



Builders Capital Mortgage Corp.

Management's Discussion and Analysis
Quarter Ended March 31, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis (MD&A) has been prepared by Builders Capital Mortgage Corp. (Builders Capital or the company) as of May 28, 2019. It should be read in conjunction with the company's audited consolidated financial statements and accompanying notes for the year ended December 31, 2018, available on SEDAR at www.sedar.com and on our website at www.builderscapital.ca. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). All financial information is presented in Canadian dollars.

Notice Regarding Forward-Looking Information

Certain information included in this MD&A contains forward-looking statements within the meaning of applicable securities legislation, including statements with respect to management's beliefs, estimates and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "expect", "intent", "estimate", "anticipate", "believe", "should", "plans", "continue" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. These statements are not guarantees of future performance and are based on our estimates and assumptions, which are subject to risks and uncertainties, and could cause our actual results to differ materially from the forward-looking statements contained in this MD&A. These risks and uncertainties include, among other things, risks associated with mortgage lending, competition for mortgage lending, real estate values, interest rate fluctuations, environmental matters and the general economic environment. We caution that the foregoing list is not exhaustive, as other factors could adversely affect our results, performance or achievements. Readers are also cautioned against undue reliance on any forward-looking statements. Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Background and Overview

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

As an MIC, Builders Capital is not subject to income tax provided that we distribute all of our taxable income as dividends to shareholders within 90 days of our December 31st year-end. For income tax purposes, such dividends are treated by shareholders as interest income, so that each shareholder is in the same tax position as if their proportionate share of mortgage investments made by the company had been made directly by the shareholder.

The company is structured with two classes of shares: Class A Non-Voting Shares, held by the public, and Class B Non-Voting Shares, held by management and private investors. This two-tier share structure grants dividend priority to the Class A Non-Voting Shares, providing additional security of both principal and dividends to our public shareholders, as detailed under the section entitled Distributions later in this MD&A.

In addition to the Non-Voting Shares, Builders Capital has a limited number of Voting Shares, which are held by the company's principal shareholders.

Investment Strategy

In order to deliver above average risk-weighted returns, our strategy is to invest primarily in short-term construction mortgages that are secured by development stage residential real property. Lending on development property is limited, with mortgages generally provided only in circumstances where a borrower intends to complete the development and build on the land.

Investments in our portfolio are strategically concentrated on:

- First or subordinate mortgages on real estate with a target of up to 75% of property value;
- Mortgages on residential wood frame construction projects; and
- Mortgages on properties located in typically more liquid and less volatile urban markets and their surrounding areas, with a geographic focus on Western Canada.

Investment Restrictions

Our share terms provide for a number of investment restrictions that can only be changed by a vote of all of the shareholders:

- Builders Capital will not make any investment or conduct any activity that would result in the company failing to qualify as a "mortgage investment corporation" within the meaning of the Tax Act.
- We will not invest in asset-backed commercial paper or in securitized pools of mortgage loans, including securitized pools of sub-prime mortgages.
- We will not invest in securities other than first and subordinate mortgages secured by real property and, on a temporary basis only, interim investments consisting of cash and cash equivalents, Government of Canada treasury bills and Government of Canada bonds with a term to maturity of three years or less (although the company shall not be precluded from owning securities of our subsidiaries or affiliates).
- Builders Capital will not engage in securities lending.
- The company will not engage in derivative transactions for speculative purposes and will only take part in derivative transactions in order to hedge interest rate or exchange rate risk.

Operations

Builders Capital provides short-term, course of construction financing to builders of residential, wood-frame construction projects in Western Canada. We believe that staying focused on this niche market reduces overall risk and increases the potential return on our mortgage portfolio. All of our mortgages are tailored to the specific needs of residential builders, giving Builders Capital a competitive advantage in this sector of the construction market.

Our mortgage portfolio and operations are managed by Builders Capital Management Corp. (the manager) under a management agreement. The manager sources and services mortgage loans and directs the company's business operations. Under the terms of the management agreement, the manager provides staff, office space and equipment, as well as the expertise required to operate the business of the company. The manager maintains extensive experience in all aspects of residential construction and in-depth, up-to-date residential real estate industry knowledge in order to make prudent mortgage underwriting decisions and efficiently manage potential mortgage defaults. The manager has the ability to complete any unfinished development projects that Builders Capital may acquire through enforcement proceedings or otherwise in a timely and cost-effective manner. All such actions are conducted by the manager on behalf of the company.

