

Builders Capital Mortgage Corp.
Condensed Consolidated Interim Financial Statements
For the Three Months ended June 30, 2025 and 2024

Notice of No Auditor Review of Interim Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited condensed consolidated interim financial statements as at, and for the three months ended, June 30, 2025 and 2024.

Builders Capital Mortgage Corp.
Condensed Consolidated Interim Statements of Financial Position
As at June 30, 2025 and December 31, 2024
(Unaudited)

	June 30, 2025 (unaudited)	December 31, 2024 (audited)
ASSETS		
Cash	\$ 849	\$ 1,924
Accounts receivable (Note 3)	26,550	4,180
Mortgages receivable (Note 4)	48,470,101	42,842,191
Prepaid expenses	7,403	4,812
Assets held for sale (Note 5)	584,085	491,147
Total Assets	\$ 49,088,988	\$ 43,344,254
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Line of credit (Note 6)	\$ 6,436,742	\$ 5,963,597
Accounts payable and accrued liabilities	30,700	68,340
Bond Interest Payable	780,379	240,570
Due to related party (Note 9)	2,576	70,288
Dividends payable (Note 10)	449,365	449,365
Deferred lender fees	106,071	119,361
Total Current Liabilities	\$ 7,805,833	\$ 6,911,521
Non-Current Liabilities		
Bonds (Note 7)	11,808,088	7,221,508
Total Liabilities	\$ 19,613,921	\$ 14,133,029
Shareholders' Equity		
Share capital	\$ 28,770,001	\$ 28,770,001
Retained earnings	705,066	441,224
	\$ 29,475,067	\$ 29,211,225
Total Liabilities and Shareholders' Equity	\$ 49,088,988	\$ 43,344,254

Approved on behalf of the Board:

(Signed) "Brent J. Walter"
Director

(Signed) "Sandy L. Loutitt"
Director

Builders Capital Mortgage Corp.
Condensed Consolidated Interim Statements of Comprehensive Income
For the three and six months ended June 30,
(Unaudited)

	3 months ended June 30, 2025	3 months ended June 30, 2024	6 months ended June 30, 2025	6 months ended June 30, 2024
Revenues				
Interest	\$ 1,729,919	\$ 1,038,729	\$ 3,319,375	\$ 2,106,831
Lender fees	184,404	125,206	365,308	236,458
Other income	25,286	-	25,286	-
Total revenues	1,939,609	1,163,935	3,709,969	2,343,289
Expenses				
General and administrative	43,716	31,756	74,306	59,115
Interest (Note 6)	198,302	83,690	368,389	176,786
Bond interest (Note 7)	433,650	-	780,379	-
Provision for mortgage losses (Notes 4 and 13)	200,000	140,000	400,300	305,000
Management fees (Note 9)	107,115	78,324	209,755	155,788
Total expenses	982,783	333,770	1,833,129	696,689
Total comprehensive income	\$ 956,826	\$ 830,165	\$ 1,876,840	\$ 1,646,600
Earnings per share (Note 8)				
Basic and diluted	\$ 0.30	\$ 0.26	\$ 0.60	\$ 0.52

The accompanying notes are an integral part of these condensed consolidated interim financial statements

Builders Capital Mortgage Corp.
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
For the six months ended June 30,
(Unaudited)

	Share capital			
	Number	Amount	Retained earnings	Total
		\$	\$	\$
Balance, December 31, 2023	3,159,760	28,970,001	406,568	29,376,569
Dividends declared (Note 10)	-	-	(1,628,998)	(1,628,998)
Total comprehensive income for the period	-	-	1,646,600	1,646,600
Balance, June 30, 2024	3,159,760	28,970,001	424,170	29,394,171
Balance at December 31, 2024	3,139,760	28,770,001	441,224	29,211,225
Dividends declared (Note 10)	-	-	(1,612,998)	(1,612,998)
Total comprehensive income for the period	-	-	1,876,840	1,876,840
Balance, June 30, 2025	3,139,760	28,770,001	705,066	29,475,067

