

Financial Statements of

**NEW HAVEN MORTGAGE
INCOME FUND (1) INC.**

And Independent Auditor's Report thereon

Years ended November 30, 2023 and 2022



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of New Haven Mortgage Income Fund (1) Inc.

Opinion

We have audited the financial statements of New Haven Mortgage Income Fund (1) Inc. (the Entity), which comprise:

- the statements of financial position as at November 30, 2023 and 2022
- the statements of comprehensive loss for the years then ended
- the statements of changes in shareholders' deficiency for the years then ended
- the statements of cash flows for the years 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 November 30, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

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 as issued by the International Accounting Standards Board, 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.



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- 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada

March 27, 2024

NEW HAVEN MORTGAGE INCOME FUND (1) INC.

Statements of Financial Position

November 30, 2023 and 2022

	2023	2022
Assets		
Cash and cash equivalents	\$ 881,086	\$ 3,780,144
Interest and other receivables	1,011,976	806,005
Prepaid expenses	434,529	335,839
Mortgage loans, net of allowance for credit losses (note 4)	165,761,749	161,776,481
	<u>\$ 168,089,340</u>	<u>\$ 166,698,469</u>

Liabilities and Shareholders' Deficiency

Liabilities		
Bank operating line (note 6)	\$ 55,000,000	\$ 52,000,000
Accounts payable and accrued liabilities	103,000	84,877
Dividend payable	388,676	393,909
Due to associated companies (note 5)	63,556	51,227
Preference shares (note 7)	118,985,203	115,437,599
	<u>174,540,435</u>	<u>167,967,612</u>
Shareholders' deficiency:		
Share capital:		
Common shares	100	100
Deficit	<u>(6,451,195)</u>	<u>(1,269,243)</u>
	<u>(6,451,095)</u>	<u>(1,269,143)</u>
	<u>\$ 168,089,340</u>	<u>\$ 166,698,469</u>

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director

_____ Director

NEW HAVEN MORTGAGE INCOME FUND (1) INC.

Statements of Comprehensive Loss

Years ended November 30, 2023 and 2022

	2023	2022
Revenue:		
Investment	\$ 13,746,336	\$ 10,791,646
Expenses:		
Professional fees	172,435	212,695
Interest	2,646,798	1,490,272
Dues and fees	1,015,653	256,733
Other	102,633	285,562
Mortgage manager's fees (note 5)	1,190,882	1,489,141
Provision for credit losses (note 4)	4,668,372	137,649
	<u>9,796,773</u>	<u>3,872,052</u>
Income before dividends on preference shares	3,949,563	6,919,594
Dividends on preference shares (note 8)	(9,131,515)	(7,512,064)
<u>Loss for the year and comprehensive loss</u>	<u>\$ (5,181,952)</u>	<u>\$ (592,470)</u>

See accompanying notes to financial statements.

NEW HAVEN MORTGAGE INCOME FUND (1) INC.

Statements of Changes in Shareholders' Deficiency

Years ended November 30, 2023 and 2022

2023	Common shares	Deficit	Total
Balance, beginning of year	\$ 100	\$ (1,269,243)	\$ (1,269,143)
Loss for the year and comprehensive loss	–	(5,181,952)	(5,181,952)
Balance, end of year	\$ 100	\$ (6,451,195)	\$ (6,451,095)

2022	Common shares	Deficit	Total
Balance, beginning of year	\$ 100	\$ (676,773)	\$ (676,673)
Loss for the year and comprehensive loss	–	(592,470)	(592,470)
Balance, end of year	\$ 100	\$ (1,269,243)	\$ (1,269,143)

See accompanying notes to financial statements.

NEW HAVEN MORTGAGE INCOME FUND (1) INC.

