cmls asset management

CMLS mortgage fund

Q2 2026 report

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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 Jun 30, 2026, the Fund had total Mortgages Under Administration ("MUA") of $297.3 million compared to $256.7 million as at Mar 31, 2026, an increase of $40.6 million quarter-over-quarter. As at Jun 30, 2026, the weighted average coupon of the portfolio excluding cash was 7.74% and the weighted average term to maturity was 1.12 years vs. a weighted average coupon of 7.85% and a weighted average term to maturity of 1.11 years for the quarter ended Mar 31, 2026.

Exhibit 1
Geographic composition

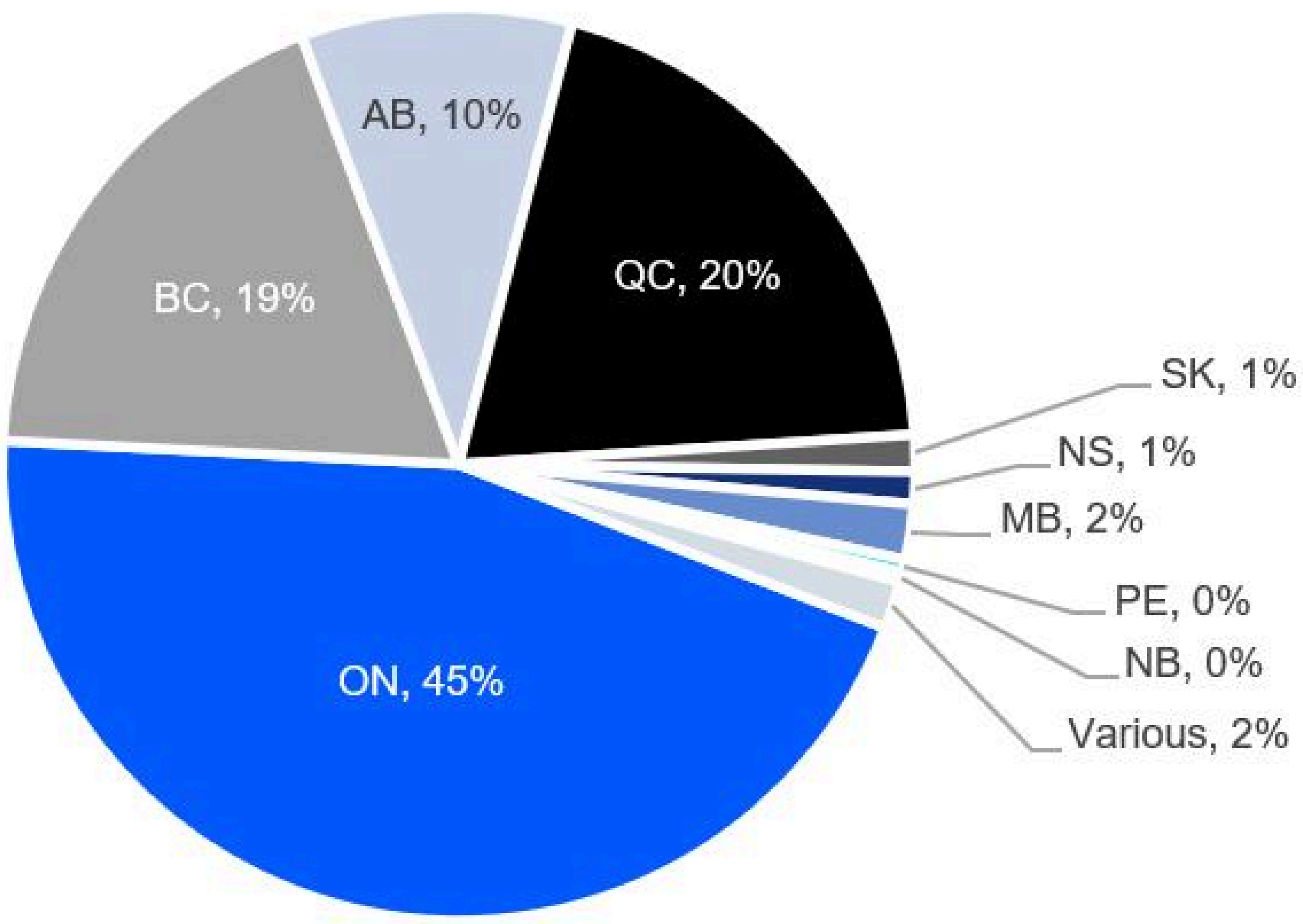
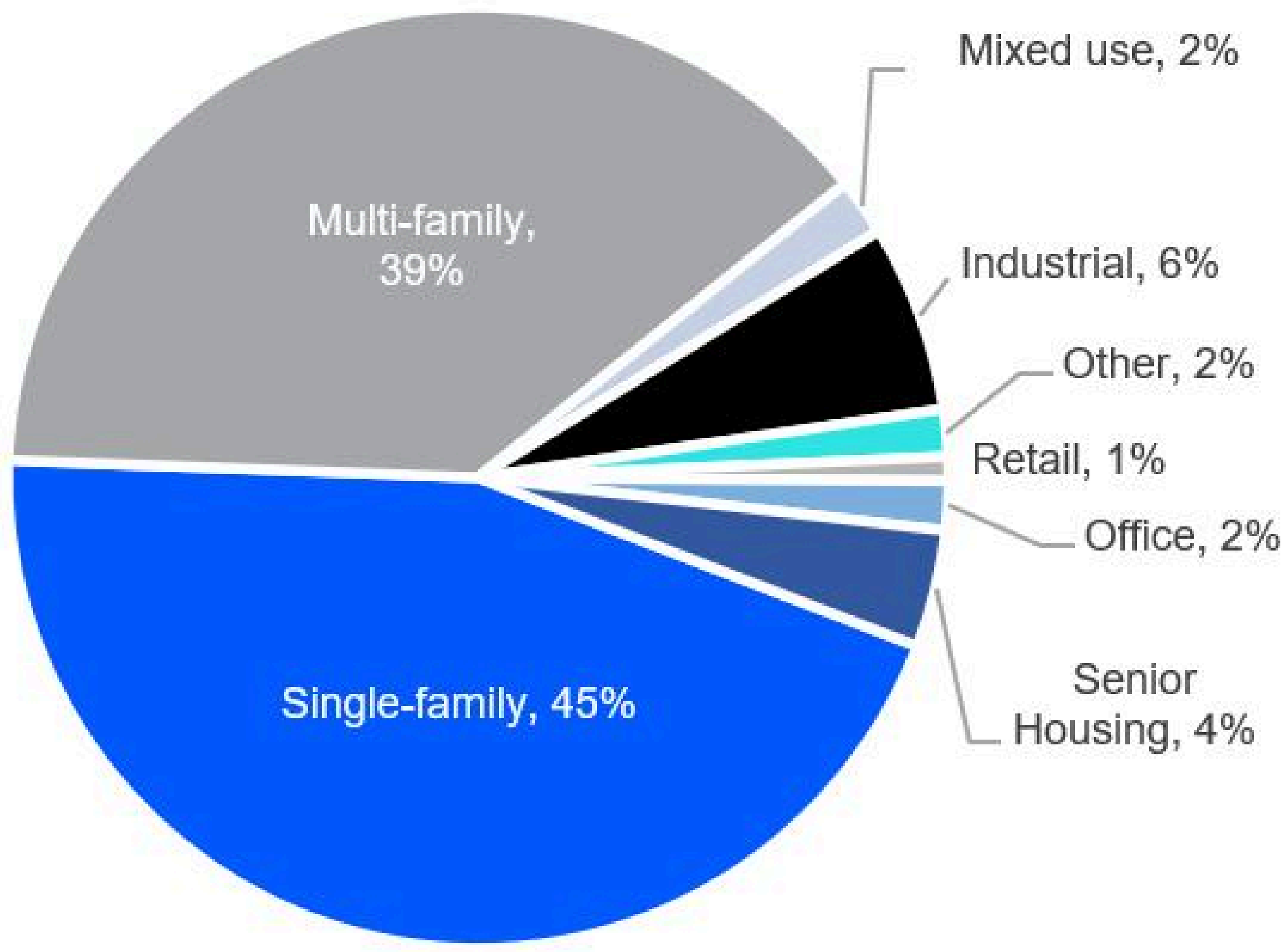


