

Report to Shareholders

Net income for the year ended December 31, 2022 amounted to \$10,670,000 compared to \$7,252,000 in 2021.

Net income attributable to shareholders in 2022 increased to \$9,572,000 compared to \$7,103,000 in 2021.

Given the deterioration over the past two years in the outlook for low-rise commercial office space, we completed the sale of a third office property in 2022. We have also entered into a sale agreement to sell a fourth property, which is currently scheduled to close in December 2023.

The completion of these property sales will generate approximately \$80 million of capital, which we plan to invest in the forestry sector and defer further investment in commercial office properties until they become available at meaningful discounts to their replacement cost, or are subject to inflation or other attractive lease step-ups.

Fortunately, at the current time we are uniquely positioned to increase our investments in the forestry sector by subscribing for additional shares of Haliburton Forest, which owns and manages approximately 250,000 acres of unencumbered freehold timberlands in Ontario. Halmont also holds a 7% toe-hold investment in Acadian Timber Corp., the owner of approximately 1,100,000 acres of forest lands in New Brunswick and Maine. Together, these companies manage over 3,000,000 acres of Crown Forest.

In addition to its freehold timberlands, Haliburton Forest recently completed the purchase of a fourth sawmill in Ontario, thereby increasing its annual hardwood lumber production capacity fivefold compared to five years ago. Haliburton Forest is also currently in the process of commissioning its biochar production facility, which will consume low-value forest residuals produced by its sawmills.

Investments in freehold timberlands generally increase in value over time through silviculture, forest-improvement harvests, and infrastructure improvements, and directly benefits from commercial and residential developments around their peripheries. Prices of freehold timberlands also tend to track inflation on a lagged basis.

More recently, the value of freehold timberlands has been positively impacted by the recognition of their potential to generate carbon credits through enhanced forest management practices. Haliburton Forest and Acadian Timber Corp. are largely environmentally unencumbered and have long histories of improvement-focused sustainable forest management, providing optionality with respect to the development of carbon credits for voluntary or compliance markets in the future.

Neither the forestry sector nor the commercial property investment opportunities referred to above are expected to detract from our efforts to expand our property financing and advisory services. Halmont's higher earnings and solid capital base, together with its access to diversified sources of medium-term financing, provide ample capital to pursue these activities.

The fully diluted book value of Halmont's common shares, assuming the conversion of our capital notes and convertible preferred shares, increased to 71¢ per common share from 64¢ in December 2021. The rebalancing of our investment profile outlined above is expected to strengthen our future ability to continue to grow the value of Halmont's common shares, notwithstanding the current economic outlook.

In accordance with IFRS accounting principles, our real estate and other investments are revalued at the end of each year, taking into account available market information and the terms of our partnership agreements. As a result, the book value of Halmont's common shares approximates the net realizable value of its assets. Therefore, should these 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

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") of Halmont Properties Corporation ("Halmont", the "Company", or "we", or "our", or "its") is intended to provide an assessment of the Company's performance for the year ended December 31, 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 audited consolidated financial statements and related notes for the year ended December 31, 2022.

OVERVIEW OF THE BUSINESS

Halmont invests directly and indirectly in two distinct real asset investment categories:

- Real Estate Sector: Low-rise office, retail, residential, and industrial properties.
- Forestry Sector: Freehold timberlands and related manufacturing facilities.

In addition, Halmont also provides financing and property advisory services to client companies.

The total capital invested in each of our three principal areas of business was as follows at the end of the year:

FOR THE YEARS ENDED DEC. 31 (CAD \$ THOUSANDS)	2022	2021
Real Estate Properties		
– Office and retail properties	\$ 42,390	\$ 74,031
– Residential and industrial properties	38,848	26,620
Forest Properties		
– Land holdings	24,012	23,575
– Plant and equipment	12,000	12,000
– Share investments	20,000	20,000
Property Financing and Advisory Service	50,014	74,202
Other Corporate Investments	36,768	35,393
	\$ 224,032	\$ 265,821

REAL ESTATE PROPERTIES

Office and Retail Properties

Halmont's directly owned commercial office and retail properties currently represent approximately 19% of the Company's assets and include the following:

- 51 Yonge Street, Toronto, ON, located in the financial district, was acquired in 2006 and currently has an appraised value of approximately \$5.3 million, not taking into account a \$12.8 million after-tax gain which will be realized on a sale expected to close in December 2023.