Statements of Cash Flows

Years ended November 30, 2023 and 2022

	2023	2022
Cash provided by (used in):		
Operating activities:		
Loss for the year	\$ (5,181,952)	\$ (592,470)
Provision for credit losses not involving cash	3,347,358	211,235
Change in non-cash operating items:		
Increase in interest and other receivables	(205,971)	(136,593)
Increase in prepaid expenses	(98,690)	(335,839)
Increase in accounts payable and accrued liabilities	18,123	6,331
Decrease in dividend payable	(5,233)	(374,802)
Increase (decrease) in due to associated companies	12,329	(177,465)
	<u>(2,114,036)</u>	<u>(1,399,603)</u>
Financing activities:		
Preference shares issued (note 7)	9,498,652	29,807,374
Preference shares redeemed (note 7)	(5,951,048)	(8,912,842)
Increase in bank operating line	3,000,000	43,900,000
	<u>6,547,604</u>	<u>64,794,532</u>
Investing activities:		
Increase in mortgage loans, net of allowance for credit losses (note 4)	(7,332,626)	(59,644,572)
	<u>(2,899,058)</u>	<u>3,750,357</u>
Increase (decrease) in cash and cash equivalents	(2,899,058)	3,750,357
Cash and cash equivalents, beginning of year	3,780,144	29,787
Cash and cash equivalents, end of year	<u>\$ 881,086</u>	<u>\$ 3,780,144</u>

See accompanying notes to financial statements.

NEW HAVEN MORTGAGE INCOME FUND (1) INC.

Notes to Financial Statements

Years ended November 30, 2023 and 2022

New Haven Mortgage Income Fund (1) Inc. (the "Fund") is a mortgage investment corporation that was incorporated on November 27, 2008 under the laws of the Province of Ontario. The objective of the Fund is to provide stable cash distributions of income while preserving investor capital. The Fund is subject to rules under the Income Tax Act (Canada) that permit the Fund to be operated as a flow-through conduit of its net income to its investors. The income of the Fund for purposes of the Income Tax Act (Canada) includes interest earned and the taxable portion of any net realizable capital gains. The Fund is permitted to deduct from its net income all taxable dividends paid to its investors.

Mortgage loans:

The investment goal is to make prudent investments in mortgages against real property located in Ontario. The Fund provides first, second and third mortgages based on predetermined loan to value criteria determined through the use of third-party appraisals. In considering a mortgage proposal, the mortgage manager adheres to strict investment and operating policies, which include obtaining a credit application from all borrowers; and obtaining an appraisal prepared by an accredited appraiser or, in certain instances, a letter of opinion from a realtor.

New Haven Mortgage Corporation ("NHMC"), an associated company, acts as the mortgage manager to the Fund. The mortgage manager will, on behalf of the Fund, originate, underwrite, adjudicate, service and administer each loan.

There are risks to the Fund because of the industry in which it operates. Real estate investment is subject to significant uncertainties due to, among other factors, fluctuations with residential housing values, uncertain costs of construction, development and financing. Uncertainty is due to the ability to obtain required licenses, permits, approvals and fluctuating demand for developed real estate. The anticipated higher returns associated with the Fund's mortgage loans reflect the greater risks involved in making these types of loans as compared to long-term conventional mortgage loans. Inherent in these loans are completion risks, as well as financing risks.

NEW HAVEN MORTGAGE INCOME FUND (1) INC.

Notes to Financial Statements (continued)

Years ended November 30, 2023 and 2022

1. Basis of presentation:

(a) Statement of compliance:

These financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

The financial statements for the years ended November 30, 2023 and 2022 have been approved for issue by the those charged with governance on March 27, 2024.

(b) Basis of measurement:

The financial statements of the Fund have been prepared on a historical cost basis except for those financial instruments classified as fair value, as disclosed in note 2(a).

(c) Functional and presentation currency:

The financial statements of the Fund are presented in Canadian dollars, which is the functional currency of the Fund.

(d) Use of estimates and judgments:

The preparation of financial statements in accordance with IFRS Accounting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. Estimates that are particularly judgmental relate to the determination of the allowance for credit losses (note 2(c)).

NEW HAVEN MORTGAGE INCOME FUND (1) INC.

