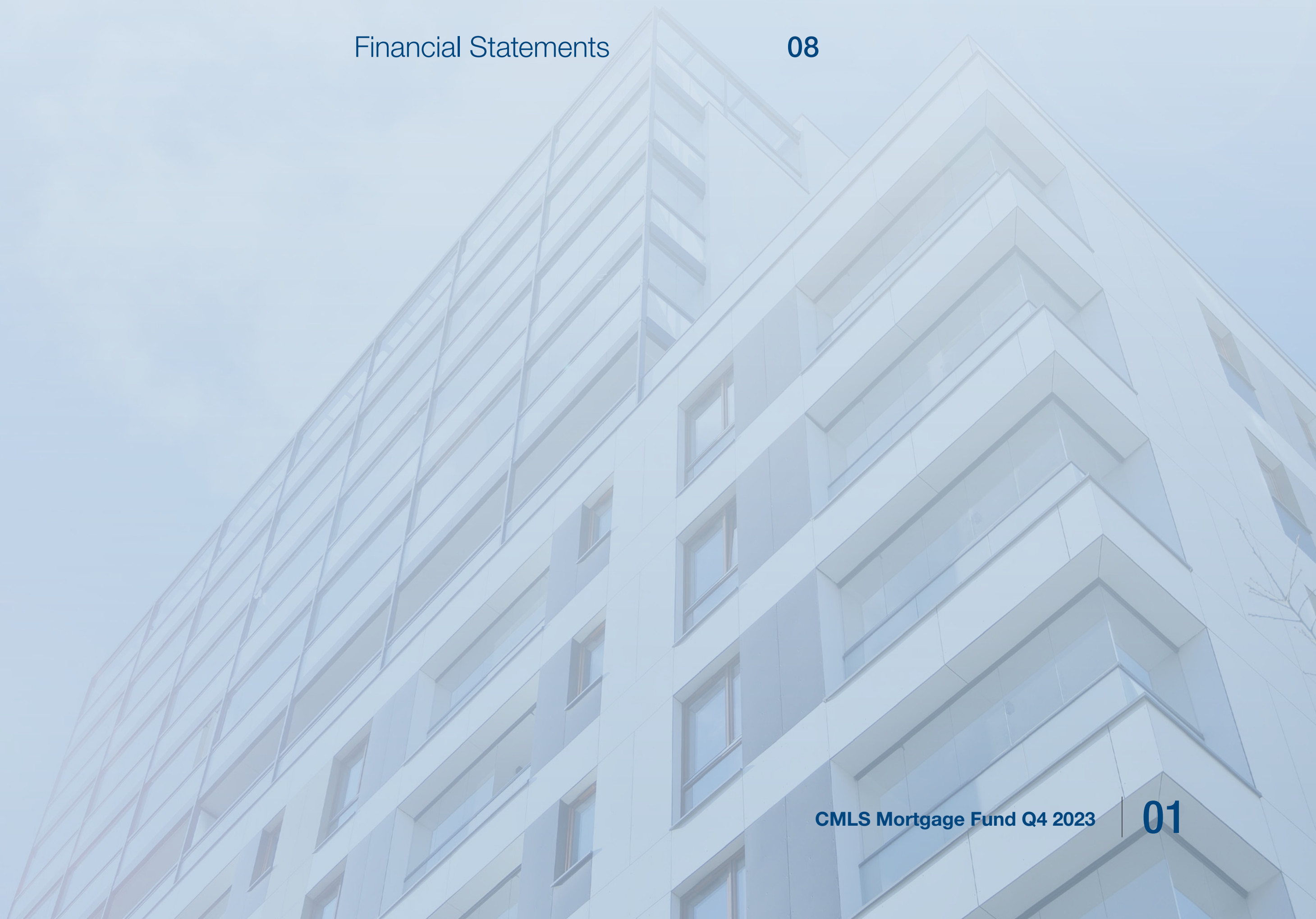
CMLS Mortgage Fund

Q4 2023 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").

