Builders Capital Mortgage Corp.

Management's Discussion and Analysis
Year Ended December 31, 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 May 1, 2017. It should be read in conjunction with the company's audited consolidated financial statements and accompanying notes for the 12 months ended December 31, 2016, available 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 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.

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.

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. All of our mortgages are tailored to the specific needs of residential builders, giving Builders Capital a competitive advantage in this sector of the construction market.

Our mortgage portfolio and operations are managed by Builders Capital Management Corp. (the manager) under the terms of a management agreement. The manager sources and services mortgage loans and directs the company's business operations. Under the terms of the management agreement the manager provides staff, office space and equipment, and expertise required to operate the business of the company. The manager maintains extensive experience in all aspects of residential construction and in-depth, up-to-date residential real estate industry knowledge to ensure that it 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 and manages all such actions on behalf of the Company.

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 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 the loans we make to borrowers consist of promissory notes secured by collateral mortgages over real property. None of the mortgages are originally written for terms longer than one year. Subject to the satisfaction of Builders Capital's rigorous lending requirements, any or all of our mortgages may be, or may become, revolving in nature.

In some cases, the mortgage is intended to be repaid on or before the end of its original one-year term, which would typically coincide with the building project being completed and sold. In cases where the project has not been completed and/or sold by the end of the term, assuming that the manager is comfortable with the marketing efforts and security position, we will generally renew the mortgage to give additional time for completion and marketing. In these cases, no cash is usually received on the renewal, although we will sometimes require a payment or additional security on the loan.

In other cases, the intention is to continue financing the ongoing construction of projects for a borrower on a revolving basis. In these situations, each time a project is completed and sold, cash is received to pay-down the loan balance, in some cases to zero. As the loan balance is reduced, new projects can be added to the mortgage. At term-end, as builders will generally have a number of projects under construction at varying stages of completion, the mortgages are typically renewed and the builder draws down on the renewed mortgage to continue to fund their projects. In these cases, there is a revolving aspect to the loan but, again, no cash is expressly due upon the renewal.

Payments of principal, interest and fees are generally only required on the sale or refinancing of the property forming the security for our loan. However, our loan terms stipulate that we can expect payments after substantial completion of a project. Further, all of our mortgages are demand loans, which can be called at our discretion.

While our mortgages often revolve, and can continue to be renewed for multiple years, our goal is to keep the terms short on any one project and to have borrowers repay advances against each project on its completion, either through the sale of the property or by refinancing with another institution.

At inception, we target a loan to value ratio not exceeding 75%. However, calculating a loan to value ratio requires estimates of value, which are subject to uncertainty. For various reasons, including accruing interest, delays in completion of projects and changing market values, this target ratio is sometimes exceeded. We generally consider any loan that exceeds an estimated 85% loan to value to be impaired.

Fiscal Year Summary

Performance Highlights

- Consistent with our targeted distribution, dividends paid to Class A public shareholders in 2016 totaled $0.80 per share, or 8% of the original $10.00 issue price.
- Annual mortgage revenue was $3.4 million, representing 14.4% of gross share capital, compared to $3.8 million, or 15.6% of gross share capital, in 2015.
- Our invested capital turnover rate continued to be impacted by the considerably slower real-estate market in Alberta.
- We continued to enhance the geographic diversity of our mortgage portfolio, increasing our mortgage holdings in British Columbia to 28% of our portfolio from 10% at the end of 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 at 9.9% of revenues.
- At year-end, our debt-to-equity ratio was a very conservative 2%.
- Comprehensive income for the year was $2.7 million, compared to $3.0 million in 2015.
- Earnings exceeded the amount required to pay planned Class A Non-Voting Share dividends by a healthy 2.5 times.

