Builders Capital Mortgage Corp.

Management's Discussion and Analysis
Three and Nine Months Ended September 30, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis (MD&A) has been prepared by Builders Capital Mortgage Corp. (Builders Capital or the company) as of November 18, 2015. It should be read in conjunction with the company's audited financial statements and accompanying notes for the 12 months ended December 31, 2014 and our unaudited interim condensed financial statements for the three months ended September 30, 2015, which represents the third quarter of our 2015 fiscal year. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and all financial information is presented in Canadian dollars.

Notice Regarding Forward-Looking Information

Certain information included in this MD&A contains forward-looking statements within the meaning of applicable securities legislation, including statements with respect to management's beliefs, estimates and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "expect", "intent", "estimate", "anticipate", "believe", "should", "plans" or "continue" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. These statements are not guarantees of future performance and are based on our estimates and assumptions, which are subject to risks and uncertainties, and could cause our actual results to differ materially from the forward-looking statements contained in this MD&A. Those risks and uncertainties include, among other things, risks associated with mortgage lending, competition for mortgage lending, real estate values, interest rate fluctuations, environmental matters and the general economic environment. We caution that the foregoing list is not exhaustive, as other factors could adversely affect our results, performance or achievements. Readers are also cautioned against undue reliance on any forward-looking statements. Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Background and Overview

Builders Capital is a mortgage lender providing short-term course of construction financing, primarily to residential builders. The company was formed on March 28, 2013 and commenced active operations on December 12, 2013, on the closing of our initial public offering and our listing on the TSX Venture Exchange under the symbol BCF. The company is a mortgage investment corporation (MIC) within the meaning of Section 130.2(6) of the *Income Tax Act* (Canada) and is governed by the laws of the Province of Alberta.

As a MIC, Builders Capital is not subject to income tax provided that we distribute all of our taxable income as dividends to shareholders within 90 days of our December 31st year-end. Such dividends are generally treated by shareholders as interest income, so that each shareholder is in the same tax position as if their proportionate share of mortgage investments made by the company had been made directly by the shareholder.

The company is structured with two classes of shares, Class A Non-Voting Shares and Class B Non-Voting Shares. This two-tier share structure grants dividend priority to the Class A Non-Voting Shares, providing additional security of both principal and dividends to the Class A Non-Voting shareholders, as detailed under the section entitled Distributions later in this MD&A.

In addition to the Non-Voting Shares, Builders Capital has a limited number of Voting Shares, which are held by the company's principal shareholders.

Initial Public Offering (IPO)

Builders Capital began marketing shares to the public after the filing of our final prospectus on October 25, 2013. The company's IPO raised $13.8 million through the sale of Class A Non-Voting Shares and was immediately followed by a private placement of Class B Non-Voting Shares, which raised an additional $9.7 million. With the funds raised, we acquired a portfolio of 30 mortgages, which formed the basis for our operations. Detailed information about the IPO and the subsequent transactions can be found in our final prospectus and the Initial Portfolio Acquisition Agreement (IPAA), both available at www.sedar.com.

Private Placement

On July 3, 2014, Builders Capital completed a private placement of an additional 82,500 Class A Non-Voting Shares at a price of $10.00 per share for gross aggregate proceeds of $825,000. Costs associated with this private placement included legal and filing fees, and a commission, and totaled $14,183, or 1.7% of the funds raised. The net proceeds were used immediately to reduce our line of credit balance.

Operations

Builders Capital provides short-term, course of construction financing to builders of residential, wood-frame properties. We believe that staying focused on this niche market reduces overall risk and increases the potential return on our mortgage portfolio.

The portfolio is managed by Builders Capital Management Corp. (the manager). The manager sources and services mortgage loans and directs the company's business operations. Extensive experience in all aspects of residential construction and in-depth, up-to-date residential real estate industry knowledge ensure that the manager is able to make prudent mortgage underwriting decisions and efficiently manage potential mortgage defaults. The manager has the ability to complete any unfinished development projects that Builders Capital may acquire through enforcement proceedings or otherwise in a timely and cost-effective manner.

All investments are subject to a rigorous underwriting review. When sourcing investment opportunities, the manager will conduct an initial review to confirm that a mortgage prospect satisfies our lending criteria and Asset Allocation Model (AAM). The AAM dictates the allocation of the aggregate funded and committed assets, based on geographical, economic sector, term, borrower and loan-to-appraised value criteria.