The accompanying notes are an integral part of these condensed consolidated interim financial statements

Builders Capital Mortgage Corp.
Condensed Consolidated Interim Statements of Cash Flows
For the six months ended June 30,
(Unaudited)

	2025	2024
Cash flows related to the following activities:		
Operating activities		
Cash receipts of interest and fees from borrowers	\$ 2,884,650	\$ 1,839,924
Cash receipt of principal payments from borrowers	27,599,327	15,492,532
Cash advanced to borrowers	(33,480,284)	(16,155,982)
Cash receipts on sale of mortgages	9,148,210	3,321,304
Cash advanced to purchase mortgages	(4,008,842)	(1,968,432)
Cash receipts on assets held for sale	34,271	(56,207)
Cash paid for operating expenses other than interest	(385,432)	(265,332)
Cash paid for interest	(368,389)	(176,786)
Total cash flows generated from operating activities	\$ 1,423,511	\$ 2,031,021
Financing activities		
Advances on line of credit	\$ 473,145	\$ (401,896)
Cash advanced to related party	(148)	-
Cash advanced on issuance of bonds, net of offering costs (Note 7)	(133,341)	-
Cash paid for bond interest, net of reinvested interest	(151,244)	-
Dividends paid (Note 10)	(1,612,998)	(1,628,998)
Total cash used in financing activities	\$ (1,424,586)	\$ (2,030,894)
Net increase (decrease) in cash	\$ (1,075)	\$ 127
Cash, beginning of year	1,924	596
Cash, end of period	\$ 849	\$ 723

The accompanying notes are an integral part of these condensed consolidated interim financial statements

Builders Capital Mortgage Corp.
Notes to the Condensed Consolidated Interim Financial Statements
For the three months ended June 30, 2025 and 2024
(Expressed in Canadian dollars)

1. Incorporation and operations

Builders Capital Mortgage Corp. (the "Company") was incorporated under the laws of the Province of Alberta on March 28, 2013. The principal business of the Company is to acquire, originate and maintain a portfolio consisting primarily of construction mortgages that are secured by development stage residential real property. The Company operates as a Canadian mortgage investment corporation ("MIC") as defined in the Income Tax Act. The Company is managed by Builders Capital Management Corp. (the "Manager").

The Company became a reporting issuer on October 25, 2013 and the shares of the Company are publicly listed on the TSX Venture Exchange (the "Exchange") under the symbol "BCF". The address of the registered office is 260 – 1414 8th Street SW, Calgary, Alberta T2R 1J6.

2. Basis of preparation

A. Statement of compliance

The condensed consolidated interim financial statements have been prepared by management in accordance with IFRS Accounting Standards® ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and in effect at January 1, 2025.

The condensed consolidated interim financial statements of the Company for the three months ended June 30, 2025 were approved by the Board of Directors on August 28, 2025.

B. Basis of consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its 99.99% interest in its subsidiary, Builders Capital Limited Partnership. All inter-company balances and transactions are eliminated upon consolidation. Total comprehensive income is attributed to the equity holders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. Subsidiaries are all entities (included structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control transferred to the Company. They are deconsolidated from the date that control ceases.

C. Basis of measurement

These condensed consolidated interim financial statements are prepared on the historical cost basis except for certain financial instruments which are measured at fair value as explained in the accounting policies.

D. Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting year. Estimates, assumptions and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes can differ from these estimates. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are:

i) Measurement of expected credit loss

The Company is required to make estimates and assumptions that relate to the expected credit losses. These judgements include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments which would require an increase or decrease in the allowance for credit losses. See Note 4.

ii) Classification of non-voting shares with redemption feature

Under IFRS, IAS 32 requires that shares of an entity which include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset be classified as financial liabilities. The Company's Class A and Class B non-voting shares contain a redemption feature whereby the holders can request redemption of the shares during a specified period during the year. The redemption feature is subject to certain restrictions which give Management the ability to effectively defer redemption indefinitely. Accordingly, management has applied judgment in assessing whether the redemption feature would create a contractual obligation to repurchase or redeem shares for cash or another financial asset and has determined that it would not and that the shares should be classified as equity.

