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Notes to Financial Statements (continued)

Year ended December 31, 2022

**6. Promissory notes:**

The Company is authorized to issue an unlimited number of promissory notes which can be issued in one or more series. The initial minimum subscription amount for each holder of a promissory note is \$2,500. The promissory notes are payable on demand and bear interest at a variable interest rate which is determined on January 1 and July 1 of each year. The variable interest rate is equal to the overnight lending rate of the Bank of Canada plus 115 basis points. Interest is compounded and payable on a semi-annual basis on June 30 and December 31 of each year. The payment of the demand promissory notes will be limited to available cash, and the Company will use reasonable commercial efforts to cover such requests, but will not be required to sell assets or borrow money in order to fund such payments.

On December 20, 2021, the Company amended the terms and conditions of the promissory notes to allow for additional interest to be paid at the discretion of the Company. Effective January 1, 2022 to June 30, 2022, the interest rate on the promissory notes was increased by 20 basis points to 135 basis points above the overnight lending rate of the Bank of Canada. Effective July 1, 2022 to December 31, 2022, the interest rate on the promissory notes was increased by an additional 30 basis points to 165 basis points above the overnight lending rate of the Bank of Canada.

The following table summarizes the promissory notes as at December 31:

	2022	2021
Promissory notes	\$ 121,213,177	\$ 126,269,189
Less transaction costs	(266,038)	(422,023)
	<b>\$ 120,947,139</b>	<b>\$ 125,847,166</b>

The following table summarizes activity for the promissory notes for the period ending December 31:

	Note	2022	2021
Balance, beginning of year		\$ 125,847,166	\$ 130,427,625
Promissory notes issued		8,148,475	12,511,333
Transfer from preferred shares	7	8,000	8,500
Promissory notes repaid		(16,047,599)	(18,993,060)
Amortization of transaction costs		155,985	141,912
Interest on promissory notes		2,906,519	1,825,957
Transfer of interest on preferred shares	7	6,250	6,730
Interest paid		(77,657)	(81,831)
		<b>\$ 120,947,139</b>	<b>\$ 125,847,166</b>

# CCMBC INVESTMENTS LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2022

## 7. Preferred shares:

Preferred shares are issued on the first \$500 invested by an investor in the Company with the remainder invested in promissory notes. The preferred shares are redeemable at the option of the holder for \$1, with a minimum of fourteen days' notice to the Company. The preferred shares are not entitled to vote at any meetings of shareholders, except where otherwise provided by the Canada Business Corporations Act, and, in such case, they shall then be entitled to one vote for each preferred share held.

The preferred shares are entitled in each financial year of the Company, cumulative dividends at a rate equal to 1 percent of the redemption amount of \$1 per preferred share. Individual holders of preferred shares must subscribe for 500 preferred shares and no holder of preferred shares can hold more than 500 preferred shares.

The following table summarizes the preferred shares as at December 31, 2022:

	Number		Amount
Authorized:			
Unlimited preferred shares, non-voting, cumulative dividend entitlement of 1 percent of the redemption amount annually, redeemable at the option of the holder for \$1	630,500	\$	630,500

The following table summarizes the preferred shares as at December 31, 2021:

	Number		Amount
Authorized:			
Unlimited preferred shares, non-voting, cumulative dividend entitlement of 1 percent of the redemption amount annually, redeemable at the option of the holder for \$1	678,500	\$	678,500

The following table summarizes activity for the preferred shares for the year ending December 31:

	Note	2022	2021
Balance, beginning of year		\$ 678,500	\$ 752,500
Preferred shares issued		14,000	15,500
Preferred shares transferred to promissory notes	6	(8,000)	(8,500)
Preferred shares repurchased		(54,000)	(81,000)
Accrued interest		6,499	7,161
Interest paid		(249)	(431)
Transfer of interest to promissory notes	6	(6,250)	(6,730)
Balance, end of year		\$ 630,500	\$ 678,500

# CCMBC INVESTMENTS LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2022

## 8. Share capital:

On May 14, 2019, the Company issued 1 common share for cash consideration of \$100 to Legacy.

