

HALMONT PROPERTIES
CORPORATION

Year ended December 31, 2021

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, 2021, increased to \$7,252,000 compared to \$6,107,000 in 2020. Net income attributable to common shareholders in 2021 increased to \$5,899,000 compared to \$4,821,000 in 2020.

Investment initiatives undertaken during 2021 included the purchase of a commercial property located at 321 Lakeshore Road for approximately \$7.6 million, the investment of \$61.0 million in property loans, and the issuance of \$25.0 million Convertible Capital Notes.

The capital note issuance mentioned above, together with earnings for the year increased our fully diluted equity base by 33% to \$146.3 million, representing 64¢ per common share compared to 60¢ in 2020, assuming conversion of the outstanding preferred shares and capital notes.

With respect to the impact of COVID – 19, our businesses have overall performed well, with the exception of rental revenues related to our commercial properties. Initiatives have been undertaken to mitigate the loss of rental revenues.

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 the net realizable value of the Company's assets. 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

April 20, 2022

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") of Halmont Properties Corporation ("Halmont", or the "Company") is intended to provide an assessment of the Company's performance for the year ended December 31, 2021, 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 December 31, 2021.

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	\$	74,031	28%	\$ 7,618	56%
Forest Properties		55,575	21%	2,248	17%
Residential Properties		19,640	7%	768	6%
Corporate Investments		35,393	13%	1,002	7%
Property Loans and Other		81,182	31%	1,856	14%
	\$	265,821	100%	\$ 13,492	100%

Commercial Properties

Halmont's directly owned commercial real estate assets, which represented approximately 28% of the Company's total assets as at December 31, 2021, comprised six heritage commercial buildings and a 75% interest in the ground and second floor premises of a residential condominium complex located at 224 King Street West, which was sold subsequent to the year end for a gross total of \$8.4 million.

Property		Year Acquired	Interest	Assets
(thousands)				
51 Yonge Street	Toronto	2006	100%	\$ 6,300
224 King Street West	Toronto	2016	75%	7,800
22 College Street	Toronto	2017	100%	23,500
221 Yonge Street	Toronto	2018	100%	8,496
401 Yonge Street	Toronto	2019	100%	20,370
321 Lakeshore Road East	Oakville	2021	100%	7,565
				\$ 74,031

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 investments in forest properties is comprised of a 40% equity interest in Haliburton Forest & Wildlife Reserve Limited ("Haliburton Forest"), as well as a \$20.0 million convertible preferred share equity interest in Macer Forest Holdings Inc. In aggregate, these investments represent approximately 21% of the Company's total assets. Haliburton Forest benefited during the year from the acquisition of a hardwood sawmill acquired in late 2020, together with harvesting rights on one million acres of Crown Lands. We expect to increase our investment in the forest sector as 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% 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 planned buildings have been completed with the registration and handover of the properties to the condo corporation, resulting in the Company receiving \$34.9 million on closing during the first two quarters of 2021.

The risks associated with the development of the Grandview Resort property have been substantially mitigated by subdividing the lands into several distinct parcels on which separate residential condominium projects will be built on a phased basis after achieving targeted pre-sale levels, or sold in an orderly manner to other property developers.

Corporate Investments

The Company, through a subsidiary, holds an indirect interest in corporations owning and providing investment management services principally in the property and infrastructure sectors. After deducting \$21.7 million of non-recourse participating preferred share equity interests, Halmont's net effective investment in these entities represents approximately 5% 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, 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.

Property Loans and Other Receivables

The Company's property loans and other receivables include approximately \$61.0 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.

CONSOLIDATED OPERATING RESULTS

The Company reported net income of \$7,252,000 for the year ended December 31, 2021, compared with \$6,107,000 for the same period in the preceding year. Net income attributable to common shareholders increased to \$5,899,000 compared to \$4,821,000 in 2020. Revenue for the year ended December 31, 2021, increased compared with the same period in the previous year due principally to the additional capital invested in 2021 in commercial properties, a fair value gain from the sale of a property, and property loan participations. Expenses increased compared with the previous year principally due to the addition of a commercial property. 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 revolving credit facilities with an affiliate and commercial bank totaling \$70.0 million. In addition, loans and mortgages receivable in the amount of approximately \$61 million can be liquidated in the short term to raise cash if necessary.

