BUILDER'S CAPITAL

FOR THE THREE AND
SIX MONTHS ENDED
JUNE 30, 2016

SIX MONTH 2016 REPORT

Builders Capital Mortgage Corp. is a mortgage investment corporation (MIC) providing short-term course of construction financing to builders of residential, wood-frame properties in Western Canada. Based in Calgary, Alberta, Builders Capital was formed on March 28, 2013 but did not commence active operations until December 12, 2013, on the closing of our initial public offering, following which we acquired a portfolio of mortgages from two predecessor companies.

INVESTMENT OBJECTIVE

To generate attractive returns, relative to risk, in order to provide stable and steady distributions to shareholders while remaining focused on capital preservation and staying within the criteria mandated for MICs under the Income Tax Act.

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.

Future investments in our portfolio will be strategically concentrated in:

> First or subordinate mortgages on real estate up to a maximum of 75% of value;

> Mortgages on residential wood frame construction projects; and

> Mortgages on properties in typically more liquid and less volatile urban markets and their surrounding areas, with a focus on Western Canada.

TO OUR SHAREHOLDERS

We are pleased with our financial results for the first half of the year. Despite the economic difficulties that our primary Southern Alberta marketplace continued to experience, we maintained a full mortgage book. We also continued to enhance our geographic diversification, increasing mortgages held on properties in British Columbia to 13% of the total portfolio value from 7% at the end of the second quarter of 2015.

As expected, our capital turnover continued to be impacted by the considerably slower real-estate market in Alberta. In addition to lengthening the time it takes borrowers to sell their completed inventory, the slower Alberta economy has made some builders more cautious about taking on new projects. However, while our Q2 turnover decreased to 28.6% from 36.5% last year, this was a significant improvement from the 19.3% we recorded in the first quarter of the year. We are hopeful that a somewhat recovered price for oil, combined with our ongoing geographic diversification, will continue to push our capital turnover back toward our historical averages.

Second Quarter Results

Mortgage revenue for the three months ended June 30, 2016 was $0.9 million, which was down by 9% from the amount we reported in 2015. This represents annualized gross revenue of 14.7% of the weighted average gross share capital, compared to 15.6% last year. The 2016 Q2 revenue consisted of $796,000 in interest and $61,000 in lender fees charged to borrowers. The lender fees more than offset the management fees we pay to Builders Capital Management Corp., exceeding management fees by $2,500, or 4%

Second quarter operating expenses, excluding a provision for mortgage losses and interest, were $89,000, or 10.4% of revenue. This was up from $76,000, or 8.1% of revenue, in 2015, but well within our expectations.

We set aside $64,000 to provide for loan losses for the three months. This amount was based on an analysis of historical bad debts by Builders Capital Management Corp., which manages Builders Capital's mortgage portfolio, as well as our own current analysis of the construction finance marketplace. This is a collective provision and does not relate to any individual mortgage.

Due both to the slower Alberta economy and more cautious use of our line of credit, comprehensive income for the second quarter of $678,000, or $0.29 per share, was down from $773,000, or $0.30 per share, in 2015. The 2016 income translates into earnings of $0.50 per Class A Non-Voting Share, compared to earnings of $0.53 per Class A Non-Voting Share for the second quarter of 2015. Given the dividend priority granted to Class A Non-Voting Shares held by the public, the effective Class A Non-Voting Share dividend coverage ratio for the quarter was 2.5 times, compared to 2.6 times in Q2 2015.

Year-to-date Results

For the year-to-date, mortgage revenue was $1.8 million, representing annualized gross revenue of 15.0% of the weighted average gross share capital, compared to $1.9 million, or 16.0% of gross share capital, in 2015. The 2016 first-half revenue consisted of $1.6 million in interest and $138,000 in lender fees charged to borrowers. For the six months, lender fee revenue exceeded management fees by $21,000, or 18%.

First-half operating expenses, excluding funds set aside to provide for mortgage losses and interest, totaled $170,000. This was up by 9% from $156,000 in 2015 and represented 9.7% of revenue, compared to 8.1% of revenue last year. As with the quarterly result, the 2016 operating expenses were within our expectations and compared favourably to the level we forecast. Over the six months, Builders Capital accumulated $129,000 to provide for loan losses.

Comprehensive income for the first half was $1.4 million, or $0.60 per share, down slightly from $1.5 million, or $0.64 per share, last year. The 2016 income translates into six-month earnings of $1.03 per Class A Non-Voting Share, compared to $1.06 per Class A Non-Voting Share for the first half of 2015. The effective Class A Non-Voting Share dividend cover ratio for the six-month period was 2.6 times, compared to 2.7 times in 2015.

Mortgage Portfolio

At June 30, 2016, our mortgage portfolio consisted of 31 mortgage loans with an aggregate value of $26.7 million. All mortgage transactions conducted during the quarter were consistent with Builders Capital's tight focus on financing short-term, wood-frame residential construction in strong urban markets. During the three months, we purchased or funded $5.6 million in mortgages and received $5.4 million proceeds of sale or loan repayments. The acquisition of $2.8 million in mortgages helped to ensure full cash utilization and create liquidity as required.