Builders Capital Mortgage Corp.
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For the three months ended June 30, 2025 and 2024
(Expressed in Canadian dollars)

2. Basis of preparation (continued from previous page)

iii) Measurement of fair values

The Company's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Company classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in the active market for identical assets or liabilities.

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

Level 3: Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The Company reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, the Company will assess the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

iv) Assets held for sale

Assets held for sale are stated at the lower of their carrying amount and fair value less cost of disposal. In determining the net realizable value of these assets, the Company estimates the selling prices based on assumptions surrounding prevailing market prices and selling costs. The determination of net realizable value includes management estimates of the ultimate disposal values. Management applies judgement with respect to the potential scenarios under which the land can be disposed of.

E. Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The functional currency of the Company's subsidiary, Builders Capital Limited Partnership is also Canadian dollars.

3. Accounts receivable

Accounts receivable consists of trade receivables of \$26,550 (December 31, 2024 – \$4,180). As the amounts were collected shortly after the period-end, there are no ECLs associated with this balance.

4. Mortgages receivable

Mortgages receivable consist of the following:

	June 30, 2025	December 31, 2024
Conventional first mortgages	\$ 49,543,204	\$ 43,447,559
Conventional non-first mortgages	639,750	779,933
	50,182,954	44,227,492
Allowance for mortgage losses	(1,712,853)	(1,385,301)
Total mortgages receivable	\$48,470,101	\$ 42,842,191

Mortgages receivable consist of conventional mortgages which are secured by a mortgage charge with aggregate loan to values not exceeding 75% at their initiation. As at June 30, 2025, conventional first mortgages comprised 99% (December 31, 2024 – 98%) and conventional non-first mortgages comprised 1% (December 31, 2024 – 2%) of the total portfolio. Of the total balance of mortgages receivable, 3 mortgages totalling \$7,455,864 were first advanced in 2020, 2 mortgages totalling \$987,238 were first advanced in 2021, 2 mortgages totalling \$4,229,257 were first advanced in 2022, 2 mortgages totalling \$1,698,321 were first advanced in 2023, 25 mortgages totalling \$26,303,724 were advanced in 2024 and the balance of 16 mortgages totalling \$9,508,550 were first advanced in 2025.

All mortgages are located in Alberta or British Columbia and are for residential properties.

Builders Capital Mortgage Corp.
Notes to the Condensed Consolidated Interim Financial Statements
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4. Mortgages receivable (continued from previous page)

The mortgages comprising the portfolio carry interest at the weighted average rate of 12.36% (2024 – 12.77%) per annum and mature between July 1, 2025 and June 30, 2026. The mortgages are initially entered into for a term of one year. At each maturity date, the mortgages are assessed for renewal and if collection of the mortgage is reasonably assured, the mortgages are renewed for an additional term of one year or less. If collection is not reasonably assured, the mortgage is not renewed and collection procedures are initiated. As at June 30, 2025, the Company had two mortgages receivable that had not been renewed (December 31, 2024 – three mortgages). Additional information regarding mortgages which could be considered past due but not impaired is contained in Note 13.

Principal repayments based on contractual maturity dates are as follows:

	June 30, 2025	December 31, 2024
Year 1	\$ 50,182,954	\$ 44,227,492
Year 2	-	-
	\$ 50,182,954	\$44,227,492

Allowance for ECLs:

The gross carrying amount of mortgages receivable and ECLs by mortgage type and by stage in the ECL model are as follows:

Gross carrying amount by mortgage type, June 30, 2025:

	Stage 1	Stage 2	Stage 3	Total
Conventional first mortgages	\$ 43,615,966	4,518,799	1,408,439	\$ 49,543,204
Conventional non-first mortgages	301,654	338,096	-	639,750
	\$ 43,917,620	\$ 4,856,895	\$ 1,408,439	\$ 50,182,954

Gross carrying amount by mortgage type, December 31, 2024:

	Stage 1	Stage 2	Stage 3	Total
Conventional first mortgages	\$ 34,357,665	\$ 7,061,231	\$ 2,028,663	\$ 43,447,559
Conventional non-first mortgages	392,131	387,802	-	779,933
	\$ 34,749,796	\$ 7,449,033	\$ 2,028,663	\$ 44,227,492

The balances of, and the changes in, the allowance for ECLs as at, and during the six months ended, June 30, 2025 and 2024 were as follows:

ECLs by mortgage type and by Stage in the ECL model:

	Stage 1	Stage 2	Stage 3	Total
Balance, December 31, 2024	\$ 419,956	\$874,338	\$91,007	\$ 1,385,301
Transfers to (from) Stage 1	(7,528)	-	-	(7,528)
Transfers to (from) Stage 2	-	(1,719)	-	(1,719)
Transfers to (from) Stage 3	-	-	9,248	9,248
Net re-measurement	2,152	322,356	1,123	325,631
Mortgage advances	546,120	5,477	1,731	553,328
Mortgage repayments	(435,616)	(27,234)	(16,110)	(478,960)
Write-offs	(2,179)	(434)	(69,835)	(72,448)
Balance, June 30, 2025	\$ 522,905	\$ 1,172,784	\$ 17,164	\$ 1,712,853

Builders Capital Mortgage Corp.
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4. Mortgages receivable (continued from previous page)

	Stage 1	Stage 2	Stage 3	Total
Balance, December 31, 2023	\$ 298,212	224,683	\$ 220,005	\$742,900
Transfers to (from) Stage 2	-	85,394	(49,894)	35,500
Transfers to (from) Stage 3	-	-	(35,500)	(35,500)
Net re-measurement	-	246,604	71,434	318,038
Mortgage advances	224,270	5,465	1,437	231,172
Mortgage repayments	(232,662)	(1,562)	(9,986)	(244,210)
Write-offs	(1,295)	-	(190,754)	(192,049)
Balance, June 30, 2024	\$ 288,525	\$ 560,584	\$ 6,742	\$ 855,851

The Company makes estimates of ECLs based on past experience regarding losses, and an ongoing assessment of the market and of individual mortgages. Each mortgage is assessed quarterly for evidence of impairment, and additional allowances are recorded if deemed to be necessary. The allowance is maintained at a level that the Company considers adequate to absorb credit-related losses. The allowance for ECLs was \$1,712,853 as at June 30, 2025 (December 31, 2024 - \$1,385,301). For the three months ended June 30, 2025, the Company recognized a total provision for mortgage losses of \$200,000 (2024 - \$140,000)

5. Assets held for sale

	June 30, 2025	December 31, 2024
Foreclosed property	\$ 584,085	\$ 491,147

During the six months ended June 30, 2025, one property (2024 – one property) was obtained in foreclosure actions on mortgages receivable. Of the properties held during this period, no properties (2024 – no properties) were sold for cash. At June 30, 2025 the assets held for sale consisted of one residential building lot in Kelowna, British Columbia and one residential building lot in Cochrane Alberta.

6. Line of credit

The Company has a loan agreement in place with Canadian Western Bank, which provides for a demand operating overdraft facility with a limit of \$12,000,000 which carries interest at a floating rate of 2.25% above the bank's prime lending rate of 4.95% per annum. As at June 30, 2025, \$6,436,742 (December 31, 2024 - \$5,963,597) remained outstanding. The Company incurred interest expense relating to the line of credit totalling \$198,302 during the three months ended June 30, 2025 (2024 - \$83,690).

Under the terms of the loan agreement, the Company is subject to the following financial covenants:

- (i) The ratio of earnings before interest expense, taxes and depreciation/amortization ("EBITDA") to interest costs to be maintained at all times at 3.0:1 or better (tested quarterly, on rolling four quarter basis);
- (ii) The ratio of debt to tangible net worth to be maintained at all times at 1:1 or less (tested quarterly); and,
- (iii) The maximum amount of vacant land margined will not exceed 50% of all margined land (tested monthly).

