



Builders Capital Mortgage Corp.

Management's Discussion and Analysis
Quarter Ended September 30, 2016

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 25, 2016. It should be read in conjunction with the company's audited consolidated financial statements and accompanying notes for the 12 months ended December 31, 2015 and our unaudited condensed consolidated interim financial statements for the three months ended September 30, 2016, which represents the third quarter of our 2016 fiscal year. Both may be viewed on SEDAR at www.sedar.com and on our website at www.builderscapital.com. The consolidated 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", "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. These 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. For income tax

purposes, 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, held by the public, and Class B Non-Voting Shares, held by management and private investors. This two-tier share structure grants dividend priority to the Class A Non-Voting Shares, providing additional security of both principal and dividends to our public 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.

Operations

Builders Capital provides short-term, course of construction financing to builders of residential, wood-frame construction projects in Western Canada. 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.

Investments in our portfolio are strategically concentrated on:

- First or subordinate mortgages on real estate with a target of up to 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 geographic 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.

Summary

Performance Highlights

- Dividends of \$0.2016 per share were declared to Class A public shareholders of record on September 30, 2016, equating to an annualized return of 8% based on the original \$10.00 issue price.
- Third quarter mortgage revenue of \$0.8 million represented an annualized 14.7% of net share capital, down somewhat from the 16.7% of net share capital reported in Q3 2015.
- Our invested capital turnover rate continued to be impacted by the considerably slower real-estate market in Alberta, decreasing to 32% from 35% in Q3 2015, but was improved from the 19.3% and 28.6% respectively recorded in the first two quarters of the year.
- We continued to enhance the geographic diversity of our mortgage portfolio, increasing our mortgage holdings in British Columbia to 25.8% of our portfolio from 8.2% in Q3 2015.
- Management fees were more than offset by lender fees charged to borrowers.
- Operating expenses (excluding interest and funds set aside for potential loan losses) were within expectations, increasing somewhat to represent 10.6% of revenue, compared to 8.2% in Q3 2015.
- We maintained a conservative debt-to-equity ratio.
- Comprehensive income of \$678,000 was down by 17% from Q3 2015, due mainly to the slower Alberta real estate market and more cautious use of our line of credit.
- Income for the quarter exceeded that required to pay planned Class A Non-Voting Share dividends by a healthy 2.3 times.

Business Environment

- In our primary Southern Alberta marketplace, the low oil prices that have persisted since mid-2014 continued to have a significant economic impact in the third quarter of 2016.
- 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 have pulled back from lending in Alberta, we believe that the tighter economic environment creates an opportunity for us to increase market share.
- Lower raw land costs, particularly in Calgary, our largest single market, together with a concurrent drop in sub-trade costs as a result of decreased construction activity should keep margins on new construction viable.
- Based on CMHC forecasts for Q4 2016 and 2017/2018, we believe housing starts in our western Canadian markets will be more than adequate to support the growth and continued geographic diversification of our business.

Financial Overview

	Three months ended September 30, 2016 \$	Three months ended September 30, 2015 \$	Three months ended September 30, 2014 \$
Revenues	807,359	967,321	899,007
Earnings and total comprehensive earnings	646,032	778,722	731,493
Total assets	24,610,504	26,578,841	24,226,077
Shareholders' equity	23,181,001	23,787,589	23,324,074
Basic and fully diluted earnings per share	0.28	0.32	0.30
Cash dividends declared	640,651	681,872	670,328
Cash dividends declared per Class A share	0.2016	0.2016	0.2016
Cash dividends declared per Class B share	0.3677	0.4032	0.3864