During the quarter, we foreclosed on one property in Saskatchewan, on which we have now accepted a conditional offer. If this sale closes, the total write-down on the loan will be approximately $62,000 and the net return on the investment since inception will be 7.7%

Distributions

On June 21, 2016, based on income for the quarter, our Board of Directors declared a dividend of $0.1995 per Class A Non-Voting Share to shareholders of record on June 30, 2016. This distribution was paid on July 29, 2016. 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 July 26, 2016, again based on income for the quarter, the Board declared a dividend of $0.3677 per share to Class B Non-Voting shareholders of record on that date. This distribution was also paid on July 29, 2016.

Outlook

We continue to believe that the levels of housing starts forecast by Canada Mortgage and Housing Corporation in our western Canadian markets are more than adequate to support the growth of our business. In Southern Alberta, we anticipate that economic uncertainty will persist in slowing real estate activity and drive some lenders from the region, but we expect that margins on new construction will remain viable.

We also expect that slower turnover of our invested capital over the near term will continue to equate to lower lender fees as mortgages with fixed terms will be more likely to remain outstanding until their full term expires. As a result, the outstanding funds will not be available to write new loans prior to this.

As the real estate market in Alberta has continued to slow, selling prices have dropped and marketing times have lengthened, driving our loan-to-value ratios higher than we would like. In some cases, we are having to take additional steps to collect on our mortgage assets. That said, we are very confident in our ability to enforce mortgages.

Rest assured that Builders Capital has multiple strategies in place to limit downside risk. We take a cautious approach to leverage and maintain a prudent debt-to-equity ratio. By investing only in short-term mortgages, we maintain the liquidity necessary to preserve capital. We generally restrict mortgage lending to 75% of what we believe the fair market value of a property at any given time to be, ensuring that we hold a targeted minimum of 25% of the value of the project in owner's equity. Investors are also protected by the general allowance for doubtful accounts we set aside each quarter before paying dividends. Finally, safeguards built into Builders Capital's share structure give public Class A Non-Voting shareholders priority on all capital, as well as income distributions over Class B Non-Voting shareholders.

With Class B Non-Voting shareholders bearing a much greater proportion of the risk of income fluctuations, even if second quarter earnings had been only 40% of their actual figure, we would still have been in a position to pay Class A shareholders their full, planned Q2 dividend. Going forward, we expect to be able to source sufficient quality lending opportunities to keep our capital fully utilized and to continue to deliver attractive returns to all of our shareholders.

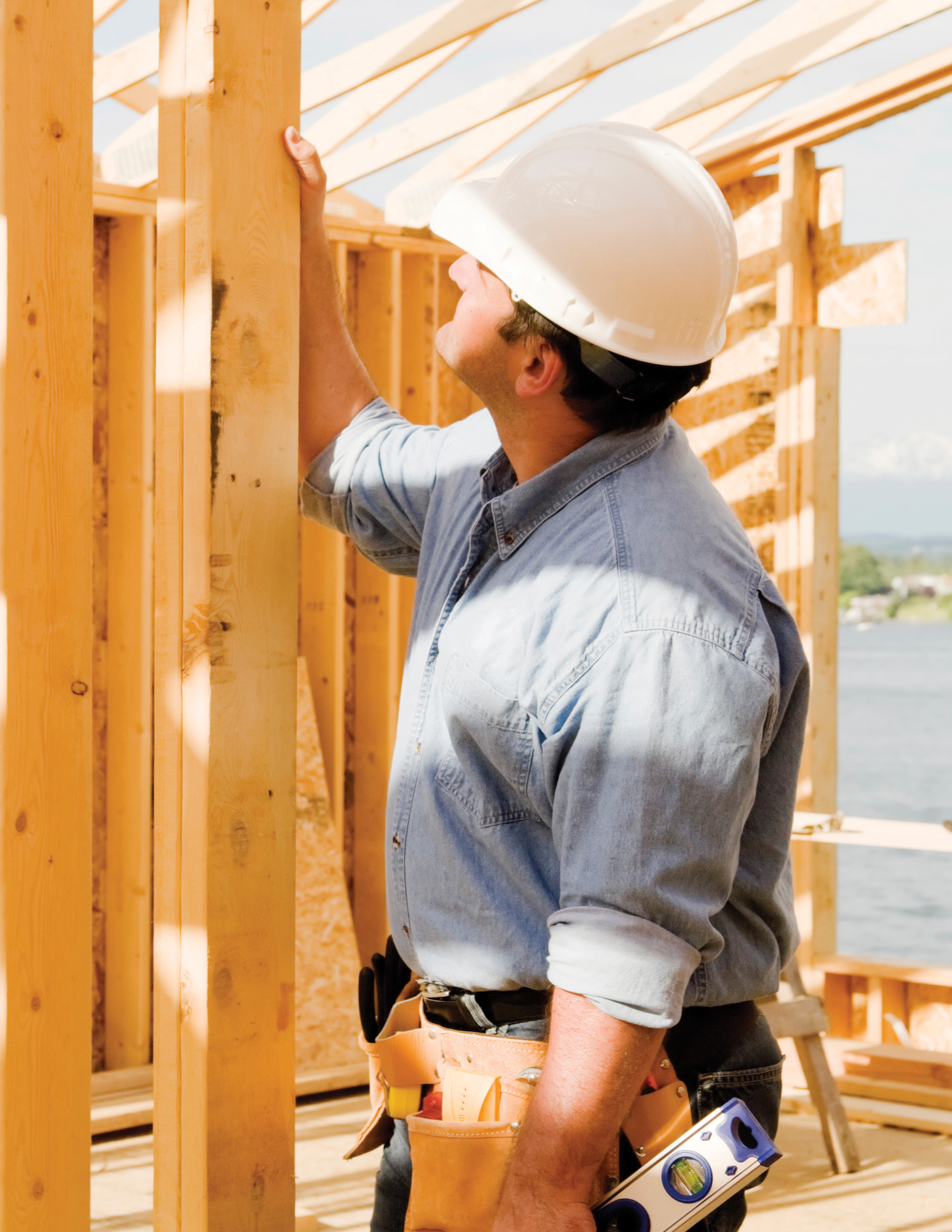
On behalf of management and the board, we offer our appreciation to our shareholders for your confidence in Builders Capital and your support of our business. We look forward to reporting back to you on our continued progress in profitably managing our mortgage portfolio as the second half of the year unfolds.

