

Financial Statements
(In Canadian dollars)

**CMI PRIME MORTGAGE
FUND CORP.**

And Independent Auditor's Report thereon

Year ended June 30, 2023



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of CMI Prime Mortgage Fund Corp.

Opinion

We have audited the financial statements of CMI Prime Mortgage Fund Corp. (the Entity) which comprise:

- the statement of financial position as at June 30, 2023
- the statement of income and comprehensive income for the year then ended
- the statement of changes in shareholders' equity for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at June 30, 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity 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.



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 Accounting Standards, 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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity'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 generally accepted auditing standards 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 the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, 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.



Page 3

- 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 Entity'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 Entity'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 Entity 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.
- 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.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font. Below the signature is a single horizontal line.

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada

October 27, 2023

CMI PRIME MORTGAGE FUND CORP.

Statement of Financial Position
(In Canadian dollars)

As of June 30, 2023, with comparative information for 2022

	2023	2022
Assets		
Cash and cash equivalents	\$ 10,890	\$ 159,300
Interest and fees receivable	—	10,589
Mortgage investments, net (note 4)	4,555,825	3,692,536
Amounts due from related parties (note 7)	149,443	62,120
Total assets	\$ 4,716,158	\$ 3,924,545

Liabilities and Shareholders' Equity

Liabilities:

Accounts payable and accrued liabilities	\$ 24,292	\$ 23,416
Prepaid mortgage interest	29,847	10,480
Amounts due to related parties (note 7)	32,601	—
	86,740	33,896

Shareholders' equity:

Common shares (note 5)	100	100
Preferred shares - Class A (note 6)	273,691	3,890,549
Preferred shares - Class F (note 6)	4,355,627	—
	4,629,418	3,890,649

Total liabilities and shareholders' equity	\$ 4,716,158	\$ 3,924,545
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See accompanying notes to financial statements.

On behalf of the Board:

_____ Director

_____ Director

CMI PRIME MORTGAGE FUND CORP.

Statement of Income and Comprehensive Income
(In Canadian dollars)

Year ended June 30, 2023, with comparative information for 2022

	2023	2022
Income:		
Interest and fees	\$ 341,338	\$ 265,462
Participation fees (note 7)	107,767	22,801
	449,105	288,263
Expenses:		
Management fees (note 7)	50,244	26,665
Performance fees (note 7)	16,966	5,417
Office and general	12,335	7,866
Professional fees	56,143	55,110
Provision for credit losses (note 4)	4,001	5,049
	139,689	100,107
Net income and comprehensive income	\$ 309,416	\$ 188,156

See accompanying notes to financial statements.

CMI PRIME MORTGAGE FUND CORP.

Statement of Changes in Shareholders' Equity (In Canadian dollars)

Year ended June 30, 2023, with comparative information for 2022

	Common shares	Preferred shares - Class A	Preferred shares - Class F	Deficit	Total
Shareholders' equity, June 30, 2021	\$ 100	\$ 1,672,079	\$ —	\$ —	\$ 1,672,179
Proceeds from issuance of shares	—	3,020,300	—	—	3,020,300
Transaction costs	—	(22,449)	—	—	(22,449)
Redemption of shares	—	(790,000)	—	—	(790,000)
Net income and comprehensive income	—	—	—	188,156	188,156
Dividends paid - Class A	—	—	—	(188,156)	(188,156)
Dividends paid - Class F	—	—	—	—	—
Dividends reinvestment plan	—	10,619	—	—	10,619
Shareholders' equity, June 30, 2022	100	3,890,549	—	—	3,890,649
Proceeds from issuance of shares	—	—	1,337,216	—	1,337,216
Exchange	—	(3,489,920)	3,489,920	—	—
Transaction costs	—	—	(18,343)	—	(18,343)
Redemption of shares	—	(130,000)	(461,362)	—	(591,362)
Net income and comprehensive income	—	—	—	309,416	309,416
Dividends paid - Class A	—	—	—	(121,907)	(121,907)
Dividends paid - Class F	—	—	—	(187,509)	(187,509)
Dividends reinvestment plan	—	3,062	8,196	—	11,258
Shareholders' equity, June 30, 2023	\$ 100	\$ 273,691	\$ 4,355,627	\$ —	\$ 4,629,418

See accompanying notes to financial statements.

CMI PRIME MORTGAGE FUND CORP.

