

**Builders Capital Mortgage Corp.**  
**Consolidated Financial Statements**  
*For the years ended December 31, 2016 and 2015*

## Independent Auditors' Report

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To the Shareholders of Builders Capital Mortgage Corp.:

We have audited the accompanying consolidated financial statements of Builders Capital Mortgage Corp., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained during our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Builders Capital Mortgage Corp. as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Calgary, Alberta  
May 1, 2017

*MNP* LLP  
Chartered Professional Accountants

**Builders Capital Mortgage Corp.**  
**Consolidated Statements of Financial Position**

*As at December 31,  
(Expressed in Canadian dollars)*

	2016	2015
<b>Assets</b>		
Cash	\$ 399,699	\$ 776
Mortgages receivable (Note 6)	23,010,181	23,589,190
Prepaid expenses	55,110	5,104
Assets held for sale (Note 7)	213,400	661,905
<b>Total Assets</b>	<b>\$ 23,678,390</b>	<b>\$ 24,256,975</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Line of credit (Note 8)	\$ -	\$ 908,267
Accounts payable and accrued liabilities	59,232	37,132
Due to related party (Note 14)	105,431	73,732
Dividends payable (Note 12)	282,300	715,761
Deferred lender fees	102,820	119,001
<b>Total Liabilities</b>	<b>\$ 549,783</b>	<b>\$ 1,853,893</b>
<b>Shareholders' Equity</b>		
Share capital (Note 9)	\$ 22,046,836	\$ 21,855,197
Retained earnings	1,081,771	547,885
	<b>\$ 23,128,607</b>	<b>\$ 22,403,082</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 23,678,390</b>	<b>\$ 24,256,975</b>

Approved on behalf of the Board:

(Signed) "Brent J. Walter"  
**Director**

(Signed) "Sandy L. Loutitt"  
**Director**

**Builders Capital Mortgage Corp.**  
**Consolidated Statements of Comprehensive Income**

*For the years ended December 31,  
(Expressed in Canadian dollars)*

	<b>2016</b>	<b>2015</b>
<b>Revenues</b>		
Interest	\$ 3,129,479	\$ 3,429,775
Lender fees	268,043	346,165
Total revenues	<b>3,397,522</b>	3,775,940
<b>Expenses</b>		
General and administrative	100,915	78,867
Interest	89,371	127,743
Provision for mortgage losses (Note 6)	251,645	343,370
Management fees (Note 14)	236,347	243,080
Total expenses	<b>678,278</b>	793,060
<b>Total comprehensive income</b>	<b>\$ 2,719,244</b>	<b>\$ 2,982,880</b>
 <b>Earnings per share (Note 11)</b>		
Basic and diluted	<b>\$ 1.15</b>	<b>\$ 1.23</b>

**Builders Capital Mortgage Corp.**  
**Consolidated Statement of Changes in Shareholders' Equity**  
*(Expressed in Canadian dollars)*

	Number	Share Capital Amount \$	Retained Earnings \$	Total \$
Balance at December 31, 2014	2,434,071	22,776,222	241,011	23,017,233
Class A Non-Voting Common Shares issued for cash <i>(Note 9 (i))</i>	7,500	75,000	-	75,000
Offering costs <i>(Note 9 (i))</i>	-	(6,025)	-	(6,025)
Class A Non-Voting Common Shares redeemed for cash <i>(Note 9 (ii))</i>	(101,500)	(1,015,000)	82,723	(932,277)
Class B Non-Voting Common Shares issued for cash <i>(Note 9 (iv))</i>	2,500	25,000	-	25,000
Dividends declared <i>(Note 12)</i>	-	-	(2,758,729)	(2,758,729)
Total comprehensive income for the year	-	-	2,982,880	2,982,880
Balance at December 31, 2015	2,342,571	21,855,197	547,885	22,403,082
Class A Non-Voting Common Shares issued for cash <i>(Note 9 (iii))</i>	<b>32,400</b>	<b>324,000</b>	-	<b>324,000</b>
Offering costs <i>(Note 9)</i>	-	<b>(132,361)</b>	-	<b>(132,361)</b>
Dividends declared <i>(Note 12)</i>	-	-	<b>(2,185,358)</b>	<b>(2,185,358)</b>
Total comprehensive income for the year	-	-	<b>2,719,244</b>	<b>2,719,244</b>
<b>Balance at December 31, 2016</b>	<b>2,374,971</b>	<b>22,046,836</b>	<b>1,081,771</b>	<b>23,128,607</b>