Sincerely,

Sandy L. Loutitt

President and CEO, Chair of the Board of Directors

Builders Capital Mortgage Corp.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Quarter Ended June 30, 2016

This management's discussion and analysis (MD&A) has been prepared by Builders Capital Mortgage Corp. (Builders Capital or the company) as of August 8, 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 June 30, 2016, which represents the second 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. Those risks and uncertainties include, among other things, risks associated with mortgage lending, competition for mortgage lending, real estate values, interest rate fluctuations, environmental matters and the general economic environment. We caution that the foregoing list is not exhaustive, as other factors could adversely affect our results, performance or achievements. Readers are also cautioned against undue reliance on any forward-looking statements. Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

BACKGROUND AND OVERVIEW

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

As a MIC, Builders Capital is not subject to income tax provided that we distribute all of our taxable income as dividends to shareholders within 90 days of our December 31st year-end. 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 $0.1995 per share were declared to Class A public shareholders of record on June 30, 2016, equating to an annualized return of 8% of the original $10.00 issue price.
- Second quarter mortgage revenue of $0.9 million represented an annualized 14.7% of net share capital, down slightly from the 15.6% of share capital achieved in Q2 2015.
- Our invested capital turnover rate was impacted by the considerably slower real-estate market in Alberta, decreasing to 28.6% from 36.5% in Q2 2015, but was significantly improved from the 19.3% recorded in the first quarter of the year.

- We continued to enhance the geographic diversity of our mortgage portfolio, increasing our mortgage holdings in British Columbia.
- 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 10.4% of revenue, compared to 8.1% in Q2 2015.
- We maintained a conservative debt-to-equity ratio.
- Comprehensive income of $678,000 was down by 12.2% from Q2 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 2.5 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 second 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 appear to be pulling back from lending in Alberta, we believe that the tighter economic environment creates an opportunity for us to increase market share.
- We are seeing a reduction in raw land costs, particularly in Calgary, our largest single market, which together with a concurrent drop in sub-trade costs as a result of decreased construction activity, means that margins on new construction should remain viable.
- While Canada Mortgage and Housing Corporation forecasts declining housing starts in Alberta through the balance of 2016, it expects that starts in British Columbia will increase year-over-year and starts in Saskatchewan will be consistent with 2015. We believe that the forecast levels will be more than adequate to support the growth and continued geographic diversification of our business.

FINANCIAL OVERVIEW

	Three months ended June 30, 2016	Three months ended June 30, 2015	Three months ended June 30, 2014
	$	$	$
Revenues	856,584	964,761	882,831
Earnings and total comprehensive earnings	677,932	772,711	706,458
Total assets	26,613,516	26,669,379	24,404,039
Shareholders' equity	22,907,067	23,699,823	22,451,891
Basic and fully diluted earnings per share	0.29	0.32	0.30
Cash dividends declared	631,247	676,628	611,138
Cash dividends declared per Class A share	0.1995	0.1995	0.1995
Cash dividends declared per Class B share	0.3677	0.3989	0.3456

INVESTMENT PORTFOLIO

At June 30, 2016

Total Portfolio by Property Types

	Mortgage Portfolio	Outstanding Principal	Total Committed Mortgage Principal		AAM Allocation*
Property Type	No.	$	$	%	%
Residential					
Single family – Detached	22	18,838,004	26,390,000	70%	100%
Single family – Attached	9	7,891,361	13,205,000	30%	100%
Total:	31	26,729,365	39,595,000	100%	N/A

Total Portfolio by Geographic Location

Geographic Location of Property	Mortgage Portfolio No.	Outstanding Principal $	Total Committed Mortgage Principal $	%	AAM Allocation* %
Calgary and Area	19	14,538,756	23,010,000	54%	100%
Edmonton and Area	2	3,489,022	3,750,000	13%	100%
Other Alberta	6	4,415,497	7,515,000	17%	100%
British Columbia	3	3,409,999	4,720,000	13%	50%
Saskatchewan	1	876,091	600,000	3%	25%
Total:	31	26,729,365	35,595,000	100%	N/A