- 22 College Street, Toronto, ON, acquired in 2017 for \$19.5 million, is located in the discovery district and currently has an appraised value of approximately \$21.1 million.
- 221 Yonge Street, Toronto, ON, was acquired in 2018 for \$5.5 million; this leasehold property is located opposite the Toronto Eaton Centre and currently has an appraised value of approximately \$7.7 million.
- 321 Lakeshore Road, Oakville, ON, was acquired in 2021 for \$7.6 million and, after releasing, has an appraised value of approximately \$8.0 million.

Halmont's objective is to continually enhance the value of its commercial property portfolio by re-tenanting, upgrading their physical appearances, and exploring redevelopment opportunities in conjunction with neighbouring property owners to jointly achieve higher density on the combined land footprint.

Residential and Industrial Properties

Halmont's residential and industrial properties currently represent approximately 17% of the Company's assets and include the following:

- A 60% net profit partnership interest in the Grandview Estates residential land development project located in Huntsville, ON, of which 30 units have been built and sold, and 227 units are in an advanced planning stage.
- A 20% net profit interest in the Paisley land development project in Huntsville, ON, comprising an 84-acre subdivision for retail, commercial and residential uses.
- A \$22.0 million investment interest in a portfolio of property storage facilities across Canada, managed by MakeSpace Inc.
- A \$21.0 million investment interest in a high-rise residential project located in Bear Mountain on Victoria Island, B.C.

Halmont's objective is to continually increase the value of its residential and industrial properties by working with its partners to develop alternative future investment opportunities in these sectors.

FOREST SECTOR

Current Investments

Halmont's directly and indirectly owned investments in the forest sector currently represent 25% of the Company's assets and include the following:

- A 40% equity investment interest in Haliburton Forest & Wild Life Reserve ("Haliburton Forest"), which owns approximately 100,000 acres of predominantly hardwood freehold timberland in Haliburton County, ON, as well as four hardwood sawmills and a biochar production facility.
- An opportunity for Halmont to make an additional \$15.0 million equity investment in Haliburton Forest to enable it to exercise an option to acquire approximately 145,000 acres of predominantly softwood freehold timberland near Timmins, ON.
- A \$20.0 million preferred share, which is convertible into a 7% equity interest in Acadian Timber Corp., the owner of approximately 1,100,000 acres of freehold lands in the Province of New Brunswick and the State of Maine.

Freehold Timberlands

Halmont's objective is to derive attractive investment returns from its investments in freehold timberlands over the long term through the following principal sources:

- The normal course appreciation in land values commensurate with population growth, commercial and residential development, increased inflation, and diminishing supply of prime privately-owned accessible wilderness properties with waterfront features.
- The application of sustainable forest management, which improves forest quality and growth over time by prioritizing the removal of damaged, lower-quality trees in order to promote the growth of the most valuable and vigorous trees.
- Investments in long-life infrastructure, including the building of roads and bridges, which improves property access and provides optionality with respect to land leases, fee-based recreational services, property development, and forest harvesting.
- Realizing the highest and best use of waterfront features through short-term recreational lease contracts, property development, or the sale of such segments of the freehold timberlands at premium prices.
- The development of carbon credits for sale in voluntary or compliance markets, where such opportunities present superior long-term returns to timber-focused sustainable forest management operations.

Manufacturing Facilities

Halmont also seeks to increase investment returns from the operation of Haliburton Forest's four hardwood sawmills and the commissioning of its biochar production facility, which are expected to benefit from the ongoing decline of hardwood lumber manufacturing capacity across North America, increasing demand for hardwood products presented by domestic and international markets, as well as strong incentives to incorporate sustainable bioproducts such as biochar into advanced manufacturing processes.

PROPERTY FINANCING AND ADVISORY SERVICES

Halmont's property loans and other receivables, related to our property financing and advisory services include \$44.6 million of secured mortgages, with maturities through to 2025, and other receivables of \$6.0 million, which currently represent approximately 22% of the Company's assets.