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

# Builders Capital Mortgage Corp. Consolidated Statement of Cash Flows

*For the years ended December 31,  
(Expressed in Canadian dollars)*

	2016	2015
<b>Cash flows related to the following activities:</b>		
<b>Operating activities</b>		
Cash receipts of interest and fees from borrowers	\$ 2,652,063	\$ 3,395,087
Cash receipt of principal payments from borrowers	19,880,527	28,065,004
Cash receipts on proceeds on sales of mortgages	4,030,060	8,643,865
Cash receipts on sale of assets held for sale (Note 7)	2,289,017	-
Cash advanced to borrowers	(18,119,734)	(27,233,265)
Cash advanced to purchase mortgages	(6,398,475)	(6,548,219)
Cash paid to prepare assets held for sale for sale	(176,248)	-
Cash paid for operating expenses	(422,840)	(500,710)
<b>Total cash flows generated from operating activities</b>	<b>\$ 3,734,370</b>	<b>\$ 5,821,762</b>
<b>Financing activities</b>		
Cash paid to reduce line of credit balance	\$ (908,267)	\$ (2,243,106)
Proceeds from issuance of common shares, net of offering costs (Note 9)	191,639	93,975
Redemption of common shares (Note 9)	-	(932,277)
Dividends paid	(2,618,819)	(2,739,612)
<b>Total cash flows (used in) generated from financing activities</b>	<b>\$ (3,335,447)</b>	<b>\$ (5,821,020)</b>
<b>Net increase (decrease) in cash</b>	<b>\$ 398,923</b>	<b>\$ 742</b>
Cash, beginning of year	776	34
<b>Cash, end of year</b>	<b>\$ 399,699</b>	<b>\$ 776</b>

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

# Builders Capital Mortgage Corp.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015  
(Expressed in Canadian dollars)

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### 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, 1210-8<sup>th</sup> Street SW, Calgary, Alberta T2R 1L3.

### 2. Basis of preparation

#### Statement of compliance

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") in effect as of January 1, 2016.

The consolidated financial statements of the Company for the year ended December 31, 2016 were approved by the Board of Directors on May 1, 2017.

#### Basis of measurement

These consolidated 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 5.

#### Functional and presentation currency

These consolidated 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. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

#### Basis of consolidation

These consolidated financial statement include the accounts of the Company and its 99.999% interest in its subsidiary, Builders Capital Limited Partnership. All inter-company balances and transactions are eliminated upon consolidation. Total comprehensive income are 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 deconsolidate from the date that control ceases. The amount of total comprehensive income attributed to non-controlling interests for the year ended December 31, 2016 is \$Nil.

# Builders Capital Mortgage Corp.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015  
(Expressed in Canadian dollars)

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### 3. Summary of significant accounting policies (continued from previous page)

#### Non-derivative financial instruments

The Company determines the classification of its non-derivative financial instruments at initial recognition. Non-derivative financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

i) **Financial instruments at fair value through profit or loss**

Financial assets or financial liabilities are classified as fair value through profit or loss ("FVTPL") when the financial asset or liability is either held for trading or it is designated as such by management on initial recognition. Financial assets or financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized immediately in the consolidated statement of comprehensive income. The net gain or loss recognized in the consolidated statement of comprehensive income incorporates any dividend or interest earned. The Company has classified cash as FVTPL.

ii) **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivable instruments comprise of mortgages receivable. Loans and receivables are initially recognized at the amount expected to be received less, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

iii) **Other financial liabilities**

Other financial liabilities are non-derivative liabilities recognized initially at fair value, net of transaction costs, and are subsequently stated at amortized cost each year. The Company has classified accounts payable and accrued liabilities and due to related party as other financial liabilities.