Statement of Cash Flows
(In Canadian dollars)

Year ended June 30, 2023, with comparative information for 2022

	2023	2022
Cash flows provided by (used in):		
Operating activities:		
Net income and comprehensive income	\$ 309,416	\$ 188,156
Adjustment for non-cash items:		
Provision for credit losses	4,001	5,049
Amortization of investment principal	2,143	2,243
Change in non-cash capital items:		
Interest and fees receivable	10,589	(10,589)
Accounts payable and accrued liabilities	877	23,416
Prepaid mortgage interest	19,367	(9,944)
Amounts due from related parties	(87,323)	(62,120)
Amounts due to related parties	32,601	(2,033)
Funding of mortgage investments	(4,749,558)	(4,623,610)
Discharge and principal repayments of mortgage investments	3,880,125	2,613,935
	(577,762)	(1,875,497)
Financing activities:		
Proceeds from issuance of preferred shares	1,337,216	3,020,300
Redemptions of preferred shares	(591,362)	(790,000)
Transaction costs for issuance of preferred shares	(18,344)	(22,449)
Dividends paid to preferred shareholders	(298,158)	(177,537)
	429,352	2,030,314
Increase (decrease) in cash and cash equivalents	(148,410)	154,817
Cash and cash equivalents, beginning of year	159,300	4,483
Cash and cash equivalents, end of year	\$ 10,890	\$ 159,300
Supplemental disclosure for non-cash activities:		
Preferred Series A shares issued under the dividend reinvestment plan	\$ 3,062	\$ 10,619
Preferred Series F shares issued under the dividend reinvestment plan	8,196	—

See accompanying notes to financial statements.

CMI PRIME MORTGAGE FUND CORP.

Notes to Financial Statements
(In Canadian dollars)

Year ended June 30, 2023

1. Organization of Corporation:

CMI Prime Mortgage Fund Corp. (the "Corporation") is a corporation established under the Ontario Business Corporations Act on June 15, 2020. The principal and registered office of the Corporation is 2425 Matheson Boulevard East, 8th floor, Mississauga, Ontario L4W 5K4.

The Corporation's primary business is earning income through originating residential and commercial real estate mortgage loans to borrowers. The Corporation is a Mortgage Investment Corporation ("MIC") and focuses on generating a stream of income by investing in a portfolio of mortgages, thereby providing investors with an opportunity to participate in a portfolio of mortgages by purchasing preferred shares in the Corporation.

CMI Mortgage Services Inc. and Canadian Mortgages Inc., entities related to the officers of the Corporation, together serve as manager for the Corporation under an amended mortgage services agreement dated June 15, 2020 (the "Manager").

2. Basis of presentation:

(a) Statement of compliance:

The financial statements of the Corporation have been prepared by management in accordance with IFRS Accounting Standards ("IFRS").

These financial statements have been approved for issue by the Board of Directors on October 27, 2023.

(b) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the functional currency of the Corporation.

(c) Basis of preparation:

These financial statements have been prepared on a historical cost basis, except for financial instruments classified as fair value through profit or loss ("FVTPL") which are measured at fair value at each reporting date.

CMI PRIME MORTGAGE FUND CORP.

Notes to Financial Statements (continued)
(In Canadian dollars)

Year ended June 30, 2023

2. Basis of presentation (continued):

(d) Use of estimates and judgments:

In the preparation of these financial statements, the Manager has made judgments, estimates and assumptions that affect the application of the Corporation's accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

In making estimates, the Manager relies on external information and observable conditions where possible, supplemented by internal analysis. There are no known trends, commitments, events or uncertainties that the Manager believes will materially affect the methodology or assumptions utilized in making these estimates in these financial statements. The significant estimates and judgments used in determining the recorded amount for assets and liabilities in the financial statements are as follows:

Measurement of expected credit loss ("ECL"):

The determination of the allowance for credit losses ("ACL") takes into account different factors including assumptions about local real estate market conditions, market interest rates, availability and terms of financing, underlying value of the security and various other factors. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which would require an increase or decrease in the allowance of credit loss. The Corporation exercises significant credit judgment in the determination of a significant increase in credit risk since initial recognition, credit impairment of mortgage investments and expected recoverable amount of credit impaired mortgage investments (note 4).

CMI PRIME MORTGAGE FUND CORP.

Notes to Financial Statements (continued)
(In Canadian dollars)

Year ended June 30, 2023

3. Significant accounting policies:

The Corporation's accounting policies and its standards of financial disclosure have been applied consistently to all years presented in these financial statements.

(a) Cash and cash equivalents:

Cash consists of cash on hand and unrestricted cash held with financial institutions. The Corporation considers highly liquid investments with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value to be cash equivalents. As at June 30, 2023, the Corporation held only cash deposits held with Canadian chartered banks totalling \$10,890 (2022 - \$159,300 in cash deposits held with Canadian chartered banks).

