

Builders Capital Mortgage Corp.
Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

Independent Auditor's Report

To the Shareholders of Builders Capital Mortgage Corp.

Opinion

We have audited the consolidated financial statements of Builders Capital Mortgage Corp. and its subsidiary (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Scott Laluk.

Calgary, Alberta
April 29, 2019

MNP **LLP**
Chartered Professional Accountants

MNP

Builders Capital Mortgage Corp.
Consolidated Statements of Financial Position

As at December 31,
(Expressed in Canadian dollars)

	2018	2017
ASSETS		
Cash	\$ 5,494	\$ 4,006
Mortgages receivable (Note 5)	26,965,474	27,870,070
Prepaid expenses	5,096	5,111
Assets held for sale (Note 6)	1,942,072	3,539,232
Total Assets	\$ 28,918,136	\$ 31,418,419
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Line of credit (Note 7)	\$ 1,385,999	\$ 3,850,295
Accounts payable and accrued liabilities	71,376	60,285
Due to related party (Note 12)	90,048	73,042
Dividends payable (Note 10)	377,913	345,194
Deferred lender fees	91,911	106,051
Loan payable (Note 7)	650,000	1,300,000
Total Liabilities	\$ 2,667,247	\$ 5,734,867
Shareholders' Equity		
Share capital (Note 8)	\$ 25,647,520	\$ 24,587,248
Retained earnings	603,369	1,096,304
	\$ 26,250,889	\$ 25,683,552
Total Liabilities and Shareholders' Equity	\$ 28,918,136	\$ 31,418,419

Contingencies (Note 15)
Subsequent events (Note 16)

Approved on behalf of the Board:

(Signed) "Brent J. Walter"

Director

(Signed) "Sandy L. Loutitt"

Director

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

Builders Capital Mortgage Corp.
Consolidated Statements of Comprehensive Income

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

	2018	2017
Revenues		
Interest	\$ 3,180,667	\$ 3,098,895
Lender fees	248,598	265,966
Total revenues	3,429,265	3,364,861
Expenses		
General and administrative	113,390	123,999
Interest <i>(Note 7)</i>	242,883	161,138
Provision for mortgage losses <i>(Notes 5 and 14)</i>	872,225	444,281
Management fees <i>(Note 12)</i>	276,056	253,249
Total expenses	1,504,554	982,667
Total comprehensive income	\$ 1,924,711	\$ 2,382,194
Earnings per share <i>(Note 9)</i>		
Basic and diluted	\$ 0.70	\$ 0.94

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

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

	Share capital		Retained earnings	Total
	Number	Amount		
		\$	\$	\$
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 <i>(Note 8)</i>	321,975	3,219,750	-	3,219,750
Offering costs <i>(Note 8)</i>	-	(579,338)	-	(579,338)
Class A Non-Voting Common Shares redeemed for cash <i>(Note 8)</i>	(10,000)	(100,000)	9,205	(90,795)
Dividends declared <i>(Note 10)</i>	-	-	(2,376,866)	(2,376,866)
Total comprehensive income for the year	-	-	2,382,194	2,382,194
Balance at December 31, 2017	2,686,946	24,587,248	1,096,304	25,683,552
Impact of adoption of IFRS 9 <i>(Note 4)</i>	-	-	(246,753)	(246,753)
Balance, restated at January 1, 2018	2,686,946	24,587,248	849,551	25,436,799
Class A Non-Voting Common Shares issued for cash <i>(Note 8)</i>	113,500	1,135,000	-	1,135,000
Offering costs <i>(Note 8)</i>	-	(62,728)	-	(62,728)
Class A Non-Voting Common Shares redeemed for cash <i>(Note 8)</i>	(1,200)	(12,000)	1,080	(10,920)
Dividends declared <i>(Note 10)</i>	-	-	(2,171,973)	(2,171,973)
Total comprehensive income for the year	-	-	1,924,711	1,924,711
Balance at December 31, 2018	2,799,246	25,647,520	603,369	26,250,889