Investment Portfolio

At September 30, 2016

Property Type	Mortgage Portfolio (No.)	Outstanding Principal (\$)	Total Committed Mortgage Principal (\$)	%	AAM Allocation*
Residential					
Single family – Detached	22	16,918,561	25,095,000	70%	100%
Single family – Attached	8	7,126,141	11,167,000	30%	100%
Total:	30	24,044,702	36,262,000	100%	N/A
Geographic Location of Property					
Calgary and Area	16	11,222,752	18,997,000	47%	100%
Edmonton and Area	1	2,769,633	3,000,000	12%	100%
Other Alberta	7	2,940,986	6,095,000	12%	100%
British Columbia	5	6,210,655	7,570,000	26%	50%
Saskatchewan	1	900,676	600,000	3%	25%
Total:	30	24,044,702	36,262,000	100%	N/A
Interest Rate (excluding fees)					
Less than 12%	5	4,828,630	7,602,000	20%	N/A
12%-12.99%	8	4,939,403	10,045,000	20%	N/A
13%-13.99%	15	13,187,596	17,415,000	55%	N/A
Greater than 13.99%	2	1,089,073	1,200,000	5%	N/A
Total:	30	24,044,702	36,262,000	100%	N/A

*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, 2016

Despite the economic difficulties that our primary Southern Alberta marketplace continued to experience through the third quarter of 2016, we maintained a full mortgage book. We remain comfortable with the value of our portfolio and our provision for mortgage losses, and confident in our ability to prosper through difficult times.

During the period, we continued to focus on geographically diversifying our mortgage holdings and, in particular, on strengthening our position in British Columbia, with notable success. At September 30, 2016, mortgages on properties in BC represented 26% of the portfolio's total value, up from 13% at the end of the second quarter of this year and 8% at the end of Q3 2015.

Cash advances and invoiced interest totaled \$6.8 million for the third quarter and \$17.2 million for the year-to-date. These were respectively balanced by \$7.2 million and \$17.8 million in mortgage repayments. Based on an average of incoming and outgoing cash, we turned over 32% of our net invested capital during the quarter and 80% in the nine months. The third quarter turnover was up sequentially from 28.6% in Q2 and 19.3% in Q1. Although we are not yet back to the rates we achieved in 2015 and 2014, we are cautiously optimistic that this increased velocity of lending will continue to pick up going forward, supported by a somewhat recovered price for oil and our ongoing geographic diversification.

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 third quarter of 2016, we purchased \$1.4 million in mortgages and sold \$1.9 million. In the first nine months of the year, we respectively purchased and sold \$5.5 million and \$3.0 million in mortgages. All of the purchase and sale transactions during the period were conducted with Builders Capital (2014) Ltd., a privately held corporation owned by certain directors of the company.

During the quarter, we completed the sale of a property we repossessed in Regina, Saskatchewan in Q2 of this year. From the inception of this loan on October 10, 2014, we charged a total of \$144,600 in interest and fees, of which \$75,900, or 52%, was collected. This left a final write-off on disposal of the property of \$68,700 and a calculated return to the company of 6.9%. The write-down has been taken from our accumulated allowance for loan losses.

Early in the quarter, we commenced foreclosure proceedings against a mortgagor in Fort McMurray, Alberta. The security for this loan consisted of two completed homes and an empty lot. Both homes are now sold, with the second sale closing subsequent to the end of the quarter. The empty lot is being held as inventory for resale. During the life of this investment, interest and fees totaling \$580,000 were charged to the borrower, of which \$303,000, or 52%, was collected, leaving a final write-down on the loan of \$277,000 and a calculated return of 8.1%. The write-down has been recorded and taken from our accumulated allowance for loan losses.

We are closely watching two other projects that we believe are at risk of default. As the real estate market in Alberta has slowed, selling prices have dropped and marketing times have lengthened, driving our loan-to-value ratios higher than we would like. We believe that our accumulated allowance for doubtful loans, which stood at \$299,000 at quarter-end, will be adequate to cover any write-downs that

occur as a result of actions undertaken on at-risk properties. Builders Capital will continue to set aside funds to cover potential future losses. 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 third quarter was a modest 6.2%. The only debt that we employ is our line of credit, which is used primarily as a cash-flow tool to facilitate making advances to borrowers.

At September 30, 2016, the total value of our mortgage portfolio was \$24.0 million, which was consistent with the prior year. The portfolio was made up of 30 mortgages with an average outstanding balance of \$801,000.