The manager is then required to perform comprehensive due diligence of the underlying assets. The due diligence process revolves around the manager's system of underwriting loans and evaluating projects and borrowers. This process includes a detailed re-costing of each project based on the assumption that we are going to build it ourselves and an analysis or appraisal of what the completed project will be worth. This assessment gives us the information we need to ascertain the value proposition inherent in the project. We only loan on projects that we believe are economically sound and for which we have the capability to complete and sell if necessary.

All of our loans are secured by mortgages and none are written for terms longer than one year. While we sometimes continue to hold mortgages over completed properties, our goal is to keep the terms short and to have borrowers repay loans on completion of construction, either through the sale of the property or by refinancing with another institution.

Our investment objective is to maintain a portfolio of mortgages that generates attractive returns, relative to risk, in order to permit Builders Capital to pay distributions to our shareholders. We aim to achieve this objective while assuring capital preservation and staying within the criteria mandated for MICs.

Investment Strategy

In order to deliver above average risk weighted returns, our strategy is to invest primarily in short-term construction mortgages that are secured by development stage residential real property. Lending on development property is limited, with mortgages generally provided only in circumstances where a borrower intends to complete the development and build on the land.

Future investments in our portfolio will be strategically concentrated on:

- First or subordinate mortgages on real estate up to a maximum of 75% of property value;
- Mortgages on residential wood frame construction projects; and
- Mortgages on properties located in typically more liquid and less volatile urban markets and their surrounding areas, with a focus on Western Canada.

Investment Restrictions

Our share terms provide for a number of investment restrictions that can only be changed by a vote of all of the shareholders:

- Builders Capital will not make any investment or conduct any activity that would result in the company failing to qualify as a "mortgage investment corporation" within the meaning of the Tax Act.
- We will not invest in asset-backed commercial paper or in securitized pools of mortgage loans, including securitized pools of sub-prime mortgages.
- We will not invest in securities other than first and subordinate mortgages secured by real property and, on a temporary basis only, interim investments consisting of cash and cash equivalents, Government of Canada treasury bills and Government of Canada bonds with a term to maturity of three years or less (although the company shall not be precluded from owning securities of our subsidiaries or affiliates).
- Builders Capital will not engage in securities lending.
- The company will not engage in derivative transactions for speculative purposes and will only take part in derivative transactions in order to hedge interest rate or exchange rate risk.

Third Quarter Summary

Financial Results

- Third quarter mortgage revenue of $967,000 was up by 7.6% over 2014.
- Management fees were more than offset by lender fees charged to borrowers.
- Operating expenses for the three months were down year-over-year, representing 8.2% of revenue compared to 9.2% of revenue in 2014.
- We added $70,476 to our accumulated allowance of funds earmarked for potential loan losses.
- Comprehensive income reached a quarterly record of $779,000.
- Year-over-year, the total value of our portfolio increased by $2 million to $26.4 million, with geographic coverage extended to new markets in Alberta, and to British Columbia and Saskatchewan.
- In keeping with our share terms, dividends of $0.2016 per Class A Non-Voting Share and $0.4032 per Class B Non-Voting Share were declared for the quarter.
- Income for the three months exceeded that required to pay planned Class A Non-Voting Share dividends by a healthy 2.6 times.

Business Environment

- In our primary southern Alberta marketplace, the relatively low oil prices that have persisted since mid-2014 have had a significant economic impact. Uncertainty in the province's real estate market has lengthened the time it takes our borrowers to sell their completed inventory, and made some builders more cautious about taking on new projects.
- While some construction lenders appear to be pulling back from lending in Alberta, we believe that the tighter economic environment creates an opportunity for us to increase market share.
- We anticipate a reduction in raw land costs, particularly in Calgary, our largest single market. With a concurrent drop in sub-trade costs as a result of decreased construction activity, we expect that margins on new construction will remain viable.
- Canada Mortgage and Housing Corporation forecasts declining housing starts through 2016 in all of our western Canadian markets, except British Columbia, where little change is expected. We believe that the forecast levels will be more than adequate to support the growth and continued geographic diversification of our business.