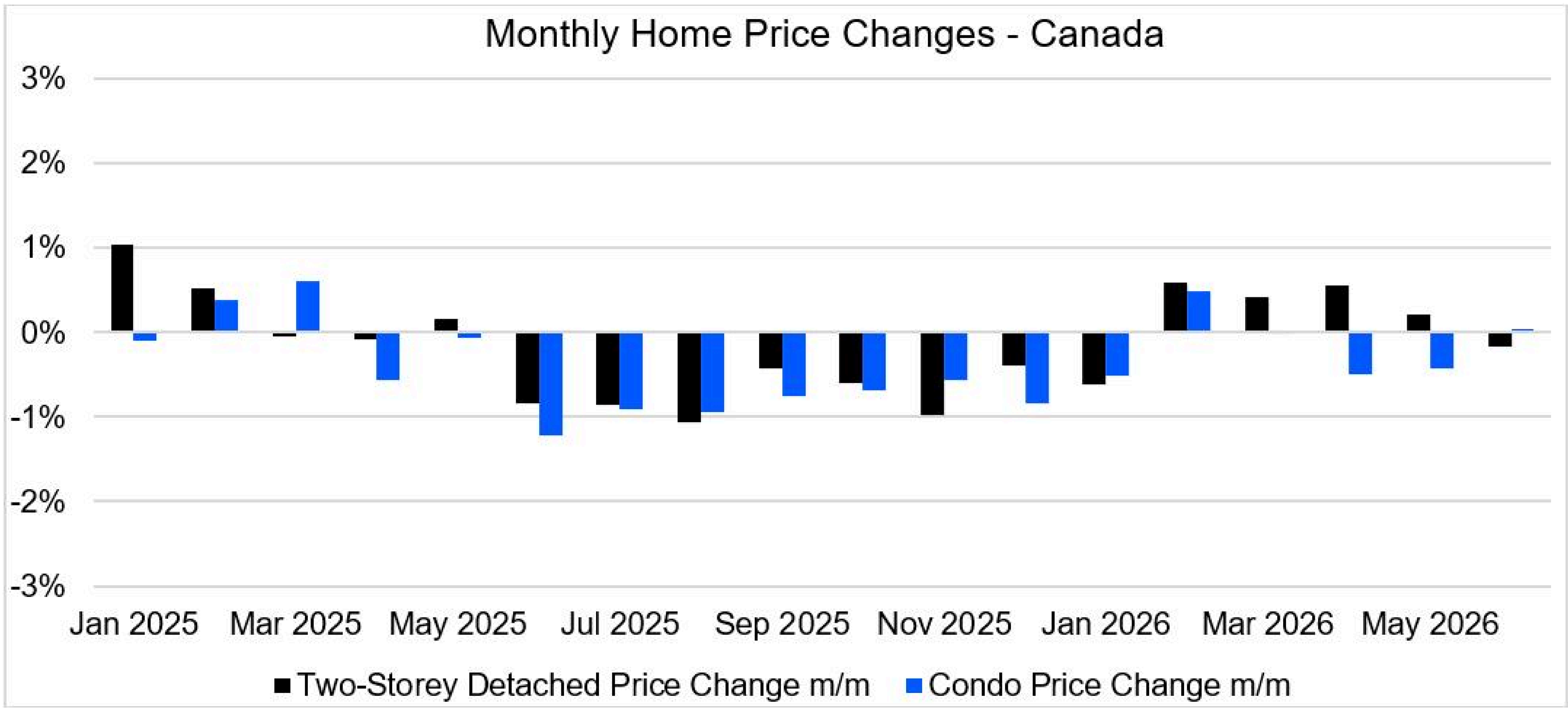
Exhibit 2
Asset class composition



Notes: as of June 30, 2026

Commentary & Outlook (continued)

The second quarter of the year finally saw some life coming back to the single-family real estate market. After five consecutive months of decreasing home sales heading into April, we have now had three straight months of increases[1]. While the numbers don't jump off the page (June sales are up 7% compared to March), it is a positive reversal to the prior trend. This increase in sales activity combined with declining new listings has resulted in the months of inventory in the market falling to 4.8, which is the lowest level reached in 2026. Unsurprisingly, this has supported housing prices, as we have seen them level out after falling throughout 2025. Two-storey detached prices are up 1% in 2026 and condo prices are down 1%[2]. This compares to a decrease by 5% each in 2025.



The increase in sales has corresponded with additional lending opportunities for the fund. We funded $46 million of single-family residential mortgages in Q2, exceeding the $33 million that we funded in Q1. Although not directly linked to the increasing sales activity in the single-family residential market, we also had increased multi-family residential and commercial fundings, going from $30 million in Q1 to $37 million in Q2. Due to our low duration (1.12 years), loans are frequently paid out and replaced by newly funded loans. There were $113 million of mortgages repaid in the first half of the year, which represents 42% of our average mortgage balance. The combination of strong funding volume and loan repayment has resulted in the makeup of the fund being predominantly newly funded loans. The majority of loans (81%) currently held were funded in the past twelve months, and 39% were funded in the past 6 months. We view this constant turnover as a key line of defense, not only in that it limits our exposure to swings in values over long periods of time, but also in how the loan repayments provide a consistent source of liquidity.