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

Builders Capital Mortgage Corp. Consolidated Statements of Cash Flows

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

	2018	2017
Cash flows related to the following activities:		
Operating activities		
Cash receipts of interest and fees from borrowers	\$ 3,496,842	\$ 2,159,321
Cash receipt of principal payments from borrowers	24,701,802	12,117,085
Cash receipts on proceeds on sales of mortgages	697,686	6,915,804
Cash receipts on sale of assets held for sale, net of selling costs	2,298,975	-
Cash advanced to borrowers	(21,372,934)	(24,031,916)
Cash advanced to purchase mortgages	(4,880,580)	(1,298,629)
Cash paid on assets held for sale	(137,779)	(1,125,433)
Cash paid for operating expenses	(610,326)	(517,866)
Total cash flows generated from (used in) operating activities	\$ 4,193,686	\$ (5,781,634)
Financing activities		
Cash (paid) drawn on line of credit	\$ (2,464,296)	\$ 3,850,295
(Proceeds from) payments to loan payable	(650,000)	1,300,000
Proceeds from issuance of common shares, net of offering costs <i>(Note 8)</i>	1,072,272	2,640,412
Redemption of common shares <i>(Note 8)</i>	(10,920)	(90,795)
Dividends paid	(2,139,254)	(2,313,971)
Total cash flows (used in) generated from financing activities	\$ (4,192,198)	\$ 5,385,941
Net increase (decrease) in cash	\$ 1,488	\$ (395,693)
Cash, beginning of year	4,006	399,699
Cash, end of year	\$ 5,494	\$ 4,006

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, 2018 and 2017

(Expressed in Canadian dollars)

1. Incorporation and operations

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

The Company became a reporting issuer on October 25, 2013 and the shares of the Company are publicly listed on the TSX Venture Exchange (the "Exchange") under the symbol "BCF". The address of the registered office is 405, 1210-8th Street SW, Calgary, Alberta T2R 1L3.

2. Basis of preparation

A. 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") and in effect at January 1, 2018.

The consolidated financial statements of the Company for the year ended December 31, 2018 were approved by the Board of Directors on April 29, 2019.

B. Basis of consolidation

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

C. Basis of measurement

These consolidated financial statements are prepared on a going concern basis, under the historical cost convention.

D. Use of estimates and judgments

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

Builders Capital Mortgage Corp.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

2. Basis of preparation (continued from previous page)

Measurement of fair values

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

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

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

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

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

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

Measurement of expected credit loss

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

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.

E. 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. These policies have been consistently applied to all periods presented, except as explained in Note 4, in these consolidated financial statements.

A. Finance income, finance costs and revenue recognition

The Company's finance income and finance costs include:

- interest income;
- Interest expense;
- the net gain or loss on financial assets at fair value through profit or loss ('FVTPL'); and
- impairment losses (and reversals) on investments in debt securities carried at amortized cost or fair value through other comprehensive income ('FVOCI').

Builders Capital Mortgage Corp.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

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

Interest income and expense are accounting for using the effective interest method under which the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

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. 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.

B. Financial instruments

i) Recognition and initial measurement – Accounting policy applicable effective January 1, 2018

All financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

ii) Financial assets - classification and subsequent measurement – Accounting policy applicable effective January 1, 2018

On initial recognition, a financial asset is classified as measured at: amortized cost; FVOCI – debt investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets would be reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows;
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding: and
- The Company classifies its mortgages receivable as at amortized cost.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company has no debt investments measured at FVOCI.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

Builders Capital Mortgage Corp.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

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

iii) Financial assets - business model assessment – Accounting policy applicable effective January 1, 2018

The Company makes an assessment of the objective of the business model in which a financial asset is held at the portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectation about future sales activity.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

iv) Financial assets - Assessment whether contractual cash flows are solely payments of principal and interest – Accounting policy applicable effective January 1, 2018

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the company considers:

- Contingent events that would change the amount or timing of cash flows;
- Terms that may adjust the contractual coupon rate, including variable rate features;
- Prepayment and extension features; and
- Terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

v) Financial assets - Subsequent measurement and gains or losses – Accounting policy applicable effective January 1, 2018