Notes to Financial Statements (continued)

Years ended November 30, 2023 and 2022

2. Significant accounting policies:

(a) Financial instruments:

(i) Recognition and initial measurement:

The Fund initially recognizes loans and receivables on the date at which they are originated. Purchases and sales of financial assets are recognized on the trade date at which the Fund commits to purchase or sell the asset. All other financial assets are recognized initially on the trade date at which the Fund becomes a party to the contractual provisions of the instrument. Financial liabilities are recognized initially on the trade date at which the Fund becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus transaction costs, which are directly attributable to its acquisition or issue.

(ii) Classification and subsequent measurement:

Subsequent to initial recognition, financial assets are measured at fair value or amortized cost.

Financial assets are classified into one of the following measurement categories:

- Amortized cost; or
- Fair value through profit or loss ("FVTPL"); or
- Fair value through other comprehensive income.

Financial assets include cash and cash equivalents, interest and other receivables and mortgage loans.

Classification and measurement are determined based on:

- (a) The business model under which the asset is held; and
- (b) The contractual cash flow characteristics of the instrument.

NEW HAVEN MORTGAGE INCOME FUND (1) INC.

Notes to Financial Statements (continued)

Years ended November 30, 2023 and 2022

2. Significant accounting policies (continued):

Business model assessment

Business model assessment involves determining how financial assets are managed in order to generate cash flows. The Fund's business model assessment is based on the following categories:

- Held to collect: The objective of the business model is to hold assets and collect contractual cash flows. Any sales of the asset are incidental to the objective of the model.
- Held to collect and for sale: Both collecting contractual cash flows and sales are integral to achieving the objectives of the business model.
- Other business model: The business model is neither held to collect nor held to collect and for sale.

Contractual 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.

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instrument due to repayments or amortization of premium/discount.

Interest is defined as the 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), and a profit margin.

NEW HAVEN MORTGAGE INCOME FUND (1) INC.

Notes to Financial Statements (continued)

Years ended November 30, 2023 and 2022

2. Significant accounting policies (continued):

Financial assets measured at amortized cost

After initial measurement, mortgage loans 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 solely payments of principal and interest. Interest income on these instruments is recognized in interest income using the effective interest rate method, which is presented in Revenue - investment on the statement of comprehensive loss. 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 by taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate.

Impairment on financial assets measured at amortized cost is calculated using the expected credit loss ("ECL") approach. Loans measured at amortized cost are presented net of the allowance for credit losses in the statements of financial position.

Financial assets measured at FVTPL

Certain loans, whose cash flows do not represent payments that are solely payments of principal and interest, are measured at fair value in the statements of financial position, with transaction costs recognized immediately in non-interest income in the statements of comprehensive loss. Realized and unrealized gains and losses are recognized as non-interest income in the statements of comprehensive loss. There are no mortgage loans in the portfolio that do not meet the criteria to be considered amortized cost.

NEW HAVEN MORTGAGE INCOME FUND (1) INC.

Notes to Financial Statements (continued)

Years ended November 30, 2023 and 2022

2. Significant accounting policies (continued):

Classification and measurement of financial liabilities

The Fund classifies and measures its financial liabilities at amortized cost.

The classification of financial assets and liabilities under IFRS 9, Financial Instruments ("IFRS 9"), is as follows:

Financial assets

Cash and cash equivalents	Amortized cost
Interest and other receivables	Amortized cost
Mortgage loans	Amortized cost

Financial liabilities

Bank operating line	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Dividend payable	Amortized cost
Due to associated companies	Amortized cost
Preference shares	Amortized cost

Fair value of financial instruments

When measuring the fair value of an asset or liability, the Fund uses observable market data as far 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 an active market for identical assets or liabilities;
- Level 2 - valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes investments valued using; quoted prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques for which all significant inputs are directly or indirectly observable from market data; and

NEW HAVEN MORTGAGE INCOME FUND (1) INC.