Investment Portfolio

The following tables illustrate the composition of our portfolio of mortgages as at September 30, 2015.

Total Portfolio by Property Types

Property Type	Mortgage Portfolio (No.)	September 30, 2015 Outstanding Principal ($)	Total Committed Mortgage Principal ($)	%	AAM Allocation*
Residential					
Single family – Detached	21	14,725,170	26,740,000	56%	100%
Single family – Attached	15	11,647,928	22,940,000	44%	100%
Total:	**36**	**26,373,098**	**49,680,000**	**100%**	**N/A**

Total Portfolio by Geographic Location

Geographic Location of Property	Mortgage Portfolio (No.)	September 30, 2015 Outstanding Principal ($)	Total Committed Mortgage Principal ($)	%	AAM Allocation*
Calgary and Area	24	14,626,719	34,140,000	55%	100%
Edmonton and Area	2	1,987,664	4,600,000	8%	100%
Other Alberta	5	5,141,043	6,360,000	20%	100%
British Columbia	2	2,161,224	2,300,000	8%	50%
Saskatchewan	3	2,456,448	2,280,000	9%	25%
Total	**36**	**26,373,098**	**49,680,000**	**100%**	**N/A**

Total Portfolio by Contractual Interest Rates

Interest Rate (excluding fees earned by the entities)	Mortgage Portfolio (No.)	September 30, 2015 Outstanding Principal ($)	Total Committed Mortgage Principal ($)	%
12%-12.99%	2	1,032,483	5,375,000	7%
13%-13.99%	30	22,573,293	39,560,000	83%
14%-14.99%	3	2,525,336	4,500,000	9%
Greater than 14%	1	241,986	245,000	1%
Total:	**36**	**26,373,098**	**49,680,000**	**100%**

*Indicates the maximum percentage of the portfolio allowable under Builders Capital's Asset Allocation Model.

Operating Results for the Three and Nine Months Ended September 30, 2015

We are happy with our financial results for the third quarter of 2015. Despite the economic difficulties that our primary Southern Alberta marketplace continues to experience, we have maintained a full mortgage book and remain comfortable with the valuation on our portfolio. At the same time, we have increased the total value of our portfolio by $2 million year-over-year and strengthened our geographic diversification.

At September 30, 2014, our portfolio was fully based in Alberta, with 70% of our mortgages held on properties in Calgary. At the end of the third quarter of this year, mortgages in Alberta had been reduced to 83% of our total portfolio with Calgary accounting for only 55% of the portfolio's value. We intend to continue to geographically diversify our mortgage holdings in Alberta, and to build on our mortgage holdings in British Columbia and Saskatchewan, which currently respectively account for 8% and 9% of the portfolio.

Our capital turnover rate for the third quarter was 35%. When annualized, this rate equates to a full turnover of invested capital every 8.5 months. While somewhat slower than the 6.8 month turnover rate we achieved in our 2014 fiscal year, the Q3 annualized rate was only slightly slower than the 8.2 month annualized turnover we achieved in the second quarter of this year and still slightly ahead of our longer term targeted nine-month capital turnover rate.

In tandem with underwriting mortgages, we regularly engage in the purchase and sale of mortgages to help ensure full cash utilization and create liquidity as required. During the quarter, we purchased $2 million and sold $2.9 million in mortgages. All of the purchase and sale transactions completed in the period were conducted with Builders Capital (2014) Ltd., a privately held corporation owned by certain directors of the company.

During the second quarter of this year, we foreclosed on one property, which is now listed for sale and is being actively marketed. At this point, we are closely watching several other projects that we believe are at risk of default. As the real estate market in Alberta has continued to slow, selling prices have dropped and marketing times have lengthened, driving our loan-to-value ratios higher than we would like. However, we believe that our accumulated allowance for doubtful loans, which stood at $465,941 at quarter-end, will be adequate to cover any potential write-downs that we determine are necessary. Owners of our Class A Non-Voting Shares can also take comfort in the fact that their 8% return on the original $10 share issue price will always be paid prior to any dividends being declared on the $9.7 million in Class B Non-Voting Shares.

Further reducing risk in this somewhat uncertain market is our minimal use of leverage. Our debt-to-equity ratio at the end of the quarter was 11.7%, and we intend to reduce this ratio over the coming months.