- Financial Assets at FVTPL – These assets are subsequently measured at fair value. Net gains or losses, including interest or dividend income, are recognized in profit or loss.
- Financial Assets at amortized cost – These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains or losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
- Debt investments at FVOCI – These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss

Builders Capital Mortgage Corp.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

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

vi) Financial assets: Subsequent measurement and gains and losses – Accounting policy applicable before January 1, 2018

- **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 are comprised 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.
- **Financial Assets at FVTPL** – Financial assets or financial liabilities are classified as FVTPL when the financial asset or liability is either held for trading or it is designated as such by management on initial recognition. These assets or liabilities 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.
- **Other financial liabilities** – These liabilities are 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, line of credit, loan payable and due to related party as other financial liabilities

vii) Financial liabilities - Classification, subsequent measurement and gains or losses

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

viii) Impairment – Accounting policy applicable effective January 1, 2018

The Company recognizes allowances for expected credit losses ('ECLs') on financial assets measured at amortized cost.

The Company measures ECL's for financial assets based on a three-stage approach. Stage 1 includes performing loans for which the credit risk at the reporting date has not increased significantly since initial recognition; Stage 2 includes performing loans which have experienced a significant increase in credit risk since initial recognition; and Stage 3 are loans which are considered credit impaired. The Company measures loss allowance at an amount equal to 12 months of expected losses for Stage 1 assets, and at an amount equal to lifetime expected losses for stage 2 and stage 3 assets.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and includes forward-looking information.

In assessing credit risk and in calculating the amount of expected credit losses, the Company relies on estimates and exercises judgement regarding matters for which the ultimate outcome is unknown. These judgements include changes in circumstances that may cause future assessments of credit risk or credit losses to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses.

The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security.

Builders Capital Mortgage Corp.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

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

Measurement of ECLs:

- ECLs are estimates of credit losses weighted by their likelihood of occurrence. They are measured by calculating the present value of the difference between the expected cash flows from a contract and the cash flows due to the Company in accordance with the contract. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.
- The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.
- Allowances for credit-impaired financial assets (Stage 3) are recorded for individually identified loans in amounts calculated to reduce their carrying value to the expected recoverable amount. The Company reviews its loans at least quarterly and assesses the ultimate collectability and estimated recoveries for any loans considered to be credit-impaired.

Mortgages receivable are shown on the consolidated statement of financial position net of the calculated ECL allowance.

ix) Impairment – Accounting policy applicable before January 1, 2018

Financial assets not classified as at FVTPL were assessed on each reporting date to determine whether there was objective evidence of impairment. A financial asset was considered to be impaired only if evidence indicated that one or more events had occurred after its initial recognition that had had a negative effect on the estimated future cash flows of that asset.

The Company considered evidence of impairment for financial assets not classified as at FVTPL at both a specific and collective level. All individually significant mortgages were assessed for specific impairment. Those found not to be specifically impaired were 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.

x) Financial Instruments – Derecognition

Financial Assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

C. Taxes

The Company is a Mortgage Investment Corporation ("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, 2018 and 2017
(Expressed in Canadian dollars)

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

D. 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.

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.

E. Assets held for sale

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

F. Basic and diluted earnings 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.

4. Accounting standards adopted and recent accounting pronouncements

A. Changes in accounting policies

The Company has adopted IFRS 9 and IFRS 15 effective January 1, 2018 without restatement of comparative figures.

i) IFRS 9 Financial Instruments

The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The key changes to the Company's accounting policies resulting from this change are summarized below, and details of these policies as well as the policies previously in effect are contained in Note 3:

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies for financial liabilities.

IFRS 9 replaced the incurred loss model in IAS 39 with an expected credit loss ("ECL") model. The new impairment model applies to financial assets measured at amortized cost (including the Company's mortgages receivable), contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier and are generally expected to be larger than those recognized under IAS 39 as an allowance for credit losses will be recorded regardless of whether or not there has been an actual loss event.