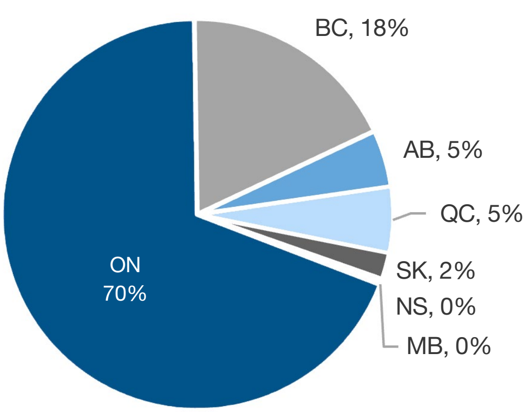
The investment objectives of the Fund are to preserve investor capital and provide investors with an attractive monthly distribution. The Fund meets its investment objectives by investing in a diversified portfolio of high yielding mortgage investments, secured by first and second priority mortgages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

Commentary & Outlook

As at Dec 31, 2023, the Fund had total Mortgages Under Administration ("MUA") of $154.1 million compared to $132.3 million as at Sep 30, 2023, an increase of $21.8 million quarter-over-quarter. As at Dec 31, 2023, the weighted average coupon of the portfolio excluding cash was 9.02% and the weighted average term to maturity was 0.87 years vs. a weighted average coupon of 8.98% and a weighted average term to maturity of 0.92 years for the quarter ended Sep 30, 2023.

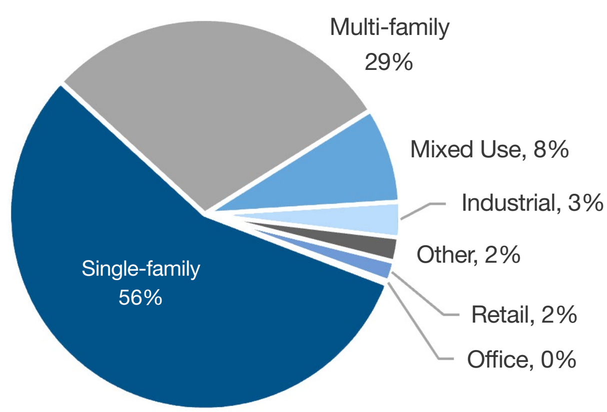
Subsequent to Dec 31, 2023, the Manager and the Trustee amended and restated the Trust Agreement to ensure that the provisions dealing with distributions and the calculation of Net Asset Value are consistent with the multi-class structure of the Fund.

Exhibit 1 – Geographic composition



Notes: as of Dec 31, 2023

Exhibit 2 – Asset class composition



Notes: as of Dec 31, 2023

Commentary & Outlook (continued)

January began for us without profound and aggressive resolutions or grand ideas about conquering the mortgage market in 2024. This is just not that exciting of a fund; our investment policy is narrow in scope for reasons which include the desire to fit a specific need in our investors' portfolios – your "real estate private credit" allocation, for example – while providing downside protection and without encroaching on other capable managers' domains. If for some reason we have lost our footing onshore, swept by the undercurrent and surfing the Equity Wave alongside the same real estate owners we lend to (whose January, by the way, may have begun with profound and aggressive resolutions and grand ideas about conquering the real estate market in 2024), well … this would equal failure.

January instead began for us with brief and quiet acknowledgement of a successful fourth quarter and prudent reflection on what made 2023 what it was for the CMLS Mortgage Fund[1]:

- An increase in annual return to 7.6% in 2023 from 5.8% in 2022 (+1.8%)
- An increase in quarterly annualized return to 8.7% in Q4 from 6.8% in Q1 (+1.9%)
- Zero arrears in the commercial segment of the portfolio
- Steady overall portfolio arrears, ending the year <2%
- $30 million in new subscription activity
- 9% growth in unitholder equity, and 21% growth in portfolio assets

Importantly, it included reflection on what we could have done differently, within the confines of our narrow investment policy and in the context of the current market environment, to deliver a better risk-adjusted return to our unitholders.

What did we learn? Believe in our underwriting for one; recognize that our policies and procedures are structured to perform comparably well in down markets. And that our keen, almost abdominal focus on downside protection can exist complementary to optimal capital structure and effective liquidity management. Q4 results demonstrate the benefit of modest leverage in driving returns. Admittedly, it took some time to adjust our origination strategy in a world of significantly depressed transaction activity.