Notes to Financial Statements (continued)

Years ended November 30, 2023 and 2022

2. Significant accounting policies (continued):

- Level 3 - valuation techniques using significant unobservable inputs. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

(iii) Derecognition:

The Fund derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset in a transaction whereby substantially all the risks and rewards of ownership of the financial asset are transferred. A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

(b) Impairment of financial assets:

IFRS 9 contains a forward-looking ECL model for calculating impairment applicable to financial assets measured at amortized cost.

The impairment model has considerable judgment about how changes in economic factors will effect ECLs, which is determined on a probability-weighted basis.

Credit loss allowances for assets in the category of amortized cost will be measured on each reporting date based on a three-stage ECL impairment model, under which each financial asset is classified in one of the stages below:

Stage 1 - From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults expected over the next 12 months.

NEW HAVEN MORTGAGE INCOME FUND (1) INC.

Notes to Financial Statements (continued)

Years ended November 30, 2023 and 2022

2. Significant accounting policies (continued):

Stage 2 - Following a significant increase in credit risk relative to the risk at initial recognition of the financial asset, a loss allowance is recognized equal to the full credit losses expected over the remaining life of the asset.

The financial assets in Stage 1 and Stage 2 are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the Fund in accordance with the contract and the cash flows the Fund expects to receive).

Stage 3 - When a financial asset is considered to be credit impaired, a loss allowance equal to the full lifetime ECLs will be recognized. Credit losses are measured as the difference between the gross carrying amount and the present value of estimated future cash flows. The Fund considers a financial instrument to be credit impaired when one or more events that have a detrimental impact on the estimate future cash flows have occurred after its initial recognition.

The estimation of an ECL is required to be unbiased and probability weighted, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. The estimate also considers the time value of money.

The measurement of an ECL is primarily determined by an assessment of the financial asset's probability of default, loss given default and exposure at default where the cash shortfalls are discounted to the reporting date. Loans are assessed on a loan by loan basis to establish the ECL required. Management reviews current market data, appraisals and other tools to establish the current value and updated loan to value to compare against loan amount to establish the ECL.

NEW HAVEN MORTGAGE INCOME FUND (1) INC.

Notes to Financial Statements (continued)

Years ended November 30, 2023 and 2022

2. Significant accounting policies (continued):

(d) Income taxes:

The Fund is a mortgage investment corporation pursuant to the provisions of the Income Tax Act (Canada), Section 130.1. It is permitted for income tax purposes to deduct from its taxable income, dividends paid during the year and dividends payable within 90 days of the year end on its redeemable preference shares.

(e) Future accounting standard changes:

New standards and amendments that will become effective for the Fund in subsequent periods include the following:

- (i) Material accounting policy information (Amendments to IAS 1 and IFRS Practice Statement 2) - The amendments require the disclosure of 'material', rather than 'significant' accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements. These amendments are effective for fiscal year periods beginning on or after January 1, 2023.
- (ii) Definition of Accounting Estimates (Amendments to IAS 8) - This amendment is effective for fiscal year periods beginning on or after January 1, 2023.
- (iii) Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) - The amendments, as issued in 2020, aim to clarify the requirements on determining whether a liability is current or non-current, and apply for annual reporting periods beginning on or after January 1, 2023. However, the IASB has subsequently proposed further amendments to IAS 1 and the deferral of the effective date of the 2020 amendments to no earlier than January 1, 2024.

The Fund does not expect to have a significant impact to the financial statements resulting from the adoption of these amendments.

NEW HAVEN MORTGAGE INCOME FUND (1) INC.

Notes to Financial Statements (continued)

Years ended November 30, 2023 and 2022

3. Financial risk management and financial instruments:

Overview:

The Fund is exposed to credit risk, liquidity risk, market risk and interest rate risk. The Fund's primary risk management objective is to protect income and cash flows and, ultimately, shareholder value. Risk management strategies, as discussed below, are designated and implemented to ensure the Fund's risk and the related exposures are consistent with its business objectives and risk tolerance.