All investments are subject to a rigorous underwriting review. When sourcing investment opportunities, the manager will conduct an initial review to confirm that a mortgage prospect satisfies our lending criteria and Asset Allocation Model (AAM). The AAM dictates the allocation of the aggregate funded and committed assets, based on geographical, economic sector, term, borrower and loan-to-appraised value criteria.

The manager is then required to perform comprehensive due diligence of the underlying assets. The due diligence process revolves around the manager's system of underwriting loans and evaluating projects and borrowers. This process includes a detailed re-costing of each project based on the assumption that we are going to build it ourselves and an analysis of what the completed project will be worth. This assessment gives us the information we need to ascertain the value proposition inherent in the project. We only loan on projects that we believe are economically sound and for which we have the capability, through the manager, to complete and sell if necessary.

All of the loans we make to borrowers consist of promissory notes secured by collateral mortgages over real property. None of the mortgages are originally written for terms longer than one year. Subject to the satisfaction of Builders Capital's rigorous lending requirements, any or all of our mortgages may be, or may become, revolving in nature.

In some cases, the mortgage is intended to be repaid on or before the end of its original one-year term, which would typically coincide with the building project being completed and sold. In cases where the project has not been completed and/or sold by the end of the term, assuming that the manager is comfortable with the marketing efforts and security position, we will generally renew the mortgage to give additional time for completion and marketing. In these cases, no cash is usually received on the renewal, although we will sometimes require a payment or additional security on the loan.

In other cases, the intention is to continue financing the ongoing construction of projects for a borrower on a revolving basis. In these situations, each time a project is completed and sold, cash is received to pay down the loan balance, in some cases to zero. As the loan balance is reduced, new projects can be added to the mortgage. At term-end, as builders will generally have a number of projects under construction at varying stages of completion, the mortgages are typically renewed and the builder draws down on the renewed mortgage to continue to fund their projects. In these cases, there is a revolving aspect to the loan but, again, no cash is expressly due upon the renewal.

Payments of principal, interest and fees are generally only required on the sale or refinancing of the property forming the security for our loan. However, our loan terms stipulate that we can expect

payments after substantial completion of a project. Further, all of our mortgages are demand loans, which can be called at our discretion.

While our mortgages often revolve, and can continue to be renewed for multiple years, our goal is to keep the terms short on any one project and to have borrowers repay advances against each project on its completion, either through the sale of the property or by refinancing with another institution.

At inception, we target a loan-to-value ratio not exceeding 75%. However, calculating a loan-to-value ratio requires estimates of value, which are subject to uncertainty. For various reasons, including accruing interest, delays in completion of projects and changing market values, this target ratio is sometimes exceeded. We generally become concerned about collectability when any loan exceeds an estimated 85% loan to value ratio.

Q1 2019 Summary

Performance Highlights

- Consistent with our targeted distribution, dividends paid to Class A public shareholders in the first quarter were \$0.1973 per share, representing an 8% annual return on the original \$10.00 issue price.
- First quarter mortgage revenue of \$846,000 was up by 2% year-over-year and represented an annualized 12.3% of gross share capital calculated on the weighted average shares outstanding, compared to \$829,000, or 12.5% of gross share capital in Q1 2018.
- At quarter-end, our debt-to-equity ratio was a conservative 13.1%.
- Earnings exceeded the amount required to pay planned Class A Non-Voting Share dividends by a healthy 1.6 times.

Business Environment

- Conditions in our core western Canadian markets remained generally weak through the first quarter of 2019, with both the number of residential home sales and average MLS sales prices remaining below their 10-year averages.
- Going forward, interest rates, together with labour market and demographic fundamentals remain supportive for housing demand, however policy headwinds continue to limit access to mortgage financing and dampen housing market sentiment. Accordingly, the Canadian Real Estate Association (CREA) anticipates that average home prices in British Columbia, Alberta and Saskatchewan will retreat in 2019. Market conditions are expected to improve modestly in 2020, however housing sales in these markets are expected to remain below their 10-year averages.
- We believe margins on new construction continue to be viable, benefitting from relatively low raw land and sub trade costs in the Alberta market.
- Overall, we believe housing starts in our western Canadian markets will be adequate to support the long-term growth and continued geographic diversification of our business.

