CMLS Mortgage Fund

Q4 2022 Report

Contents

Business Overview

The CMLS Mortgage Fund (the "Fund") is a mortgage investment fund, which was established in 2008. The Fund lends money to borrowers secured by first and second priority mortgages on commercial and single-family real estate located in Canada. The Fund was established by the Declaration of Trust, as an unincorporated investment unit trust, under the laws of the Province of British Columbia on May 2, 2008.

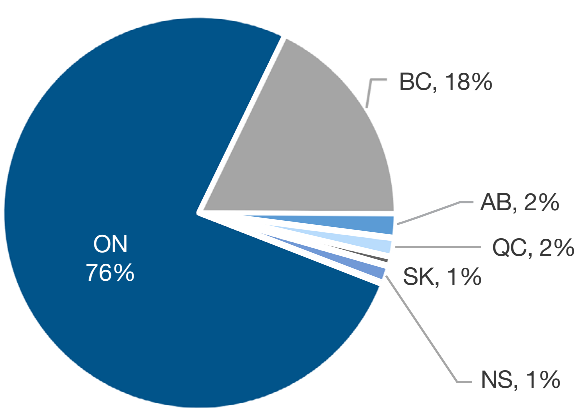
The Fund qualifies as a 'unit trust' under the Income Tax Act (Canada). As such, units are qualified investments under the Tax Act for registered retirement savings plans ("RRSPs"), tax-free savings accounts ("TFSAs"), deferred profit-sharing plans ("DPSPs"), or registered retirement income funds ("RRIFs").

The investment objectives of the Fund are to preserve investor capital and provide investors with an attractive monthly distribution. The Fund meets its investment objectives by investing in a diversified portfolio of high yielding mortgage investments, secured by first and second priority mortgages on commercial and single-family residential real estate located primarily in large urban markets in Canada.

Commentary & Outlook

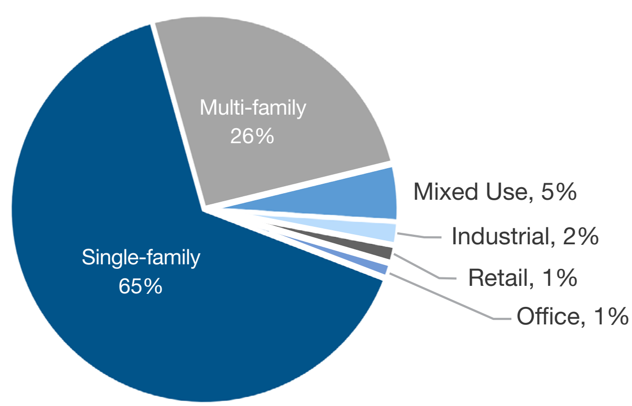
As at Dec 31, 2022, the Fund had total Mortgages Under Administration ("MUA") of $127.3 million compared to $135.6 million as at Sep 30, 2022, a decrease of $8.3 million quarter-over-quarter. As at Dec 31, 2022, the weighted average coupon of the portfolio excluding cash was 7.46% and the weighted average term to maturity was 0.61 years vs. a weighted average coupon of 7.07% and a weighted average term to maturity of 0.72 years for the quarter ended Dec 31, 2022.

Exhibit 1 – Geographic composition



Notes: as at December 31, 2022

Exhibit 2 – Asset class composition



Notes: as at December 31, 2022

Commentary & Outlook (continued)

In Q4, we were able to capture higher yields available in the risk bands we target. With approximately one-third of the portfolio maturing in the second half of the year, portfolio turnover allowed us to increase the weighted average coupon in the portfolio by 85 bps, a significant driver behind our Q4 annualized returns to unitholders of 6.96%. Separating this out into our components of return, this reflected a 6.55% distribution and the remaining 0.41% driven by positive mark-to-market adjustments as rates stabilized. Rates certainly didn't stop their upward trajectory, with the Bank of Canada moving twice in Q4 for a total increase in the overnight rate of 1.00%, from 3.25% to 4.25%, but oddly enough this reflected a deceleration relative to Q3. Also of note is the Bank of Canada posted mortgage rate, which drives the valuation of our single family residential portfolio, was not increased at the same pace as the overnight rate and prime.