Total Portfolio by Contractual Interest Rates

Interest Rate (excluding fees)	Mortgage Portfolio No.	Outstanding Principal $	Total Committed Mortgage Principal $	%	AAM Allocation* %
Less than 12%	1	1,571,719	2,600,000	6%	N/A
12%-12.99%	7	5,886,572	9,295,000	22%	N/A
13%-13.99%	18	15,212,355	22,250,000	57%	N/A
Greater than 13.99%	5	4,058,719	5,450,000	15%	N/A
Total:	31	26,729,365	39,595,000	100%	N/A

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

OPERATING RESULTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016

Despite the economic difficulties that our primary Southern Alberta marketplace continued to experience through the first half 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 June 30, 2016, mortgages on properties in BC represented 13% of the portfolio's total value, up from 7% at the end of Q2 2015.

Cash advances and invoiced interest totaled $6.3 million for the second quarter and $10.4 million for the year-to-date. These were respectively balanced by $6.2 million and $10.5 million in mortgage repayments. Based on an average of incoming and outgoing cash, we turned over 28.6% of our invested capital during the quarter and 47.9% in the six months. The second quarter turnover was down somewhat from Q2 2015, when we turned over 36.5% of our invested capital, and from our fiscal 2015 quarterly average turnover of 34.6%, but was significantly improved from the 19.3% we recorded in Q1 of this year. The slower turnover is a reflection of the considerably slower real-estate market in Alberta, which has resulted in our borrowers taking substantially longer to sell their completed projects. We are hopeful that a somewhat recovered price for oil, combined with our ongoing geographic diversification, will push our capital turnover back toward our historical averages.

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 second quarter of 2016, we purchased $2.8 million in mortgages and sold none. In the first six months of the year, we respectively purchased and sold $4.2 million and $1.1 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 second quarter, we sold a property on which we had undertaken foreclosure action in mid-2015, the year's sole mortgage default. After factoring in the costs to complete, hold and sell the property, the total write-down on the loan was $140,000. This represented $128,000 in interest and fees charged to the borrower, and $12,000 of original loaned principal. Under the terms of the management agreement, the manager must refund their fee up to the amount of any principal loss on a foreclosure. Accordingly, $12,000 has been refunded.

During the quarter, we foreclosed on one property in Saskatchewan, on which we have now accepted a conditional offer. If this sale closes, the total write-down on the loan will be approximately $62,000 and the net return on the investment since inception will be 7.7%

Immediately subsequent to the quarter-end, we commenced foreclosure proceedings against a mortgagor in Fort McMurray, Alberta. The security for this loan consists of two completed homes and an empty lot. Both homes now have sales agreements in place and the empty lot will be held for resale. The total write-down on this loan is expected to be approximately $260,000, representing somewhat less than half the interest that has been charged over the course of the loan.

We are closely watching two other projects that we believe are at risk of default. As the real estate market in Alberta has continued to slow, selling prices have dropped and marketing times have lengthened, driving our loan-to-value ratios higher than we would like. We believe that our accumulated allowance for doubtful loans, which stood at $523,000 at quarter-end, will be adequate to cover any write-downs that occur as a result of the recent foreclosures and potential new actions undertaken on the at-risk properties. 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 second quarter was only 16.2%. 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 June 30, 2016, the total value of our mortgage portfolio was $26.7 million, which was consistent with the prior year. The portfolio was made up of 31 mortgages with an average outstanding balance of $862,000.

Revenue

Mortgage revenue for the three and six months ended June 30, 2016 was $0.9 million and $1.8 million, respectively, in each case down by 9% from the same period in 2015. The three-month revenue consisted of $796,000 in interest and $61,000 in lender fees charged to borrowers, representing annualized gross revenue of 14.7% of the weighted average gross share capital, compared to 15.6% in 2015. The six-month revenue comprised $1.6 million in interest and $138,000 in lender fees, representing annualized gross revenue of 15% of the weighted average gross share capital, compared to 16% 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 when 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 half of the year were down from 2015; however, they still more than offset management fees. For the second quarter, lender fee revenue exceeded management fees paid by $2,500, or 4%. For the six months, lender fee revenue exceeded management fees by $21,000, or 18%.

Expenses

Excluding funds set aside to provide for loan losses and interest expense, second quarter operating expenses were $89,000, represented 10.4% of revenue, up from $76,000, or 8.1% of revenue in 2015. First half operating expenses of $170,000 were up by 9% from $156,000 in 2015, representing 9.7% 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 second quarter provision for loan losses was $64,000, estimated by management based on an analysis of the manager's historical bad debts and current analysis of the construction finance marketplace. This is a collective provision calculated by reference to the portfolio as a whole. To-date, we have accumulated a total of $750,000 to provide for loan losses, of which $227,000 has been applied against specific foreclosed properties or discharged mortgages. We believe the remaining $523,000 is sufficient to cover potential write-downs in the mortgage portfolio.

Management fees were $58,000 for the second quarter and $117,000 for the six-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 use of our line of credit over the next several quarters. At quarter-end, our line of credit stood at $3.3 million; however six days later, the balance had been reduced to $1.7 million, which was approximately the average balance during Q1 of this year. For the second quarter, interest expense of $26,000 was down from $45,000 in 2015, and consistent with $26,000 in Q1 of this year.

