

**Builders Capital Mortgage Corp.**  
**Condensed Consolidated Financial Statements**  
*For the Three Months ended June 30, 2018 and 2017*

## **Notice of No Auditor Review of Interim Financial Statements**

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In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited condensed consolidated interim financial statements as at, and for the three months ended, June 30, 2018 and 2017.

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

*As at June 30, 2018 and December 31, 2017*  
*(Expressed in Canadian dollars)*

	2018	2017
<b>Assets</b>		
Cash	\$ 335	\$ 4,006
Mortgages receivable (Note 4)	28,873,782	27,870,070
Prepaid expenses	5,881	5,111
Assets held for sale (Note 5)	3,354,465	3,539,232
<b>Total Assets</b>	<b>\$ 32,234,463</b>	<b>\$ 31,418,419</b>
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Line of credit (Note 6)	\$ 3,700,692	\$ 3,850,295
Accounts payable and accrued liabilities	114,476	60,285
Due to related party (Note 10)	108,239	73,042
Dividends payable (Note 8)	370,525	345,194
Deferred lender fees	118,079	106,051
Loan payable (Note 6)	1,300,000	1,300,000
<b>Total Liabilities</b>	<b>5,712,011</b>	<b>5,734,867</b>
<b>Shareholders' Equity</b>		
Share capital	25,483,671	24,587,248
Retained earnings	1,038,781	1,096,304
	<b>26,522,452</b>	<b>25,683,552</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 32,234,463</b>	<b>\$ 31,418,419</b>

Contingencies (Note 13)

Approved on behalf of the Board:

(Signed) "John E. Strangway"  
**Director**

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

# Builders Capital Mortgage Corp.

## Condensed Consolidated Interim Statements of Comprehensive Income

*For the three and six months ended June 30,  
(Expressed in Canadian dollars)*

	3 months ended June 30, 2018	3 months ended June 30, 2017	6 months ended June 30, 2018	6 months ended June 30, 2017
<b>Revenues</b>				
Interest	\$ 785,593	\$ 794,462	\$ 1,564,293	\$ 1,534,564
Lender Fees	60,067	71,797	110,346	133,460
<b>Total revenues</b>	<b>845,660</b>	<b>866,259</b>	<b>1,674,639</b>	<b>1,668,024</b>
<b>Expenses</b>				
General and administrative	29,219	21,043	52,383	42,700
Interest	71,999	33,733	143,748	49,412
Provision for mortgage losses <i>(Note 4)</i>	182,962	124,557	275,258	203,715
Management fees <i>(Note 10)</i>	68,657	61,017	134,908	119,576
<b>Total expenses</b>	<b>352,837</b>	<b>240,350</b>	<b>606,297</b>	<b>415,403</b>
<b>Total comprehensive income</b>	<b>\$ 492,823</b>	<b>\$ 625,909</b>	<b>\$ 1,068,342</b>	<b>\$ 1,252,621</b>
<b>Earnings per share <i>(Note 7)</i></b>				
Basic and diluted	\$ .18	\$ .26	\$ .39	\$ .52

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

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

	Share Capital Number	Share Capital Amount \$	Retained Earnings \$	Total \$
Balance at December 31, 2016	2,374,971	22,046,836	1,081,771	23,128,607
Class A non-Voting common Shares issued for cash	219,975	2,199,750	-	2,199,750
Offering costs	-	(373,677)	-	(373,677)
Dividends declared <i>(Note 8)</i>	-	-	(1,265,840)	(1,265,840)
Total comprehensive income for the period	-	-	1,252,621	1,252,621
<b>Balance at June 30, 2017</b>	<b>2,594,946</b>	<b>23,872,909</b>	<b>1,068,552</b>	<b>24,941,461</b>
Balance at December 31, 2017	<b>2,686,946</b>	<b>24,587,248</b>	<b>1,096,304</b>	<b>25,683,552</b>
Class A non-Voting common Shares issued for cash	<b>95,000</b>	<b>950,000</b>	-	<b>950,000</b>
Offering costs	-	<b>(53,577)</b>	-	<b>(53,577)</b>
Dividends declared <i>(Note 8)</i>	-	-	<b>(1,125,865)</b>	<b>(1,125,865)</b>
Total comprehensive income for the period	-	-	<b>1,068,342</b>	<b>1,068,342</b>
<b>Balance at June 30, 2018</b>	<b>2,781,946</b>	<b>25,483,671</b>	<b>1,038,781</b>	<b>26,522,452</b>