(a) Credit risk:

Credit risk is the risk of loss should borrowers under the Fund's mortgage fail to discharge their obligation. The Fund's sole activity is investing in mortgages and, therefore, generally all of its assets are exposed to credit risk. Any instability in the real estate sector and adverse change in economic conditions in Canada could result in declines as the value of real property secures the Fund's mortgage investments. The Fund manages credit risk by adhering to investment and operating policies, including credit evaluation of the borrowers and obtaining appraisals on all real property or, in certain instances, a letter of opinion from a realtor.

(b) Liquidity risk:

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund manages liquidity risk by continuously monitoring actual and projected cash flows, including expected mortgage loan discharges, to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation.

NEW HAVEN MORTGAGE INCOME FUND (1) INC.

Notes to Financial Statements (continued)

Years ended November 30, 2023 and 2022

3. Financial risk management and financial instruments (continued):

The contractual maturities of the Fund's financial liabilities as at November 30, 2023 are as follows:

	Due on demand	Less than one year	Carrying amount
Bank operating line	\$ 55,000,000	\$ –	\$ 55,000,000
Accounts payable and accrued liabilities	–	103,000	103,000
Dividend payable	–	388,676	388,676
Due to associated companies	–	65,556	–
Preference shares*	118,985,203	–	118,985,203

*Preference shares are redeemable at the option of the holder with 120-days notice subject to limitation in that the Fund will not be required to redeem preference shares on any redemption date if the aggregate amount redeemed would be equal to 10%, on an annualized basis, of the net assets of the Fund. Further, the Board of Directors may suspend or postpone redemptions if they determine that market conditions exist which render impracticable an orderly sale or liquidation of assets of the Fund, or where they have determined that a suspension or postponement of redemptions is required to ensure a fair and equitable treatment for all preference shareholders.

As per note 4, gross mortgage loans of \$166,927,924 are due to mature by the end of 2024.

The Fund manages liquidity risk by monitoring its scheduled mortgage repayments and ensure that sufficient funds are available in the near term to satisfy all of its obligations. The Fund's financial obligations are primarily those that arise under the bank operating line, preference share redemption requests and dividends to preference shareholders. In the current economic climate and capital markets, lenders may continue to tighten their lending standard, which could make it challenging for the Fund to obtain financing on favorable terms, or to obtain financing at all.

NEW HAVEN MORTGAGE INCOME FUND (1) INC.

Notes to Financial Statements (continued)

Years ended November 30, 2023 and 2022

3. Financial risk management and financial instruments (continued):

The bank operating line (disclosed in note 6) was last renewed in February 2023 and is due on demand. If the bank were to request repayment of all or part of the operating line the Fund would use mortgage repayments from the portfolio to repay the bank operating line and would also work to secure alternate financing. The Fund's mortgages are predominantly short-term in nature, and as such, the continual repayment by borrowers of existing mortgages creates liquidity for ongoing mortgage investments and future funding of mortgages. The Fund has the ability to decide if and when it will advance new mortgage loans.

If the Fund is unable to continue to have access to a bank operating line, the size of the portfolio will decrease, and the income historically generated through a larger portfolio achieved by using leverage will not be earned.

(c) Market risk:

Market risk is the risk that potential changes in economic conditions may affect the lending of mortgage funds which will ultimately affect the Fund's revenue.

(d) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund mitigates this risk by issuing mortgages with fixed rates and with short maturities. During the year, the Bank of Canada raised interest rates to combat rising inflation. This had an impact on the Fund in two main ways: it increased the cost of the line of credit which impacted the spread received by the investors on the line of credit and in response the Fund raised its interest rates on lending per the funds new pricing matrix in May 2022. This helped maintain a spread to investors on the line of credit. Additionally, the rising rate environment impacted values of properties as well as made affordability an issue for borrowers. In response to this, the Fund suspended its second mortgage program in May 2022 (which was later reinstated in June of 2023) and revised its underwriting strategy to include 1st mortgage purchases at a maximum of 75% loan to value at the time of the transaction, along with 70% cap on refinances. The Fund introduced a new risk assessment model that was used when originating new mortgage loans during the year.

