

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, 2023, 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, 2023.

OVERVIEW OF THE BUSINESS

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

- Real Estate: Low-rise office, retail, residential, industrial, and institutional properties.
- Forestry: Freehold timberlands and related manufacturing facilities.
- Financial: Medium-term property loans and related advisory services.

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)	2023	2022
Real Estate Properties		
– Commercial properties	\$ 67,673	\$ 49,774
– Institutional properties	26,433	21,466
Forestry Properties		
– Haliburton Forest	51,811	36,012
– Acadian Timber Corp	20,000	20,000
Financial Assets		
– Property Financing and Advisory Service	43,133	60,012
– Corporate Investments	44,522	36,768
	<u>\$ 253,572</u>	<u>\$ 224,032</u>

REAL ESTATE PROPERTIES

Commercial Properties

Halmont's commercial office and retail properties currently represent approximately 12% of the Company's assets and include the following:

- 221 Yonge Street, Toronto, ON, which is located opposite the Toronto Eaton Centre and currently has an appraised value of approximately \$4.6 million.
- 321 Lakeshore Road, Oakville, ON, which has an appraised value of approximately \$6.8 million.

- 51 Yonge, Toronto, ON, which has an appraised value of approximately \$5.8 million.

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

Halmont's residential and industrial properties currently represent approximately 15% 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 34 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, developed and managed by MakeSpace Inc.

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

Institutional Properties

Halmont's interest in institutionally occupied properties comprised a 100% interest in 22 College Street, Toronto, ON, located in the discovery district which had an appraised value of approximately \$21.4 million at December 31, 2023; and a \$5.0 million deposit related to an agreement to purchase, jointly with George Brown College 25 Dockside Drive, Toronto, ON property for \$240 million, with Halmont owning a 50% joint venture interest. This purchase was successfully completed on April 15, 2024.

FORESTRY PROPERTIES

Current Investments

Halmont's directly and indirectly owned investments in the forest sector currently represent 28% of the Company's assets and include the following:

- A 49% equity interest in Haliburton Forest, which owns approximately 100,000 acres of predominantly hardwood freehold timberlands in Haliburton County, ON, and approximately 145,000 acres of predominantly softwood freehold timberlands near Timmins, ON. Haliburton Forest also owns and operates four hardwood sawmills and a 50% partnership interest in a biochar production facility.
- A \$20.0 million preferred share, which is convertible into a 7% equity interest in Acadian Timber Corp., which owns approximately 1,100,000 acres of freehold lands in New Brunswick and Maine.

Timber Lands

Halmont's objective is to derive attractive investment returns from Haliburton Forest's 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 a diminishing supply of prime privately-owned recreational properties with waterfront features.
- The application of sustainable forest management practices, which improve 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 improve property access and provide 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, long-term commercial leases, property development, or the sale of such segments of the freehold timberlands at premium prices.

In addition to its freehold timberlands, provides an opportunity to develop carbon credits for sale in voluntary or compliance markets and potentially produce superior long-term returns to timber-focused on sustainable forest management operations.

Hardwood Sawmills

Haliburton Forest has assembled a portfolio of hardwood sawmills, with three of these facilities having been acquired over the last five years, increasing its annual lumber production capacity from 5 million boardfeet to more than 50 million boardfeet. The facilities are strategically located across central Ontario and represent scale in the otherwise highly fragmented hardwood lumber sector.

Haliburton Forest's sawmills are expected to benefit from the ongoing decline of hardwood lumber manufacturing capacity across North America, which reached a tipping point in 2023 with reduced wood supply across the hardwood regions of North America, and increasing demand expected for hardwood products in the domestic and international markets.

The acquisitions of hardwood sawmills in South River, Huntsville, and Palmer Rapids in 2019, 2020, and 2022, respectively, increased Haliburton Forest's rights to manage and harvest on Crown lands in Ontario to approximately 1,000,000 acres, which complement the company's Ontario freehold land ownership of 245,000 acres.

Biochar Production Facility

Haliburton Forest, in partnership with a Canadian advanced manufacturing company, has developed proprietary technology for producing high quality biochar from sawmill byproducts. Biochar is made from burning organic material in an oxygen-deprived environment. The resultant product is comprised of black porous micro units of char. High quality biochar is used to replace carbon black and other petroleum products in thermoplastics, rubber, polyurethane foam, and other materials.

In addition to high-quality biochar being a replacement for petroleum products in manufacturing processes, lower quality biochar is used to enhance the fertility of soils and thereby increase the absorption of emissions from fossil fuels that human activity releases into the air. As a result, biochar facilities have the potential to generate incremental revenues from the development and sale of carbon credits.

Haliburton Forest's biochar production facility is expected to achieve commercial-scale operations in 2024, with further capacity expansions being considered for subsequent years.