#### Revenue recognition

Interest income is accounted for using the effective interest method. Lender fees received are an integral part of the yield on the mortgages receivable and are amortized to the consolidated statement of comprehensive income over the expected life of the specific mortgage receivable using the effective interest method. Forfeited lender fees are taken to the consolidated statement of comprehensive income at the time a borrower has not fulfilled the terms and conditions of a lending commitment and payment has been received.

#### Income taxes

The Company is a MIC pursuant to the Income Tax Act (Canada). As such, the Company is entitled to deduct from its taxable income dividends paid to shareholders during the year or within 90 days of the end of the year to the extent the dividends were not deducted previously. The Company intends to maintain its status as a MIC and intends to distribute sufficient dividends in the year and in future years to ensure that the Company is not subject to income taxes. Accordingly, for financial statement reporting purposes, the tax deductibility of the Company's dividends results in the Company being effectively exempt from taxation and no provision for current or deferred taxes is required.



# Builders Capital Mortgage Corp.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Expressed in Canadian dollars)

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### 3. Summary of significant accounting policies (continued from previous page)

#### **Mortgages receivable**

Mortgages receivable are classified as loans and receivable financial instruments. Such receivables are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the mortgages receivable are measured at amortized cost using the effective interest method, less any impairment losses. The mortgages receivable are assessed on each reporting date to determine whether there is objective evidence of impairment. A financial asset is considered to be impaired only if evidence indicates that one or more events have occurred after its initial recognition that have had a negative effect on the estimated future cash flows of that asset.

The Company 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 not yet identifiable at an individual mortgage level. Mortgages that are not individually significant are collectively assessed for impairment by grouping together mortgages with similar risk characteristics.

In assessing collective impairment, the Company reviews historical trends of probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgments 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 receivable's original effective interest rate. Losses are recognized in the consolidated 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 consolidated statement of comprehensive income.

#### **Share capital**

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares, which include legal, accounting and brokerage commissions, are recognized as a deduction from equity.

#### **Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

#### **Assets held for sale**

Assets are considered held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to be completed within one year from the date of classification.

Assets held for sale include property that has been repossessed following foreclosure on mortgages that are in default.

Assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less cost to sell and are not depreciated. An impairment loss is recognized for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognized for any subsequent increases in fair value less costs to sell, but not exceeding any cumulative impairment losses previously recognized.

#### **Basic and diluted per share calculation**

The Company presents basic and diluted earnings per share data for its common shares. Basic per-share amounts are calculated by dividing earnings attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted per-share amounts are calculated using the "if converted method" and are determined by adjusting the earnings attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential agent options.

# Builders Capital Mortgage Corp.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Expressed in Canadian dollars)

### 4. Accounting standards adopted and recent accounting pronouncements

#### Accounting standards adopted in the current year

The following amendments to standards were adopted in the current year:

- (i) IAS 1 Presentation of Financial Statements (Amendment) - In December 2014, the IASB issued amendments to IAS 1 Presentation of Financial Statements. The amendments are part of the IASB's Disclosure Initiative to address some of the concerns expressed about existing presentation and disclosure requirements and to ensure entities are able to use judgment when preparing their consolidated financial statements. These amendments are effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The adoption of the amendment did not have a significant impact on the consolidated financial statements.
- (ii) IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Amendment) - Amendments to IAS 16 and IAS 38, issued by IASB in May 2014, incorporated into the Handbook by the AcSB in July 2014, clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate. Amendments to IAS 38 specify that an amortization method based on revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. These amendments are effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The adoption of the amendment did not have a significant impact on the consolidated financial statements.