Revenue

Mortgage revenue for the three months ended September 30, 2016 was \$0.8 million, down by 17% from the nearly \$1.0 million reported for the third quarter of 2015. For the nine months ended September 30, 2016 revenue was \$2.6 million, representing a 12% decrease from \$2.9 million in the same period of 2015.

The three-month revenue consisted of \$745,000 in interest and \$62,000 in lender fees charged to borrowers, equating to annualized gross revenue of 13.7% of the weighted average gross share capital, compared to 15.7% in 2015. The nine-month revenue comprised \$2.4 million in interest and \$200,000 in lender fees, representing annualized gross revenue of 14.5% of the weighted average gross share capital, compared to 15.9% in 2015.

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 existing loans are renewed. Lender fees are maximized when turnover in the portfolio is highest. As anticipated, and consistent with the slower real estate market, lender fees earned in the first three quarters of the year were down from the 2015 level; however, they still more than offset management fees. For the third quarter, lender fee revenue exceeded management fees paid by \$2,700, or 4.4%. For the nine months, lender fee revenue exceeded management fees by \$24,000, or 13.7%.

Expenses

Excluding funds set aside to provide for loan losses and interest expense, third quarter operating expenses were \$86,000, representing 10.6% of revenue, up from \$79,000, or 8.2% of revenue, in 2015. Year-to-date operating expenses of \$255,000 were up by 8.5% from \$235,000 in 2015, representing 10% of revenue, compared to 8.1% of revenue last year. The 2016 operating expenses were within expectations and compared favourably to the 10.7% of revenue we forecast.

The third quarter provision for loan losses was \$60,000, an estimate based on an analysis of the manager's historical bad debts and a current analysis of the construction finance marketplace. This is a collective provision calculated by reference to the portfolio as a whole. To-date, we have accumulated a total of \$797,000 to provide for loan losses, of which \$498,000 has been applied against specific foreclosed properties or discharged mortgages. We believe the remaining \$299,000 is sufficient to cover

potential write-downs currently contained in the mortgage portfolio, and we will continue to accrue amounts that we consider prudent to cover future potential loan losses.

Management fees were \$60,000 for the third quarter and \$176,000 for the nine-month period, 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 continue to closely monitor our borrowings over the next several quarters. At quarter-end, our line of credit stood at \$1.0 million, which was fairly consistent with the average daily balance for the quarter. For the third quarter, interest expense of \$16,000 was down from \$39,000 in 2015.

Comprehensive Income

As expected, the slowing of the Alberta real estate market had a negative impact on our comprehensive income in the first nine months of the year, as did more cautious use of our line of credit. These two factors drove our Q3 comprehensive income down by 17% to \$646,000 (\$0.28 per share) from the \$779,000 (\$0.32 per share) we reported for 2015. The 2016 income translates to earnings of \$0.47 per Class A Non-Voting Share, compared to earnings of \$0.53 per Class A Non-Voting Share in the third quarter of 2015.

For the nine-month period, comprehensive income of \$2.1 million (\$.87 per share) was down by 11.9% from \$2.3 million (\$0.95 per share) in 2015. The 2016 year-to-date income translates into earnings of \$1.50 per Class A Non-Voting Share, compared to \$1.59 per Class A Non-Voting Share in 2015.

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 in both the third quarter and the first nine months of the year exceeded the amount required to satisfy these dividends, by 2.3 and 2.5 times, respectively. With Class B Non-Voting shareholders bearing a much greater proportion of the risk of income fluctuations, even if earnings had been only 43% of their actual figure, the company would still have been in a position to pay Class A shareholders their full, planned quarterly dividend. Given this margin, we anticipate that potential continued fluctuations in our comprehensive income as a result of the slower Alberta real estate market will not affect the payment of our Class A Non-Voting Share dividends.

Financing Costs

Financing costs since inception total \$1.6 million, including professional fees for preparation of our IPO prospectus; offering, agent and brokerage fees and commissions; and other marketing and offering costs. In accordance with IFRS, these financing costs are not treated as expenses in the consolidated 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 shareholder distributions to less than 100% of net income in order to utilize the tax deductibility of these payments. 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 primarily from the portion of income otherwise available for distribution to the Class B Non-Voting shareholders.