NEW HAVEN MORTGAGE INCOME FUND (1) INC.

Notes to Financial Statements (continued)

Years ended November 30, 2023 and 2022

3. Financial risk management and financial instruments (continued):

(e) Fair value of financial instruments:

The following table sets out the carrying amounts and fair values of financial instruments of the Fund:

	2023		2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets:				
Cash and cash equivalents	\$ 881,086	\$ 881,086	\$ 3,780,144	\$ 3,780,144
Interest and other receivables	1,011,976	1,011,976	806,005	806,005
Prepaid expenses	434,529	434,529	335,839	335,839
Mortgage loans	165,761,749	165,761,749	161,776,481	161,776,481
	\$ 168,089,340	\$ 168,089,340	\$ 166,698,469	\$ 166,698,469
Other financial liabilities:				
Bank operating line	\$ 55,000,000	\$ 55,000,000	\$ 52,000,000	\$ 52,000,000
Accounts payable and accrued liabilities	103,000	103,000	84,877	84,877
Dividend payable	388,676	388,676	393,909	393,909
Due to associated companies	63,556	63,556	51,227	51,227
Preference shares	118,985,203	118,985,203	115,437,599	115,437,599
	\$ 174,540,435	\$ 174,540,435	\$ 167,967,612	\$ 167,967,612

The following methods and assumptions were used to estimate the fair values noted above of financial instruments, which should be read in conjunction with the fair value measurement basis described in the significant accounting policy note 2(a):

Other assets and other financial liabilities:

The fair values of cash and cash equivalents, interest and other receivables, accounts payable and accrued liabilities, bank operating line, dividend payable, due to associated companies and preference shares approximate their carrying values due to their short-term nature. Under the fair value hierarchy, preference shares would be classified as Level 3 in 2023 and 2022.

NEW HAVEN MORTGAGE INCOME FUND (1) INC.

Notes to Financial Statements (continued)

Years ended November 30, 2023 and 2022

3. Financial risk management and financial instruments (continued):

Mortgage loans:

The fair values of mortgage loans approximate their carrying values given their relative short term to maturity. Under the fair value hierarchy, mortgage loans would be classified as Level 3 in 2023 and 2022.

4. Mortgage loans:

	Number	2023	Number	2022
First mortgages*	395	\$ 150,803,807	348	\$ 120,619,565
Second and third mortgages	95	18,814,669	200	41,666,287
Allowance for credit losses		(3,856,727)		(509,371)
		\$ 165,761,749		\$ 161,776,481

*First mortgages, where the Fund has a subordinate position, total \$26,270,323 (2022 - \$29,895,524).

Allowance for credit losses:

The following tables presents the balances of three credit risk stages across different asset classes as at November 30, 2023 and November 30, 2022:

2023	Number	Mortgage loans	Allowance for credit losses
Stage 1	440	\$ 140,021,103	\$ -
Stage 2	11	2,955,356	1,135,463
Stage 3	39	26,642,017	2,721,264
		\$ 169,618,476	\$ 3,856,727

NEW HAVEN MORTGAGE INCOME FUND (1) INC.

Notes to Financial Statements (continued)

Years ended November 30, 2023 and 2022

4. Mortgage loans (continued):

2022	Number	Mortgage loans	Allowance for credit losses
Stage 1	439	\$ 125,045,953	\$ –
Stage 2	86	31,397,832	331,371
Stage 3	13	5,842,067	178,000
		\$ 162,285,852	\$ 509,371

An analysis of changes in the Fund's allowance for credit losses during the year is as follows:

Balance, November 30, 2021	\$ 298,136
Provision of credit losses	211,235
Balance, November 30, 2022	509,371
Provision of credit losses	4,668,372
Write-offs	(1,321,016)
Balance, November 30, 2023	\$ 3,856,727

At November 30, 2023, the mortgages bear interest at fixed rates of interest from 4.99% to 44.35% with a weighted average rate of 9.19% (2022 - 7.94%) and mature throughout December 2023 to July 2025. The contractual maturity profile of the mortgage is summarized as follows:

	2023	2022
2022	\$ –	\$ 20,333,560
2023	37,302,918	135,448,527
2024	129,625,006	6,503,765
2025	2,690,552	–
	169,618,476	162,285,852
Allowance for credit losses	(3,856,727)	(509,371)
	\$ 165,761,749	\$ 161,776,481

Of the mortgages, 91.05% (2022 - 92.32%) are residential and 8.95% (2022 - 7.68%) of the mortgages are commercial. All mortgages are in Ontario. 13.3% of loans with an outstanding balance of \$22,478,380 have a loan to value ratio over 80% as at November 30, 2023 (2022 - 21.0% of loans, outstanding balance of \$34,082,181).

NEW HAVEN MORTGAGE INCOME FUND (1) INC.

Notes to Financial Statements (continued)

Years ended November 30, 2023 and 2022

4. Mortgage loans (continued):

During 2023, expenses that are recognized as recoverable of \$964,724 (2022 - \$781,757) were paid to protect the Fund's security in certain mortgages.

As at November 30, 2023, \$28,875,318 (2022 - \$5,842,067) of mortgages were in default as a result of the borrower having missed a payment that became due. Of this amount, \$15,738,332 (2022 - \$2,458,510) of mortgages were in default greater than 30 days. All amounts are related to Class A, Class C and Class O unitholders.

5. Related party transactions:

Transactions with related parties are in the normal course of business and are recorded at the fair value, which is the amount of consideration established and agreed to by the related parties.

NHMC, exclusively on behalf of the Fund, originates, underwrites, adjudicates, services or arranges for third-party servicing. It is known to the Fund as the manager is entitled to an annual fee equal to 1.50% of the total value of funds under management as of the last day of the month calculated on a monthly basis paid to the mortgage manager on the last day of each month. Starting in 2022, NHMC has waived part of its monthly management fee to compensate for the sale of shares through Integrated-Equities Inc. and to subsidize yield based on the manager's discretion. These amounts will not be recovered in the future.

Integrated-Equities Inc. is registered as an Exempt Market Dealer in Ontario. Integrated-Equities Inc. facilitates the sale of Class C and Class O preference shares of the Fund. During the year, \$56,559 (2022 - \$347,443) was paid to Integrated-Equities Inc. in connection to the sale of these shares.

During the year, a total expense of \$1,190,882 (2022 - \$1,489,141) was incurred under the management agreement.

In addition, Jason Vyner, Andrea Vyner and Arjun Saraf, Officers of NHMC, an associated company and the Board of Directors, have invested an approximate aggregate amount of \$8,490,739 (2022 - \$6,170,177) in the Fund.

NEW HAVEN MORTGAGE INCOME FUND (1) INC.

Notes to Financial Statements (continued)

Years ended November 30, 2023 and 2022

6. Bank operating line:

The operating line of credit is the lesser of \$60,000,000 and the borrowing base. On February 13, 2023, a new agreement was reached with the bank increasing the existing line from \$55,000,000 to \$60,000,000. The borrowing base is calculated monthly as a specified percentage of qualifying mortgages. Advances under the line bear interest at the bank's prime rate plus 1.00% per annum or the Fund has the option to draw on the line through Bankers' Acceptances at CDOR plus a 2% fee. As at year end, the outstanding balance was \$55,000,000 (2022 - \$52,000,000). The line of credit is secured by a charge over the mortgage portfolio and is due on demand.

The Fund is required to maintain two financial covenants to maintain compliance with the line of credit. The first being debt to tangible net worth being no more than 0.75x tested quarterly and an interest coverage ratio of more than 300% measured quarterly on a rolling four quarter basis. During the year, in the fourth quarter of 2023, the Fund breached the interest coverage ratio primarily due to higher provision for credit losses recorded in the quarter. The interest coverage ratio as at November 30, 2023 was 249%, as compared to the required 300% or greater. The bank could have requested repayment of the amount outstanding on the operating line of credit. The Fund requested and was successful in receiving a waiver from the bank of this covenant breach in February 2024. Subsequent to year end, the Fund has amended the redemption value for the Class A and Class C preference shares to be the lesser of the subscription price or the fair value, which resulted in a remeasurement of the preference share liabilities recorded in the statement of comprehensive income in 2024 (note 10).