(b) Interest income:

Interest income includes interest earned on the Corporation's mortgage investments and interest earned on cash and cash equivalents. Interest income earned on the mortgage investments is accounted for using the effective interest method.

(c) Income taxes:

It is the intention of the Corporation to qualify as a MIC for Canadian income tax purposes. As such, the Corporation is able to deduct, in computing its income for a taxation year, dividends paid to its shareholders during the year or within 90 days of the end of the year. The Corporation intends to maintain its status as a MIC and pay dividends to its shareholders in the year and in future years to ensure that it will not be subject to income taxes. Accordingly, for financial statement reporting purposes, the tax deductibility of the Corporation's dividends results in the Corporation being effectively exempt from taxation and no provision for current or deferred taxes is required for the Corporation.

CMI PRIME MORTGAGE FUND CORP.

Notes to Financial Statements (continued)
(In Canadian dollars)

Year ended June 30, 2023

3. Significant accounting policies (continued):

(d) Financial assets and liabilities:

(i) Classification and measurement of financial assets:

(a) Recognition and initial measurement:

The Corporation, on the date of origination or purchase, recognizes loans, debt and equity securities, deposits and subordinated debentures at the fair value of consideration paid. Regular-way purchases and sales of financial assets are recognized on the settlement date. All other financial assets and liabilities are initially recognized on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

The initial measurement of a financial asset or liability is at fair value plus transaction costs that are directly attributable to its purchase or issuance. For instruments measured at FVTPL, transaction costs are recognized immediately in profit or loss.

Financial assets include debt instruments.

(i) Debt instruments:

Debt instruments, including loans and debt securities, are classified into one of the following measurement categories:

(a) Amortized cost;

(b) Fair value through other comprehensive income ("FVOCI"); or

(c) FVTPL for trading related assets.

Classification of debt instruments is determined based on:

(a) The business model under which the asset is held; and

(b) The contractual cash flow characteristics of the instrument.

CMI PRIME MORTGAGE FUND CORP.

Notes to Financial Statements (continued)
(In Canadian dollars)

Year ended June 30, 2023

3. Significant accounting policies (continued):

(ii) Business model assessment:

Business model assessment involves determining whether financial assets are managed in order to generate cash flows from collection of contractual cash flows. The Corporation takes into consideration the following factors:

- (a) How the performance of assets in a portfolio is evaluated and reported;
- (b) The risks that affect the performance of assets held within a business model and how those risks are managed; and
- (c) Whether the assets are held for trading purposes.

(iii) Cash flow characteristics assessment:

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI").

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instruments due to repayments.

Interest is defined as consideration for the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs (liquidity risk and administrative costs), as well as a profit margin.

In performing this assessment, the Corporation takes into consideration contractual features that could change the amount or timing of contractual cash flows, such that the cash flows are no longer consistent with a basic lending arrangement. If the Corporation identifies any contractual features that could modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

CMI PRIME MORTGAGE FUND CORP.

Notes to Financial Statements (continued)
(In Canadian dollars)

Year ended June 30, 2023

3. Significant accounting policies (continued):

(a) Debt instruments measured at amortized cost:

Debt instruments are measured at amortized cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent SPPI. After initial measurement, debt instruments in this category are carried at amortized cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. Amortized cost is calculated taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate. Amortization is included in interest income in the statement of income and comprehensive income.

Impairment on debt instruments measured at amortized cost is calculated using the ECL approach. Loans and debt securities measured at amortized cost are presented net of the ACL in the statement of financial position.

(b) Debt instruments measured at FVOCI:

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the assets' cash flows represent payments that are SPPI. Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive income ("OCI"), unless the instrument is designated in a fair value hedge relationship.

CMI PRIME MORTGAGE FUND CORP.

Notes to Financial Statements (continued)
(In Canadian dollars)

Year ended June 30, 2023

3. Significant accounting policies (continued):

Impairment on debt instruments measured at FVOCI is calculated using the ECL approach. The ACL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the statement of financial position, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI with a corresponding charge to provision for impairment allowance in the statement of income and comprehensive income. The accumulated allowance recognized in OCI is recycled to the statement of income and comprehensive income upon derecognition of the debt instrument. At June 30, 2023 and 2022, the Corporation had no instruments classified at FVOCI.