SUMMARY FINANCIAL INFORMATION

	Year ended Dec. 31, 2021	Year ended Dec. 31, 2020	Year ended Dec. 31, 2019	Year ended Dec. 31, 2018
(thousands)				
Total assets	\$ 265,821	\$ 220,185	\$ 206,149	\$ 157,072
Total revenues	13,492	11,219	13,474	7,808
Net income to common shareholders	5,899	4,821	6,481	2,885

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 or 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 year ended December 31, 2021. No changes were made in internal controls over financial reporting during the year ended December 31, 2021, 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, 2021 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 20, 2022

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 sheets as at December 31, 2021 and 2020, and the consolidated statements of net 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, 2021 and 2020, 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 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 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 Keith M. Pennells.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Ontario
April 20, 2022

Consolidated Balance Sheet

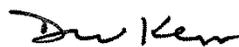
(thousands of Canadian dollars)	Note	December 31, 2021	December 31, 2020
ASSETS			
Cash		\$ 87	\$ 64
Property loans and other receivables	4	81,095	21,629
Commercial properties	5	74,031	61,666
Forest properties	6	55,575	54,568
Residential properties	7	19,640	47,087
Corporate investments	8	35,393	35,171
Total Assets		\$ 265,821	\$ 220,185
LIABILITIES AND EQUITY			
Accounts payable and other	9	\$ 3,422	\$ 3,545
Bank loan	10	14	2,523
Mortgages payable	11	17,310	17,870
Other loans payable	12	50,000	50,000
Due to affiliates	13	42,758	30,720
Deferred taxes	14	5,993	5,007
		119,497	109,665
Equity			
Non-controlling shareholders' interest	15(a)	21,743	17,190
Common and convertible preferred equity	15(b)	99,581	93,330
Subordinated convertible capital notes	15(c)	25,000	-
		146,324	110,520
Total Liabilities and Equity		\$ 265,821	\$ 220,185

See accompanying notes.

Approved by the Board on April 20, 2022, 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, except per share amount)	Note	2021	2020
REVENUE AND OTHER INCOME			
Commercial property revenue		\$ 3,442	\$ 3,708
Interest and other income		3,072	4,890
Forest properties	6	2,248	2,207
Equity accounted income	8	1,002	1,077
Fair value changes		3,728	(663)
		13,492	11,219
EXPENSES AND OTHER COSTS			
Commercial property operations		1,503	1,557
Interest		3,452	3,600
General and administrative		351	362
Income taxes expense (recovery)		934	(407)
		6,240	5,112
NET INCOME		\$ 7,252	\$ 6,107
Net income attributable to:			
Common shareholders		\$ 5,899	\$ 4,821
Preferred shareholders		800	800
Non-controlling interests		553	486
Total		\$ 7,252	\$ 6,107
Other comprehensive income		404	92
Comprehensive income		\$ 7,656	\$ 6,199
Net income per share:			
Basic	16	4.76 ¢	4.28 ¢
Diluted	16	4.33 ¢	3.63 ¢

See accompanying notes.

Consolidated Statement of Changes in Equity

<small>(thousands of Canadian dollars)</small>	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
For the year ended December 31, 2021							
Balance, December 31, 2020	\$ 58,460	\$ 32,837	\$ 2,033	\$ 93,330	\$ 17,190	\$ -	\$ 110,520
Issuance of capital notes	-	-	-	-	-	25,000	25,000
Other comprehensive income	-	-	404	404	-	-	404
Gain on corporate investments	-	584	(584)	-	-	-	-
Non- controlling interest	-	-	-	-	4,000	-	4,000
Preferred share dividends	-	(800)	-	(800)	-	-	(800)
Tax	-	(77)	25	(52)	-	-	(52)
Net income	-	6,699	-	6,699	553	-	7,252
Balance, December 31, 2021	\$ 58,460	\$ 39,243	\$ 1,878	\$ 99,581	\$ 21,743	\$ 25,000	\$ 146,324

<small>(thousands of Canadian dollars)</small>	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
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

See accompanying notes.