#### Recent accounting pronouncements

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

- (i) IFRS 9 Financial Instruments is a new standard on accounting for financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement. The International Accounting Standards Board ("IASB") has deferred the mandatory effective date for IFRS 9 to annual periods beginning on or after January 1, 2018. Earlier application is permitted. If an entity applies this IFRS in its consolidated financial statements for a period beginning before January 1, 2018, it shall disclose that fact and at the same time apply the consequential amendments to other IFRSs. An entity that did not already apply IFRS 9 as issued in 2009 must apply IFRS 9 as issued in 2010 in its entirety if electing early application. If an entity has already early applied IFRS 9 as issued in 2009, prior to the amendments issued in 2010, the entity may elect to continue to apply IFRS 9 as issued in 2009. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is recorded at amortized cost only if the entity is holding the instrument to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is recorded at fair value through profit or loss. IFRS 9 requires an expected-loss impairment model (replacing the current incurred loss impairment model) that will require more timely recognition of expected losses and requires accounting for expected credit losses when financial instruments are first recognized and to accelerate the recognition of full lifetime expected losses. The Company is currently assessing the impact of this new standard on its consolidated financial statements.
- (ii) IFRS 15 Revenue from Contracts with Customers - In May 2014, the IASB issued a new standard on the recognition of revenue from contracts with customers. IFRS 15 specifies how and when entities recognize revenue, as well as requires more detailed and relevant disclosures. IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue – Barter Transactions Involving Advertising Services. The Section provides a single, principles-based five-step model to be applied to all contracts with customers, with certain exceptions. The standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Company is currently assessing the impact of this new standard on its consolidated financial statements.
- (iii) IFRS 16 Leases - On January 13, 2016, the IASB issued the final version of IFRS 16 Leases. The new standard will replace IAS 17 Leases and is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that also apply IFRS 15 Revenue from Contracts with Customers. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases applying IAS 17. IFRS 16 does not require a lessee to recognize assets and liabilities for short-term leases (i.e. leases of 12 months or less) and leases of low-value assets. The Company is currently assessing the impact of this new standard on its consolidated financial statements.

# Builders Capital Mortgage Corp.

## Notes to the Consolidated Financial Statements

*For the years ended December 31, 2016 and 2015*

*(Expressed in Canadian dollars)*

### 5. 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 consolidated financial statements are:

#### 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 by 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.

Management judgments that may affect reported amounts of assets and liabilities, income and expenses include but are not necessarily limited to:

#### 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.

### 6. Mortgages receivable

Mortgages receivable consist of the following:

	2016	2015
Conventional first mortgages	\$ 19,478,717	\$ 15,909,834
Conventional non-first mortgages	<b>3,875,833</b>	8,277,333
	<b>23,354,550</b>	24,187,167
Allowance for mortgage losses	<b>344,369</b>	597,977
<b>Total mortgages receivable</b>	<b>\$ 23,010,181</b>	<b>\$ 23,589,190</b>

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 December 31, 2016, conventional first mortgages comprised 83% (2015 – 66%) and conventional non-first mortgages comprised 17% (2015 – 35%) of the total portfolio. Of the total balance of mortgages receivable, 3 mortgages totalling \$1,721,059 were first advanced in 2013 or earlier, 5 mortgages totalling \$5,818,111 were first advanced in 2014, 7 mortgages totalling \$6,339,696 were first advanced in 2015 and the balance of 17 mortgages totalling \$9,475,684 were first advanced in 2016.

# Builders Capital Mortgage Corp.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015  
(Expressed in Canadian dollars)

### 6. Mortgages receivable (continued from previous page)

At year-end, the mortgages receivable balance included \$1,995,794 (2015 - \$1,652,326) in interest and fees receivable and \$21,358,756 (2015 - \$22,534,841) in principal amounts.

All mortgages are located in Alberta, British Columbia, or Saskatchewan and are residential in nature.

The mortgages comprising the portfolio bear interest at the weighted average rate of 12.01% (2015 – 13.05%) per annum and mature between January 1, 2017 and January 1, 2018. 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 December 31, 2016, the Company had no mortgages receivable that had not been renewed (2015 – nil). Additional information regarding mortgages which could be considered past due but not impaired is contained in note 16 below.