Halmont's property loans are structured to ensure they can be monetized prior to their maturity dates to provide funding for long-term commercial property and forestry sector investment opportunities as they arise.

In addition to expeditiously completing its processing of loan applications, Halmont provides client companies with advice on project financing alternatives and provides participating subordinate loan facilities to fund budget overruns.

Halmont's objective is to seek third-party underwritings of its higher-risk loans, through the adjustment of a portion of the income earned. In addition, should a client experience difficulty executing its property development plans, Halmont is capable of interceding by assigning experienced individuals to stabilize and, if necessary, complete such projects.

OTHER CORPORATE INVESTMENTS

Halmont's holdings in other corporations currently represents approximately 16% of the Company's assets. Taking into account a \$22.6 million non-recourse participating preferred share issued by the subsidiary that holds these corporate investments, Halmont's net effective equity investment in these entities represents approximately 6% of its total assets.

The objective is to hold Halmont's corporate investments for the long term. In addition to generating a reliable source of income, they provide access to business relationships that assist in pursuing its principal investment activities. Halmont accounts for its 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.

CONSOLIDATED OPERATING RESULTS

The Company reported net income of \$10,670,000 for the year ended December 31, 2022, compared with \$7,252,000 for the same period in the preceding year. Net income attributable to shareholders increased to \$9,572,000 compared to \$7,103,000 in 2021.

Revenue for the year ended December 31, 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; partially offset by increased income tax expense and fair value losses on our commercial properties due to higher discount rates.

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.

SUMMARY FINANCIAL INFORMATION

FOR THE YEARS ENDED DEC. 31 (CAD\$ THOUSANDS)	2022	2021	2020	2019
Total assets	\$ 224,032	\$ 265,821	\$ 220,185	\$ 206,149
Total revenue	19,514	13,492	11,219	13,474
Net income to shareholders	9,572	5,899	4,821	6,481

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

FOR THE PERIODS ENDED (CAD\$ THOUSANDS)	2022				2021			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenue	\$ 740	\$ 2,092	\$ 13,689	\$ 2,993	\$ 6,414	\$ 2,724	\$ 2,201	\$ 2,153
Net income to common shareholders	(440)	669	8,457	886	4,012	484	781	622

EQUITY BASE

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 \$20.0 million convertible preferred shares are convertible into 30,769,230 Class B non-voting common shares on or before December 31, 2024.

On December 31, 2021, the Company issued \$25.0 million subordinated convertible capital notes, which are convertible by the holders into 31,250,000 Class B non-voting common shares.

The following table sets out the current issued and outstanding Class A and Class B non-voting common shares, together with the Class B non-voting common shares to be issued on the conversion of its capital notes and preferred shares, as at December 31, 2022.

(CAD\$ THOUSANDS)	Number of shares	Subscribed Value
Issued and Outstanding:		
– Class A common shares	# 83,940	\$ 59,371
– Class B common shares	40,000	28,292
	123,940	87,663
Issuance of Class B common shares on conversion of:		
– Series II subordinated capital notes	31,250	25,000
– Preferred shares	30,769	20,000
	62,019	45,000
Fully diluted Class A & B common shares	# 185,959	\$ 132,663

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, 2022. No changes were made in internal controls over financial reporting during the year ended December 31, 2022 that have materially affected, or are reasonably likely to affect, the internal controls over financial reporting.

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 Company has undrawn contractual revolving credit facilities with a commercial bank and an affiliate totaling \$63.0 million. In addition, loans and mortgages receivable in the amount of approximately \$44.6 million can be liquidated in the short term for re-investment in the Company's principal operations.

Related party transactions are conducted in the normal course of operations and are recorded at the agreed-upon exchange amounts between the parties.

REVIEW OF THE ANNUAL FINANCIAL STATEMENTS

The accompanying audited consolidated financial statements of the Company for the year ended December 31, 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 or may be obtained upon request from the Secretary of the Company at Suite 400 – 51 Yonge Street, Toronto, Ontario, M5E 1J1.

April 28, 2023