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

# Builders Capital Mortgage Corp.

## Condensed Consolidated Interim Statements of Cash Flows

*For the six months ended June 30,  
(Expressed in Canadian dollars)*

	2018	2017
<b>Cash flows related to the following activities:</b>		
<b>Operating activities</b>		
Cash receipts of interest and fees from borrowers	\$ 1,679,855	\$ 1,010,359
Cash receipt of principal payments from borrowers	9,831,758	6,796,945
Cash receipts on proceeds on sales of mortgages	697,686	5,139,820
Cash receipts on disposal of assets held for sale	2,016,331	-
Cash advanced to borrowers	(11,184,621)	(16,311,858)
Cash advanced to purchase mortgages	(2,298,027)	-
Cash advanced on assets held for sale	(149,984)	(1,045,788)
Cash paid for operating expenses other than interest	(184,208)	(33,467)
Cash paid for interest	(143,748)	(49,412)
<b>Total cash flows generated from (used in) operating activities</b>	<b>\$ 265,042</b>	<b>\$ (4,493,401)</b>
<b>Financing activities</b>		
Cash (paid) drawn on line of credit	\$ (149,603)	\$ 3,493,788
Proceeds from issuance of common shares	1,035,000	2,199,750
Financing costs paid on common share offering	(53,577)	(373,677)
Dividends paid	(1,100,533)	(1,224,895)
<b>Total cash flows (used in) generated from financing activities</b>	<b>\$ (268,713)</b>	<b>\$ 4,094,966</b>
<b>Net (decrease) increase in cash</b>	<b>\$ (3,671)</b>	<b>\$ (398,435)</b>
Cash, beginning of period	4,006	399,699
<b>Cash, end of period</b>	<b>\$ 335</b>	<b>\$ 1,264</b>

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

# Builders Capital Mortgage Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended June 30, 2018 and 2017

(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. 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

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, 2017. 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, 2017, 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, 2018 were approved by the Board of Directors on August 22, 2018.

#### 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 3.

#### 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. 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:

# Builders Capital Mortgage Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended June 30, 2018 and 2017  
(Expressed in Canadian dollars)

### 3. Significant accounting estimates, assumptions and judgements *(continued from previous page)*

#### 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.

### 4. Mortgages receivable

Mortgages receivable consist of the following:

	<b>June 30, 2018</b>	December 31, 2017
Conventional first mortgages	<b>\$23,999,258</b>	\$21,237,382
Conventional non-first mortgages	<b>4,980,879</b>	6,902,082
	<b>28,980,137</b>	28,139,464
Allowance for mortgage losses	<b>(106,355)</b>	(269,394)
<b>Total mortgages receivable</b>	<b>\$28,873,782</b>	\$27,870,070

Mortgages receivable consist of conventional mortgages which are secured by a mortgage charge with aggregate loan to values not exceeding 75% at their initiation. Of the total balance of mortgages receivable, 3 mortgages totalling \$3,772,482 were first advanced in 2014, 2 mortgages totalling \$2,789,781 were first advanced in 2015, 4 mortgages totalling \$5,651,572 were first advanced in 2016, 8 mortgages totalling \$10,098,245 were first advanced in 2017 and the balance of 10 mortgages totalling \$6,668,057 were first advanced in 2018.

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



# Builders Capital Mortgage Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

*For the three months ended June 30, 2018 and 2017  
(Expressed in Canadian dollars)*

#### 4. Mortgages receivable *(continued from previous page)*

The mortgages comprising the portfolio bear interest at the weighted average rate of 11.59% (December 31, 2017 – 11.31%) per annum and mature between July 1, 2018 and June 30, 2019. The mortgages are initially entered into for a term of one year. At each maturity date, the mortgages are assessed for renewal and if collection of the mortgage is reasonably assured, the mortgages are renewed for an additional term of one year or less. If collection is not reasonably assured, the mortgage is not renewed and collection procedures are initiated. As at June 30, 2018, the Company had 4 mortgages receivable that had not been renewed (December 31, 2017 – nil). Additional information regarding mortgages which could be considered past due but not impaired is contained in Note 16.