The Company is in compliance with all its bank covenants as at June 30, 2025 and December 31, 2024.

Builders Capital Mortgage Corp.
Notes to the Condensed Consolidated Interim Financial Statements
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7. Bonds payable

On January 28, 2025, the Company closed the second tranche of bond issuances by issuing 18 unsecured variable-rate bonds (December 31, 2024 – 29), each with a face value of \$250,000, for an aggregate value of \$4,500,000 (2024 - \$7,250,000). The Company paid \$127,244 in cash on \$4,500,000 of bonds in exchange for the transfer in of mortgages having a fair value of \$4,627,244. The Company incurred \$6,097 in issuance costs, which will be amortized over the life of the bond using the straight-line method.

On March 1, 2025, the Company paid \$151,244 in bond interest. This is \$240,570 of bond interest payable at December 31, 2024, less \$89,326 that bondholders re-invested in bond capital.

The Company incurred interest expense relating to the bonds totalling \$433,650 during the three months ended June 30, 2025 (2024 - \$ nil).

	June 30, 2025	December 31, 2024
Bonds payable- start of period	\$ 7,221,508	\$ -
First tranche of bond issuance	-	7,250,000
Second tranche of bond issuance	4,500,000	-
Interest reinvested	89,326	-
Discount on issue of bonds	-	(2,442)
Issuance costs	(6,097)	(27,421)
Amortization of issuance costs	3,351	1,371
Bonds payable- end of period	\$11,808,088	\$ 7,221,508

Under the terms of the bond agreement, the Company is subject to the following financial covenants:

- (i) Pay the Principal sum, interest, fees and all other amounts payable by the Corporation, in accordance with the bond terms.
- (ii) Keep and maintain proper books of account and records accurately covering all aspects of the business and affairs of the Company
- (iii) Fully pay and discharge as and when the same become due and payable all taxes, rates, duties and assessments that may be levied, rated, charged or assessed against the Company and if the Company fails to pay any of such taxes, rates, duties or assessments and if it is not in good faith contesting the same, the Holder may pay, but shall not be obligated to pay, the same and any amounts so paid by the Holder shall become and form part of the principal sum secured hereby and shall bear interest at the interest rate

The Company is in compliance with all its bond covenants as at June 30, 2025 and December 31, 2024.

8. Earnings per share

Basic and diluted earnings per share calculation

	June 30, 2025	June 30, 2024
Numerator for basic earnings per share:		
Total comprehensive income	\$ 956,826	\$ 830,165
Denominator for basic earnings per share:		
Weighted average number of shares outstanding	3,139,760	3,159,760
Basic and diluted earnings per share	\$ 0.30	\$ 0.26

Builders Capital Mortgage Corp.
Notes to the Condensed Consolidated Interim Financial Statements
For the three months ended June 30, 2025 and 2024
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9. Related party transactions

Due to related party is comprised of the following:

	June 30, 2025	December 31, 2024
Builders Capital Management Corp. (the "Manager")	\$ 2,576	\$ 70,288

The Company's Manager (a company controlled by a director of the Company) receives a management fee, calculated at 1.0% per annum of the book value of the share and bond capital of the Company, calculated daily, aggregated and paid monthly in arrears plus applicable taxes. For the three months ended June 30, 2025, this amount was \$107,115 (2024 – \$78,324).

In addition to the management fee, the Manager charges lender fees directly to borrowers both on mortgage originations and on mortgage 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 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 made 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 three months ended June 30, 2025, the fees paid to the Manager totalled \$340,151 (2024 - \$261,909).

During the three months ended June 30, 2025, the Company purchased one mortgage (2024 – one) with a value of \$1,504,161 (2024 – \$457,750) from and sold five mortgages (2024 –three mortgages) with a value of \$5,809,890 (2024 - \$2,803,225) to related parties. In addition, advances of \$391,905 (2024 – \$4,280) were made and repaid during the period between the related parties.