Financial Overview

	Three months ended March 31, 2019 \$	Three months ended March 31, 2018 \$	Three months ended March 31, 2017 \$
Revenues	845,714	828,979	801,765
Total comprehensive income	593,228	575,892	626,712
Total assets	30,146,336	30,060,233	24,503,762
Shareholders' equity	26,653,051	25,679,439	23,017,258
Basic and diluted earnings per share	0.21	0.21	0.27
Cash dividends declared	491,066	583,522	638,626
Cash dividends declared per Class A share	0.1973	0.1973	0.1973
Cash dividends declared per Class B share	0.1247	0.1763	0.3119

Investment Portfolio

At March 31, 2019

Property Type	Mortgage Portfolio (No.)	Outstanding Balance (\$)	Total Committed Mortgage Principal (\$)	%	AAM Allocation*
Residential					
Single family – Detached	18	14,055,261	24,070,000	59%	100%
Single family – Attached	11	9,598,994	15,630,550	41%	100%
Total:	29	23,654,255	39,700,550	100%	N/A
Geographic Location of Property					
Calgary and Area	19	18,411,007	26,770,550	78%	100%
Edmonton and Area	4	2,905,638	7,800,000	12%	100%
Other Alberta	3	1,060,029	1,540,000	5%	100%
British Columbia	3	1,277,581	3,590,000	5%	50%
Total:	29	23,654,255	39,700,550	100%	N/A
Interest Rate (excluding fees)					
Less than 11%	8	6,757,075	13,605,550	33%	N/A
11%-11.99%	5	5,250,447	4,880,000	16%	N/A
12%-12.99%	14	10,503,800	17,365,000	45%	N/A
Greater than 12.99%	2	1,142,933	3,850,000	6%	N/A
Total:	29	23,654,255	39,700,550	100%	N/A
Original Funding Date **					
Calendar 2019	2	515,442	2,750,000	2%	N/A
Calendar 2018	15	12,310,351	14,675,550	52%	N/A
Calendar 2017	5	4,960,647	9,200,000	21%	N/A
Calendar 2016	2	479,829	3,350,000	2%	N/A
Calendar 2015	2	918,363	1,550,000	4%	N/A
Calendar 2014 or earlier	3	4,469,623	8,175,000	19%	N/A
Total:	29	23,654,255	39,700,550	100%	N/A

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

**Loans are originally written for terms of up to one year, but are renewed in cases where a builder continues to roll new security onto the loan facility or if the project has not been sold but is still progressing or being actively marketed.

Operating Results for the Three Months Ended March 31, 2019

Our mortgage portfolio decreased by \$4 million, or 15%, in the first quarter of 2019. This decrease was largely due to three foreclosures during the first quarter, which comprised nine properties. Of these, two properties have subsequently been sold by way of a vendor take-back mortgage for proceeds equal to the full value of the foreclosed mortgage, resulting in no loss; one additional property was sold in May 2019 with no loss anticipated; and one is under a conditional sales contract with a closing date set in July of 2019. Of the remaining five units, one is a free-standing house in Edmonton, Alberta which is approximately 65% complete and is listed for sale. The remaining four properties are individual units in a townhouse complex with completion expected within the next few months, at which point all will be available for sale. In total, these foreclosures affected \$6.0 million worth of our \$27.7 million portfolio. By early June, we expect to have approximately half of this amount circulated back into the portfolio. We note that the foreclosures were anticipated and allowances were made for them in our fiscal 2018 financial statements.

Cash advances and invoiced interest totaled \$4.6 million in the first quarter, up 14.8% from \$4.0 million in the same period last year, but still substantially lower than our most productive quarters. The quarterly advances were offset by \$3.3 million in mortgage repayments. Based on an average of incoming and outgoing cash, we turned over 15.4% of our weighted average net invested capital during the quarter, representing an annualized turn-over of 63% of capital. As market conditions improve, we expect to liquidate our property inventory positions and be able to source additional profitable loans in order to move closer to our targeted capital turnover rate of nine months. Achieving this target will require turning over approximately 33% of our capital each quarter. At the end of Q1, we remain comfortable with the value of our portfolio of both mortgages and properties, and with our provision for mortgage losses. We are confident in our ability to prosper as the market gradually returns to more balanced conditions.

In tandem with underwriting mortgages, we regularly engage in the purchase and sale of mortgages to help ensure full cash utilization and create liquidity as required. During the first quarter of 2019, we neither bought nor sold any mortgages. This contrasts to Q1 2018 when we bought \$2.3 million of mortgages and sold \$222 thousand. All of the purchase and sale transactions were conducted with Builders Capital (2014) Ltd., a privately held corporation owned by certain directors of the company.