In accordance with the transition provisions contained in IFRS 9, the new standard has been adopted retrospectively without restatement of comparative figures. Adoption of IFRS 9 has had no effect on the company's financial assets and financial liabilities, which continue to be measured at amortized cost subsequent to their initial recognition. The effect on the allowance for credit losses on January 1, 2018 has been recognized as an adjustment to opening retained earnings in the consolidated statements of changes in shareholders equity. This adjustment increased the allowance for mortgage losses by \$246,753 and reduced retained earnings by an equivalent amount. See Note 5 for details.

Builders Capital Mortgage Corp.

Notes to the Consolidated Financial Statements

*For the years ended December 31, 2018 and 2017
(Expressed in Canadian dollars)*

4. Accounting standards adopted and recent accounting pronouncements *(continued from previous page)*

ii) IFRS 15 Revenue from contracts with customers

The implementation of IFRS 15 did not have an impact on the Company's revenue streams.

B. 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:

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.

5. Mortgages receivable

Mortgages receivable consist of the following:

	2018	2017
Conventional first mortgages	\$ 23,933,893	\$ 21,237,382
Conventional non-first mortgages	3,744,430	6,902,082
	27,678,323	28,139,464
Allowance for mortgage losses	(712,849)	(269,394)
Total mortgages receivable	\$ 26,965,474	\$ 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. As at December 31, 2018, conventional first mortgages comprised 86% (2017 – 75%) and conventional non-first mortgages comprised 14% (2017 – 25%) of the total portfolio. Of the total balance of mortgages receivable, 3 mortgages totalling \$3,814,041 were first advanced in 2014 or earlier, 3 mortgages totalling \$3,174,188 were first advanced in 2015, 2 mortgages totalling \$770,809 were first advanced in 2016, 5 mortgages totalling \$6,535,659 were first advanced in 2017 and the balance of 16 mortgages totalling \$13,383,627 were first advanced in 2018.

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

The mortgages comprising the portfolio carry interest at the weighted average rate of 11.67% (2017 – 11.31%) per annum and mature between January 1, 2019 and January 1, 2020. 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, 2018, the Company had no mortgages receivable that had not been renewed (2017 – nil). Additional information regarding mortgages which could be considered past due but not impaired is contained in Note 14.

Principal repayments based on contractual maturity dates are as follows:

	2019	2018
Year 1	\$ 27,678,323	\$ 28,139,464
Year 2	-	-
	\$ 27,678,323	\$ 28,139,464

Builders Capital Mortgage Corp.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

5. Mortgages receivable (continued from previous page)

Allowance for expected credit losses:

The gross carrying amount of mortgages receivable and ECLs by mortgage type and by stage in the ECL model (See Note 3) are as follows:

Gross carrying amount by mortgage type:

	Stage 1	Stage 2	Stage 3	Total
Conventional first mortgages	\$16,975,768	\$ 968,722	\$ 5,989,403	\$ 23,933,893
Conventional non-first mortgages	3,325,816	418,614	-	3,744,430
Balance, end of year	\$ 20,301,584	\$1,387,336	\$ 5,989,403	\$ 27,678,323

Expected credit losses by mortgage type:

	Stage 1	Stage 2	Stage 3	Total
Conventional first mortgages	\$ 191,495	\$ 40,929	\$ 415,753	\$ 648,177
Conventional non-first mortgages	29,299	35,373	-	64,672
Balance, end of year	\$ 220,794	\$ 76,302	\$ 415,753	\$ 712,849

The Company makes estimates of ECLs based on past experience regarding losses, and an ongoing assessment of the market and of individual mortgages. Each mortgage is assessed quarterly for evidence of impairment, and additional allowances are recorded if deemed to be necessary. The allowance is maintained at a level that the Company considers adequate to absorb credit-related losses. The allowance for credit losses was \$712,849 as at December 31, 2018 (2017 - \$269,394 under IAS 39).