The related parties are Builders Capital (2014) Ltd. and Builders Capital 2019 Ltd. both of which are related to the Company by virtue of common control, and operate with a similar business model to the Company. The transactions are considered to be in the normal course of business and have been recorded at fair value on initial recognition.

Key management compensation:

None of the Company's key management personnel received compensation from the Company for the three months ended June 30, 2025 and 2024. The Manager directs the affairs, manages the Company's business and administers or arranges for the administration of the Company's operations. The Company has no employment agreement with members of key management and the Company does not pay any cash compensation to any individuals serving as the Company's officers. Rather, those individuals are compensated by the Manager. In consideration, for services provided to the Company by the Manager, it is paid a management fee, as discussed above.

The total directors' fees paid for the three months ended June 30, 2025 were \$5,000 (2024 - \$5,000). Directors' fees are set at \$1,000 annually together with \$500 for each meeting attended.

10. Dividends

The Company generally makes quarterly cash distributions by way of dividends on the last business day of each quarter. The Class A Non-Voting Common Shares rank first, the Class B Non-Voting Common Shares rank second and the Voting Common Shares rank third with respect to an initial non-cumulative dividend at a rate up to, but not exceeding, 8% per annum on each class of Common Shares. In each financial year, if the maximum amount of this initial dividend has been paid on all classes of Common Shares, then the Class B Non-Voting Common Shareholders, at the discretion of the Board of Directors, are entitled to an additional non-cumulative dividend at a rate of up to, but not exceeding 8% per annum. In each financial year, if the maximum amount of both the initial dividend and the additional dividend are paid, then all further dividends declared in such year shall be declared and paid in equal amounts per common share on all the classes of Common Shares.

For the three months ended June 30, 2025, the Company declared dividends of \$806,499 (2024 - \$814,499) to its Class A and Class B Non-Voting Common Shareholders and Voting Common Shareholders. As at June 30, 2025, \$449,365 (December 31, 2024 - \$449,365) was payable and outstanding; this amount was paid on July 31, 2025 (2024 – July 31).

Subsequent to the quarter-end, the Company declared dividends of \$357,134 on its Class B Non-Voting Common shares which were paid on July 31, 2025.

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11. Income taxes

The Company has non-capital tax loss carry forwards of \$886,128 as at June 30, 2025 and December 31, 2024. These tax losses can be applied against future taxable income and will, if not utilized, expire as follows:

2039	220,345
2040	560,874
2041	104,909
	<u>\$ 886,128</u>

12. Capital management

The Company's capital consists of shareholders' equity and bond financing. The Company's objectives when managing capital are, with a focus on capital preservation, to acquire, originate and maintain a portfolio consisting primarily of construction mortgages that generates attractive returns relative to risk in order to permit the Company to pay quarterly distributions to its shareholders and attractive returns to bond holders through interest payments.

The Company sets the amount of capital in relation to risk and manages the capital structure and makes adjustments to it in light of changes to economic conditions and the risk characteristics of the underlying assets.

The Company's objectives when managing capital are:

- i) to maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk; and,
- ii) to maintain investor, creditor and market confidence in order to sustain the future development of the business.

The Company is subject to externally imposed capital requirements. The line of credit and bonds contain certain financial covenants that must be maintained (see Notes 6 and 7). As at June 30, 2025 and December 31, 2024, the Company was in compliance with all financial covenants.

13. Financial instruments

The Company, as part of its operations, carries financial instruments consisting of cash, accounts receivable, mortgages receivable, line of credit, accounts payable, bond interest payable and due to related party. It is management's opinion that the Company is not exposed to significant credit, interest, currency and liquidity risks arising from these financial instruments except as otherwise disclosed. All of these financial instruments are carried at amortized cost.

A. Fair value hierarchy

The fair value of cash and line of credit is determined on level 1 inputs.

The carrying value of accounts receivable, mortgages receivable, accounts payable and due to related party approximate their fair value because of the short-term nature of these instruments. The carrying value of long-term bonds payable approximates fair value as they are measured at amortized cost using current market interest rates.

There were no transfers between levels 1, 2 and 3 inputs during the period (2024 – none).