(c) Debt instruments measured at FVTPL:

Debt instruments measured at FVTPL include assets held for trading purposes, assets held as part of a portfolio managed on a fair value basis and assets whose cash flows do not represent payments that are SPPI. These instruments are measured at fair value in the statement of financial position, with transaction costs recognized immediately in the statement of income and comprehensive income as part of non-interest income. Realized and unrealized gains and losses are recognized as part of non-interest income in the statement of income and comprehensive income. At June 30, 2023 and 2022, the Corporation had no instruments classified at FVTPL.

(iv) Impairment:

The Corporation recognizes loss allowances for ECL on financial assets measured at amortized cost. The Corporation applies a three-stage approach to measure ACL. The Corporation measures loss allowance at an amount equal to 12 months of expected losses for performing loans if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1) and at an amount equal to lifetime expected losses on performing loans that have experienced a significant increase in credit risk since origination (Stage 2) and on credit impaired loans (Stage 3).

CMI PRIME MORTGAGE FUND CORP.

Notes to Financial Statements (continued)
(In Canadian dollars)

Year ended June 30, 2023

3. Significant accounting policies (continued):

At each reporting date, the Corporation assesses whether there has been a significant increase in credit risk for exposures since initial recognition by assessing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information with consideration of collateral, and the impact of forward-looking macro-economic factors, management judgment and delinquency and monitoring.

With regards to delinquency and monitoring, there is a rebuttable presumption that the credit risk of the financial instrument has increased since initial recognition when contractual payments are more than 30 days overdue.

(a) Measurement of ECL:

The probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD") inputs used to estimate ECL are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio.

Details of these statistical parameters/inputs are as follows:

PD - The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognized and is still in the portfolio.

EAD - The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD - The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

CMI PRIME MORTGAGE FUND CORP.

Notes to Financial Statements (continued)
(In Canadian dollars)

Year ended June 30, 2023

3. Significant accounting policies (continued):

(b) Macroeconomic factors:

In its model, the Corporation relies on forward looking information as economic inputs, such as house price indices. The inputs and model used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using expert credit judgment.

(c) Assessment of significant increase in credit risk ("SIR"):

At each reporting date, the Corporation assesses whether there has been a SIR for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information with consideration of collateral, and the impact of forward-looking macro-economic factors, management judgment and delinquency and monitoring.

The common assessments for SIR on investment portfolios include macroeconomic outlook, management judgment, and delinquency and monitoring. Forward looking macroeconomic factors are a key component of the macroeconomic outlook. The importance and relevance of each specific macroeconomic factor depends on the type of product, characteristics of the financial instruments and the borrower and the geographical region. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a SIR.

Qualitative factors may be assessed to supplement the gap. With regards to delinquency and monitoring, there is a rebuttable presumption that the credit risk of the financial instrument has increased since initial recognition when contractual payments are more than 30 days overdue.

CMI PRIME MORTGAGE FUND CORP.

Notes to Financial Statements (continued)
(In Canadian dollars)

Year ended June 30, 2023

3. Significant accounting policies (continued):

(d) Presentation of ACL in the statement of financial position:

- (i) Financial assets measured at amortized cost: as a deduction from the gross carrying amount of the financial assets; and
- (ii) Debt instruments measured at FVOCI: no allowance is recognized in the statement of financial position because the carrying value of these assets is their fair value. However, the allowance determined is presented in the accumulated OCI.

(e) Definition of default:

The Corporation considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

- (i) significant financial difficulty of the borrower;
- (ii) default or delinquency in interest or principal payments;
- (iii) high probability of the borrower entering a phase of bankruptcy or a financial reorganization; and
- (iv) measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan.

The Corporation considers that default has occurred and classifies the financial asset as impaired when it is more than 90 days past due, unless reasonable and supportable information demonstrates that a more lagging default criterion is appropriate.

CMI PRIME MORTGAGE FUND CORP.

Notes to Financial Statements (continued)
(In Canadian dollars)

Year ended June 30, 2023

3. Significant accounting policies (continued):

(e) Recognition and measurement of financial instruments:

The Corporation determines the classification of its financial assets and liabilities at initial recognition. Financial instruments are recognized initially at fair value and in the case of financial assets and liabilities carried at amortized cost, adjusted for directly attributable transaction costs. Financial instruments classified as loans and receivables or other liabilities are subsequently measured at amortized cost.

(f) Derecognition of financial assets and liabilities:

(i) Financial assets:

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expires, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or in which the Corporation neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Corporation is recognized as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of: (a) the consideration received (including any new asset obtained less any new liability assumed) and (b) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

The Corporation enters into transactions whereby it transfers mortgage investments recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred mortgage investments. If all or substantially all risks and rewards are retained, then the transferred mortgage investments are not derecognized.