Consolidated Statement of Cash Flows

(thousands of Canadian dollars)	Year ended December 31,	
	2021	2020
OPERATING		
Net income	\$ 7,252	\$ 6,107
Items not involving cash:		
Equity accounted income	(1,002)	(1,077)
Fair value adjustments	(4,037)	663
Fair value gains on forest properties	(188)	(189)
Deferred taxes	934	(407)
Changes in non-cash working capital and other	(973)	(3,962)
	1,986	1,135
FINANCING		
Bank loan	(2,509)	(1,224)
Mortgages payable	(560)	(543)
Due to affiliates	10,842	8,194
Preferred share dividends	(800)	(800)
Non-controlling interest	4,000	-
Subordinated convertible capital notes	25,000	-
Capital notes interest	-	(500)
	35,973	5,127
INVESTING		
Forest properties investment	(819)	(779)
Commercial properties investment	(7,565)	-
Corporate investments	1,184	-
Other investments	(9,674)	-
Residential property loan advances	(7,005)	(19,632)
Residential property loan repayments	35,220	2,209
Property loan advances	(55,729)	(11,494)
Property loan repayments	6,452	23,440
	(37,936)	(6,256)
Net cash flow	23	6
Cash, beginning of year	64	58
Cash, end of year	\$ 87	\$ 64
Supplemental cash flow disclosures		
Dividends received	\$ 2,060	\$ 780
Interest paid	3,424	5,157

See accompanying notes.

Notes to the Consolidated Financial Statements

1. CORPORATE INFORMATION

Halmont Properties Corporation (“Halmont”, or the “Company”) is incorporated and domiciled in Canada. The Company invests in commercial, forest, and residential properties. 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 20, 2022, 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 power over the investee, with the ability to use its power to affect the amount of returns. Non-controlling interests in the equity of the Company’s subsidiaries are included in equity.
- (ii) 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.
- (iii) 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.

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 generally using the discounted cash flow approach, based on future free cash flow, when determining the fair value of its commercial properties.

d) Financial Instruments

The Company classifies its financial assets and liabilities as either fair value through profit and loss (FVTPL), fair value through other comprehensive income (FVTOCI), or as amortized cost based on the Company’s business objectives and contractual characteristics of the financial instrument.

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

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

In accordance with IFRS 9 the Company’s financial liabilities are classified as amortized cost. The Company’s financial assets are classified as follows: property loans and other receivables – amortized cost/FVTPL, forest properties – FVTPL, and corporate investments – FVTOCI.

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.

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.

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 \$0.258 million and interest and other income by \$0.256 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.

4. PROPERTY LOANS AND OTHER RECEIVABLES

The Company's property loans and other receivables include approximately \$61.0 million (2020 - \$16.0 million) in secured mortgages, with maturities through to 2025, \$9.5 million of management share purchase loans (2020- \$3.0 million) secured by convertible preferred shares and subordinated capital notes, which bear interest at the prime rate and are subject to renewal from time to time, and \$1.4 million (2020- \$2.6 million) in accounts receivable.

Also included, is a \$2.2 million investment in a third-party managed investment fund and a \$7.0 million investment in a property fund, which invests in property storage facilities across Canada. The Company has committed up to \$10.0 million in the third-party managed investment and up to \$15.0 million in the property fund.

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 income include \$3.1 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 five commercial properties, and a 75.0% interest in the ground and second floor premises of a 47-storey residential complex, which was sold subsequent to the fourth quarter for a gross sale price of \$8.4 million of which \$7.8 million is attributable to the Company.

	December 31, 2021	December 31, 2020
(thousands)		
Balance, beginning of year	\$ 61,666	\$ 60,033
Additional investment	7,565	-
Property land lease and capital investments	470	2,296
Fair value adjustments	4,330	(663)
	\$ 74,031	\$ 61,666

Lease income from operating leases totalled \$3.4 million (2020 - \$3.7 million), including \$1.5 million (2020 - \$1.2 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 asset, is amortized applying a straight-line method over the term of the lease to 2033. The corresponding lease liability was established using a 4.0% discount rate. Cash payments for the land leases during 2021 amounted to \$250,000. Commercial properties include properties with a fair value of \$6.2 million held under land lease.