[1] The Canadian Real Estate Foundation
[2] The Canadian Real Estate Foundation

Commentary & Outlook (continued)

As usual, portfolio allocations have remained steady. One notable change is that we have continued to increase our allocation to loans in Quebec, going from 15% to 20% since Q1. As we have messaged in the past, Quebec has one of the strongest housing markets in Canada due to its relative affordability, and we are tactically allocating to this market. We had a slight downward shift in single-family residential, declining from 48% to 45%, and an offsetting increase in multi-family residential from 36% to 39%. A byproduct of the increase to multi-family residential loans is that our subordinate debt exposure increased (went from 30% to 37%), which we're expecting to come back down in the latter half of the year. The weighted-average loan-to-value ratio of the fund (declined from 63% to 62%) and the duration (increased slightly from 1.11 to 1.12 years) have been very steady.

To facilitate the growth of the fund, we finalized an increase to our line-of-credit, bringing it from $50 million to $100 million in capacity. Those who have read our newsletters or quarterly reports in the past will know that using leverage to enhance returns is not a core part of our strategy, we instead use it to stay fully invested as loans are repaid to avoid cash drag. This strategy is not changing, and the increase in leverage capacity is simply a result of the growth of the fund. Our targeted leverage position is 10-20%, and we are comfortably sitting at 14%. Through this increase, we are able to maintain excess capacity on our line while avoiding cash drag.

Investors likely noticed that fund returns were slightly lower in the first half of the year (6.41% annualized) compared to 2025. A primary contributor was the markdown of two loans in May, which resulted in a lower than normal monthly return (0.41%, or 4.94% annualized). The markdown related to two cross-collateralized commercial loans with the same borrower that are in arrears. They are secured by three mixed-use properties (ground floor retail with apartments above) and a parking lot in behind, and represent 2.42% of mortgage investments. We have taken possession of the properties and are in the process of marketing them for sale. In May, we brought the value of the mortgages down to the expected net realizable value of the properties as determined by our affiliate nesto cloud in their monthly revaluation of our commercial mortgage portfolio. As a result of our granular exposures (337 loans), we are not overly exposed to individual positions, minimizing the impact from this mark down.

Portfolio performance has otherwise remained resilient. Overall mortgage arrears remain low and decreased quarter-over-quarter from 3.43% to 3.28%. Beyond the two commercial loans discussed above (2.42%), we have no arrears in the multi-family / commercial segment of the portfolio. The remainder of arrears (0.87%) stem from single-family residential loans. Single-family residential arrears have decreased over the past couple years, peaking at 2.98% in October 2024, remaining near the 2% level through most of 2025, and now sitting below 1%. Our focus on high quality borrowers (w.avg credit score of 752) continues to pay dividends in supporting the performance of the portfolio.

Heading into Q3, we are encouraged by the increased activity in the single-family housing market, and the strong pipeline of lending opportunities that we are seeing across all asset types. Supported by strong credit quality and low portfolio arrears, we are well positioned for the months ahead. As always, our goal remains capital preservation, while providing strong risk adjusted returns to unitholders. We appreciate the continued trust that you place in CMLS Asset Management and look forward to the second half of the year.

Financial Highlights

Mortgage Investments

	Quarter ended June 30, 2026	Quarter ended March 31, 2026
Mortgage investments	$297,294,678	$256,730,190
Total number of mortgage investments	337	314
Average mortgage investment	$882,180	$817,612
Weighted average interest rate	7.74%	7.85%
Weighted average LTV ratio	62.47%	62.50%
Weighted average term to maturity (years)	1.12	1.11
Leverage	14.057%	0.003%
Net assets attributable to holders of redeemable units	$256,855,657	$258,313,549
Net Asset Value ("NAV") per unit	$10.00	$10.01

Net Asset Value (“NAV”)

NAV – Mar 31, 2026	258,313,549
Subscriptions	8,646,751
Redemptions	(11,967,922)
Reinvested distributions	2,162,861
Unrealized Gain/(Loss)	(299,582)
NAV – Jun 30, 2026	**256,855,657**

Portfolio Allocation

As at Jun 30, 2026, the Fund's portfolio included mortgage investments of $297 million and was comprised of 337 investments, which were allocated across the categories listed below (excludes cash).