Principal repayments based on contractual maturity dates are as follows:

	2016	2015
Year 1	\$ 23,351,707	\$ 23,684,442
Year 2	2,843	502,725
	<b>\$ 23,354,550</b>	<b>\$ 24,187,167</b>

The Company records a collective allowance for mortgage losses based on past experience regarding losses, and an ongoing assessment of the market. The mortgage portfolio is regularly reviewed by management for individual mortgages which could be considered to be impaired. To the extent such individual impairment exists, the amounts are compared to the collective allowance to ensure that the overall allowance is sufficient. If it's considered sufficient even given the total assessment of individual impairment, then no additional impairment is recorded. If it is considered insufficient, an additional allowance is recorded. As at December 31, 2016, the Company has a collective impairment provision of \$29,369 (2015 - \$597,977).

As at December 31, 2016 the Company has recognized a specific impairment provision of \$315,000 (2015-\$nil) which is related to two specific mortgages with balances totalling \$1,787,708. Each of these mortgages is a conventional first mortgage which may be collected through foreclosure proceedings. Both mortgages were originally due in December of 2015. In determining impairment, the primary consideration is the value of the security compared to the value of the outstanding mortgage. Consideration is also placed on an assessment of the current state of the market and of the borrower's efforts to sell the property. The two mortgages considered to be impaired at year-end both have loans to value which exceed 85% which, combined with other concerns regarding the borrowers has caused the Company to record an impairment loss in an amount calculated to reduce the net carrying value of the loans to their realizable value. In both cases, the construction is complete, and the homes have failed to sell at least in part due to downturns in the local real estate markets. Interest and fees continuing to accrue have made full collection of our loan balance on eventual sale unlikely.

Measuring loan to value ratios on construction mortgages requires judgement and is subject to a significant degree of uncertainty. The Company estimates that the weighted average loan-to-value of the overall mortgage portfolio at year-end is 77.9%.

The changes in the allowance for mortgage losses during the years ended December 31, 2016 and 2015 were as follows:

	2016	2015
Balance, beginning of year	\$ 597,977	\$ 265,343
Provision for mortgage losses	251,645	343,370
Less: accounts written off	(505,253)	(10,736)
Balance, end of year	<b>\$ 344,369</b>	<b>\$ 597,977</b>

# Builders Capital Mortgage Corp.

## Notes to the Consolidated Financial Statements

*For the years ended December 31, 2016 and 2015  
(Expressed in Canadian dollars)*

### 7. Assets held for sale

	<b>2016</b>	<b>2015</b>
Foreclosed property	<b>\$ 213,400</b>	\$ 661,905

During the year ended December 31, 2016 four properties (2015 – one property) were obtained in foreclosure actions on mortgages receivable. Three of these properties, together with one obtained in a foreclosure in the previous year, were disposed of during the year for proceeds totalling \$2,289,017. At December 31, 2016, the assets held for sale consisted of one vacant building lot in Fort McMurray which is currently listed for sale.

The write-down required on the related mortgages receivables prior to foreclosure totalled \$476,055 which was taken from the accumulated allowance for mortgage losses in the year.

### 8. Credit facility

The Company has a due on demand operating credit facility with a limit of \$3,500,000 available. As at December 31, 2016 \$Nil (2015 - \$908,267) was drawn. 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 ("prime"). As at December 31, 2016, prime was 2.70% (2015 - 2.78%). 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:

- (i) A cash flow coverage test under which the balance at the end of each month plus accrued interest may not exceed the total amount of outstanding principal balances of mortgages with maximum terms of 12 months or less. At year-end, the principal balances of such mortgages exceeded the credit facility balance by \$23,010,181 (2015 - \$22,680,923).
- (ii) Maintaining a tangible net worth defined as the aggregate of share capital and retained earnings, less intangible assets, of not less than \$10,000,000. At December 31, 2016, this balance exceeded \$10,000,000 by \$13,126,607 (2015 - \$12,403,082).