The weighted average discount rate in our valuations during 2021 was 5.35% (2020 – 5.38%) and the weighted average terminal rate is 4.38% (2020 – 4.27%). The sensitivity to changes in the discount and terminal capitalization rate by 25 basis points is \$3.1 million.

The commercial property revenue is comprised of approximately 60.0% base rent and 40.0% variable lease payments for common area and property tax reimbursement. Minimum base rental commitments under non-cancellable tenant operating leases are as follows: 2022 - \$2.59 million, 2023 - \$2.69 million, 2024 - \$2.60 million, 2025 - \$2.64 million, 2026 - \$2.69 million, thereafter - \$12.31 million.

6. FOREST PROPERTIES

The Company's investments in forest properties are comprised of a 40.0% equity interest in the common and participating preferred shares in Haliburton Forest, and a \$20.0 million convertible preferred share investment in Macer Forest Holdings Inc, which has a 45% investment in Acadian Timber Corp. During the year, the Company received dividend income of \$2.1 million (2020 - \$2.0 million).

	December 31, 2021	December 31, 2020
(thousands)		
Balance, beginning of year	\$ 54,568	\$ 53,600
Additional investment	819	779
Fair value adjustments	188	189
	\$ 55,575	\$ 54,568

7. RESIDENTIAL PROPERTIES

Residential properties include construction loans to, and a 60% net profit partnership interest in, a residential development project in Huntsville, Ontario. The Company accounts for its joint venture partnership interest using the equity method of accounting, initially recognised at cost. Assets and liabilities in the joint venture were approximately \$19.6 million, revenue was \$35.2 million, and expenses were approximately \$7.7 million for the year ended December 31, 2021.

The Company has outstanding letters of credit amounting to approximately \$1.0 million relating to a residential development project.

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 marketable securities carried at fair value of \$0.8 million and equity accounted investments of \$34.5 million. Changes in the carrying amounts of these investments are as follows:

	December 31, 2021	December 31, 2020
(thousands)		
Balance, beginning of year	\$ 35,171	\$ 33,941
Investments sold	(1,184)	-
Other comprehensive income	404	153
Equity accounted income	1,002	1,077
Balance, end of period	35,393	35,171
Non-controlling interest	21,743	17,190
Company's net investments	\$ 13,650	\$ 17,981

9. ACCOUNTS PAYABLE AND OTHER

Accounts payable include a \$2.3 million land lease liability related an office building owned by the Company, with the corresponding right of use asset recorded in commercial properties.

10. BANK LOAN

The Company has a \$10.0 million operating loan facility from a Canadian Chartered Bank. The amount drawn on the facility at year end was \$0.014 million (2020 - \$2.5 million).

11. MORTGAGES PAYABLE

The Company's mortgage indebtedness secured by commercial properties are as follows:

	Maturity Date	Interest Rate	December 31, 2021	December 31, 2020
(thousands)				
22 College Street	August 1, 2022	2.79%	\$ 8,297	\$ 8,714
401 Yonge Street	May 1, 2028	3.95%	9,013	9,156
			\$ 17,310	\$ 17,870

12. OTHER LOANS PAYABLE

	Maturity Date	Interest Rate	December 31, 2021	December 31, 2020
(thousands)				
Secured loans	January 1, 2025	prime + 0.5%	\$ 15,000	\$ 15,000
	January 1, 2025	4.00%	10,000	10,000
Senior debentures	December 31, 2028	4.50%	25,000	25,000
			\$ 50,000	\$ 50,000

Holders of the senior debentures have the right to secure their loan interests with a first charge on certain assets of the Company.

13. DUE TO AFFILIATES

The Company has available a \$60.0 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, 2023. The amount drawn on the facility at year end was \$42.8 million (2020 - \$30.7 million).

An affiliate holds \$5.0 million of the Company's senior debentures and \$3.5 million of the Company's Series II convertible capital notes.