In transactions in which the Corporation neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Corporation continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

CMI PRIME MORTGAGE FUND CORP.

Notes to Financial Statements (continued)
(In Canadian dollars)

Year ended June 30, 2023

3. Significant accounting policies (continued):

(ii) Financial liabilities:

The Corporation derecognizes a financial liability when the obligation under the liability is discharged, cancelled or expired.

(g) Share capital:

In accordance with IAS 32, the Corporation's preferred shares are classified as equity due to the fact that the Corporation may, in whole or in part, suspend or postpone, or continue a suspension or postponement of, the right to redeem any preferred shares for any reason or cause in its sole discretion thus meeting the definition of equity in IAS 32. Incremental costs directly attributable to the issue of common shares and preferred shares are recognized as a deduction from equity.

Incremental costs directly attributable to the issue of preferred shares are recognized as a deduction from equity.

4. Mortgage investments:

The following is a breakdown of the mortgage investment portfolio as at June 30, 2023 and 2022:

		2023		2022
First mortgages	100.0%	\$ 4,566,472	100.0%	\$ 3,699,182
Provision for impairment		(10,647)		(6,646)
Total mortgages (at amortized cost), net		\$ 4,555,825		\$ 3,692,536

CMI PRIME MORTGAGE FUND CORP.

Notes to Financial Statements (continued)
(In Canadian dollars)

Year ended June 30, 2023

4. Mortgage investments (continued):

The mortgage investments are secured by the real property to which they relate, bear interest at a weighted average interest rate of 8.90% (2022 - 6.65%) with a weighted average term to maturity of 9.49 months as at June 30, 2023 (2022 - 5.53 months). As at June 30, 2023, there is \$29,847 of prepaid interest (2022 - \$10,480), representing interest paid in advance by the borrower. Prepaid interest is recognized on a straight-line basis over the term of the mortgage.

The following is a breakdown of the mortgage investment portfolio as at June 30, 2023 and 2022:

	Gross carrying amount	Allowance for credit losses	Net carrying amount
2023			
First mortgages	\$ 4,566,472	\$ 10,647	\$ 4,555,825
Total mortgage portfolio	\$ 4,566,472	\$ 10,647	\$ 4,555,825

	Gross carrying amount	Allowance for credit losses	Net carrying amount
2022			
First mortgages	\$ 3,699,182	\$ 6,646	\$ 3,692,536
Total mortgage portfolio	\$ 3,699,182	\$ 6,646	\$ 3,692,536

The following tables presents for gross investments at amortized cost as at June 30, 2023 and 2022:

	Stage 1	Stage 2	Stage 3	Total
2023				
First mortgages:				
Residential	\$ 4,566,472	\$ —	\$ —	\$ 4,566,472
Total	\$ 4,566,472	\$ —	\$ —	\$ 4,566,472

CMI PRIME MORTGAGE FUND CORP.

Notes to Financial Statements (continued)
(In Canadian dollars)

Year ended June 30, 2023

4. Mortgage investments (continued):

2022	Stage 1	Stage 2	Stage 3	Total
First mortgages: Residential	\$ 3,489,182	\$ –	\$ 210,000	\$ 3,699,182
Total	\$ 3,489,182	\$ –	\$ 210,000	\$ 3,699,182

The following tables presents the provision for credit losses on investments as at June 30, 2023 and 2022:

2023	Stage 1	Stage 2	Stage 3	Total
First mortgages: Residential	\$ 10,647	\$ –	\$ –	\$ 10,647
Total	\$ 10,647	\$ –	\$ –	\$ 10,647

2022	Stage 1	Stage 2	Stage 3	Total
First mortgages: Residential	\$ 6,269	\$ –	\$ 377	\$ 6,646
Total	\$ 6,269	\$ –	\$ 377	\$ 6,646

The following table presents the changes to the provision for credit losses on investments as at June 30, 2023:

	Stage 1	Stage 2	Stage 3	Total
Balance at July 1, 2022	\$ 6,359	\$ –	\$ 287	\$ 6,646
Net change in provision	4,288	–	(287)	4,001
Balance at June 30, 2023	\$ 10,647	\$ –	\$ –	\$ 10,647

A majority of the mortgages contain a prepayment option, whereby the borrower may repay the principal at any time prior to maturity with a pre-payment penalty of three months of interest on the outstanding balance.

CMI PRIME MORTGAGE FUND CORP.

