,250,000 Class B non-voting common shares.

## **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 interim period ended September 30, 2022. No changes were made in internal controls over financial reporting during the interim period ended September 30, 2022, 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 agreed-upon exchange amounts between the parties.

## **REVIEW OF THE INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited consolidated financial statements of the Company for the nine months ended September 30, 2022, have been prepared by and are the responsibility of the Company's management.

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

November 23, 2022