Business Environment

- In our primary Southern Alberta marketplace, the lower oil prices that have persisted since mid-2014 continued to have an economic impact through 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 has created 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

	Year ended December 31, 2016 $	**Year ended December 31, 2015 $**	**Year ended December 31, 2014 $**
Revenues	3,397,522	3,775,940	3,536,223
Earnings and total comprehensive earnings	2,719,244	2,982,880	2,846,590
Total assets	23,678,390	24,256,975	27,191,077
Shareholders' equity	23,128,607	22,403,082	23,017,233
Basic and fully diluted earnings per share	1.15	1.23	1.19
Cash dividends declared	2,185,358	2,758,729	2,631,135
Cash dividends declared per Class A share	0.80	0.82	0.8000
Cash dividends declared per Class B share	1.11	1.62	1.49

Investment Portfolio

At December 31, 2016

Property Type	Mortgage Portfolio (No.)	Outstanding Balance ($)	Total Committed Mortgage Principal ($)	%	AAM Allocation*
Residential					
Single family – Detached	25	16,138,747	29,225,000	69%	100%
Single family – Attached	7	7,215,803	9,467,000	31%	100%
Total:	**32**	**23,354,550**	**38,692,000**	**100%**	**N/A**
Geographic Location of Property					
Calgary and Area	15	10,599,580	19,397,000	45%	100%
Edmonton and Area	1	1,201,754	3,000,000	5%	100%
Other Alberta	10	4,197,234	7,775,000	18%	100%
British Columbia	5	6,436,704	7,570,000	28%	50%
Saskatchewan	1	919,278	950,000	4%	25%
Total:	**32**	**23,354,550**	**38,692,000**	**100%**	**N/A**
Interest Rate (excluding fees)					
Less than 11%	5	6,309,484	10,650,000	27%	N/A
11%-11.99%	4	2,444,238	8,027,000	11%	N/A
12%-12.99%	13	4,897,398	6,370,000	21%	N/A
Greater than 12.99%	10	9,703,429	13,645,000	41%	N/A
Total:	**32**	**23,354,550**	**38,692,000**	**100%**	**N/A**
Original Funding Date **					
Calendar 2016	17	9,475,684	17,322,000	41%	N/A
Calendar 2015	7	6,339,696	8,845,000	27%	N/A
Calendar 2014	5	5,818,111	7,950,000	25%	N/A
Calendar 2013 or earlier	3	1,721,059	4,575,000	7%	N/A
Total:	**32**	**23,354,550**	**38,692,000**	**100%**	**N/A**

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

**Loans are originally written for terms of up to one year but are renewed in cases where a builder continues to roll new security onto the loan facility or if the project has not been sold but is still progressing or being actively marketed.

Operating Results for the Three and Twelve Months Ended December 31, 2016

Despite the economic difficulties that our primary Southern Alberta marketplace experienced in 2016, we maintained a full mortgage book throughout the year.

During the 12 months, we continued to focus on geographically diversifying our mortgage holdings and, in particular, on strengthening our position in British Columbia, with notable success. At December 31, 2016, mortgages on properties in BC represented 28% of the portfolio's total value, up from 13% at mid-year and 10% at the end of 2015.

Cash advances and invoiced interest totaled $4.3 million for the fourth quarter and $21.5 million for the 12 months. These were respectively balanced by $4.8 million and $22.5 million in mortgage repayments. During the quarter, based on an average of incoming and outgoing cash, we turned over 21% of our net invested capital. Over the year, we completed one full turn of our invested capital. While we generally target a nine-month cash turn-over, given market conditions and the slower pace of both home sales and new loan originations, the decreased velocity was expected. With the improving market and continued geographic diversification of our portfolio, we are optimistic that we be able to increase our turn-over rate in 2017.

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 final quarter of 2016, we purchased $0.8 million in mortgages and sold $1.0 million. In the fiscal year, we respectively purchased and sold $6.4 million and $4.0 million in mortgages. All of the purchase and sale transactions were conducted with Builders Capital (2014) Ltd., a privately held corporation owned by certain directors of the company.

During the year, we completed the sale of four properties, one that we re-possessed in 2015 and three that were subject to default in 2016. Losses on the foreclosures totaled $488,000, comprising $130,000 on one property, $69,000 on another and $295,000 on a single loan over two properties.

The terms of the portfolio management agreement require that the manager's share of the loan origination fee for the current term be reimbursed to the company on any mortgage for which the final recovery does not at least equal the advanced principal amount. This was the case on one of the foreclosures in the year, and a $12,000 fee collected by the manager on the loan was repaid to the company. On the two remaining loans, losses were less than the interest charged and both had positive returns.