Notes to Financial Statements (continued)
(In Canadian dollars)

Year ended June 30, 2023

4. Mortgage investments (continued):

The Corporation also assessed for impairment to identify potential future losses on a collective basis by grouping the mortgage investments with similar risk characteristics, to determine whether a collective allowance should be recorded due to loss events for which there is objective evidence but whose effects are not yet evident. Based on the amounts determined by the analysis, the Corporation used judgment to determine whether or not the actual future losses are expected to be greater or less than the amounts calculated. As at June 30, 2023, the Corporation has recognized a total impairment provision of \$10,647 (2022 - \$6,646).

5. Common shares:

The Corporation has been authorized to issue unlimited common shares without nominal or par value ("Common Shares").

Common shares issued and outstanding are as follows:

	2023	2022
Outstanding, beginning and end of year	\$ 100	\$ 100

6. Preferred shares:

The Corporation has been authorized to issue unlimited preferred shares of par value \$1 per share of preferred shares (the "Preferred Shares") on a private placement basis. The Preferred Shares are issuable, from time to time, in one or more series as determined by the Board of Directors.

The Preferred Shares rank prior to the Common Shares of the Corporation with respect to the payment of dividends. In the distribution of assets in the event of liquidation, dissolution or winding-up of the Corporation, the preferred shareholders shall be entitled to receive from the assets and property of the Corporation, for each preferred share held, the sum of \$1 together with all declared and unpaid dividends. Preferred shareholders shall not be entitled to share in any further distribution of the property of the Corporation.

CMI PRIME MORTGAGE FUND CORP.

Notes to Financial Statements (continued)
(In Canadian dollars)

Year ended June 30, 2023

6. Preferred shares (continued):

Preferred Shares issued and outstanding are as follows:

			2023	2022
	Series A	Series F	Total	Total
Balance, beginning of year	\$ 3,890,549	\$ –	\$ 3,890,549	\$ 1,672,079
Issued	–	1,337,216	1,337,216	3,020,300
Exchange	(3,489,920)	3,489,920	–	–
Redemption	(130,000)	(461,362)	(591,362)	(790,000)
Transaction costs	–	(18,343)	(18,343)	(22,449)
Dividend reinvestment plan	3,062	8,196	11,258	10,619
Balance, end of year	\$ 273,691	\$ 4,355,627	\$ 4,629,318	\$ 3,890,549

(a) Series A Preferred Shares:

The Corporation has issued Series A Preferred Shares in a private placement arrangement at a price of \$1 per share as noted in the offering memorandum dated October 29, 2020 amended and restated on October 31, 2021 and October 31, 2022. Each holder of Series A Preferred Shares is entitled to receive dividends if, as and when declared entirely at the discretion of the Board of Directors in such amounts, and payable in such manner, as the Board of Directors may from time to time determine.

The Class A Preferred Shares are redeemable at the option of the holder at a price of \$1 per share, provided that the minimum 12 months holding period has been met and the total of redemption in the same calendar quarter does not exceed 10% of the total preferred shares outstanding. The aggregate redemption amount is \$273,691 (2022 - \$3,912,998).

(b) Series F Preferred Shares:

The Corporation has issued Series F Preferred Shares in a private placement arrangement at a price of \$1 per share as noted in the offering memorandum dated October 20, 2020 and amended and restated on October 31, 2021 and October 31, 2022. Each holder of Series F Preferred Shares is entitled to receive dividends if, as and when declared entirely at the discretion of the Board of Directors in such amounts, and payable in such manner, as the Board of Directors may from time to time determine.

CMI PRIME MORTGAGE FUND CORP.

Notes to Financial Statements (continued)
(In Canadian dollars)

Year ended June 30, 2023

6. Preferred shares (continued):

At the sole discretion of the Board of Directors, the Class F Preferred Shares are redeemable at the option of the holder at a price of \$1 per share, provided that the minimum 12 months holding period has been met and the total of redemption in the same calendar quarter does not exceed 5% of the total preferred shares outstanding. The aggregate redemption amount is \$4,373,970 (2022 - nil).

(c) Redemption at option of Corporation:

The Corporation may, upon giving notice, redeem the whole or any part of the Series A Preferred Shares then outstanding on payment for each such share to be redeemed of an amount equal to: (i) \$1 per share; plus (ii) all declared and unpaid dividends on a share accrued up to the date fixed for redemption. Notice of such a redemption must be given by the Corporation to each person whose shares are to be redeemed at least 21 days before the date specified for redemption.

A registered holder of the Series A Preferred Shares is entitled to require the Corporation to redeem all or any of its Series A Preferred Shares by filing a redemption request notice. A redemption request notice must be received by the Corporation at least 90 days prior to the redemption date.