At September 30, 2015, the total value of our mortgage portfolio was $26.4 million. This was up by $2 million from September 30, 2014 but down by $1.1 million from December 31, 2014, due primarily to the funds tied up in the foreclosed property and the application of generated cash to reduce our line of credit balance. At the end of the third quarter, we had 36 mortgages outstanding with an average balance of $730,000.

Revenue
Mortgage revenue for the three months ended September 30, 2015 was $967,000. This compares favourably to the $899,000 generated in the third quarter of 2014 and represents annualized gross revenue of 15.7% of the weighted average gross share capital, up from 14.7% in Q3 2014. The 2015 revenue consisted of $881,000 in interest and $86,000 in lender fees charged to borrowers.

For the year-to-date, mortgage revenue was $2.9 million, representing annualized gross revenue of 15.9% of the weighted average gross share capital, up from $2.6 million, or 14.4% of gross share capital, in 2014. The current year's nine-month revenue consisted of $2.6 million in interest and $255,308 in lender fees.

Lender fees are tied to the negotiation of new mortgages, generally at 1% of the approved loan amount, and are charged for an annual term to borrowers when new loans are made, or when existing loans are renewed. In 2014, as anticipated, since the initial basis of the company's operations was an acquired portfolio of existing mortgages, lender fees were lower than expected in future, representing 92% of management fees paid. In the third quarter of 2015, lender fees exceeded management fees by $24,776, or 40%. For the year-to-date, lender fees exceeded management fees by $73,000, or 40%. We anticipate that lender fees will continue to exceed the fees that are paid to the manager.

Expenses
Excluding a provision for loan losses and interest expense, third quarter operating expenses were $79,285, or 8.2% of revenue, down from $82,342, or 9.2% of revenue in Q3 2014. These expenses were within expectations and compared favourably to the 10.7% of revenue we forecast.

The third quarter provision for loan losses of $70,476 was estimated by management based on an analysis of the manager's historical bad debts and current analysis of the construction finance marketplace. This is a collective provision which is calculated by reference to the portfolio as a whole. Approximately $65,000 of the accumulated balance has been earmarked for allocation to the foreclosed property discussed under Operating Results above.

Year-to-date operating expenses, excluding quarterly provisions for loan losses and interest, totaled $235,279, or 8.1% of revenue. As with the quarterly result, this compares favourably to 2014 operating expenses of $253,174, which represented 9.9% of revenue. Over the first nine months of the year, $211,335 was accumulated to provide for loan losses.

Management fees were $61,601 for the third quarter and $182,341 for the year-to-date, calculated on the total gross amount of Class A and Class B Non-Voting Shares outstanding.

Interest expense applies to our operating line of credit, which we use as a cash flow tool to fund mortgage draws. A higher utilization rate for our capital will provide better returns in the form of additional interest income, but will also necessitate increased use of our line of credit for funding draws when our own funds are fully employed. As the real estate market in Calgary has slowed, we have actively focused on reducing our leverage and we plan to decrease use of our line of credit over the next several quarters. For the third quarter, interest expense of $38,808 was down from $45,107 in the second quarter. For the year-to-date, interest expense totaled $123,980, compared to $45,304 for the first nine months of 2014.

Comprehensive Income

Our third quarter comprehensive income of $779,000 ($0.32 per share) was the highest recorded for any three-month period since our IPO, up from $773,000 ($0.32 per share) in the second quarter of the year and $731,000 ($0.31 per share) in Q3 2014.

While we're pleased with this result, we expect that our comprehensive income will be slightly lower over the next several quarters due to the slowing of the Alberta real estate market. However, we do not anticipate that the lower income levels will affect the payment of our Class A Non-Voting Share dividends.

Our share terms call for annual dividends of $0.80 per Class A Non-Voting Share per year, or approximately $0.20 per quarter, prior to any other dividends being paid. Earnings during the third quarter exceeded the amount required to satisfy these dividends by 2.6 times. With Class B Non-Voting shareholders bearing a much greater proportion of the risk of income fluctuations, even if earnings had been only 38% of their actual figure, the company would still have been in a position to pay Class A shareholders their full, planned quarterly dividend.