	Number	Amount
Authorized and issued: 1 common share	1	\$ 100

## 9. Management and investment management fees:

The Company is managed by Legacy. For the year ended December 31, 2022, the Company incurred management fees of \$500,000 (2021 - \$422,000).

The Company has entered into an Investment Management and Distribution Agreement with a third party that can be cancelled at any time on written notice without penalty. The investment management fees are as follows:

- \$400,000 on the first \$30,000,000 of assets under management (AUM)
- 0.80% on AUM from \$30,000,000 to \$50,000,000
- 0.60% on AUM from \$50,000,000 to \$150,000,000

For the year ended December 31, 2022, the Company incurred investment management fees of \$575,253 (2021 - \$660,427).

## 10. Related party transactions:

The Company is managed by Legacy and pays management fees as described in note 9.

During the year ended December 31, 2022, the Company donated \$2,290,000 (2021 - \$2,400,000) to Legacy.

### *Key management personnel:*

During the periods ended December 31, 2022 and 2021, no amounts were paid to the Company's Board of Directors. The compensation to the senior management of Legacy is paid through management fees paid to Legacy.

**CCMBC INVESTMENTS LTD.**

Notes to Financial Statements (continued)

Year ended December 31, 2022

**11. Income taxes:**

Components of income tax expense (recovery):

	2022	2021
Current taxes	\$ 196,354	\$ 163,405
Deferred taxes	26,473	23,619
<b>Total income taxes</b>	<b>\$ 222,827</b>	<b>\$ 187,024</b>

Reconciliation of total tax expense (recovery):

	2022	2021
Income before tax	\$ 919,862	\$ 751,546
Combined federal and provincial statutory tax rates	27%	27%
Expected income taxes using combined statutory rates	248,363	202,917
Effects of other differences, net	(25,536)	(15,893)
<b>Total income taxes</b>	<b>\$ 222,827</b>	<b>\$ 187,024</b>

Net deferred tax assets at December 31, 2022 and 2021:

	Statement of financial position	
	2022	2021
Provision for credit losses	\$ 59,110	\$ 68,639
Donation carryforward	89,503	107,835
Transaction costs	(12,607)	(13,996)
<b>Net deferred tax assets</b>	<b>\$ 136,006</b>	<b>\$ 162,478</b>

# CCMBC INVESTMENTS LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2022

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## 12. Fair value measurement:

When measuring the fair value of an asset or of a liability, the Company uses market observable data as much as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs). If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting year during which the change has occurred. There were no transfers between levels during the years ended December 31, 2022 and 2021.

The Company's other investments are carried at fair value and fair value is based on level 2 inputs.

There is no quoted price in an active market for the mortgage investments. The Manager makes its determination of fair value based on its assessment of the current lending market for the mortgage investments of same or similar terms. As a result, the fair value of mortgage investments is based on level 3 inputs. The fair value of mortgage investments approximates their carrying value as interest rates are comparable to market rates for similar instruments.

The promissory notes and preferred shares are due on demand and therefore their fair values approximate their carrying values. The fair values of the remaining financial assets and liabilities carried at amortized cost approximate their carrying values due to their short maturity.

**CCMBC INVESTMENTS LTD.**

Notes to Financial Statements (continued)

Year ended December 31, 2022

**13. Interest in unconsolidated structured entities:**

The table below describes the types of structured entities that the Company does not consolidate, but in which it holds an interest:

Type of structured entity	Nature and purpose	Interest held by the Company
Investments funds	To manage assets on behalf of third party investors and generate fees for the investment manager.  These vehicles are financed through the issue of units to investors.	Investment in units issued by the funds

The tables below set out interests held by the Company in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the financial assets held.