Comprehensive Income

As expected, the slowing of the Alberta real estate market had a negative impact on our comprehensive income in the first half of the year, as did more cautious use of our line of credit. Due to the combined impact of these factors, our Q2 comprehensive income of $678,000 ($0.29 per share) was down by 12% from the $773,000 ($0.30 per share) reported for 2015. For the six-month period, comprehensive income of $1.4 million was down by 8% from $1.5 million 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 during the second quarter and the first half of the year exceeded the amount required to satisfy these dividends by 2.5 and 2.6 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 40% 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 the 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 the distributions to less than 100% of net income in order to utilize the tax deductibility of these expenditures. This distribution policy will, over time, have the result of retaining income equal to the offering costs within Builders Capital, which will increase the Net Asset Value of the company while ensuring that no corporate taxes are paid. Because of the two-tier share structure, and the priority on distributions that the Class A Non-Voting Shares hold over the Class B Non-Voting Shares, we expect the restriction in distributions to come 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 $26.6 million (June 30, 2015 - $24.3 million), consisting primarily of funded mortgages. Also included in total assets is the repossessed property in Saskatchewan mentioned earlier, which has been conditionally sold. This property is shown on the balance sheet at its expected net realizable value. The expected write-down has already been recorded.

Liabilities of $3.7 million (June 30, 2015 - $1.9 million) consisted of a $3.3 million line of credit balance (June 30, 2015 - $0.9 million); dividends relating to the fiscal quarter, which were paid on July 29, 2016; trade payables; and unearned lender fees.

Quarterly Financial Information

	Quarter ended Jun 30, 2016	Quarter ended Mar 31, 2016	Quarter ended Dec 31, 2015	Quarter ended Sep 30, 2015	Quarter ended Jun 30, 2015	Quarter ended Mar 31, 2015	Quarter ended Dec 31 2014	Quarter ended Sep 30, 2014	Quarter ended Jun 30, 2014
	$	$	$	$	$	$	$	$	$
Revenues	856,584	898,301	879,036	967,231	964,761	964,912	967,975	899,007	882,831
Earnings and total comprehensive earnings	677,932	726,211	656,198	778,752	772,711	775,219	770,874	731,493	706,458
Total assets	26,613,516	24,485,930	24,328,786	26,578,841	26,669,379	27,553,847	27,191,077	24,226,077	24,404,039
Shareholders' equity	22,907,067	22,859,407	22,403,083	23,787,589	23,699,823	23,504,020	23,017,233	23,324,074	22,451,891
Basic and fully diluted earnings per share	0.29	0.31	0.27	0.32	0.32	0.32	0.32	0.30	0.30
Cash dividends declared	272,895	269,886	1,108,710	681,872	676,628	288,432	1,077,514	670,328	611,138
Cash dividends declared per Class A share	0.1995	0.1973	0.2216	0.2016	0.1995	0.1973	0.2016	0.2016	0.1995
Cash dividends declared per Class B share	0.3677	0.3667	0.4234	0.4032	0.3989	0.3945	0.4134	0.3864	0.3456

DISTRIBUTIONS

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

On June 21, 2016, based on income for the quarter, the company's Board of Directors declared a dividend of $0.1995 per Class A Non-Voting Share to shareholders of record on June 30, 2016. This distribution was paid on July 29, 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 July 26, 2016, again based on income for the second quarter of 2016, the Board declared a dividend of $0.3677 per share to Class B Non-Voting shareholders of record on that date. This distribution was also paid on July 29, 2016.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow and liquidity were good during the quarter, although the somewhat slower Alberta real estate market has delayed some of our projected mortgage pay-downs. We will continue to monitor our cash flow on a daily basis as liquidity is critical to our success. Liquidity risk for the company comes primarily from the prospect of committing to a mortgage for which sufficient funds are not available to make draws as requested by the borrower. We have a number of tools to manage liquidity and to ensure that commitments can be met, which have been utilized to a greater extent in recent months than in the past. These include our $3.5 million line of credit, detailed cash-flow planning procedures, and Builders 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.

During the second quarter of the year, mortgages were purchased or funded in the amount of $5.6 million and $5.4 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.

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. Subsequent to the quarter-end, we've arranged a private placement that will bring in approximately an additional $325,000 in Class A Non-Voting share capital. 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. Payment for the redemptions is to be made on November 30. In the final quarter of 2015, we received notice of redemption requests for a total of 101,500 shares. These shares were redeemed in accordance with our share terms for 95% of the Net Asset Value as calculated on October 31, 2015. The total redemption amount was $932,300 and the payment reduced our share capital by $1,015,000 for a net gain of $82,700. This gain forms a part of the shareholders equity and has the effect of increasing the Net Asset Value per share of the remaining shares. 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 $58,401 for the quarter. In addition to the management fee, the manager charges lender fees directly to borrowers, with 28.6% of these fees being paid to the company and the remaining 71.4% going to the manager.

During the quarter, we purchased $2.8 million in mortgages from Builders Capital (2014) Ltd., a privately held corporation owned by certain directors of the company. All transactions were completed at fair market values with the objectives of ensuring full cash utilization and creating liquidity as required.