For the year-to-date, comprehensive income was $2.3 million, or $0.95 per share, up from $2.1 million, or $0.87 per share, in the same period of 2014. The 2015 income translates into nine-month earnings of $1.59 per Class A Non-Voting Share, for an effective Class A Non-Voting Share dividend cover ratio of 2.7 times.

IPO Financing Costs

Financing costs associated with the IPO and private placement totaled $1.6 million, including professional fees for preparation of the prospectus; offering, agent and brokerage fees and commissions; and other marketing and offering costs. In accordance with IFRS, the costs of the offering are not treated as expenses in the financial statements, but instead are shown as a reduction in the value of the equity of the company. These costs are, however, deductible for tax purposes over a five-year amortization period.

Our intent is to restrict the distributions to less than 100% of net income in order to utilize the tax deductibility of these expenditures. This distribution policy will, over time, have the result of retaining income equal to the offering costs within Builders Capital, which will increase the Net Asset Value of the company while ensuring that no corporate taxes are paid. Because of the two-tier share structure, and the priority on distributions that the Class A Non-Voting Shares hold over the Class B Non-Voting Shares, we expect the restriction in distributions to come entirely from the portion of income otherwise available for distribution to the Class B Non-Voting shareholders.

Balance Sheet

At September 30, 2015, total assets were $26.6 million (December 31, 2014- $27.2 million), consisting primarily of funded mortgages. Also included in total assets are the general partnership units that the company received from an affiliate during the second quarter in exchange for the foreclosed property

discussed earlier. When this property is sold, the partnership units will be redeemed and we will realize the final write-down on disposal. This write-down will not adversely affect our balance sheet as it will be taken from the accumulated allowance for loan losses, which has already been recorded.
Liabilities of $2.8 million (December 31, 2014 - $4.2 million) consisted of a $2.4 million line of credit balance (December 31, 2014 - $3.2 million); dividends relating to the fiscal quarter, which were paid on October 31, 2015; trade payables; and unearned lender fees.

Quarterly Financial Information

	Quarter ended September 30 2015 $	Quarter ended June 30 2015 $	Quarter ended March 31 2015 $	Year ended December 31 2014 $	Quarter ended December 31 2014 $	Quarter ended September 30 2014 $	Quarter ended June 30 2014 $
Revenues	967,231	964,761	964,912	3,536,223	967,975	899,007	882,831
Earnings and total comprehensive earnings	778,752	772,711	775,219	2,846,590	770,874	731,493	706,458
Total assets	26,578,841	26,669,379	27,553,847	27,191,077	27,191,077	24,226,077	24,404,039
Shareholders' equity	23,787,589	23,699,823	23,504,020	23,017,233	23,017,233	23,324,074	22,451,891
Basic and fully diluted earnings per share	0.32	0.32	0.32	1.19	0.32	0.30	0.30
Cash dividends declared	681,872	676,628	288,432	2,631,135	1,077,514	670,328	611,138
Cash dividends declared per Class A share	0.2016	0.1995	0.1973	0.8000	0.2016	0.2016	0.1995
Cash dividends declared per Class B share	0.3864	0.3989	0.3945	1.4910	0.4134	0.3864	0.3456

Distributions

Class A Non-Voting shareholders are entitled to receive annual dividends of 8% in preference to all other shareholder distributions. Once these dividends have been paid, Class B Non-Voting shareholders are entitled to receive total annual dividends of up to 16%. At our fiscal year-end, any remaining income available for distribution after these dividends are paid will be allocated pro-rata between the classes of shares, including the Voting Shares.

On September 21, 2015, based on income for the third quarter, the company's Board of Directors declared a dividend of $0.2016 per Class A Non-Voting Share to shareholders of record on September 30, 2015. This distribution was paid on October 31, 2015 and is recorded as payable in the accompanying financial statements. The dividend amount was calculated to provide a cumulative 8% return for the year on the $10.00 initial Class A Non-Voting Share price.

Subsequent to the quarter-end, on October 26, 2015, again based on income for the quarter, the Board declared a dividend of $0.4032 per share to Class B Non-Voting shareholders of record on that date. This distribution was paid on October 31, 2015.