Looking ahead to 2024, we've seen signs of transaction activity rebounding in residential markets. January monthly home sales were 22% higher than one year prior, and 3.7% higher than December 2023[2]. On the commercial and multi-residential side, directional evidence is more opaque and anecdotal, so we will continue to invest in debt opportunities with significant offsets to valuation risk factors – comfortably underwritten insured takeout strategies, for instance, and substantial additional sponsor resources and liquidity. We are hopeful that an approaching tide of residential sales will result in a better balance of investment opportunities between commercial, multi-residential and single family residential mortgages, but in the interim expect to see multi-residential occupy a larger percentage of fund assets.

We are operating in the aftermath of a definitionally unprecedented trajectory of interest rates. As those rates remain stable, and house prices rebound, affordability for the average Canadian to own a home becomes even more stretched. The fourth quarter of 2023 brought a second consecutive quarterly decline in affordability in all major Canadian markets. Our main residential target markets, Greater Toronto and Greater Vancouver, experienced larger percentage increases in combined mortgage payments and home prices than any other markets in Canada. Conversely, although not nearly to the same extent, these markets also experienced the largest percentage increases in median incomes, demonstrating healthy labour market dynamics[3]. As borrowers' ability to meet the debt service ratios required for prime mortgage financing deteriorates, this creates an opportunity for us to provide short term financing solutions for these borrowers with strong credit histories.

Your investments allow us to do so, and that support is much appreciated. In return, we are looking forward to continued progress and delivering healthy risk-adjusted returns to our unitholders in 2024.

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[1] Amounts referencing unitholder returns pertain to F Class Units; amounts referencing unit subscription activity and unitholder equity growth pertain to all Classes of Units; new subscription activity includes reinvested distributions

[2] The Canadian Real Estate Association

[3] National Bank of Canada, NBF Economics and Strategy (data via Statistics Canada; Teranet-NBC)

Financial Highlights

Mortgage Investments

	Quarter Ended Dec 31, 2023	Quarter Ended Sep 30, 2023
Mortgage investments	$154,175,730	$132,307,901
Total number of mortgage investments	205	190
Average mortgage investment	$752,077	$696,357
Weighted average interest rate	9.02%	8.98%
Weighted average LTV ratio	60.21%	60.19%
Weighted average term to maturity (years)	0.87	0.92
Leverage	16.73%	4.97%
Net assets attributable to holders of redeemable units	$130,834,954	$128,132,730
Net Asset Value ("NAV") per unit	$10.00	$9.99

Net Asset Value ("NAV")

NAV - Sep 30, 2023	$	128,132,730
Subscriptions		5,038,428
Redemptions		(3,984,849)
Reinvested Distributions		1,543,592
Unrealized Gain / (Loss)		(105,054)
NAV - Dec 31, 2023	**$**	**130,834,955**

Portfolio Allocation

As at Dec 31, 2023, the Fund's portfolio included mortgage investments of $154.2 million and was comprised of 205 investments, which were allocated across the categories listed below (excludes cash).

Geography

	Number of Mortgages	Outstanding Balance	% of Portfolio
ON	148	$ 105,787,517	69%
BC	32	28,390,798	18%
AB	16	7,366,846	5%
QC	4	8,421,609	5%
SK	3	3,491,070	2%
NS	1	600,000	0%
MB	1	117,891	0%
	205	**$ 154,175,731**	**100%**

Asset Type

	Number of Mortgages	Outstanding Balance	% of Portfolio
Single-family	173	$ 86,315,702	56%
Multi-family	21	45,123,531	29%
Mixed use	4	12,181,402	8%
Industrial	2	4,454,757	3%
Other	1	3,180,000	2%
Retail	3	2,468,730	2%
Office	1	451,609	0%
	205	**$ 154,175,731**	**100%**

Portfolio Allocation (continued)

Maturity

	Number of Mortgages		Outstanding Balance	% of Portfolio
Less than 1 year	160	$	103,699,363	67%
1 to 3 years	43		49,269,548	32%
More than 3 years	2		1,206,820	1%
	205	**$**	**154,175,731**	**100%**

Interest Rate

	Number of Mortgages		Outstanding Balance	% of Portfolio
Less than 6.00%	1	$	3,635,000	2%
6.00% to 6.49%	17		8,183,247	5%
6.50% to 6.99%	16		8,958,091	6%
7.00% to 7.49%	1		680,727	0%
7.50% to 7.99%	14		14,575,817	9%
Greater than 7.99%	156		118,142,849	78%
	205	**$**	**154,175,731**	**100%**