Forest Investment

Halmont also indirectly holds an effective interest in 77,000 acres of additional freehold forest lands through its ownership of a \$20 million preferred share which is convertible into a 7% equity interest in Acadian Timber Corp. This company owns and manages approximately 777,000 acres of freehold timberlands in New Brunswick and, approximately 300,000 acres of freehold timberlands in Maine. Acadian also provides forestry services relating to approximately 1.3 million acres of Crown timberlands in New Brunswick.

Acadian's products include softwood and hardwood sawlogs, pulpwood, and biomass by-products. Acadian also develops carbon credits for sale in voluntary carbon credit markets.

In the future, consideration may be given to a strategic transaction between Haliburton Forest and Acadian Timber Corp. The attraction of such a transaction would include the benefits of geographic and economic diversification of the companies' respective land holdings, complementary expertise in forest management, development of carbon credits, and real estate development.

FINANCIAL SECTOR INVESTMENTS

Halmont's loans receivables and other financial investments represent 35% of the Company's assets and include the following:

- \$44.5 million corporate investments.
- \$21.4 million participating second mortgage on a 209-unit residential building in British Columbia.
- \$12.6 million underwritten loans to a property storage investment fund.
- \$9.1 million investment in a third-party managed investment fund and other property-related loans in Ontario.

Halmont's corporate investments are held through a subsidiary which is financed with \$23.8 million non-recourse preferred shares. As a result, Halmont's net effective investment in these entities represents approximately 6% of its total assets. 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. Halmont's objective is to hold its corporate investments while they continue to provide a reliable source of income, and access to business relationships that assist in the pursuit of its principal investment activities.

In addition to being capable of responding promptly to property loan applicants, Halmont provides client companies with advice on project financing alternatives, while being willing to provide subordinate loans with equity participation features and endeavouring to seek third-party underwriting for its higher-risk loans. Should a client experience difficulty executing their property development plans, Halmont has the capacity to intercede and assign experienced individuals to stabilize and, if necessary, complete and realize value from such projects.

Halmont maintains longstanding relationships with commercial banks and other parties which enable it to invest its capital in financial assets, pending its redeployment in longer-term investment initiatives in the property and forestry sectors.

CONSOLIDATED OPERATING RESULTS

Halmont reported net income of \$18,490,000 for the year ended December 31, 2023, compared with \$10,670,000 for the same period in the preceding year.

Revenue for the year ended December 31, 2023, increased compared with the same period in the previous year principally due to a fair value gain on the sale of an office property that closed in February 2024, and higher interest earned on property loans, partially offset by increased income tax expense and fair value losses on our institutional properties due to the adoption of higher discount rates.

Halmont'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

(CAD\$ THOUSANDS)	2023	2022	2021	2020	2019
Total assets	\$ 253,572	\$ 224,032	\$ 265,821	\$ 220,185	\$ 206,149
Total revenue	27,973	19,514	13,492	11,219	13,474
Comprehensive income to shareholders	17,369	9,572	5,621	4,821	6,481

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

(CAD\$ THOUSANDS)	2023				2022			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenue	\$ 14,983	\$ 4,727	\$ 4,456	\$ 3,807	\$ 740	\$ 3,246	\$ 12,535	\$ 2,993
Comprehensive income(loss) to shareholders	10,696	2,422	2,179	2,072	(1,305)	862	9,002	1,013

EQUITY BASE

Halmont's issued common share capital is comprised of 83.94 million Multiple-voting common shares and 40.00 million Subordinate-voting common shares.

The Company's \$20.0 million preferred shares and \$25.0 million subordinated capital notes are convertible into 30.77 million and 31.25 million Subordinate-voting common shares respectively.

The following table sets out the current issued and outstanding Multiple-voting common shares and Subordinate-voting common shares, together with the Subordinate-voting common shares to be issued on the conversion of its capital notes and preferred shares, as at December 31, 2023.

(CAD\$ THOUSANDS)	Number of shares	Subscribed Value
Issued and Outstanding:		
– Multiple - voting common shares	# 83,940	\$ 70,095
– Subordinate - voting common shares	40,000	33,403
	123,940	103,498
Issuance of Subordinate-voting common shares on conversion of:		
– Series II subordinated capital notes	31,250	25,000
– Preferred shares	30,769	20,000
Fully diluted Multiple and Subordinate voting common shares	# 185,959	\$ 148,498

REVIEW OF THE ANNUAL FINANCIAL STATEMENTS

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 \$48.7 million. In addition, loans and mortgages receivable in the amount of approximately \$23.6 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.

The accompanying audited consolidated financial statements of the Company for the year ended December 31, 2023, 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 29, 2024