December 31, 2022				
Underlying funds	Number of underlying funds held		Total net assets of underlying funds	Carrying amount
Private mortgage funds			\$	\$ 24,810,921
Private fixed income funds				33,192,863
Underlying funds	Principal place of business	Country of domicile	Average cost	Carrying amount included in other investments
Private mortgage funds	Canada	Canada	\$ 24,544,084	\$ 24,810,921
Private fixed income funds	Canada	Canada	33,593,458	33,192,863
<b>Total</b>			<b>\$ 58,137,542</b>	<b>\$ 58,003,784</b>

December 31, 2021				
Underlying funds	Number of underlying funds held		Total net assets of underlying funds	Carrying amount
Private mortgage funds	2		\$ 254,871,043	\$ 21,991,031
Private fixed income funds	2		139,277,182	31,028,534
Underlying funds	Principal place of business	Country of domicile	Average cost	Carrying amount included in other investments
Private mortgage funds	Canada	Canada	\$ 21,826,099	\$ 21,991,031
Private fixed income funds	Canada	Canada	31,370,749	31,028,534
<b>Total</b>			<b>\$ 53,196,848</b>	<b>\$ 53,019,565</b>

# CCMBC INVESTMENTS LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2022

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## 13. Interest in unconsolidated structured entities (continued):

During the year, the Company did not provide financial support to unconsolidated structured entities and has no intention of providing financial or other support. The Company can redeem their investment in the underlying funds ranging from weekly to semi-annually.

The Company has determined the funds (Investee Funds) in which it invests are unconsolidated structured entities generally because decision making about the Investee Funds' investing activities is not governed by voting rights held by the Company and other investors.

The Investee Funds are managed by an asset manager who is unrelated to the Company (note 9) and applies various investment strategies to accomplish their respective investment objectives. These objectives include generating income and cash flow along with capital appreciation by investing in fixed income securities and mortgages. The private fixed income are invested in unconsolidated structured entities (investment funds) which comprise approximately      percent (2021 - 77 percent) of the aggregate net assets of the private fixed income funds.

The change in fair value of each Investee Fund is included in the statement of comprehensive income in 'Change in unrealized appreciation (depreciation) in value of other investments'.

## 14. Operating facility and guarantees:

On May 6, 2021, the Company entered into a Letter of Agreement with the Bank of Montreal providing for an operating facility in the amount of \$1,500,000 which bears interest at the prime rate and is repayable on demand. The operating facility is secured by a general security agreement over the assets of the Company, a \$1,500,000 corporate guarantee from Legacy, CCMBC and CCMBC Holdings Inc., a pledge of securities and accounts from Legacy and general security agreements over the assets of Legacy, CCMBC and CCMBC Holdings Inc. As at December 31, 2022 and 2021, the operating facility was unutilized.

On August 22, 2019, and as amended October 25, 2019, Legacy entered into a Letter Agreement with the Bank of Montreal providing for operating facilities for use by Legacy. The Company has provided a guarantee in the amount of \$1,275,000 (2021 - \$1,275,000) and a general security agreement over the assets of the Company to the Bank of Montreal as part of the security for the operating facility of Legacy. At December 31, 2022 and 2021, the operating facility for use by Legacy was unutilized.

# CCMBC INVESTMENTS LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2022

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## 15. Capital risk management:

The Company manages its capital structure in order to support ongoing operations while focusing on its primary objectives of raising funds to accomplish the charitable purposes of CCMBC and Legacy. The Company defines its capital structure to include common shares, promissory notes and preferred shares. The Company reviews its capital structure on an ongoing basis and adjusts its capital structure in response to mortgage investment opportunities and anticipated changes in general economic conditions.

The Company utilizes mortgage investment policies to manage the risk profile of the mortgage investments and investment guidelines to manage the risk profile of its other investments.

## 16. Risk management:

The Company is exposed to the symptoms and effects of national and global economic conditions and other factors that could adversely affect its business, financial condition and operating results. Many of these risk factors are beyond the Company's direct control.

The Manager and Board of Directors play an active role in monitoring the Company's key risks and in determining the policies that are best suited to manage these risks.

The Company's business activities, including its use of financial instruments, exposes the Company to various risks, the most significant of which are market rate risk (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 of December 31, 2022, \$63,342,791 (2021 - \$71,898,900) of net mortgage investments bear interest at variable rates. If there were a decrease or increase of 1 percent in interest rates, with all other variables constant, the impact from variable rate mortgage investments would be a decrease or increase in net comprehensive income of approximately \$689,000 (2021 - \$759,000).