FINANCIAL INSTRUMENTS

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

CRITICAL ACCOUNTING ESTIMATES

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

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

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

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and has in place the appropriate information systems, procedures and controls to ensure that the information used internally by management and disclosed externally is materially complete and reliable. In addition, our Audit Committee and Board of Directors provide an oversight role with respect to our public and financial disclosures. Both have reviewed and approved this MD&A and the accompanying consolidated financial statements for the quarter ended June 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 August 5, 2016.

OUTSTANDING SHARE DATA

The company's authorized share capital as at August 6, 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 1,367,895 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 low oil prices will likely continue to negatively impact real estate values in our primary Southern Alberta market through the balance of 2016, 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 a profitable operation, Builders Capital requires a marketplace in which builders can be profitable. A builder's profitability is dictated by the spread between raw land and construction costs and the final selling price. In our view, Alberta construction costs had become inflated, particularly in Calgary. In recent months, the on-going reduction in real estate prices has extended to raw land costs and we have begun to see a concurrent drop in sub-trade costs as a result of decreased activity. Accordingly, we expect that margins on new construction will remain viable and we are optimistic that a smaller, but still profitable, construction marketplace in Alberta will allow us to keep our lending book in the province reasonably full. Our ideal borrower starts, completes and sells their projects quickly, and with a reasonable margin. We are confident that, even in the current challenging economic climate, there will still be a sufficient number of such borrowers.

Some construction lenders already appear to be pulling back from lending in Alberta. We believe that the tighter economic environment creates an opportunity for us to increase our market share, as our predecessor business has done under similar business conditions in the past. Canada Mortgage and Housing Corporation (CMHC), in its Second Quarter 2016 Housing Market Outlook, is forecasting Alberta single-detached housing starts of between 11,800 and 12,800 units in 2016, a potential decrease of up to 12% from 14,600 units in 2015. We believe that the forecast level of starts will continue to generate adequate demand for our services in the province.

While Builders Capital is currently primarily invested in the Alberta market, with a concentration in Calgary, we have successfully taken the steps toward geographically diversifying our mortgage portfolio across Western Canada. Over the past 18 months, we have reduced our Alberta holdings from 87% to 84% of our portfolio's total value, and increased our mortgage holdings in British Columbia from 6% to 13% of the portfolio.

We have a number of strategies in place to limit the risk that a downturn in the economy poses to our mortgage portfolio. We maintain a prudent debt-to-equity ratio. Mortgage lending is generally restricted to 75% of what we believe to be the fair market value of a property at any given time, meaning that we have 25% of the value of the project in owners' equity ahead of us. We take a general allowance for doubtful accounts each quarter before paying dividends, allowing us to build a cushion of funds to further protect investors. 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.

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

While declining world oil prices are expected to reduce in-migration to Alberta, CMHC still forecasts a growth in Alberta's population of approximately 1.6% in 2016. This will continue to drive a demand for housing, albeit at a somewhat subdued level. CMHC expects that housing starts in Alberta will also be impacted by oil pricing volatility in 2016, but to an extent that remains to be seen. It forecasts that total housing starts for the year in the province will decline from 37,300 units in 2015 to between 24,000 and 26,500 units in 2016, with a modest increase in 2017. In Saskatchewan, CHMC expects that total housing starts in 2016 will range from 5,000 to 5,600 units, consistent with the 2015 level of 5,100 units, also increasing modestly in 2017. In BC, total housing starts in 2016 are expected to increase from last year's 31,400 units to between 35,300 and 36,700 units before declining somewhat in 2017. Overall, we believe that the forecast levels of housing starts in our key markets are more than adequate to support the growth of our business.

Since our inception, we have had a sufficient number of quality lending opportunities to 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.

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 and six months ended, June 30, 2016.

Builders Capital Mortgage Corp.

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

As at June 30, 2016 and December 31, 2015

(Unaudited)

		2016	2015
	Note	$	$
ASSET			
Cash		893	776
Mortgages receivable	4	26,206,086	23,589,190
Prepaid expenses		5,801	5,104
Assets held for sale	5	400,736	661,905
Total Assets		26,613,516	24,256,975
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Line of credit	6	3,251,533	908,267
Accounts payable and accrued liabilities		23,527	37,132
Due to related party	9	73,779	73,732
Dividends payable	8	272,895	715,761
Deferred lender fees		84,715	119,001
TOTAL LIABILITIES		3,706,449	1,853,893
SHAREHOLDERS' EQUITY			
Share capital		21,855,197	21,855,197
Retained earnings		1,051,870	547,885
		22,907.067	22,403,082
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		26,613,516$	24,256,975

Approved on behalf of the Board

John Strangway, Director

Sandy L. Loutitt, Director

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

Builders Capital Mortgage Corp.