Losses as a result of the three foreclosures, along with one additional uncollectible shortfall on a mortgage pay-out, were covered by funds from our allowance for doubtful accounts. During the year, we added $252,000 to the previously accumulated $597,000 in the account and applied a total of $505,000 against loan defaults, leaving us with an accumulated allowance of $344,000 at year-end.

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. When investing in mortgages, we target a loan to value ratio not exceeding 75%. At year-end, our weighted average loan to value ratio was approximately 78%, with two loans exceeding our 85% threshold and thus deemed at risk of default. We are closely watching these projects and have earmarked funds from our allowance for doubtful loans to be applied as necessary. In both cases, the borrowers are struggling to sell the completed homes at prices that will fully cover selling costs and our mortgage balance.

We believe that our accumulated allowance for doubtful loans 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 year was a modest 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. Keeping our debt to a minimum leaves us free from influence of creditors and allows us the flexibility to manage our loan portfolio to our best advantage in a downturn such as we've experienced.

At year-end, the total value of our mortgage portfolio was $23.3 million, which was consistent with the prior year. The portfolio was made up of 32 mortgages with an average outstanding balance of $730,000.

Revenue

Mortgage revenue for the final quarter of 2016 was $835,000, down by 5% from the $879,000 reported for the fourth quarter of 2015. For the year ended December 31, 2016, revenue was $3.4 million, representing a 10% decrease from $3.8 million in 2016. The decrease in annual interest revenue is attributable to our lower average mortgage portfolio balance and lower average lending rate in 2016, both of which reflect the more difficult economic conditions we have faced in the last 18 months. At December 31, 2016, the weighted average interest rate on our mortgages was 12.01%, down from 13.05% at the end of 2015.

The three-month revenue consisted of $768,000 in interest and $67,000 in lender fees charged to borrowers, equating to annualized gross revenue of 14% of the weighted average gross share capital, compared to 14.4% in 2015. The annual revenue comprised $3.1 million in interest and $268,000 in lender fees, representing annualized gross revenue of 14.4% of the weighted average gross share capital, compared to 15.6% 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 year were down from the 2015 level; however, they still more than offset management fees. For the fourth quarter, lender fee revenue exceeded management fee expense by $7,600, or 12.7%. For the year, lender fee revenue exceeded management fees by $32,000, or 13.4%.

Expenses

Excluding funds set aside to provide for loan losses and interest expense, fourth quarter operating expenses were $82,000, down from $86,000 in 2015. As a percentage of revenue, expenses were consistent at 9.8% in both periods. Annual operating expenses of $337,000 were up by 5% from $322,000 in 2015, and represented 10% of revenue, compared to 8.5% of revenue last year. The 2016 operating expenses were within expectations and compared favourably to the 10.7% of revenue we forecast.

The fourth quarter provision for loan losses was $63,000, 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 $860,000 to provide for loan losses, of which $516,000 has been applied against specific foreclosed properties or discharged mortgages. We believe the remaining $344,000 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 fourth quarter and $236,000 for the year, 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 year-end, our line of credit had a zero balance.

For the fourth quarter, interest expense of $21,000 was up from $4,000 in 2015 as we started the quarter with a balance owing on the credit line, which was paid off early in December. For the full year, interest expense decreased to $89,000 from $128,000 in 2015.

Comprehensive Income

As expected, the slowing of the Alberta real estate market had a negative impact on our comprehensive income in 2016, as did more cautious use of our line of credit.

These two factors drove our fourth quarter comprehensive income down from our longer-term quarterly average. However, we nonetheless saw a slight (2%) improvement from Q4 2015, which was the first quarter in which the downturn began to negatively affect our earnings. Comprehensive income for the last three months of 2016 increased to $669,000 ($0.28 per share) from $656,000 ($0.27 per share) in 2015. Earnings per Class A Non-Voting Share increased by 3% to $0.282 from $0.276 in 2015.