As of December 31, 2022, \$120,947,139 (2021 - \$125,847,167) of promissory notes bear interest at variable rates. If there was a decrease or increase of 1 percent in interest rates, with all other variables constant, the impacting from variable rate promissory notes would be an increase or decrease in net comprehensive income of approximately \$1,222,000 (2021 - \$1,309,000).

# CCMBC INVESTMENTS LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2022

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## 16. Risk management (continued):

The Company manages its sensitivity to interest rate fluctuations by managing the interest rate spread between its promissory notes and mortgage investments.

The Company's cash, other investment income receivable, accounts payable and accrued liabilities and due to related parties have no exposure to interest rate risk due to their short-term nature. Cash carries a variable rate of interest and is subject to minimal interest rate risk and the preferred shares have no exposure to interest rate risk due to their fixed interest rate.

The Company is also exposed to interest rate risk through its investments in Investee Funds (note 13).

The Investee Funds are exposed to interest rate risk through their investments in interest-bearing financial instruments and in underlying funds exposed to interest rate risk. The Investee Funds have high-yield (or below investment grade) exposure to mortgages and therefore net assets tend to be affected more by changes in economic growth than changes in interest rates.

### (b) Currency risk:

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company has no significant direct exposure, or indirect exposure through its investment in Investee Funds, to currency risk at December 31, 2022 and 2021.

### (c) Credit risk:

Credit risk is the risk 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 Company. The Company mitigates this risk by the following:

- (i) adhering to the mortgage investment policies and investment guidelines (subject to certain duly approved exceptions);
- (ii) ensuring all new mortgage investments over a pre-determined threshold are approved by the Board of Directors, and by appropriate members of management below a pre-determined threshold before funding; and
- (iii) actively monitoring the mortgage investments and initiating recovery procedures, in a timely manner, where required.

# CCMBC INVESTMENTS LTD.

Notes to Financial Statements (continued)

Year ended December 31, 2022

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## 16. Risk management (continued):

The exposure to credit risk at December 31, 2022 relating to net mortgages amounts to \$63,342,791 (2021 - \$71,898,900).

The Company has recourse under these mortgages in the event of default by the borrower; in which case, the Company would have a claim against the underlying collateral. Management believes that the potential loss from credit risk with respect to cash that is held at a Schedule I bank to be minimal.

The Company is also exposed to credit risk through its investments in Investee Funds (note 13).

The Investee Funds are exposed to credit risk through investments in debt securities, mortgage loans and promissory notes. The mortgage loans are secured by all assets of the borrower as defined by general security agreements which may be subordinate to other lenders.

### (d) Liquidity risk:

Liquidity risk is the risk that the Company, will encounter difficulty in meeting its financial obligations as they become due. This risk arises in normal operations from fluctuations in cash flow as a result of the timing of mortgage investment advances and repayments and the need for working capital. Management routinely forecasts future cash flow sources and requirements to ensure cash is efficiently utilized.

The Company's promissory notes and preferred shares are due on demand. The payment of the demand promissory notes will be limited to available cash, and the Company will use reasonable commercial efforts to cover such requests, but will not be required to sell assets or borrow money in order to fund such payments. All of the rest of the Company's financial liabilities are due within one year.

The Company is also exposed to liquidity risk through its investments in Investee Funds (note 13).

The fixed income Investee Funds are exposed to liquidity risk through weekly or monthly cash redemptions on their units and therefore they invest a portion of assets in underlying funds that they can redeem within one week or one month or less. The mortgage Investee Funds are exposed to liquidity risk through monthly or semi-annual cash redemptions on their units and therefore use cash flow projections to forecast funding requirements on mortgage proposals and anticipated redemption of units and may also enter into loan facilities with one or more Canadian chartered banks to hedge the liquidity risk of redemptions.

**CCMBC INVESTMENTS LTD.**

Notes to Financial Statements (continued)

Year ended December 31, 2022

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**16. Risk management (continued):**

A portion of the amounts invested in underlying funds are subject to redemption restrictions exercisable by the manager of the underlying fund to manage extraordinary liquidity pressures which includes the ability to suspend redemptions or withhold varying amounts of any redemption requested.

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