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the three and six months ended June 30, 2016

(Unaudited)

For the	Note	3 months ended June 30, 2016 $	3 months ended June 30, 2015 $	6 months ended June 30, 2016 $	6 months ended June 30, 2015 $
REVENUE					
Interest		795,656	864,621	1,616,656	1,760.741
Lender Fees		60,928	80,140	138,229	168.932
TOTAL REVENUES		**856,584**	**944,761**	**1,754,885**	**1.929.673**
EXPENSES					
General and administrative		31,042	15,424	52,876	35,254
Interest		25,557	45,107	51,909	85,171
Provision for mortgage losses		63,652	70,770	129,154	140,859
Management fees	9	58,401	60,748	116,803	120,739
TOTAL EXPENSES		178,652	192,049	350,742	382,023
TOTAL COMPREHENSIVE INCOME		677,932	772,712	1,404,143	1,547,650
EARNINGS PER SHARE	7				
Basic and diluted		0.29	0.30	0.60	0.64

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

Builders Capital Mortgage Corp.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended June 30, 2016

(Unaudited)

		Share Capital			Total	Total
		Number	Amount	Retained Earnings	2016	2015
	Note		$	$	$	$
BALANCE, BEGINNING OF PERIOD		2,342,571	21,855,197	547,885	22,403,082	23,017,233
Issued for cash		-	-	-		100,000
Dividends declared	8	-	-	(900,158)	(900,158)	(965,060)
Total comprehensive income		-	-	1,404,143	1,404,143	1,547,650
BALANCE, END OF PERIOD		2,342,571	21,855,197	1,051,870	22,907,067	23,699,823

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

Builders Capital Mortgage Corp.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the six months ended June 30, 2016

(Unaudited)

	Note	2016 $	2015 $
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:			
OPERATING ACTIVITIES			
Total comprehensive income		1,404,143	1,547,650
Items not affecting cash:			
Provision for mortgage losses		129,154	140,859
Changes in non-cash operating items:			
Prepaid expenses		(697)	(4,968)
Accounts payable and accrued liabilities		(13,605)	(110,116)
Due to related party		47	-
Deferred lender fees		(34,286)	(37,904)
TOTAL CASH FLOWS USED IN OPERATING ACTIVITIES		1,484,756	1,535,521
INVESTING ACTIVITIES			
Mortgages funded		(14,621,093)	(19,579,899)
Mortgages repaid		11,599,911	20,627,233
Additions to assets held for sale		(36,765)	(661,905)
Disposal of Assets held for sale		573,066	-
TOTAL CASH FLOWS GENERATED FROM (USED IN) INVESTING ACTIVITIES		(2,484,881)	385,429
FINANCING ACTIVITIES			
Amounts drawn (paid) on line of credit		2,343,266	(652,293)
Issuance of common shares		-	100,000
Dividends paid	8	(1,343,024)	(1,368,560)
TOTAL CASH FLOWS (USED IN) GENERATED FROM FINANCING ACTIVITIES		1,000,242	(1,920,853)
NET INCREASE (DECREASE) IN CASH		117	97
Cash, beginning of period		776	34
Cash, end of period		893	131
Cash flow from operating activities include:			
Interest paid		51,909	85,171

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

NOTES TO THE FINANCIAL STATEMENTS

1. INCORPORATION AND OPERATIONS

Builders Capital Mortgage Corp. (the "Company") was incorporated under the laws of the province of Alberta on March 28, 2013 ("Inception"). 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 405, 1210-8th Street SW, Calgary, Alberta T2R 1L3.

2. BASIS OF PREPARATION

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board "IASB". These condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2015. In particular, it should be noted that the Company's significant accounting policies as presented in Note 3 of the financial statements for the year ended December 31, 2015, have been consistently applied in the preparation of these condensed consolidated interim financial statements.

The condensed consolidated interim financial statements of the Company for the period ended June 30, 2016 were approved by the Board of Directors on July 25, 2016.

Basis of measurement

These condensed consolidated interim financial statements were prepared on a going concern basis, under the historical cost convention, except for financial instruments classified as fair value through profit or loss, which are measured at fair value.

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates. Areas where judgements and estimates are significant to the consolidated financial statements are disclosed in note 3.

Functional and presentation currency

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

3. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS 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 condensed consolidated interim financial statements are:

(Expressed in Canadian dollars)

Specific allowance for mortgage losses:

The Company is required to make estimates and assumptions that relate to the specific allowance for mortgage losses. These estimates may include assumptions regarding local real estate market conditions, interest rates and the availability of credit, cost and terms of financing, the impact of present or future legislation or regulation, prior encumbrances and other factors affecting the mortgages and underlying security of the mortgages. These assumptions are limited by the availability of reliable comparable data, economic uncertainty and the uncertainty of predictions concerning future events. Illiquid credit markets and volatile equity markets have combined to increase the uncertainty inherent in such estimates and assumptions. Accordingly, by their nature, estimates of impairment are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated fair value could vary a material amount.

Collective allowance for mortgage losses:

The Company estimates collective allowance for mortgage losses based on an assessment of the recoverability of mortgages receivable. Allowances are applied to mortgages receivable where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analysed historical bad debts based on industry experience and current economic trends when making a judgment to evaluate the adequacy of the allowance for mortgage losses. Where the expectation is different from the original estimate, such difference will impact the carrying value of mortgages receivable.