Loan-to-appraised value

	Number of Mortgages		Outstanding Balance	% of Portfolio
60% or below	89	$	60,965,595	40%
60% to 70%	93		67,107,589	43%
70% to 80%	20		20,576,191	13%
above 80%	3		5,526,356	4%
	205	**$**	**154,175,731**	**100%**

Emissions Tracking

Throughout 2023, we put thought into how best to address the growing importance of integrating environmental considerations into our internal processes. What we landed on, was building out a model that we are now using to estimate the CO_2 emissions from our portfolio. Our goal is to improve the accuracy and completeness of our data, monitor our financed emissions, and find ways over time to reduce our impact on the environment in the context of our investment policy and maintaining a diversified portfolio.

Emissions

	Q4 2022	Q4 2023
Total Financed Emissions (KT of CO_2)	N/A	1.682
Total Financed Emissions (KT of CO_2) per $100M	N/A	1.091

Data Accuracy

	Q4 2022	Q4 2023
Energy usage: directly reported; Energy source: directly reported	N/A	0%
Energy usage: market avg; Energy source: directly reported	N/A	83%
Energy usage: market avg; Energy source: market avg	N/A	17%

How to interpret the charts above: we have separated into three levels of increasing data accuracy, the first and lowest being a calculation using average energy usage per unit (e.g. square footage) and CO_2 intensity for a given property type (e.g. single family residential); second, in most instances we can confirm the specific energy sources (e.g. natural gas) used at the related property, improving our estimates of CO_2 intensity; and third, where our borrower has directly reported energy sources and usage at the related property.

Statement of Net Income

For the quarter ended Dec 31, 2023
(Unaudited)

	Dec 31 2023	Sep 30 2023
Investment Income		
Interest	$ 3,261,740	$ 2,691,953
Other fees	217,158	174,312
	3,478,898	2,866,265
Expenses		
Management fee, net of rebates	279,186	269,813
Financing fees	22,326	22,327
Mortgage service fees	70,407	67,612
Accounting and recordkeeping	30,417	31,288
Legal and Audit	27,695	6,889
FundServ	12,499	11,831
Consulting	10,211	8,036
Custodian	3,265	3,672
Trustee	2,465	2,465
Standby fees	32,412	47,392
Interest Expense	261,582	19,327
Other Expense	3,769	4,103
Total Expenses	756,234	494,755
Expenses waived/absorbed by the Manager	(29,354)	(8,324)
Total Expenses (net)	726,880	486,431
Net investment income	$ 2,752,018	$ 2,379,834
Unrealized Gain/(Loss)	105,054	36,011
Net investment income	$ 2,857,072	$ 2,415,845

Statement of Net Assets

For the quarter ended Dec 31, 2023
(Unaudited)

		Dec 31 2023		Sep 30 2023
Assets				
Net Mortgage investments		**154,175,730**		132,307,901
Investment income receivable		**1,109,776**		921,986
Other Receivables		**2,666,325**		2,628,714
Deferred Financing Fees		**-**		22,326
Prepaids		**2,465**		6,505
Due from Manager		**29,354**		4,058.00
		157,983,650		135,891,490
Liabilities				
Bank indebtedness		**25,789,391**		6,573,758.00
Accounts payable and accrued liabilities		**394,417**		342,445
Distribution payable		**964,890**		842,557
		27,148,698		7,758,760
Net assets	**$**	**130,834,952**	$	128,132,730
Units outstanding		**13,083,317**		12,823,293
Net assets per unit	**$**	**10.00**	$	9.99

Statement of Net Assets Attributable to Holders of Redeemable Units

For the quarter ended Dec 31, 2023
(Unaudited)

Balance, beginning of period	**$ 128,132,730**
Net income	**2,857,072**
Issuance of units	**5,038,428**
Units reinvested	**1,543,592**
	9,439,092
Unitholder redemptions	**(3,984,849)**
Distributions to unitholders	**(2,752,018)**
	(6,736,867)
Balance, end of period	**$ 130,834,955**

CMLS MORTGAGE FUND
Q4 2023 REPORT

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CMLS Asset Management®