The changes in the allowance for mortgage losses during the year ended December 31, 2018 and opening balance as at January 1, 2018 were as follows:

Expected credit losses by mortgage type and by Stage in the ECL model:

	Stage 1	Stage 2	Stage 3	Total
IAS 39 Balance, December 31, 2017				\$ 269,394
Transition adjustment (Note 4)				246,753
IFRS 9 opening balance, January 1, 2018	\$ 238,722	\$ 175,136	\$ 102,289	516,147
Transfers to (from) Stage 1	(24,639)	-	-	(24,639)
Transfers to (from) Stage 2	-	(116,307)	-	(116,307)
Transfers to (from) Stage 3	-	-	140,946	140,946
Net re-measurement	-	25,216	276,518	301,734
Mortgage advances	141,627	40,929	75,000	257,556
Mortgage repayments	(131,617)	-	-	(131,617)
Write-offs	(3,299)	(48,672)	(179,000)	(230,971)
Balance, December 31, 2018	\$ 220,794	\$ 76,302	\$ 415,753	\$ 712,849

The changes in the allowance for mortgage losses for the year ended December 31, 2017 under IAS 39 were as follows:

Balance, beginning of year	\$ 344,369
Provision for mortgage losses	444,281
Less: Accounts written off	(519,256)
Balance, end of year	\$ 269,394

Builders Capital Mortgage Corp.

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6. Assets held for sale

	2018	2017
Foreclosed property	1,942,072	\$ 3,539,232

During the year ended December 31, 2018, one property (2017 – four properties) was obtained in a foreclosure action on mortgages receivable and three properties owned at the beginning of the year were sold. Of the three properties sold, two were sold outright, and one was disposed of by way of a vendor take-back mortgage for proceeds of \$1,175,000. At December 31, 2018, the assets held for sale consisted of one vacant building lot in Richmond, British Columbia, and one completed home in Saskatoon, Saskatchewan, both of which are currently listed for sale.

The write-down required on the related mortgages receivable prior to foreclosure totalled \$94,346 which was taken from the accumulated allowance for mortgage losses in the year. As well, properties sold in the year, or held at year-end, have been written down by an additional \$443,607 to a carrying amount estimated to be their fair market value.

7. Line of credit and loan payable

The Company has a loan agreement in place with Canadian Western Bank, which provides for a demand operating overdraft facility of \$4,500,000. The agreement also provides the Company with a demand loan in the amount of \$1,300,000. Both the demand operating overdraft and the demand loan carry a floating rate of interest at prime plus 2.50% and are due on demand. As at December 31, 2018, \$1,385,999 (2017 - \$3,850,295) had been drawn down on the demand operating overdraft and \$650,000 (2017 - \$1,300,000) had been drawn down on the demand loan. The demand loan is secured by the building lots in Richmond, British Columbia, which are currently held as assets held for sale (see note 6). The Company incurred interest expense relating to the line of credit and loan payable totalling \$242,883 during the year ended December 31, 2018 (2017 - \$161,138)

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 December 31, 2018.

8. Share capital

Authorized shares

Authorized	Name
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 \$3,805,647 (2017 – \$3,729,629). The redemption feature is subject to certain restrictions which give Management the ability to effectively defer redemption indefinitely.

Builders Capital Mortgage Corp.
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(Expressed in Canadian dollars)

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

Issued and outstanding – Voting Common Shares

	Number of shares	\$
As at December 31, 2018 and 2017	100	1,000

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

	Number of shares	\$
As at December 31, 2016	1,400,295	12,317,583
Shares issued for cash <i>(i, ii, iii)</i>	321,975	3,219,750
Offering costs <i>(i, ii, iii)</i>	-	(579,338)
Shares redeemed <i>(iv)</i>	(10,000)	(100,000)
As at December 31, 2017	1,712,270	14,857,995
Shares issued for cash <i>(v, vii)</i>	113,500	1,135,000
Shares issued in exchange for Class B Non-Voting common shares <i>(vi)</i>	50,000	500,000
Offering costs <i>(v, vii)</i>	-	(62,728)
Shares redeemed <i>(viii)</i>	(1,200)	(12,000)
As at December 31, 2018	1,874,570	16,418,267