While it may seem obvious our preferred state of the market in 2023 includes moderating inflation north and south of the border, thus removing the pressure on our central banks for further rate increases. It is only in this perverse environment that we will cheer evidence of recessionary (disinflationary) forces prevailing, reservedly, as though we were watching our two best friends in a boxing match.

Our current market environment is a test of private mortgage strategies in Canada. Downside protection and absorption of collateral value declines supported by low LTVs are a key feature of our fund and of our peers, and to date we've seen the corresponding benefits. However, there are multiple factors that can add stress to our borrowers' finances, in both the commercial and single family residential segments of the portfolio: interest payable on floating rate debt elsewhere on their balance sheets is now a multiple of what it was at the start of 2022; qualifying test rates on refinancing options have increased; and value declines (for single family homes) have made refinancing with a private mortgage, to the extent they cannot qualify for a conventional mortgage, more difficult. All reasons to approach our portfolio with an elevated level of scrutiny and preparedness for weakness.

We've been greatly encouraged by the lack of weakness accompanying lower collateral values, which speaks to the credit of our homeowner counterparties. For a moment we can move aside the data and reflect fondly on the words we hear often: "Canadians pay their debts". Then we can get back to the data. As of Feb 15, 2023, arrears represent 1% of the portfolio, concentrated in the single family residential segment. Early stage delinquency levels (0-90 days) have remained low but still elevated relative to performance pre-2022. These have tended to get resolved quickly and we continue to monitor closely.

In our Q3 report, we began referencing our early payout and renewal ratios, important metrics in a declining value environment. Our experience in Q4 resembled that of the prior quarter, finishing the year with a 34% renewal ratio and 45% early payout ratio. Note that renewals are only offered if the loan has performed and the current loan to value ratio is under our maximum threshold. In these cases we are happy to continue extending credit to borrower customers with a corresponding adjustment to a market interest rate.

At year end 2022, 65% of the Fund was invested in loans secured by single family residential properties, 26% by multifamily residential properties, and the remainder a mix of the remaining core property types – industrial, retail, office, and mixed use. Our multifamily and commercial component carries weighted average coupons of 7.72% and initial LTVs of 61%, whereas our single family residential component carries weighted average coupons of 7.32% and initial LTVs of 60%. 74% of our commercial component are second priority mortgages; despite being second priority, initial LTVs of this portfolio subset were conservative, at an average of 64%. We continue to retain a slight bias toward commercial and multifamily fundings in the near term with more resilient valuations, additional property level income support and similar yields available, however are monitoring signs of price stabilization in single family homes.

We continue to carry a short duration in the Fund, with a weighted average term to maturity of 0.61 years. This has served us well in capturing higher yields available in the market and reinvesting in accordance with shifting market dynamics. We look forward to continuing a disciplined, responsive approach to the market in 2023, delivering consistent returns to our unitholders.

Financial Highlights

Mortgage Investments

	Quarter Ended Dec 31, 2022	Quarter Ended Sep 30, 2022
Mortgage Investments	$127,252,065	$135,594,546
Total Number of Mortgage Investments	189	204
Average Mortgage Investment	$673,291	$664,679
Weighted Average Interest Rate	7.46%	7.07%
Weighted Average LTV Ratio	60.46%	59.81%
Weighted Average Term To Maturity (Years)	0.61	0.72
Leverage	6.78%	11.37%
Net Assets Attributable To Holders of Redeemable Units	$120,057,990	$119,666,933
Net Asset Value ("NAV") per unit	$9.97	$9.96

Net Asset Value ("NAV")

NAV - Sep 30, 2022	$	119,666,933
Subscriptions		6,380,785
Redemptions		(7,192,047)
Reinvested Distributions		1,080,915
Unrealized Gain		121,404
NAV - Dec 31, 2022	**$**	**120,057,990**

Portfolio Allocation

As at Dec 31, 2022, the Fund's portfolio included mortgage investments of $127.3 million and was comprised of 189 investments, which were allocated across the categories listed below (excludes cash).