Balance Sheet

At quarter-end, total assets were \$24.6 million (September 30, 2015 - \$26.6 million), consisting primarily of funded mortgages. Also included in total assets are the two repossessed properties mentioned earlier in this MD&A – a completed home and an empty lot, both in Fort McMurray, Alberta. The home was sold subsequent to the quarter-end and was being carried at \$591,000, the net value realized on disposal. The lot is being carried at a value of \$213,000. The write-down on the home and expected write-down on the lot have been recorded in our accounts.

At quarter-end, liabilities of \$1.4 million (September 30, 2015 - \$2.8 million) consisted of a \$1.0 million line of credit balance (September 30, 2015 - \$2.3 million); dividends relating to the fiscal quarter, which were paid on October 31, 2016; trade payables; balance due to Builders Capital Management Corp.; and unearned lender fees.

Quarterly Financial Information

	Quarter ended September 30 2016 \$	Quarter ended June 30 2016 \$	Quarter ended March 31 2016 \$	Quarter ended December 31 2015 \$	Quarter ended September 30 2015 \$	Quarter ended June 30 2015 \$	Quarter ended March 31 2015 \$	Quarter ended December 31 2014 \$
Revenues	807,359	856,584	898,301	879,036	967,321	964,761	964,912	967,975
Earnings and total comprehensive earnings	646,032	677,932	726,211	656,198	778,722	772,711	775,219	770,874
Total assets	24,610,504	26,613,516	24,485,930	24,256,975	26,578,841	26,669,379	27,553,847	27,191,077
Shareholders' equity	23,181,001	22,907,067	22,859,407	22,403,083	23,787,589	23,699,823	23,504,020	23,017,233
Basic and fully diluted earnings per share	0.28	0.29	0.31	0.27	0.32	0.32	0.32	0.32
Cash dividends declared	640,651	272,895	269,886	1,108,710	681,872	676,628	288,432	1,077,514
Cash dividends declared per Class A share	0.2016	0.1995	0.1973	0.2216	0.2016	0.1995	0.1973	0.2016
Cash dividends declared per Class B share	0.3677	0.3677	0.3667	0.4234	0.4032	0.3989	0.3945	0.4134

Distributions

Under our two-tiered share structure, 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 is allocated pro-rata between the classes of shares, including the Voting Shares.

On September 20, 2016, 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, 2016. This distribution was paid on October 31, 2016 and is recorded as payable in the accompanying condensed consolidated interim financial statements. The dividend amount was calculated to provide an annualized 8% return for the quarter on the \$10.00 initial Class A Non-Voting Share price.

Subsequent to the quarter-end, on October 24, 2016, again based on income for the third quarter of 2016, the Board declared a dividend of \$0.3717 per share to Class B Non-Voting shareholders of record on that date. This distribution was also paid on October 31, 2016.

Liquidity and Capital Resources

Cash flow and liquidity are critical to our success. We monitor both daily to ensure we can meet the expectations of our borrowers.

In the third quarter, liquidity was good and cash inflows were sufficient to fund our committed cash outflows, despite delays to some of our projected mortgage pay-downs as a result of the slower Alberta real estate market.

During the three months, mortgages were purchased or funded in the amount of \$8.1 million and \$9.1 million was received as proceeds of sale or 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.

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. These have been utilized to a greater extent in recent months than in the past. Included are our \$3.5 million line of credit, detailed cash flow planning procedures, and Builders Capital's 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.

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. During the quarter, we closed a private placement for 32,400 Class A Non-Voting common shares at a price of \$10.00 per share. We intend to continue to issue 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 at 95% of Net Asset Value. Payment for the redemptions is to be made on November 30. In the final quarter of 2015, we redeemed 101,500 shares for a total payment of \$932,300. This reduced our share capital by \$1,015,000 and added \$82,700 to our shareholders' equity. The annual notice date for redemptions for 2016 has now passed with no redemption requests. While our intent in general is to grow our mortgage portfolio and our capital base, we are nonetheless 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. Management fees amounted to \$59,700 for the third quarter and \$176,500 for the year-to-date. 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, to support full cash utilization and create liquidity as required, we respectively purchased and sold \$1.4 million and \$1.9 million in mortgages. All transactions were completed with Builders Capital (2014) Ltd., a privately held corporation owned by certain directors of the company, at fair market values.