14. INCOME TAXES

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

	December 31, 2021	December 31, 2020
(thousands)		
Tax at statutory rates on accounting income before provision	26.50 %	26.50 %
Portion of gain subject to different tax	(13.68)	(13.11)
Other	(1.40)	(20.54)
	11.42 %	(7.15) %

Deferred tax liabilities are principally related to the Company's commercial properties - \$3.4 million, corporate investments - \$1.6 million, forest properties - \$0.6 million and residential properties - \$nil.

15. EQUITY

a) Non-controlling Interests

This amount includes preferred shares and a 33.0% common share equity interest held by other shareholders in a subsidiary through which the Company holds its corporate investments.

	December 31, 2021	December 31, 2020
(thousands)		
Preferred shares	\$ 12,000	\$ 8,000
Common shares	9,743	9,190
	\$ 21,743	\$ 17,190

b) Common and Convertible Preferred Equity

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

	December 31, 2021	December 31, 2020
(thousands)		
Class B convertible preferred shares	\$ 20,000	\$ 20,000
Class A voting & Class B non-voting common shares	79,581	73,330
	\$ 99,581	\$ 93,330

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, 2021, were comprised of 83,940,000 Class A voting common, 40,000,000 Class B non-voting common and \$20,000,000 convertible preferred shares.

The Company's \$20,000,000 convertible preferred shares bear a 4.0% annual dividend and are convertible into 30,769,230 Class B non-voting common shares on or before December 31, 2024.

c) Series II Convertible Capital Notes

On December 31, 2021, the Company issues \$25,000,000 Series II convertible capital notes. The capital notes bear interest at 4.0% per annum payable annually, with an interest rate reset every five years commencing December 31, 2026.

The capital notes mature on December 31, 2081, and are redeemable by the Company after December 31, 2026, at their subordinated note together with accrued and unpaid interest.

Upon non-payment of interest or principal when due, the capital notes are convertible at Halmont's discretion into Class B non-voting common shares.

16. BASIC AND DILUTED EARNINGS PER COMMON SHARE

	December 31, 2021	December 31, 2020
(thousands, except per share amounts)		
Net income available to common shareholders - basic	\$ 5,899	\$ 4,453 *
Weighted average number of Common Shares issued	123,940	103,940
Basic earnings per Common Share	4.76 ¢	4.28 ¢
Net income available to common shareholders - diluted	\$ 6,699	\$ 5,621
Weighted average number of Common Shares issued plus dilution	154,795	154,764
Diluted earnings per Common Share	4.33 ¢	3.63 ¢

*reflects 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.

The Company has investments in Brookfield Asset Management, Acadian Timber Corp and Haliburton Forest and Wild Life Reserve Ltd.

The remuneration of key management personnel of the Company during the year totaled \$250,000.

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

All of the Company's 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, 2021:

	1 to 3	4 to 5	Thereafter	Total
(thousands)				
Bank loan	\$ 14	\$ -	\$ -	\$ 14
Mortgages payable	8,297	-	9,013	17,310
Other loans payable	-	25,000	25,000	50,000
	\$ 8,311	\$ 25,000	\$ 34,013	\$ 67,324

d) Capital Management

The permanent capital available to pursue the Company's operations as at December 31, 2021 was \$146.3 million (December 31, 2020 – \$110.5 million) comprised of \$99.6 million (2020 – \$93.3 million) attributable to shareholders of the Company, \$21.7 million (2020 – \$17.2 million) attributable to non-controlling interests and \$25 million (2020 - \$nil) attributable to Series II Subordinated Capital Notes.

The Company's objectives when managing its capital are to maintain a sufficient capital to support its operations and to enable it to respond to 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.

18. SUBSEQUENT EVENT

Subsequent to December 31, 2021, the Company sold its 224 King Street property for a total value of \$8.4 million. The Company has also entered into a conditional sale contract and an option contract on two other commercial buildings.

HALMONT PROPERTIES **CORPORATION**

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**Members of the Audit and Corporate Governance Committee*

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Heather M. Fitzpatrick, CPA

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