The redemption amount will equal to: (i) \$1 per share; plus (ii) all declared and unpaid dividends on a share accrued up to the date fixed for redemption.

(d) Suspension of redemption right:

The Corporation may, in whole or in part, suspend or postpone, or continue a suspension or postponement of, the right to redeem any preferred shares for any reason or cause in its sole discretion.

(e) Dividends to preferred shareholders:

Holders of the Preferred Shares are entitled to receive non-cumulative dividends, in any form or amount, as and when declared from time to time by the directors of the Corporation, acting in their sole discretion, out of the moneys of the Corporation properly applicable to the payment of dividends.

CMI PRIME MORTGAGE FUND CORP.

Notes to Financial Statements (continued)
(In Canadian dollars)

Year ended June 30, 2023

6. Preferred shares (continued):

The Corporation intends to calculate and declare dividends on a monthly basis on the last business day of each month (or as otherwise declared by the Corporation) and to pay such dividends generally within fifteen days after the end of each month and in any event within 90 days of its year end. The investors receive the dividend payment in accordance with the class of preferred shares held at the date of the distribution. The payment of dividends is subject to the discretion of the Board of Directors to establish working capital and other reserves for the Corporation and to comply with the Articles and applicable laws.

During the year ended June 30, 2023, the Corporation declared dividends of \$309,416 (2022 - \$188,156) for Series A and Series F Preferred Shares.

(f) Dividend reinvestment plan:

The Company has adopted a dividend reinvestment plan which provides the investors with the opportunity to reinvest their interest distribution, on each distribution payment date, for additional preferred shares rather than cash. During the year, a total of \$11,258 (2022 - \$10,619) in dividends has been reinvested under the dividend reinvestment plan.

(g) Share exchange:

During the year, registered holders of Class A Preferred Shares have exchanged their shares to Class F Preferred Shares on a one for one basis under the same terms and conditions.

7. Related party transactions:

(a) Management and performance fees:

The Manager serves as the investment manager for the Corporation.

The Manager is responsible for the day-to-day operations of the Corporation, including administration of the Corporation's mortgage investments. The Corporation has entered into a management agreement with the Manager. Under the management agreement, the Corporation shall pay to the Manager, a management fee equal to 1% per annum, plus harmonized sales tax, of the aggregate face value of all assets invested in mortgage by the Corporation, calculated and paid monthly. For the year ended June 30, 2023, the Corporation incurred management fees of \$50,244 (2022 - \$26,665).

CMI PRIME MORTGAGE FUND CORP.

Notes to Financial Statements (continued)
(In Canadian dollars)

Year ended June 30, 2023

7. Related party transactions (continued):

Under the management agreement, the Corporation shall pay to the Manager an annual performance fee equal to an amount not to exceed 20% of the net yield over and above 5.5% per annum generated from all investments to be calculated at the end of the fiscal year. For the year ended June 30, 2023, the Corporation incurred performance fees of \$16,966 (2022 - \$5,417).

As at June 30, 2023 and June 30, 2022, there were no management fees payable to Manager or performance fees payable to the Manager included in accounts payable.

(b) Amounts due from related companies:

	2023	2022
Amounts due from CMI Balanced Fund	\$ —	\$ 20,627
Amounts due from CMI Mortgage Investments Inc., a company related by virtue of common management	149,261	41,493
Amount due from CSI	182	—
Total	\$ 149,443	\$ 62,120

Amounts due from related parties are non-interest bearing.

(c) Amounts due to related parties:

	2023	2022
Due to CMI Balanced Mortgage Fund Corp., a party related by virtue of common management and control, unsecured, non-interest bearing and due on demand	\$ 32,601	\$ —

CMI PRIME MORTGAGE FUND CORP.

Notes to Financial Statements (continued)
(In Canadian dollars)

Year ended June 30, 2023

7. Related party transactions (continued):

(d) Participation fee:

The Corporation recognized \$107,767 in fees from CMI Mortgage Investments Inc. for the year ended June 30, 2023 (2022 - \$22,801). The fees are charged by the Corporation to CMI Mortgage Investments Inc. and represent a percentage of interest on funds provided by the Corporation to CMI Mortgage Investments Inc. during the year for the origination of loans as well as lender fees earned by CMI Mortgage Investment Inc. on loans originated for the Corporation. CMI Mortgage Investments Inc. earns origination fees payable by the borrower on loans originated on behalf of the Corporation of between 2% and 3% of the principal balance.

The determination of the participation fee charged by the Corporation is at the discretion of the Manager.

As at June 30, 2023, amounts due to related parties includes fees receivable from CMI Mortgage Investments Inc. of \$130,568 (2022 - \$22,801), which management expects to be fully settled by June 30, 2025.