For the year, comprehensive income of $2.7 million ($1.15 per share) was down by 8.8% from $3.0 million ($1.23 per share) in 2015. The 2016 income translates into earnings of $1.96 per Class A Non-Voting Share, compared to earnings of $2.06 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 fourth quarter and the year exceeded the amount required to satisfy these dividends, by 2.4 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 42% 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 $1.7 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 December 31, 2016, total assets were $23.6 million (2015 – $24.2 million), consisting primarily of funded mortgages. The year-over-year decrease in total assets is a result of the line of credit balance being reduced to nil at year-end, at which point we thus had no borrowed funds invested in mortgages. Also included in total assets were $400 thousand in cash in the bank and a single building lot located in Fort McMurray, Alberta that was repossessed during 2016. The property is being carried at a value of $213,000, its estimated fair market value less a provision for anticipated selling costs.

Liabilities at year-end totaled $550,000 (2015 – $1.8 million), comprising dividends relating to the fiscal quarter, which were paid on January 31, 2017; trade payables; balance due to Builders Capital Management Corp.; and unearned lender fees. The year-over-year decrease was due to the line of credit balance being fully repaid at year-end, and to the usual quarterly B share dividends of approximately $362,000 being declared later in the subsequent fiscal year, and therefore not being accrued as payable in the year-end financial statements.

Quarterly Financial Information

	Quarter ended December 31 2016 $	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 $
Revenues	835,278	807,359	856,584	898,301	879,036	967,321	964,761	964,912
Earnings and total comprehensive earnings	669,068	646,032	677,932	726,211	656,198	778,722	772,711	775,219
Total assets	23,678,390	24,610,504	26,613,516	24,485,930	24,256,975	26,578,841	26,669,379	27,553,847
Shareholders' equity	23,128,607	23,181,001	22,907,067	22,859,407	22,403,083	23,787,589	23,699,823	23,504,020
Basic and fully diluted earnings per share	0.28	0.28	0.29	0.31	0.27	0.32	0.32	0.32
Cash dividends declared	644,549	640,651	272,895	269,886	1,108,710	681,872	676,628	288,432
Cash dividends declared per Class A share	0.2016	0.2016	0.1995	0.1973	0.2216	0.2016	0.1995	0.1973
Cash dividends declared per Class B share	0.3717	0.3677	0.3677	0.3667	0.4234	0.4032	0.3989	0.3945

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 December 21, 2016, based on income for the fourth quarter, the company's Board of Directors declared a dividend of $0.2016 per Class A Non-Voting Share to shareholders of record on December 31, 2016. This distribution was paid on January 31, 2017 and is recorded as payable in the accompanying financial statements. The dividend amount was calculated to provide an annualized 8% return for the quarter and a total of an 8% return for the year on the $10.00 initial Class A Non-Voting Share price.

Subsequent to the quarter-end, on January 30, 2017, again based on income for the fourth quarter of 2016, the Board declared a dividend of $0.3718 per share to Class B Non-Voting shareholders of record on that date. This distribution was also paid on January 31, 2017. This dividend is not recorded in these financial statements.

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 fourth 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 $5.1 million and $5.8 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.

Our mortgage portfolio turns over approximately annually. In 2016, repayments from borrowers totaled $22.5 million and mortgage advances totaled $21.5 million. We expect that borrower repayments will remain at a consistent level in 2017 and plan to again fund mortgages in amounts approximately equal to the mortgage repayments received. It is likely that a number of our mortgages will be renewed as they come due, as discussed earlier under Operations.

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. As noted in the table titled Investment Portfolio above, we have mortgage commitments to borrowers totaling $38.7 million, which exceed the current amounts funded by $15,3 million. We anticipate funding these commitments through the repayment of existing mortgages. Should mortgage repayments fall short of our commitments, we have a number of tools to manage liquidity and to ensure that commitments can be met. These were utilized to a greater extent in 2016 than in prior years. 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. In the fourth quarter, we filed a preliminary prospectus and commenced marketing to close an additional capital raise. As of the date of this MD&A, this capital raise is still ongoing, with an expectation that it will be complete and closed early in May 2017. As discussed further in the prospectus, which is available on our website at www.builderscapital.ca and on SEDAR at www.sedar.com, we are seeking funds to acquire additional mortgages, provide working capital and generally grow the business.