- (i) On May 31, 2017, the Company closed a prospectus offering totalling 219,975 class A Non-Voting Common Shares at a price of \$10.00 per share for gross proceeds of \$2,199,750. Included in offering costs are \$494,928 in fees paid in connection with the private placement.
- (ii) On July 25, 2017 the Company closed a private placement totalling 50,000 Class A Non-Voting Common Shares at a price of \$10.00 per share for gross proceeds of \$500,000. Included in offering costs are \$53,853 in fees paid in connection with the private placement.
- (iii) On November 8, 2017, the Company closed a private placement totalling 52,000 Class A Non-Voting Common Shares at a price of \$10.00 per share for gross proceeds of \$520,000. Included in offering costs are \$30,557 in fees paid in connection with the private placement.
- (iv) On November 29, 2017, the Company repurchased 10,000 Class A Non-Voting Common Shares at a discount for \$90,795. The discount on the repurchase totalling \$9,205 was charged to retained earnings.
- (v) On May 3, 2018, the Company closed a private placement totalling 95,000 Class A Non-Voting Common Shares at a price of \$10.00 per share for gross proceeds of \$950,000. Included in offering costs are \$54,081 in fees paid in connection with the private placement.
- (vi) On June 30, 2018, the Company exchanged 50,000 Class B Non-Voting Common Shares for 50,000 Class A Non-Voting Common Shares.
- (vii) On July 1, 2018, the Company closed a private placement totalling 18,500 Class A Non-Voting Common Shares at a price of \$10.00 per share for gross proceeds of \$185,000. Included in offering costs are \$8,647 in fees paid in connection with the private placement.
- (viii) On November 30, 2018, the Company repurchased 1,200 Class A Non-Voting Common Shares at a discount for \$10,920. The discount on the repurchase totalling \$1,080 was charged to retained earnings

Builders Capital Mortgage Corp.
Notes to the Consolidated Financial Statements

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

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

	Number of shares	\$
As at December 31, 2017 and 2016	974,576	9,728,253
Shares exchanged for Class A Non-Voting common shares (i)	(50,000)	(500,000)
As at December 31, 2018	924,576	9,228,253

(i) On June 30, 2018, the Company exchanged 50,000 Class B Non-Voting Common Shares for 50,000 Class A Non-Voting Common Shares.

9. Earnings per share

Basic and diluted earnings per share calculation

	2018	2017
Numerator for basic earnings per share:		
Total comprehensive income	\$ 1,924,711	\$ 2,382,194
Denominator for basic earnings per share:		
Weighted average number of shares outstanding	2,759,106	2,532,118
Basic and diluted earnings per share	\$ 0.70	\$ 0.94

10. 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, 2018, the Company declared dividends of \$2,171,973 (2017 - \$2,376,866) to its Class A and Class B Non-Voting Common Shareholders and Voting Common Shareholders. As at December 31, 2018, \$377,913 (2017 - \$345,194) was payable and outstanding; this amount was paid on January 31, 2019.

Subsequent to the year-end, the Company declared dividends: \$115,295 on its Class B Non-Voting Common shares which were paid on January 31, 2019 and \$375,772 on its Class A Non-Voting Common Shares and \$193,791 on its Class B Non-Voting Common Shares both to be paid on April 30, 2019.

11. Income taxes

The Company has non-capital tax loss carry forwards of \$735,843 (2017 - \$619,998) as at December 31, 2018. These tax losses can be applied against future taxable income and will, if not utilized, expire as follows:

2038	\$735,843
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Builders Capital Mortgage Corp.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

12. Related party transactions

Due to related party is comprised of the following:

	2018	2017
Builders Capital Management Corp. (the "Manager")	\$ 90,048	\$ 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 year ended December 31, 2018, this amount was \$276,056 (2017 – \$253,249).

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 year, the fees paid to the Manager totalled \$557,927 (2017 - \$672,050).

During the year, the Company purchased mortgages with an aggregate value of \$4,880,580 (2017 - \$1,298,629) from, and sold mortgages with an aggregate value of \$697,686 (2017 - \$6,915,804) to Builders Capital (2014) Ltd. There were also advances totalling \$3,157,970 (2017 - \$3,783,826), 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, 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 year were \$17,500 (2017 - \$18,000). Directors' fees are set at \$1,000 annually together with \$500 for each meeting attended.

13. 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, 2018 and 2017, the Company was in compliance with all financial covenants.