Principal repayments based on contractual maturity dates are as follows:

	<b>June 30, 2018</b>	December 31, 2017
Year 1	<b>\$ 28,980,137</b>	\$ 27,838,144
Year 2	-	-
	<b>\$ 28,980,137</b>	\$ 27,838,144

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, no additional impairment is recorded. If it is considered insufficient, an additional allowance is recorded. As at June 30, 2018, the Company has a collective impairment provision of \$35,749 (December 31, 2017 - \$41,394).

As at June 30, 2018, the Company has recognized a specific impairment provision of \$70,606 (December 31, 2017 - \$228,000), which is related to two specific mortgages with balances totalling \$3,279,044. Each of these mortgages is a conventional first mortgage, which may be collected through foreclosure proceedings. One of these mortgages was originally due in 2017 and one was originally due in 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 period-end each 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 each case, the construction is either almost 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 judgment 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 quarter-end is 79.2%.

The changes in the allowance for mortgage losses during the quarters ended June 30, 2018 and December 31, 2017 were as follows:

	<b>2018</b>	December 31, 2017
Balance, beginning of period	<b>\$ 267,503</b>	\$ 225,694
Provision for mortgage losses	<b>182,962</b>	137,384
Less: Accounts written off	<b>(344,110)</b>	(93,684)
Balance, end of period	<b>\$ 106,355</b>	\$ 269,394

# Builders Capital Mortgage Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

*For the three months ended June 30, 2018 and 2017  
(Expressed in Canadian dollars)*

### 5. Assets held for sale

	<b>2018</b>	December 31, 2017
Foreclosed property	<b>\$ 3,354,465</b>	\$ 3,539,232

At June 30, 2018, the assets held for sale consisted of two vacant building lots in Richmond, British Columbia and one completed residence in Saskatoon, Saskatchewan. The sale of one of the vacant building lots in Richmond completed, and a contract to sell the other was entered into, subsequent to the quarter end. The other property is listed for sale and is being actively marketed.

### 6. Line of credit and loan payable

The Company has a due on demand operating credit facility with a limit of \$4,500,000 available and, through the same agreement with the bank, a demand loan in the amount of \$1,300,000. Both the demand operating overdraft and the demand loan bear a floating rate of interest at prime plus 2.50% and are due on demand. As at June 30, 2018, \$3,700,692 (December 31, 2017 - \$3,850,295) had been drawn down on the demand operating overdraft and \$1,300,000 had been drawn down on the demand loan. The demand loan is secured by the two building lots in Richmond, British Columbia, which are currently held in inventory (see note 5).

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

- (i) The ratio of earnings before interest expense, taxes and depreciation/amortization ("EBITDA") to interest costs to be maintained at all times at 3.0:1 or better (tested annually); and,
- (ii) The ratio of EBITDA to twelve blended monthly payments, calculated on the assumptions that the full approved amount is drawn and a 25 year amortization, to be maintained at all times at 1.50:1 or better (tested annually).
- (iii) Tangible net worth to be maintained at not less than \$10,000,000 (tested quarterly).
- (iv) The ratio of debt to tangible net worth to be maintained at all times at 0.50:1 or less (tested quarterly).
- (v) The maximum amount of vacant land margined will not exceed 50% of all margined land (tested monthly).

The Company is in compliance with all its bank covenants as at June 30, 2018.

### 7. Earnings per share amounts

#### Basic and diluted earnings per share calculation

	<b>Three months ended June 30,</b>	
	<b>2018</b>	2017
Numerator for basic earnings per share:		
Total comprehensive income	<b>\$ 492,823</b>	\$ 625,909
Denominator for basic earnings per share:		
Weighted average number of shares outstanding	<b>2,747,495</b>	2,447,490
<b>Basic and diluted earnings per share</b>	<b>\$ 0.18</b>	\$ 0.26

### 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 period ended June 30, 2018, the Company declared dividends of \$542,343 (2017 - \$627,214) to its Class A and Class B Non-Voting Common Shareholders and Voting Common Shareholders. As at June 30, 2018, \$370,525 (December 31, 2017 - \$345,194) is payable and outstanding. All dividends payable as at June 30, 2018 were paid on July 31, 2018.