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13. Financial instruments (continued from previous page)

B. Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. Credit risk arises principally from the Company's lending activities. Any instability in the real estate sector and an adverse change in economic conditions in Canada could result in declines in the value of real property securing the Company's mortgages. The Company mitigates this risk by adhering to the investment and operating policies of the Company.

All mortgages to which the Company commits are individually evaluated by the Company's underwriters using credit risk assessment tools and are assigned risk ratings in accordance with the level of credit risk attributed to each loan. Each new mortgage is approved independently and in accordance with the authorization structure set out in the Company's policies. The Company's underwriting approach places a strong emphasis on the value of mortgage security and an assessment of the financial viability of the construction project being financed.

The Company has clearly defined underwriting policies and procedures that we adhere to in its mortgage approval process. These include a maximum projected loan to value ratio, standards with regard to the asset quality and marketability, geographic market restrictions and requirements regarding the overall credit quality and integrity of borrowers. Management also actively analyze external market conditions including prevailing real estate values and employment conditions in the markets in which they lend. In all cases, the Company's mortgages receivable are secured by registered charges over real property.

The Company utilizes an internal risk rating system to categorize each mortgage in the portfolio on the basis of the perceived risk of a potential credit loss. The risk assessment of each mortgage assigned at the underwriting stage is subsequently revised based on changes in market conditions and on factors specific to the mortgage and the borrower. One of the main factors in considering whether the credit risk of a mortgage has increased significantly is the estimated loan to value ratio. Loan to value ratios can change due to declining property values, as well as other factors such as the inability of the borrower to continue to inject equity into the project. Mortgages are considered to be impaired when the expectation is that full collection of principal and interest is no longer likely.

The Company's lending is for construction purposes, and all loans are made only on the strength of mortgage security over real property. The value of the underlying security is subject to change for a variety of factors, including the degree of completion of the construction, possible deterioration in structures left incomplete and market forces which can cause values to both increase or decrease.

In the case of mortgage impairment, probable recovery is determined using a combination of updated property-specific information, historical loss experience and management judgement to determine the impairment provision that may be required. The primary factor in assessing a mortgage as low risk would be a loan to value ratio which is low enough to make a potential credit loss extremely unlikely.

Management has assessed the credit quality of the Company's assets at June 30, 2025, on the basis of internal risk ratings to the credit risk exposure categories. The table below provides the gross carrying amount of all financial assets classified as debt instruments in accordance with IFRS 9, for which a loss allowance is calculated, based on the Company's credit risk exposure rating scale.

Credit quality analysis, June 30, 2025:

Mortgages receivable	Stage 1	Stage 2	Stage 3	Total
		\$		
Standard risk	\$ 43,268,478	649,142	\$ -	\$ 43,917,620
High Risk	-	4,856,895	-	4,856,895
Impaired	-	-	1,408,439	1,408,439
Total	43,268,478	5,506,037	1,408,439	50,182,954
Less allowance	(522,905)	(1,172,783)	(17,165)	(1,712,853)
	\$ 42,745,573	\$ 4,333,254	\$ 1,391,274	\$ 48,470,101

Builders Capital Mortgage Corp.
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13. Financial instruments (continued from previous page)

Credit quality analysis, December 31, 2024:

Mortgages receivable	Stage 1	Stage 2	Stage 3	Total
Standard risk	\$ 34,749,796	\$ -	\$ -	\$ 34,749,796
High Risk	-	7,449,033	-	7,449,033
Impaired	-	-	2,028,663	2,028,663
Total	34,749,796	7,449,033	2,028,663	44,227,492
Less allowance	(419,956)	(874,338)	(91,007)	(1,385,301)
	\$ 34,329,840	\$6,574,695	\$ 1,937,656	\$ 42,842,191

Although the Company writes mortgages for periods of one year or less, the mortgages are often renewed based either on the borrower's ongoing requirement for capital for additional projects, or because the project which was originally financed has not been completed and sold. In each case, prior to renewal, the Company assesses the mortgage for impairment.