8. Fair value:

The fair values of interest and fees receivable, advances to related companies, accounts payable and accrued liabilities, and advances from related companies approximate their carrying values due to their short-term maturities.

The fair value of the mortgage investments approximates its carrying value as the majority of the loans are repayable in full at any time with applicable penalties, and have short-term fixed interest rates. There is no quoted price in an active market for the mortgage investments. The Corporation makes its determinations of fair value based on its assessment of the current lending market for mortgage of same or similar terms. As a result, the fair values of mortgage investments are classified as Level 3 fair value.

CMI PRIME MORTGAGE FUND CORP.

Notes to Financial Statements (continued)
(In Canadian dollars)

Year ended June 30, 2023

9. Capital risk management:

The Corporation manages its capital structure in order to support ongoing operations while focusing on its primary objectives of preserving shareholder capital and generating a stable monthly cash dividend to shareholders. The Corporation defines its capital structure to include Common Shares and Preferred Shares net of cash and cash equivalents.

The Corporation reviews its capital structure on an ongoing basis and adjusts its capital structure in response to mortgage investment opportunities, the availability of capital and anticipated changes in general economic conditions.

The Corporation's investment restrictions and asset allocation model incorporate various restrictions and investment parameters to manage the risk profile of the mortgage investments.

10. Risk management:

The Corporation is exposed to the symptoms and effects of Canadian economic conditions and other factors that could adversely affect its business, financial condition and operating results. Many of these risk factors are beyond the Corporation's direct control. The Manager and Board of Directors play an active role in monitoring the Corporation's key risks and in determining the policies that are best suited to manage these risks.

The Corporation's business activities, including its use of financial instruments, exposes the Corporation to various risks, the most significant of which are interest rate risk, credit risk and liquidity risk.

(a) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of financial assets or financial liabilities will fluctuate because of changes in market interest rates. As at June 30, 2023, no mortgage investments bear interest at variable rates.

The Corporation's other assets and liabilities, which include interest and fees receivable, advances to related companies, and accounts payable and accrued liabilities have no exposure to interest rate risk due to their short-term nature.

CMI PRIME MORTGAGE FUND CORP.

Notes to Financial Statements (continued)
(In Canadian dollars)

Year ended June 30, 2023

10. Risk management (continued):

(b) Credit risk:

Credit risk is the possibility that a borrower may be unable to honour its debt commitments as a result of a negative change in market conditions that could result in a loss to the Corporation.

The Corporation mitigates this risk by the following:

- (i) adhering to the investment restrictions and operating policies included in the underwriting policies and procedures manual (subject to certain duly approved exceptions);
- (ii) all mortgage investments are approved by the investment committee before funding; and
- (iii) actively monitoring the mortgage investments and initiating recovery procedures, in a timely manner, where required.

The maximum exposure to credit risk as at June 30, 2023 is the carrying values of its net mortgage investments including interest receivable, amounting to \$4,555,825 (2022 - \$3,692,536).

The Corporation has recourse under these mortgage investments in the event of default by the borrower; in which case, the Corporation would have a claim against the underlying collateral.

As at June 30, 2023, there is nil mortgage (2022 - 1) investment totalling nil (2022 - \$210,000), including interest and fees receivable on these totalling nil (2022 - \$6,116) that are past due for 30 days but not considered impaired. The Corporation has reviewed these loans and determined an ECL is not required given the value of the underlying collateral.

CMI PRIME MORTGAGE FUND CORP.

Notes to Financial Statements (continued)
(In Canadian dollars)

Year ended June 30, 2023

10. Risk management (continued):

(c) Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company is exposed to this risk mainly in respect of its redeemable preferred shares.

To mitigate its liquidity risk, the Company maintains cash reserves against possible redemptions. In addition, the Company restricts the amount redeemable in respect of the total preferred shares outstanding to a maximum of 10% in the same calendar quarter, subject to a minimum 12 month holding period. Refer to note 6 for further information regarding the Company's redeemable preferred shares.

11. Commitments and contingencies:

In the ordinary course of business activities, the Corporation may be contingently liable for litigation and claims arising from investing in mortgages. Where required, management records adequate provisions in the accounts.

12. Subsequent events:

Subsequent to year end, the Corporation declared and paid monthly dividends of \$0.005 per share to shareholders of record as at July 15, 2023, August 15, 2023 and September 15, 2023.

In addition, the Corporation issued additional preferred shares in the amount of \$300,000 in July 2023, \$130,000 in August 2023 and \$200,000 in September 2023.