### 9. Share capital

#### Authorized shares

<b>Authorized</b>	<b>Name</b>
1,000	Voting Common Shares
Unlimited	Class A – Non-Voting Common Shares
Unlimited	Class B – Non-Voting Common Shares

The Class A Non-Voting Common Shares and Class B Non-Voting Common shares carry a redemption feature under which shareholders can request redemption of up to 15% of the outstanding shares in any given year. Class A Non-Voting Common Shares redeemed under this feature are redeemed for 95% of the Company's net asset value per share, while Class B Non-Voting Common Shares are redeemed for the net asset value per share. The objective to this feature is to provide additional liquidity for our shareholders. The Company's policy is to honour any redemption requests to the best of its ability. The redemption feature is available only once per year and has specific notice periods which allow the Company 60 days between receiving notice and making payment. The amount of possible redemptions is not determinable, but based on the number of Class A and B Non-Voting Common shares outstanding at year-end and the net asset value per share on that date, the maximum potential redemption would be \$3,366,472. The redemption feature is subject to certain restrictions which give Management the ability to effectively defer redemption indefinitely.

**Builders Capital Mortgage Corp.**  
**Notes to the Consolidated Financial Statements**

*For the years ended December 31, 2016 and 2015  
(Expressed in Canadian dollars)*

**9. Share capital** *(continued from previous page)*

**Issued and outstanding – Voting Common Shares**

	Number of Shares	\$
<b>As at December 31, 2016 and 2015</b>	<b>100</b>	<b>1,000</b>

**Issued and outstanding – Class A – Non-Voting Common Shares**

	Number of Shares	\$
As at December 31, 2014	1,461,895	13,071,969
Shares issued for cash <i>(i)</i>	7,500	75,000
Offering costs <i>(i)</i>	-	(6,025)
Shares redeemed <i>(ii)</i>	(101,500)	(1,015,000)
As at December 31, 2015	1,367,895	12,125,944
Shares issued for cash <i>(iii)</i>	32,400	324,000
Offering costs <i>(iv)</i>	-	(132,361)
<b>As at December 31, 2016</b>	<b>1,400,295</b>	<b>12,317,583</b>

- (i) On May 26, 2015, the Company closed a private placement totalling 7,500 class A Non-Voting Common Shares at a price of \$10.00 per share for gross proceeds of \$75,000. Included in offering costs are \$6,025 in fees paid in connection with the private placement.
- (ii) On October 31, 2015, the Company repurchased 101,500 Class A Non-Voting Common Shares at a discount for \$932,277. The discount on the repurchase was charged to retained earnings.
- (iii) On September 15, 2016, the Company closed a private placement totalling 32,400 Class A Non-Voting Common Shares at a price of \$10.00 per share for gross proceeds of \$324,000. Included in offering costs are \$16,200 in fees paid in connection with the private placement.
- (iv) During the year, offering costs totalling \$116,161 were incurred in the preparation of a prospectus with the intent of raising additional capital. These costs were incremental costs directly attributable to the equity transaction that otherwise would have been avoided. It is anticipated that the offering will close in the spring of 2017.

**Issued and outstanding – Class B – Non-Voting Common Shares**

	Number of Shares	\$
As at December 31, 2014	972,076	9,703,253
Shares issued for cash <i>(v)</i>	2,500	25,000
<b>As at December 31, 2016 and 2015</b>	<b>974,576</b>	<b>9,728,253</b>

- (v) On May 26, 2015, the Company closed a private placement totalling 2,500 Class B Non-Voting Common Shares at a price of \$10.00 per share for gross proceeds of \$25,000.

**10. Agent options**

There were no agent options granted in 2016 and 2015. All previously outstanding options expired on December 12, 2016.

# Builders Capital Mortgage Corp.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015  
(Expressed in Canadian dollars)

### 11. Per share amounts

#### Basic and diluted earnings per share calculation

	2016	2015
Numerator for basic earnings per share:		
Total comprehensive income	\$ 2,719,244	\$ 2,982,880
Denominator for basic earnings per share:		
Weighted average number of shares	2,358,860	2,422,857
<b>Basic and diluted earnings per share</b>	<b>\$ 1.15</b>	<b>\$ 1.23</b>

The agent options were anti-dilutive in nature.