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. No redemption requests were received in 2016.

Related Party Transactions

Our manager is a company controlled by Sandy Loutitt and John Strangway, who are both also directors of Builders Capital. 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 $59,900 for the fourth quarter and $236,000 for the fiscal year.

In addition to the management fee, the manager charges lender fees directly to borrowers both on loan originations and on loan renewals, with 28.6% of these fees being paid to the company and the remaining 71.4% going to the manager. The company collects these fees from the borrower, both on our own behalf and on behalf of the manager, by adding them to the principal amount of the mortgage, generally on the first advance to the borrower. The company then pays the manager's share of the fees to the manager, regardless of whether or not any payments have been received on the mortgage. Such payments to the manager are generally paid within 30 days of having been charged to the borrower. Renewal fees are also charged to the borrower and paid to the manager during the term of the mortgage. During the quarter, the amount of these fees collected on behalf of the manager totaled $217,733 (Q4 2015 - $300,777). During the fiscal year, these fees totaled $624,650 (2015 – $734,495).

During the quarter, we purchased $0.8 million in mortgages in two transactions and sold a single mortgage for $1.0 million. During the fiscal year, purchases and sales totaled $6.4 million in 12 transactions and $4.0 million in five transactions, respectively. All of the purchase and sale transactions were completed with Builders Capital (2014) Ltd., a privately held corporation of which Builders Capital directors Sandy Loutitt and John Strangway are also both directors. The transactions were conducted at the face value of the mortgage, including accrued interest, which is considered to be the fair market value.

Mortgages are purchased when the company has excess cash on hand, quality mortgages are available to purchase, and opportunities to immediately fund additional mortgages are not available. The acquisition of mortgages helps us to minimize excess balances and maximize interest revenue.

Mortgages are sold when, despite the line of credit being fully drawn, additional cash is required, or is forecast to be required, to fund mortgage draws and commitments.

Often, mortgages purchased are subsequently sold back and vice versa. The purchase and sale of mortgages sometimes results in balances due to or from related parties being outstanding for short periods of time. These balances are unsecured and are non-interest bearing.

As noted above, the company has filed a preliminary prospectus and is in the process of raising capital. Depending on the total amount raised, the intent is to purchase a portfolio of mortgages from Builders Capital (2014) Ltd. Should the capital raise be successful, and the portfolio be purchased, the net financial condition will remain essentially unchanged with an increase in assets being offset by an increase in equity. The cash position will improve as the intent is to retain a certain proportion of the proceeds for cash-flow purposes. We are currently working through the regulatory process and hope to have a receipt for a final prospectus, and be in a position to close the offering shortly.

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 year ended December 31, 2016.

Outstanding Share Data

The company's authorized share capital as at May 1, 2017 consists of 1,000 Voting Shares, of which 100 were outstanding at year-end; an unlimited number of Class A Non-Voting Shares, of which 1,400,295 were outstanding at year-end; and an unlimited number of Class B Non-Voting Shares, of which 974,576 were outstanding at year-end.

In addition, as part of the compensation for closing the IPO, the company granted 82,764 options to agents. Each of these options entitled 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 were exercised, and they are all now expired.

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. Over the past year, building costs in Alberta have generally decreased while Statistic Canada's New Housing Price Index, which measures changes over time in contractor's selling prices, has remained stable, decreasing by only 1.6% 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 2016, we reduced our Alberta holdings from 84% to 68% of the portfolio's total value and increased our holdings in British Columbia from 10% to 28% of the portfolio. We also modestly increased our mortgage holdings in Saskatchewan.

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 plan to 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 24 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 well into 2017, the longer-term outlook is positive. Higher oil prices forecast for later 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 housing starts in Alberta for 2017 will be between 21,800 and 23,800 units. Starts will then increase to between 22,900 and 25,900 units in 2018.

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 2017 will moderate somewhat from the level of activity in 2016, but still be between 32,000 and 34,300 units, with a similar outlook for 2018 at 29,700 to 32,000 units.

In Saskatchewan, while CMHC forecasts that economic expansion in 2017 and 2018 will drive an upward trend in home construction. 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.