We lowered our loan-to-value ratio ("LTV") to 75.5% in the first quarter of 2019, which is a substantially closer to our targeted ratio of 75% and compares favourably to our weighted average LTV of 79.1% at the end of fiscal 2018 and 78% at the end of Q1 2018. This improvement reflects the first quarter foreclosures on mortgages with higher individual LTV ratios than the average in the portfolio.

We note that the reduction in profitability related to unproductive inventory and to the additional provisions required for mortgage losses has had no impact on dividends paid to owners of our Class A Non-Voting Shares. The 8% return paid on the Class A Shareholders' original \$10 share price is always declared and paid prior to any dividends being declared on the Class B Non-Voting Shares. Our quarterly earnings would have had to drop an additional 37% before the Class A Non-voting share dividends would have been affected. We are pleased that the share structure created to safeguard the capital and dividends of the public Class A shareholders is functioning as designed.

Further reducing shareholder risk is our minimal use of leverage. Generally, the only debt that we employ is our line of credit, which is used primarily as a cash flow tool to facilitate making advances to borrowers. In the final quarter of 2017 we borrowed an additional \$1.3 million, secured by our assets held for sale, to mitigate the impact of unproductive assets. We repaid one half of this loan in August of 2018 and will repay the remainder as inventory is sold. As difficult market conditions have persisted, we have remained cautious in our lending, and have been reducing our line of credit balance. Accordingly, our debt-to-equity ratio stood at 13.1% at the end of Q1 2019, down from 17.0% at the end of Q1 2018. Keeping our debt to a minimum is a priority for us as it leaves us free from undue influence of creditors and allows us the flexibility to manage our loan portfolio to our best advantage in different types of market conditions.

As at the end of the first quarter of 2019, the total value of our mortgage portfolio, before taking into account our \$334,394 allowance for mortgage losses, was \$23.7 million. This compares to \$27.7 million at the end of fiscal 2018. The \$4.0 million, or 14.5%, decrease was largely the result of Q1 2019 foreclosures, which had the effect of reallocating \$4.9 million in capital from mortgage assets to inventory assets. We expect to be able to re-deploy these assets into productive loans in the near future. As at March 31, 2019, our loan portfolio was made up of 29 mortgages with an average outstanding balance of \$816,000.

Revenue

For the three months ended March 31, 2019, mortgage revenue increased 2% to \$846,000, from \$829,000 in the first quarter of 2018. Revenue for the quarter represented an annualized 12.5% of our weighted average gross share capital, as compared to 12.9% in Q1 2018.

At March 31, 2019, the weighted average interest rate on our mortgages was 11.72%, up from 11.67% at December 31, 2018 and 11.35% at March 31, 2018. Our goal going forward is to maintain our interest rates at or near this level.

Lender fees are tied to the negotiation of new mortgages, generally at 1% of the approved loan amount, and are charged for an annual term to borrowers when new loans are made or existing loans are renewed. Lender fees are maximized when turnover in the portfolio is highest. Lender fees in the first quarter increased by 22.8% compared to Q1 2018. Lender fees earned as a proportion of management fees paid were 89.4% in the first quarter of 2019 (75.9% in Q1 2018). Our goal is to keep lender fee revenue consistently above management fee expense and we expect to make further progress towards this goal as market conditions and turnover in our portfolio improve.

Expenses

Excluding funds set aside to provide for loan losses and interest expense, fourth quarter operating expenses increased by 15.1%, or \$13,000, to \$102,000, compared to Q1 2018. This represents 12.1% of revenue as compared to 10.7% last year. Our goal is to keep operating expenses within 10% of revenues and we will continue to closely monitor our expenses as we work toward this target. Most of our expenses are reasonably fixed and increasing revenues will be key to getting back below the 10% mark.

In anticipation of the Q1 2019 foreclosures, we recorded a \$449,000 provision for mortgage losses in the fourth quarter of 2018. In the current quarter, our provision for mortgage losses was \$106,000, which is on par with our long-term average since inception of \$109,000 per quarter. We are working to reduce this expense going forward.

Management fees were \$69,000 in the first quarter and were calculated on the total gross amount of Class A and Class B Non-Voting Shares outstanding. As we continue to grow our capital base, these fees will continue to increase, but our expectation is that they will be more than offset by increasing revenues.