Liquidity and Capital Resources

Cash flow and liquidity were good during the quarter, although the somewhat slower Alberta real estate market has delayed some of our projected mortgage pay-downs. We will continue to monitor our cash flow on a daily basis as liquidity is critical to our success. Liquidity risk for the company comes primarily from the prospect of committing to a mortgage for which sufficient funds are not available to make draws as requested by the borrower. We have a number of tools to manage liquidity and to ensure that commitments can be met, which have been utilized to a greater extent in recent months than in the past. These include our $3.5 million line of credit, detailed cash-flow planning procedures, and Builders Capitals' well-established network of affiliates and mortgage industry contacts, through which mortgages can be sold or syndicated as required for cash flow purposes. In addition, our mortgage documents include language whereby a borrower cannot compel the company to advance funds. Our primary goal is to minimize unused cash balances, while ensuring that borrower needs and other commitments can always be met.

During the quarter, mortgages were purchased or funded in the amount of $10.3 million and $10.6 million was received as proceeds of sale, or as repayments on loans. As our mortgages are predominantly short-term in nature, the continual repayment by borrowers of existing mortgage investments creates liquidity for ongoing mortgage investments and funding commitments.

We have no plans or commitments for capital expenditures. Builders Capital is financed, and will continue to be financed, primarily by the issuance of common shares. We intend to issue additional common shares in the future to finance growth in our mortgage portfolio.

According to our share terms, Class A Non-voting shareholders have an annual right to redeem their shares on October 31 each year. Payment for the redemptions is to be made on November 30. Subsequent to the quarter-end, we received notice of redemption requests for a total of 101,500 shares. These shares will be redeemed for 95% of the net asset value as calculated on October 31, 2015. The total redemption amount will be approximately $933,000 and will reduce our share capital by

$1,015,000 for a net gain of $82,000. While our intent in general is to grow our mortgage portfolio and our capital base, we are pleased that the share terms are functioning as intended to provide liquidity for our investors.

Related Party Transactions

Our manager is a company controlled by certain Builders Capital directors. The manager receives a management fee calculated as 1% per annum of the book value of the share capital of the company. For the third quarter, this amount was $61,601. In addition to the management fee, the manager charges lender fees directly to borrowers, with 28.6% of these fees being paid to the company and the remaining 71.4% going to the manager.

During the quarter, we conducted a number of transactions with Builders Capital (2014) Ltd., a privately held corporation owned by certain directors of the company, respectively purchasing and selling $2.0 and $2.9 million in mortgages. All transactions were completed at fair market values with the objectives of ensuring full cash utilization and creating liquidity as required.

Financial Instruments

The company's significant financial instruments are our mortgages receivable. The risks associated with the mortgages are fairly typical for any lender and primarily revolve around the possibility of default on the part of the borrowers. The mortgages receivable are all written with fixed interest rates and no gains or losses are associated with these instruments. Virtually all of the company's revenue is derived from our mortgages, either as interest or as lender fees charged to borrowers at the inception and renewal of their loans.

Critical Accounting Estimates

The determination of an impairment provision for the mortgage portfolio is a critical accounting estimate. Builders Capital considers evidence of impairment for mortgages receivable at both a specific and collective level. All individually significant mortgages are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but is not yet identifiable at an individual mortgage level. Mortgages that are not individually significant are grouped according to risk characteristics and each group is collectively assessed for impairment.

In assessing collective impairment, we review historical trends of probability of default, the timing of recoveries and the amount of loss incurred. This information is weighed against our judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a specific mortgage receivable is calculated as the difference between its carrying amount, including accrued interest, and the present value of the estimated future cash flows, discounted at the mortgage's original effective interest rate. Losses are recognized in the statement of comprehensive income and reflected in an allowance account against the mortgages receivable. When a subsequent event causes the amount of an impairment loss to decrease, the decrease in impairment loss is reversed through the statement of comprehensive income.

Responsibility of Management and the Board of Directors

Management is responsible for the information disclosed in this MD&A and has in place the appropriate information systems, procedures and controls to ensure that the information used internally by management and disclosed externally is materially complete and reliable. In addition, our Audit Committee and Board of Directors provide an oversight role with respect to our public and financial disclosures. Both have reviewed and approved this MD&A and the accompanying financial statements for the quarter ended September 30, 2015.