# Builders Capital Mortgage Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

*For the three months ended June 30, 2018 and 2017  
(Expressed in Canadian dollars)*

### 9. Income taxes

The Company has non-capital tax loss carry forwards of \$619,998 as at June 30, 2018 and December 31, 2017. These tax losses can be applied against future taxable income and will, if not utilized, expire as follows:

2035	<b>\$619,998</b>
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### 10. Related party transactions

Due to related party is comprised of the following:

	2018	December 31, 2017
Builders Capital Management Corp. (the "Manager")	<b>\$ 108,239</b>	\$ 73,042

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 three months ended June 30, 2018, this amount was \$68,657 (2017 - \$61,017).

In addition to the management fee, the Manager charges lender fees directly to borrowers both on mortgage originations and on mortgage renewals, with 28.6% of these fees being paid to the Company and the remaining 71.4% going to the Manager. The Company collects these fees on behalf of the Manager by adding them to the principal amount of the mortgage, generally on the first advance to the borrower. The Company then pays the Manager's share of the fees to the Manager, regardless of whether or not any payments have been received on the mortgage. Such payments to the Manager are generally 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 three months, the fees paid to the Manager totaled \$272,193 (2017 - \$111,610).

During the three months, the Company purchased mortgages with an aggregate value of \$nil (2017 - \$nil) from, and sold mortgages with an aggregate value of \$475,214 (2017 - \$5,139,820) to Builders Capital (2014) Ltd. There were also advances totaling \$1,274,061 (2017 - \$1,589,000), 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 three months ended June 30, 2018 and 2017. 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.

The total directors' fees paid for the three months were \$6,000 (2017 - \$nil). Directors' fees are set at \$1,000 annually together with \$500 for each meeting attended.

### 11. 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, 2018 and December 31, 2017, the Company was in compliance with all financial covenants.

# Builders Capital Mortgage Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended June 30, 2018 and 2017

(Expressed in Canadian dollars)

### 12. 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, due to related party and loan payable 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 (2017 – 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.

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 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 July 1, 2017 and which have been renewed due to delays in completing the construction or the sale of the underlying security rather than due to a revolving arrangement for ongoing construction having been made, and for which no specific allowance has been recognized, can be considered to be past due, but not impaired as management considers collection to be reasonably assured due 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	Q2 2016
Principal	\$ 706,211	\$ 1,161,093
Interest	193,625	250,285
<b>Total</b>	<b>\$ 899,836</b>	<b>\$ 1,411,378</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 at the reporting date.

# Builders Capital Mortgage Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended June 30, 2018 and 2017

(Expressed in Canadian dollars)

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

#### Market risk

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

i) Interest rate risk

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will vary as a result of changes in market interest rates. The Company manages its financial instruments with the objective of mitigating any potential interest rate risks. The interest rates on the Company's mortgages receivable are fixed for the term. Therefore, the Company is not exposed to significant cash flow interest rate risk. As at June 30, 2018, the Company's mortgages receivable are subject to fair value interest rate risk as a decrease or increase in market interest rates will decrease or increase the fair value of the fixed rate financial asset. Any change in market interest rates will however have no impact on the Company's cash flows or comprehensive income for the period as mortgages receivable are carry a fixed rate of interest.

The Company is exposed to interest rate risk on its line of credit and loan payable as they carry a variable rate of interest. The impact on total comprehensive income if interest rates had been 1% higher or lower for the three months ended June 30, 2018 would be approximately \$11,803.

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 and become due. Furthermore, liquidity risk also arises from the Company not being able to obtain financing on favorable terms.

The Company's main liquidity requirements will arise from mortgage acquisitions, manager fees and distributions to shareholders. 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, loan payable and accounts payables and accrued liabilities. The Company intends to mitigate its liquidity risk by not entering into property acquisitions unless it has secured or is confident that it can secure the appropriate capital (debt and/or equity) to fund the particular acquisition. Liquidity risk is also mitigated by the terms offered to investors, which state that all redemptions are at the discretion of management and are dependent on the circumstances, and to borrowers, which state that the Company is never obligated to advance additional mortgages or funding.

### 13. Contingencies

The company has been named in a lawsuit brought by a potential purchaser of a property under construction on which it held a mortgage, claiming the amount of \$50,000. Based on advice from legal counsel, management considers this claim to have no merit and the possibility of having to pay anything under this litigation remote.