Interest expense applies to our operating line of credit, which we use as a cash flow tool to fund mortgage draws. Interest expense also applies to the loan drawn in the fourth quarter of 2017, which is secured by assets held for sale and half of which was repaid in fiscal 2018. A higher utilization rate for our capital will provide better returns in the form of additional interest income, but will also necessitate increased use of our line of credit for funding draws when our own funds are fully employed. As at March 31, 2019, our line of credit balance was \$2.3 million as compared to \$1.4 million at the end of 2018. Our average balance during the quarter was also \$2.3 million, 36% lower than the \$3.6 million average balance for Q1 2018 resulting in an interest expense \$28,000 lower than that of the same quarter in the previous year.

Total Comprehensive Income

First quarter comprehensive income was steady year-over-year with earnings per share remaining unchanged at \$0.21. Total comprehensive income was up slightly to \$593,000 from \$576,000 in the first quarter of 2018. Although stable on a year-over-year basis, these results are below our historical levels and reflect the negative impact of foreclosures and generally slow market conditions, which have reduced the turnover in our loan book and required us to be more conservative in our lending.

We note that the historically lower total comprehensive income results have not affected dividends paid to our Class A Non-Voting shareholders. Our share terms call for annual dividends of \$0.80 per Class A Non-Voting Share per year, or approximately \$0.20 per quarter, prior to any other dividends being paid. Earnings in the quarter were \$0.21 per share overall, but were \$0.32 per Class A Non-Voting Share. These earnings exceeded the amount required to satisfy the 8% (\$0.20 per share) dividend committed to the Class A Non-Voting shareholders by 1.6 times. With Class B Non-Voting shareholders bearing a much greater proportion of the risk of income fluctuations, even if earnings had been only 63% of their actual figure, the company would still have been in a position to pay Class A shareholders their full, planned quarterly dividend. Given this margin, we anticipate that potential continued fluctuations in our comprehensive income will not affect the payment of our Class A Non-Voting Share dividends.

In order to maintain distributions on the Class B Non-Voting Shares, we have been actively working to raise capital from the sale of additional Class A Non-Voting Shares. Increasing the number of Class A Non-Voting Shares in relation to the Class B Non-Voting Shares will improve the Class B Non-Voting share returns in any period during which our net earnings exceed an 8% overall return on capital. On March 31, 2019, we issued 30,000 Class A Non-Voting Shares and on April 9, 2019 we issued an additional 750,000 all for \$10.00 per share. Our ratio of Class A to Class B Non-Voting shares now stands at 2.1:1, up from 1.4:1 after our initial public offering. Our share terms limit the ratio to no greater than 3:1.

Share Issuance Costs

Share issue costs in the quarter relating to the additional capital raised were \$15,000 with an additional \$13,000 paid in April for the shares issued subsequent to the quarter-end. Total share issue costs since inception now stand at \$2.4 million, including professional fees for offering document preparation;

offering, agent and brokerage fees and commissions; and other marketing and offering costs. In accordance with IFRS, these share issue costs are accounted for as a reduction in the value of the equity of the company. These costs are, however, deductible for tax purposes over a five-year amortization period.

Our intent is to restrict shareholder distributions to less than 100% of net income in order to utilize the tax deductibility of these payments. This distribution policy will, over time, have the result of retaining income equal to the offering costs within Builders Capital, which will increase the Net Asset Value of the company while ensuring that no corporate taxes are paid. Because of the two-tier share structure, and the priority on distributions that the Class A Non-Voting Shares hold over the Class B Non-Voting Shares, we expect the restriction in distributions to come primarily from the portion of income otherwise available for distribution to the Class B Non-Voting shareholders.

Statement of Financial Position

At March 31, 2019 total assets were \$30.1 million (December 31, 2018 – \$28.9 million), \$6.8 million (22.6%) of which was tied up in assets held for sale. Subsequent to the year-end, three properties have been sold, decreasing assets held for sale to \$4.3 million, or 14% of total assets.

The \$1.2 million change in total assets since December 31, 2018 is primarily comprised of \$300,000 in additional share capital and \$900,000 in borrowings on our line of credit. In addition, retained earnings are \$493,000 less than they were at the end of 2018.