Mortgages which were funded prior to July 1, 2024 and which have been renewed due to delays in completing the construction or the sale of the underlying security rather than due to a revolving arrangement for ongoing construction having been made, and for which no specific allowance has been recognized, can be considered to be past due, but not impaired as management considers collection to be reasonably assured due largely to the estimated value of the mortgage security held.

As at June 30, 2025, seven loans were considered to be past due but not impaired:

Past due but not impaired as at June 30, 2025

Funding period	Q4 2023	Q2 2024
Principal	\$696,623	\$8,250,331
Interest	139,221	955,451
Total	\$835,844	\$9,205,782

At December 31, 2024 three loans met this criteria as follows:

Past due but not impaired as at December 31, 2024

Funding period	Q4 2023
Principal	\$ 2,675,105
Interest	340,792
Total	\$ 3,015,897

The exposure to credit risk at June 30, 2025 relating to mortgages amounts to \$50,182,954 (December 31, 2024 - \$44,227,492). The Company has recourse, however, under these mortgages in the event of default by the borrower and would have a claim against the underlying collateral. Management believes the credit risk with respect to cash that is held at a Schedule 1 Canadian bank to be minimal.

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13. Financial instruments *(continued from previous page)*

C. Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

i) Interest rate risk

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will vary as a result of changes in market interest rates. The Company manages its financial instruments with the objective of mitigating any potential interest rate risks. The interest rates on the Company's mortgages receivable are fixed for the term. Therefore, the Company is not exposed to significant cash flow interest rate risk. As at June 30, 2025, the Company's mortgages receivable are subject to fair value interest rate risk as a decrease or increase in market interest rates will decrease or increase the fair value of the fixed rate financial asset. Any change in market interest rates will however have no impact on the Company's cash flows or comprehensive income for the year as mortgages receivable carry a fixed rate of interest.

The Company is exposed to interest rate risk on its line of credit as it carries a variable rate of interest. The impact on total comprehensive income if interest rates had been 1% higher or lower for the period ended June 30, 2025 would be approximately \$27,542. The Company is exposed to interest rate risk on its bonds as they pay a variable rate of interest and are unsecured. The impact on total comprehensive income if interest rates had been 1% higher or lower for the period ended June 30, 2025 would be approximately \$29,517.

ii) Foreign currency risk

The Company does not have assets or liabilities in foreign currency.

D. Liquidity risk

Liquidity risk arises from the possibility of not having sufficient ability to obtain debt financing or equity capital to fund future growth or meet the Company's obligations as they arise and become due. Furthermore, liquidity risk also arises from the Company not being able to obtain financing on favorable terms.

The Company's main liquidity requirements will arise from mortgage acquisitions, manager fees and distributions to shareholders and bondholders. All of the aforementioned liquidity requirements, except for mortgage acquisitions, are generally funded from cash flows earned on mortgage interest and fees. Mortgage acquisitions are generally funded through equity issuances, debt or bond financing. The Company's financial condition and results of operations would be adversely affected if it were unable to obtain additional funds through equity issuances or financing, or if it were unable to meet its other liquidity requirements from ongoing operating activities.

The Company's total liabilities as at June 30, 2025 total \$19,613,921 (December 31, 2024 - \$14,133,029). Of this balance, \$7,805,833 is payable within one year (December 31, 2024 - \$6,911,521) and the remaining balance of \$11,808,088 (December 31, 2024 - \$7,221,508), relating to bonds, is payable after one year. See Note 7.

The Company's approach to managing liquidity is to ensure that it will have sufficient financial resources available to meet its liabilities as they become due. This includes monitoring of cash, line of credit, loan payable and accounts payables and accrued liabilities. The Company intends to mitigate its liquidity risk by not entering into property acquisitions unless it has secured or is confident that it can secure the appropriate capital (debt and/or equity) to fund the particular acquisition. Liquidity risk is also mitigated by the terms offered to investors, which state that all redemptions are at the discretion of management and are dependent on the circumstances, and to borrowers, which state that the Company is never obligated to advance additional mortgages or funding.