NEW HAVEN MORTGAGE INCOME FUND (1) INC.

Notes to Financial Statements (continued)

Years ended November 30, 2023 and 2022

7. Preference shares:

	2023	2022
Authorized:		
Unlimited Class A non-voting, participating, preference shares without nominal or par value, which are redeemable on 120 days' notice subject to limitation		
Unlimited Class C non-voting, participating, preference shares without nominal or par value which are redeemable on 120 days' notice subject to limitation		
Unlimited Class O non-voting, participating preference shares without nominal or par value which are redeemable on 120-days' notice subject to limitation		
Issued and outstanding:		
3,278,625 Class A preference shares (2022 - 3,722,367)	\$ 3,278,625	\$ 3,722,367
110,479,138 Class C preference shares (2022 - 106,885,961)	110,479,138	106,885,961
5,227,440 Class O preference shares (2022 - 4,829,271)	5,227,440	4,829,271
	<u>\$ 118,985,203</u>	<u>\$ 115,437,599</u>

	Class A preference shares	Class C preference shares	Class O preference shares
Balance, November 30, 2021	3,885,248	89,989,606	668,213
New shares added	–	21,295,312	4,292,449
Reinvestments	159,207	4,002,521	57,885
Withdrawals	(322,088)	(8,401,478)	(189,276)
Balance, November 30, 2022	3,722,367	106,885,961	4,829,271
New shares added	–	4,803,599	312,000
Reinvestments	159,050	4,137,564	86,439
Withdrawals	(602,792)	(5,347,986)	(270)
Balance, November 30, 2023	<u>3,278,625</u>	<u>110,479,138</u>	<u>5,227,440</u>

The preference shares are classified as a liability due to their redemption provisions. Subsequent to year end, the redemption value of preference shares Class A and Class C was amended and a new share Class D was issued (note 10).

NEW HAVEN MORTGAGE INCOME FUND (1) INC.

Notes to Financial Statements (continued)

Years ended November 30, 2023 and 2022

8. Dividends paid:

	2023	2022
Dividends paid to Class A preference shares	\$ 278,349	\$ 277,912
Dividends paid to Class C preference shares	8,548,996	7,102,956
Dividends paid to Class O preference shares	304,170	131,196
	<u>\$ 9,131,515</u>	<u>\$ 7,512,064</u>

The dividends are calculated monthly for each share class on the 15th of the following month. The total amount received less adjustments for expenses and management fees is distributed.

9. Contingency:

In August 2019, a statement of claim was filed in the Ontario Superior Court of Justice against a number of parties. NHMC is one of the named parties. NHMC holds a mortgage in trust for the Fund in the amount of \$2,500,000. The statement of claim sought to have the Fund's mortgage declared null and void as well as damages in the amount of \$5,000,000.

In October 2021, the plaintiffs released the Fund from the lawsuit. The Fund received funds to discharge the mortgage and recovered its full principal and any monies advanced.

The Fund has determined that the existence of cross claims continue to have no potential impact on the Fund, as the probability of loss resulting from the cross claims is considered remote.

10. Subsequent events:

Subsequent to year end, the Fund has amended the redemption value for the Class A and Class C preference shares to be the lesser of the subscription price or the fair value. Management is in the process of evaluating the accounting implications of this modification. The amendments to the articles were presented to the preference shareholders at a general meeting held on January 29, 2024 and preference shareholders had the opportunity to vote on the amendment, which was ultimately passed. A new share Class D was introduced after year end and the shares have the same characteristics as the newly amended Class A and Class C preference shares. The purpose of this new share class was to separate the new preference shares issued from the existing preference share classes where the redemption value was amended.