Geography

	Number of Mortgages	Outstanding Balance	% of Portfolio
ON	155	$ 98,438,424	76%
BC	25	22,755,700	18%
AB	4	2,554,841	2%
QC	3	1,930,000	2%
SK	1	973,100	1%
NS	1	600,000	1%
	189	**$ 127,252,065**	**100%**

Asset Type

	Number of Mortgages	Outstanding Balance	% of Portfolio
Single-family	162	$ 83,788,260	**65%**
Multi-family	20	32,530,705	**26%**
Mixed use	3	6,100,000	**5%**
Industrial	1	2,500,000	**2%**
Retail	2	1,873,100	**1%**
Office	1	460,000	**1%**
	189	**$ 127,252,065**	**100%**

Portfolio Allocation (continued)

Maturity

	Number of Mortgages		Outstanding Balance	% of Portfolio
Less than 1 year	174	$	105,700,968	83%
1 to 3 years	15		21,551,097	17%
	189	**$**	**127,252,065**	**100%**

Interest Rate

	Number of Mortgages		Outstanding Balance	% of Portfolio
Less than 6.00%	40	$	30,068,705	24%
6.00% to 6.49%	19		15,663,131	12%
6.50% to 6.99%	35		18,671,532	15%
7.00% to 7.49%	18		12,655,484	10%
7.50% to 7.99%	21		15,685,633	12%
Greater than 7.99%	56		34,507,580	27%
	189	**$**	**127,252,065**	**100%**

Loan-to-appraised value

	Number of Mortgages		Outstanding Balance	% of Portfolio
60% or below	84	$	50,228,601	39%
60% to 70%	82		52,898,780	42%
70% to 80%	15		14,116,074	11%
above 80%	8		10,008,610	8%
	189	**$**	**127,252,065**	**100%**

Statement of Net Income

For the quarter ended Dec 31, 2022
(Unaudited)

	Dec 31 2022	Sep 30 2022
Investment Income		
Interest	**$ 2,462,680**	$ 2,245,493
Other fees	**131,104**	151,865
	2,593,784	2,397,358
Expenses		
Management fee, net of rebates	**259,512**	248,655
Financing fees	**33,854**	32,706
Mortgage service fees	**74,637**	76,666
Accounting and recordkeeping	**25,208**	23,495
Legal and Audit	**24,983**	10,739
FundServ	**11,737**	13,214
Consulting	**7,727**	7,464
Custodian	**5,478**	3,390
Trustee	**2,480**	2,480
Standby fees	**42,406**	32,789
Interest Expense	**154,193**	190,319
Other Expense	**3,369**	4,382
Total Expenses	**645,584**	646,299
Expenses waived/absorbed by the Manager	**(33,246)**	(24,064)
Total Expenses (net)	**612,338**	622,235
Net investment income	**$ 1,981,446**	$ 1,775,123
Unrealized Gain/(Loss)	121,404	(145,888)
Net investment income	**$ 2,102,850**	$ 1,629,235

Statement of Net Assets

For the quarter ended Dec 31, 2022
(Unaudited)

	Dec 31 2022	Sep 30 2022
Assets		
Net Mortgage investments	$ 127,252,065	$ 135,594,546
Investment income receivable	2,423,871	1,226,894
Deferred Financing Fees	-	37,548
Prepaids	2,480	8,349
Due from Manager	11,080	16,153
	129,689,496	136,883,490
Liabilities		
Bank indebtedness	8,625,695	15,410,735
Accounts payable and accrued liabilities	303,116	1,213,116
Distribution payable	702,695	592,706
	9,631,506	17,216,557
Net assets	$ 120,057,990	$ 119,666,933
Units outstanding	12,044,690	12,016,775
Net assets per unit	$ 9.97	$ 9.96

Statement of Net Assets Attributable to Holders of Redeemable Units

For the quarter ended Dec 31, 2022
(Unaudited)

Balance, beginning of period	$ 119,666,933
Net income	**2,102,850**
Issuance of units	**6,380,785**
Units reinvested	**1,080,915**
	9,564,550
Unitholder redemptions	**(7,192,047)**
Distributions to unitholders	**(1,981,446)**
	(9,173,493)
Balance, end of period	$ 120,057,990

CMLS MORTGAGE FUND
Q4 2022 REPORT

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