Controls and Procedures

Internal control over financial reporting encompasses controls and processes designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

As the management of Builders Capital, we are responsible for establishing and maintaining these controls. Under the supervision and with the participation of the CEO and the CFO, management carries out, on an ongoing basis, an assessment of the design of these internal controls. This assessment includes a risk evaluation of internal controls and documentation and testing of the key processes and controls. Due to the inherent limitations in any control system, an evaluation can only provide reasonable assurance over the effectiveness of the controls and internal controls are not expected to prevent and detect all misstatements due to error or fraud.

Based on our ongoing assessment, the CEO and the CFO have concluded that Builders Capital's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes as at November 18, 2015.

Outstanding Share Data

The company's authorized share capital as at November 18, 2015 consists of 1,000 Voting Shares, of which 100 were outstanding at period-end; an unlimited number of Class A Non-Voting Shares, of which 1,469,395 were outstanding at period-end; and an unlimited number of Class B Non-Voting Shares, of which 974,576 were outstanding at period-end.

In addition, as part of the compensation for closing the IPO, the company granted 82,764 options to agents. Each of these options entitles the agent to purchase one Class A Non-Voting Share at the IPO price of $10.00 at any time prior to their expiry on December 12, 2016. None of the options had been exercised at quarter-end.

Market Outlook

The following discussion is qualified in its entirety by the Notice Regarding Forward-Looking Information at the beginning of this MD&A and by the section entitled Risks and Uncertainties that follows this Outlook section.

As Alberta is our primary market for construction mortgages, investors in Builders Capital may justifiably be concerned that a downturn in real estate values could put our existing portfolio in jeopardy, and negatively impact our ability to generate profits and pay dividends going forward. While the lower oil prices that have persisted for the past year will definitely have a dampening effect on the Alberta construction market in the final quarter of 2015 and into 2016, we believe that we are well positioned to continue to manage our mortgage portfolio and deliver attractive returns to shareholders.

To sustain a profitable operation, Builders Capital requires a marketplace in which builders can be profitable. High real estate prices are not necessary; rather, profitability is dictated by the spread between raw land and construction costs and the final selling price. Construction costs have recently become inflated, particularly in Calgary. A reduction in real estate prices will result in a drop in raw land costs and, as we've begun to see in recent months, a concurrent drop in sub-trade costs as a result of decreased activity. Accordingly, we expect that margins on new construction will remain viable and we are optimistic that a smaller, but still profitable, construction marketplace in Alberta will allow us to keep our lending book in the province reasonably full. Our ideal borrower starts, completes and sells their projects quickly, and with a reasonable margin. We are confident that, even in the current challenging economic climate, there will still be a sufficient number of such borrowers.

Some construction lenders already appear to be pulling back from lending in Alberta. We believe that the tighter economic environment creates an opportunity for us to increase our market share, as our predecessor business has done under similar business conditions in the past. Canada Mortgage and Housing Corporation (CMHC), in its Fall 2015 Housing Market Outlook, is forecasting Calgary single-detached housing starts of approximately 4,000 units in each of 2015 and 2016, which, although down 38% from the 2014 level, should still generate adequate demand for our services.

While Builders Capital is currently primarily invested in the Alberta market, with a concentration in Calgary, we have successfully taken the first steps toward geographically diversifying our mortgage portfolio across Western Canada. In the past year, we reduced our Alberta holdings from 100% to 83% of the portfolio, and our Calgary mortgages from 70% to 55%. Geographic diversification is likely to become more pressing for us as the forecast decline in new housing starts in Calgary materializes and begins to reduce our ability to source lending opportunities.

We have a number of strategies in place to limit the risk that a down-turn in the economy poses to our mortgage portfolio. We maintain a prudent debt-to-equity ratio. Mortgage lending is generally restricted to 75% of what we believe to be the fair market value of a property at any given time, meaning that we have 25% of the value of the project in owners' equity ahead of us. We take a general allowance for doubtful accounts each quarter before paying dividends, allowing us to build a cushion of funds to further protect investors. Should we deem it necessary, we can and will increase this allowance. By investing only in short-term mortgages, we maintain the liquidity necessary to preserve capital. In the event that we believe a market has become too risky, we will work on converting our investments to cash, and will forego returns in order to protect the capital with which we've been entrusted.