### 12. 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 year ended December 31, 2016, the Company declared dividends of \$2,185,358 (2015 - \$2,758,729) to its Class A and Class B Non-Voting Common Shareholders and Voting Common Shareholders. As at December 31, 2016, \$282,299 (2015 - \$715,761) is payable and outstanding. All dividends payable as at December 31, 2016 were paid prior to January 31, 2017.

### 13. Income taxes

The Company has non-capital tax loss carry forwards of \$180,909 (2015 - \$310,613) as at December 31, 2016. These tax losses can be applied against future taxable income and will, if not utilized, expire as follows:

2035	<b>\$ 180,909</b>
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### 14. Related party transactions

Due to related party is comprised of the following:

	2016	2015
Builders Capital Management Corp.	<b>\$ 105,430</b>	\$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 year ended December 31, 2016, this amount was \$236,347 (2015 - \$243,080).

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

The total directors' fees paid for the year were \$15,000 (2015 - \$20,500). 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.

# Builders Capital Mortgage Corp.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015  
(Expressed in Canadian dollars)

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### 14. Related party transactions (continued from previous page)

During the year, the Company purchased mortgages with an aggregate value of \$6,398,475 (2015 - \$6,548,219) from, and sold mortgages with an aggregate value of \$4,030,060 (2015 - \$8,643,865) to, Builders Capital (2014) Ltd. There were also advances totaling \$1,141,811 (2015 - \$2,993,056), which were made and repaid during the year 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 years ended December 31, 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 considerations for services provided to the Company by the Manager, it is paid a management fee, as discussed above.

### 15. 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 December 31, 2016 and 2015, the Company was in compliance with all financial covenants.

### 16. 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 year (2015 – none).



# Builders Capital Mortgage Corp.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Expressed in Canadian dollars)

### 16. Financial instruments (continued from previous page)

#### 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.

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 are regularly assessed for impairment and the Company records a specific allowance as required. Based on historical information about customer default rates the management considers that the Company's financial assets that are not impaired or past due are of good credit quality.

Mortgages which were funded prior to January 1, 2016 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. These loans are not considered to be impaired and no specific allowance has been taken for these mortgages as management considers collection to be reasonably assured due to the estimated value of the mortgage security held.

In all cases, the Company's mortgages receivable are secured by registered charges over real property which is considered to reduce the credit risk to approximate the amount of the allowance for doubtful loans.

Amounts which meet these criteria can be summarized by the time period in which the loan was originally due as follows:

	Q1 2015	Q4 2015	Q2 2016	Q4 2016
Principal	\$ 236,491	\$ 241,244	\$ 1,366,917	\$ 1,281,916
Interest	23,371	68,839	208,164	122,864
<b>Total</b>	<b>\$ 259,862</b>	<b>\$ 310,083</b>	<b>\$ 1,575,081</b>	<b>\$ 1,404,780</b>

Cash is held at a major Canadian financial institution. The Company's maximum exposure to credit risk is represented by the carrying values of the cash and mortgages receivable which are considered to be their fair values.

#### 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 December 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 year as mortgages receivable are carried at amortized cost.

ii) Foreign currency risk

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

# Builders Capital Mortgage Corp.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Expressed in Canadian dollars)

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### 16. Financial instruments (continued from previous page)

#### 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.

### 17. Change in presentation of the consolidated statement of cash flows

During review of the consolidated financial statement of cash flows performed by the management of the Company, it was concluded that presentation of cash flows using the direct method would provide more relevant and useful information to enable users of the consolidated financial statements to evaluate the changes in net assets of the Company and to assess the Company's ability to generate cash. In addition, management of the Company concluded it was more appropriate to classify the cash advances and repayments on mortgages, including purchases and sales of mortgages, as operating activities rather than investing activities due to the fact that the funding and collection of mortgages is in the ordinary course of operations, and all of the mortgages are considered to be current assets. This change in presentation resulted in cash flows relating to mortgages funded and repaid no longer being presented as investing activities in the consolidated statement of cash flows. Comparative figures have been reclassified to conform to the current year presentation. As a result, Cash flows from investing activities decreased by \$7,313,045 in the comparative figures, and cash flows from operating activities increased an equivalent amount.