Geography

	Number of mortgages	Outstanding balance	% of portfolio
ON	205	$ 133,759,264	45%
QC	12	59,334,848	20%
BC	48	55,228,133	19%
AB	43	28,546,748	10%
MB	22	5,838,067	2%
Various	1	5,001,336	2%
SK	3	3,853,648	1%
NS	1	3,380,000	1%
PE	1	1,354,157	0%
NB	1	998,477	0%
	337	**$ 297,294,678**	**100%**

Asset Type

	Number of mortgages	Outstanding balance	% of portfolio
Single-family	288	$ 133,068,750	45%
Multi-family	36	114,943,199	38%
Industrial	5	19,177,896	6%
Senior Housing	1	12,000,000	4%
Mixed Use	2	5,860,000	2%
Office	1	5,000,000	2%
Other	2	4,795,823	2%
Retail	2	2,449,010	1%
	337	**$ 297,294,678**	**100%**

Maturity

	Number of mortgages	Outstanding balance	% of portfolio
Less than 1 year	198	$ 173,397,608	58%
1 to 3 years	132	96,316,196	33%
More than 3 years	7	27,580,874	9%
	337	**$ 297,294,678**	**100%**

Portfolio Allocation (continued)

Interest Rate

	Number of mortgages	Outstanding balance	% of portfolio
Less than 6.00%	47	$ 23,058,690	8%
6.00% to 6.49%	51	19,084,342	6%
6.50% to 6.99%	76	48,626,034	16%
7.00% to 7.49%	58	47,428,603	16%
7.50% to 7.99%	49	58,272,129	19%
Greater than 7.99%	56	100,824,880	35%
	337	**$ 297,294,678**	**100%**

Loan-to-appraised value

	Number of mortgages	Outstanding balance	% of portfolio
60% or below	138	$ 89,749,901	30%
60% to 70%	132	114,375,571	39%
70% to 80%	62	77,166,006	26%
above 80%	5	16,003,200	5%
	337	**$ 297,294,678**	**100%**

Emissions Tracking

Emissions*

	Q3 2025	Q4 2025	Q1 2026	Q2 2026
Total Financed Emissions (KT of CO2)	1.368	1.756	1.780	2.034
Total Financed Emissions (KT of CO2) per $100M	0.623	0.713	0.693	0.684

Data Accuracy

	Q3 2025	Q4 2025	Q1 2026	Q2 2026
Energy usage: directly reported; Energy source: directly reported	0%	0%	0%	0%
Energy usage: market avg; Energy source: directly reported	85%	90%	90%	91%
Energy usage: market avg; Energy source: market avg	15%	10%	10%	9%

*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 CO2 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 CO2 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 June 30, 2026 (unaudited)

	June 30, 2026	Mar 31, 2026
Investment income		
Interest	$ 5,124,316	$ 4,494,923
Other fees	400,351	290,070
Realized Gain/(Loss) on Financial Instruments	–	–
	5,524,667	4,784,993
Expenses		
Management fee, net of rebates	541,175	525,158
Other expense	250,513	99,147
Mortgage service fees	113,745	102,777
Interest expense	312,633	77,042
Total Expenses	1,218,066	804,124
Expenses waived/absorbed by the Manager	(42,879)	-
Total Expenses (net)	1,175,187	804,124
Net investment income	$ 4,349,480	$ 3,980,869
Unrealized Gain/(Loss)	(299,582)	45,866
Net investment income	$ 4,049,898	$ 4,026,735

Statement of Net Assets
For the quarter ended June 30, 2026 (unaudited)

	June 30, 2026	Mar 31, 2026
Assets		
Cash	$ -	$ -
Net Mortgage investments	**292,293,341**	251,702,390
Other investments	**5,001,336**	5,027,800
Other receivables	**1,949,400**	2,379,904
Investment income receivable	**1,559,341**	1,280,829
Deferred Financing Fees	**28,803**	10,990
Prepaids	**7,489**	21,778
Due from Manager	**42,879**	–
	300,882,589	260,423,691
Liabilities		
Bank indebtedness	**41,789,762**	8,630
Accounts payable and accrued liabilities	**357,239**	314,952
Subscriptions received in advance	**415,000**	300,000
Distribution payable	**1,464,931**	1,486,560
	44,026,932	2,110,142
Net assets	**$ 256,855,657**	$ 258,313,549
Units outstanding	**25,683,057**	25,798,461
Net assets per unit	**$ 10.00**	$ 10.01

Statement of Net Assets Attributable to Holders of Redeemable Units
For the quarter ended Jun 30, 2026 (unaudited)

Balance, beginning of period	**$ 258,313,549**
Net income	**4,049,898**
Issuance of units	**8,646,751**
Units reinvested	**2,162,861**
	14,859,510
Unitholder redemptions	**(11,967,922)**
Distributions to unitholders	**(4,349,480)**
	(16,317,402)
Balance, end of period	**$ 256,855,657**