4. MORTGAGES RECEIVABLE

Mortgages receivable consist of the following:

	June 30, 2016	December 31, 2015
Conventional first mortgages	$19,039,487	$15,909,834
Conventional non-first mortgages	7,689,878	8,277,333
	26,729,365	24,187,167
Allowance for mortgage losses	523,279	597,977
Total mortgages receivable	$26,206,286	$23,589,190

Mortgages receivable consist of conventional mortgages which are secured by a mortgage charge with aggregate loan to values not exceeding 75% at their initiation, and mature between July 1, 2016 and June 30, 2017. All mortgages are located in Alberta, British Columbia or Saskatchewan and are residential in nature.

Principal repayments based on contractual maturity dates are as follows:

2016	$21,916,521
2017	4,812,844
	$26,729,365

5. ASSETS HELD FOR SALE

	June 30, 2016	December 31, 2015
Foreclosed property	$400,736	$661,905

(Expressed in Canadian dollars)

6. CREDIT FACILITY

The Company has access to a due on demand operating credit facility with a limit of $3,500,000, of which $3,251,533 had been drawn at June 30, 2016 ($2,499,078 at June 30, 2015). The purpose of the facility is to finance the day-to-day operations of the Company, specifically, financing the placement of mortgages. The loan bears interest while outstanding before and after maturity and default at a rate of 2.50% per annum above the bank's prime lending rate. All interest is payable without demand on the dates specified by the bank and is calculated daily and compounded monthly. The demand facility is secured by all present and after acquired property in the Company. The credit agreement contains certain financial covenants that must be maintained. These covenants include a cash flow coverage test and maintaining a tangible net worth of not less than $10,000,000. As at June 30, 2016 and 2015, the Company was in compliance with all financial covenants.

7. PER SHARE AMOUNTS

Basic and diluted earnings per share calculation

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Numerator for basic earnings per share:				
Total comprehensive income	$677,932	$722,712	$1,404,143	$ 1,547,650
Denominator for basic earnings per share:				
Weighted average number of shares	2,342,571	2,436,928	2,342,571	2,435,507
Basic and diluted earnings per share	$0.29	$0.30	$0.60	$0.64

8. DIVIDENDS

The Company 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 six months ended June 30, 2016, the Company declared dividends of $0.3968 per share for a total of $542,871 to its Class A Non-Voting Common Shareholders.

During the six months ended June 30, 2016, the Company paid dividends of $1,343,024 to its Class A and Class B Non-Voting Common Shareholders and Voting Common Shareholders.

9. RELATED PARTY TRANSACTIONS

Due to related party is comprised of the following:

	June 30, 2016	December 31, 2015
Builders Capital Management Corp.	$73,779	$73,732

The Company's Manager (a company controlled by some of the directors) receives a management fee, calculated at 1.0% per annum of the book value of the share capital of the Company, calculated daily, aggregated and paid monthly in arrears plus applicable taxes. For the six months ended June 30, 2016, this amount was $116,803 (2015 – $120,739).

The total directors' fees paid for the six months were $6,000 (2015 - $6,500). Directors' fees are set at $1,000 annually together with $500 for each meeting attended. The key management personnel are also directors of the Company and receive compensation from the Company's Manager.

During the six months, the Company purchased mortgages with an aggregate value of $4,180,129 (2015 - $2,118,956) from, and sold mortgages with an aggregate value of $1,109,478 (2015 - $3,198,306) to, Builders Capital (2014) Ltd. There were also advances totaling $1,125,819 (2015 - $2,215,514), which were made and repaid during the period between the two companies.

Builders Capital (2014) Ltd. is related to the Company by virtue of common control, and 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 six months ended June 30, 2016 and 2015. The Manager directs the affairs and 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.

10. CAPITAL DISCLOSURES

The Company's capital consists of shareholders' equity. 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.

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 credit facility contains certain financial covenants that must be maintained. As at June 30, 2016 and 2015, the Company was in compliance with all financial covenants.

11. FINANCIAL INSTRUMENTS

The Company, as part of its operations, carries financial instruments consisting of cash, mortgages receivable, line of credit, accounts payable and accrued liabilities 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.

Fair value

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

The carrying value of mortgages receivable, accounts payable and accrued liabilities and due to related party approximate their fair value because of the short-term nature of these instruments.

There were no transfers between levels 1, 2 and 3 inputs during the period (2015 – none).

Credit Risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. 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. Cash is held at a major Canadian financial institution. The Company's maximum exposure to credit risk is represented by the fair values of the cash and mortgages receivable.

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 March 31, 2016 the Company's mortgages receivable are subject to fair value interest rate risk as a decrease in market interest rates will 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 period as mortgages receivable are carried at amortized cost.

ii) Foreign currency risk

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

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. 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. 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. 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 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 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.

BOARD OF DIRECTORS

John A. Drummond, LL.B
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Victor P. Harwardt, LL.B.
Partner
Salley, Bowes, Harwardt LC

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Chair of the Board of Directors
President and CEO
Builders Capital Mortage Corp.

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Chief Financial Officer
Caltor Corporation and Red Rock Energy Inc.

David E. T. Pinkman, LL.B
Chief Executive Officer,
Chief Financial Officer and Director
SFR Energy Ltd.

John E. Strangway, CA
Chief Financial Officer
Builders Capital Mortgage Corp.

Brent J. Walter, LL.B.
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SENIOR MANAGEMENT

Sandy L. Loutitt
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Chief Financial Officer

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