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 Board of Directors and Audit Committee provide an oversight role with respect to our public and financial disclosures. Both have reviewed and approved this MD&A and the accompanying consolidated financial statements for the quarter ended September 30, 2016.

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 condensed consolidated interim financial statements for external purposes as at November 25, 2016.

Outstanding Share Data

The company's authorized share capital as at November 25, 2016 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 1,400,295 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 granted have been exercised.

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.

While lower oil prices have reduced real estate activities and values in our primary Southern Alberta market, we believe that we are well positioned to continue to profitably manage our mortgage portfolio and deliver attractive returns to shareholders.

High real estate prices are not a prerequisite to our success. To sustain profitable operations, Builders Capital requires a marketplace in which builders can be profitable. In recent months, we have been seeing a reduction in building costs in Alberta, while Statistic Canada's New Housing Price Index, which measures changes over time in contractor's selling prices, has remained stable, decreasing by only 1.7% since January 2015. Accordingly, we expect that margins on new construction in the province will remain viable.

At the same time, availability of construction credit has tightened, with some mortgagees pulling back from lending in Alberta. This has created an opportunity for us to increase our market share, as our predecessor business has done under similar business conditions in the past. We remain 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.

While Builders Capital is currently primarily invested in the Alberta market, which initially represented 100% of our mortgage portfolio, we have made excellent progress toward our goal of geographically diversifying our mortgage holdings across Western Canada. In particular, over the past 12 months, we have reduced our Alberta holdings from 83% to 70% of the portfolio's total value and increased our holdings in British Columbia from 8% to 26% of the portfolio.

We have a number of other strategies in place to limit the risk that a down-turn in the economy poses to our mortgage portfolio. Builders Capital maintains 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. We believe that our provision for loan losses is sufficient. However, should we deem it necessary, we can and will increase this allowance in future.

In addition, 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.

Finally, 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.

When the market changes, as it has in Alberta in the last 18 months, it takes some time to realize on an inventory of mortgages that were advanced and valued in a more robust economy. Over the past 12 months, we have foreclosed on five properties and sold four of them, holding only one empty lot with a relatively low value in inventory. While it is entirely possible that we will need to take additional steps to collect on some of our mortgage assets over the coming months, we are optimistic that the foreclosures have weeded out the most significant vulnerabilities in the portfolio. Similarly, we believe that the necessary safeguards are in place to assure our ability to maintain the Class A Non-Voting Share dividend at 8% per annum.

While the oil price shock that began in 2014 will likely continue to drag down the Alberta economy through the end of 2016, the longer-term outlook is positive. Higher oil prices in 2017 are expected to stabilize investment in the province, contributing to economic and employment growth that will gain momentum in 2018, in turn driving up housing starts. CMHC forecasts that total starts in Alberta for the 2016 will decline from last year's 37,282 units to between 21,900 and 24,000 units, remaining near this range in 2017 before increasing to between 22,900 and 25,900 units in 2017.

The BC economy is expected to expand through 2018, benefiting from growth in domestic and internal demand for goods and services, which should keep housing starts above long-term averages. According to CMHC, total starts in 2016 will increase to between 37,000 and 39,300 units from 31,466 units in 2015, leveling off to between 32,000 and 34,000 units in 2017, with a similar outlook for 2018 at 29,900 to 32,000 units.

In Saskatchewan, while CMHC forecasts that the slower economy will bring 2016 housing starts down somewhat to between 4,400 and 5,000 units from 5,149 units in 2015, it expects that economic expansion in 2017 and 2018 will drive an upward trend. Housing starts for 2017 are forecast to range from 4,600 to 5,200 units, increasing to between 4,900 and 5,500 units in 2018.

Overall, we believe that the projected 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 generally 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 employed.

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 a target of up 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.