Builders Capital Mortgage Corp.

Notes to the Consolidated Financial Statements

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(Expressed in Canadian dollars)

14. Financial instruments

The Company, as part of its operations, carries financial instruments consisting of cash, mortgages receivable, line of credit and loan payable, 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. All of these financial instruments are carried at amortized cost.

A. Fair value hierarchy

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

The carrying value of 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 year (2017 – none).

B. Credit risk

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

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

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

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

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

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

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

Management has assessed the credit quality of the Company's assets at December 31, 2018, on the basis of internal risk ratings to the credit risk exposure categories. The table below provides the gross carrying amount of all financial assets classified as debt instruments in accordance with IFRS 9, for which a loss allowance is calculated, based on the Company's credit risk exposure rating scale.

Credit quality analysis:

Mortgages receivable	Stage 1	Stage 2	Stage 3	2018 Total
Low risk	\$10,532,608	\$ -	\$ -	\$10,532,608
Standard risk	7,647,746	-	-	7,647,746
High Risk	2,121,230	1,387,336	-	3,508,566
Impaired	-	-	5,989,403	5,989,403
Total	20,301,584	1,387,336	5,989,403	27,678,323
Less allowance	(220,794)	(76,302)	(415,753)	(712,849)
	\$20,080,790	\$ 1,311,034	\$ 5,573,650	\$26,965,474

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

Mortgages which were funded prior to January 1, 2018 and which have been renewed due to delays in completing the construction or the sale of the underlying security rather than due to a revolving arrangement for ongoing construction having been made, and for which no specific allowance has been recognized, can be considered to be past due, but not impaired as management considers collection to be reasonably assured due largely to the estimated value of the mortgage security held.

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

Past due but not impaired as at December 31, 2018

Funding period	Q1 2015	Q2 2017	Q3 2017	Q4 2017
Principal	\$ 736,863	\$ 1,760,349	\$ 1,108,372	\$ 736,250
Interest	240,486	360,880	177,603	106,724
Total	\$ 977,349	\$ 2,121,229	\$ 1,285,975	\$ 842,974

Past due but not impaired as at December 31, 2017

Funding period	Q1 2015	Q2 2016	Q4 2014
Principal	\$ 594,997	\$ 1,223,284	\$ 935,580
Interest	185,613	122,601	135,889
Total	\$ 780,610	\$ 1,345,885	\$ 1,071,469

The exposure to credit risk at December 31, 2018 relating to mortgages amounts to \$27,678,323 (2017 - \$28,139,464). The Company has recourse, however, under these mortgages in the event of default by the borrower and would have a claim against the underlying collateral. Management believes the credit risk with respect to cash that is held at a Schedule 1 Canadian bank to be minimal.

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

C. Market risk

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

i) Interest rate risk

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will vary as a result of changes in market interest rates. The Company manages its financial instruments with the objective of mitigating any potential interest rate risks. The interest rates on the Company's mortgages receivable are fixed for the term. Therefore, the Company is not exposed to significant cash flow interest rate risk. As at December 31, 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 year 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 year ended December 31, 2018 would be approximately \$49,000.

ii) Foreign currency risk

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

D. Liquidity risk

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

The Company's main liquidity requirements will arise from mortgage acquisitions, manager fees and distributions to shareholders. 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 total liabilities as at December 31, 2018 totaling \$2,667,247 (2017 - \$5,734,867) are all payable within one year.

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.

15. 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.

16. Subsequent events

On January 28, 2019 the Company declared dividends of \$.01247 per Class B Non-Voting share paid on January 31, 2019.

On March 20, 2019, the Company declared dividends of \$0.1973 per Class A Non-Voting share to be paid on April 30, 2019.

On April 29, 2019, the Company declared dividends of \$.2096 per Class B Non-Voting share to be paid on April 30, 2019.

On April 1, 2019, the Company closed a private placement for 30,000 Class A Non-Voting shares issued for \$10.00 per share for total gross proceeds of \$300,000.

On April 5, 2019, the Company closed a private placement for 75,000 Class A Non-Voting shares issued for \$10.00 per share for total gross proceeds of \$750,000.