In addition, safeguards built into our share structure give Builders Capital's public Class A Non-Voting shareholders priority on all capital and income distributions over our Class B Non-Voting shareholders. In the event of a serious decline in the earning potential or value of our portfolio, Class B shareholders would forego all distributions until the Class A shareholders have received both their 8% return and, in the case of a dissolution, their capital.

While we do anticipate having to take additional steps to collect on some of our mortgage assets over the coming months, we're confident in our ability to do so. Similarly, we believe that the allowances we have taken against write-downs are adequate and that the necessary safeguards are in place to assure our ability to maintain the Class A Non-Voting Share dividend at 8% per annum.

Through 2013 and 2014, the inflow of migrants to Alberta kept demand for housing high and contributed to record high housing starts. While declining world oil prices are expected to reduce in-migration to Alberta, CMHC still forecasts a continued inflow of migrants, with net migration of 39,000 people in 2015 and 37,000 in 2016. This will continue to drive a demand for housing, albeit at a somewhat subdued level. CMHC expects that housing starts in Alberta will also be impacted by oil pricing volatility in the final quarter of 2015 and in 2016, but to an extent that remains to be seen. It forecasts that total housing starts for 2015 will finish up at 37,000 units, a decrease from 40,590 units in 2014 and will be between 23,000 and 34,000 units in 2016. In Saskatchewan, CHMC expects that total housing starts will decline somewhat from 8,257 units in 2014 to 5,800 units in 2015 and between 4,600 and 7,000 units in 2016. In BC, total housing starts for 2015 are expected to be up slightly from the 28,356 starts recorded in 2014 at 31,300 remaining about the same in 2016. Overall, we believe that the forecast levels of housing starts in our key markets are more than adequate to support the growth of our business.

Since our inception, we have had a sufficient number of quality lending opportunities to easily keep our capital fully utilized. Given the size of the marketplace, our current relatively small market share and the opportunities that exist to expand our geographic footprint, we expect to be able to continue to source sufficient quality lending opportunities to keep our capital fully utilized. We also have a continuing opportunity to purchase additional mortgages that meet our lending criteria from affiliates. While purchased mortgages do not generally provide a source of lender fee revenue, they do assist in keeping our capital fully utilized.

Risk and Uncertainties

There are two primary areas of risk for us as a lender. The first is the risk that borrowers will fail to meet their obligations and repay mortgages as they come due. Secondly, there is a risk that sufficient quality investment opportunities will not be available to keep our capital fully deployed. As our primary goal is the preservation of our investors' capital, even at the expense of potential returns, we consider the risk of borrower default to be our primary concern.

A robust new-home construction market greatly reduces both of these risks, as it provides a strong marketplace into which builders can sell their completed projects, it maintains or increases the value of the security for our loans, and it provides an ongoing source of new projects and borrowers. A downturn in the market that substantially decreases security values could have a significant negative effect on our business. We cannot predict the performance of the housing market in the future with certainty.

In order to mitigate these risks, we restrict our loan amounts to 75% of what we consider the fair market value of the security to be. The 25% equity component is a requirement for our borrowers and we believe it provides us with a sufficient margin for error in the event of a drop in property values. The short-term nature of our loans also gives us the flexibility to convert our entire portfolio of mortgages to cash within a 12-month period, if economic conditions warrant. We also maintain sufficient construction expertise to allow us to economically complete any project on which we've loaned funds.

Our share terms provide that the Class A Non-Voting shareholders have a priority over other shareholders with respect to both the payment of dividends at an 8% rate, and any potential return of capital. This creates a significant reduction in the risk profile of the Class A Non-Voting Shares, as an impairment in the value of the mortgage portfolio, or a lack of funds available for distributions, will always be absorbed, to the full extent of their investment, by the Class B Non-Voting Shares before the Class A shareholders' rights are affected. We believe that this structure substantially reduces risk for the Class A shareholder.

Other risks and uncertainties exist for our business that are typical for business in general and for lenders in particular. These include changes in interest rates, potential environmental issues associated with the mortgage security, borrower solvency, any significant changes in competition, changes in tax legislation and other factors as described under Forward-Looking Information.

Additional Information

Additional information about Builders Capital is available on SEDAR at www.sedar.com and on our website at www.builderscapital.com.