At March 31, 2019 assets held for sale included one building lot in Richmond, British Columbia, one completed home in Saskatoon, Saskatchewan, one incomplete single family home in Edmonton, Alberta and one complete townhouse unit in Calgary, Alberta, all of which are currently listed for sale. Assets held for sale also include four townhouse units in Calgary, Alberta. Construction is ongoing on these units and they are expected to be ready for sale within the next six weeks. A duplex building in Calgary, Alberta and a second incomplete single family home in Edmonton Alberta were also on hand at March 31, but have since been sold. All of the properties held for sale are being carried at their estimated fair market value.

Liabilities at quarter-end totaled \$3.5 million (December 31, 2018 – \$2.7 million) and were comprised of: the balance on our line of credit; dividends relating to the fiscal quarter paid on April 30, 2019; our trade payables; the balance due to Builders Capital Management Corp.; deferred lender fees and a loan payable which was first drawn in the fourth quarter of 2017.

The company was in compliance with all bank covenants relating to the line of credit and the loan payable and had no off-balance sheet arrangements during the year.

Quarterly Financial Information

	Quarter ended March 31 2019 \$	Quarter ended December 31 2018 \$	Quarter ended September 30 2018 \$	Quarter ended June 30 2018 \$	Quarter ended March 31 2018 \$	Quarter ended December 31 2017 \$	Quarter ended September 30 2017 \$	Quarter ended June 30 2017 \$
Revenues	845,714	884,185	870,441	845,660	828,979	842,234	854,603	866,259
Total comprehensive earnings	593,228	292,116	563,880	492,823	575,892	533,613	595,960	625,909
Total assets	30,146,336	28,918,136	29,898,420	33,234,463	30,060,233	31,418,419	30,005,779	29,102,705
Shareholders' equity	26,653,051	26,250,889	26,768,731	26,522,452	25,679,439	25,683,552	25,296,956	24,941,461
Earnings per share	0.21	0.10	0.20	0.18	0.21	0.20	0.23	0.26
Cash dividends declared	491,066	552,658	493,450	542,343	583,522	545,664	565,362	627,214
Cash dividends declared per Class A share	0.1973	0.2016	0.2016	0.1995	0.1973	0.2016	0.2016	0.1995
Cash dividends declared per Class B share	0.1247	0.1890	0.1247	0.1763	0.1763	0.2521	0.2057	0.2346

Distributions

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

On March 20, 2019, based on income for the first quarter of 2019, our Board of Directors declared a dividend of \$0.1973 per Class A Non-Voting Share to shareholders of record on March 31, 2019. This distribution was paid on April 30, 2019 and is recorded as payable in the accompanying consolidated financial statements. The dividend amount was calculated to provide an annualized 8% return on the \$10.00 initial Class A Non-Voting Share price.

Subsequent to the quarter-end, on April 29, 2019, again based on income for the first quarter of 2019, the Board declared a dividend of \$0.2096 per share to Class B Non-Voting shareholders of record on that date. This distribution was also paid on April 30, 2019. This dividend is not recorded in these consolidated financial statements as it was declared subsequent to the year-end.

Liquidity and Capital Resources

Cash flow and liquidity are critical to our success. We monitor both daily to ensure we can meet the expectations of our borrowers.

In the first quarter of 2019, liquidity was good and cash inflows were sufficient to fund our committed cash outflows, despite delays to some of our projected mortgage pay-downs as a result of the slow Alberta real estate market.

During the three months ended March 31, 2019, mortgages were funded in the amount of \$4.6 million, and \$3.3 million was received as repayments on loans. As our mortgages are predominantly short-term in nature, the continual repayment by borrowers of existing mortgage investments creates liquidity for ongoing mortgage investments and funding commitments.

Our mortgage portfolio turns over approximately annually. We expect that borrower repayments will remain at a reasonably consistent level through 2019 and plan to continue funding mortgages in amounts approximately equal to mortgage repayments received. It is likely that a number of our mortgages will be renewed as they come due, as discussed earlier under Operations.

Liquidity risk for the company arises primarily from the prospect of committing to a mortgage for which sufficient funds are not available to make draws as requested by the borrower. As noted in the table titled Investment Portfolio above, we have mortgage commitments to borrowers totaling \$39.7 million, which exceed the current amounts funded by \$16.0 million. We anticipate funding these commitments through the repayment of existing mortgages. Should mortgage repayments fall short of our commitments, we have a number of tools to manage liquidity and to ensure that commitments can be met. Included are our \$4.5 million line of credit, detailed cash flow planning procedures, and Builders Capital's well-established network of affiliates and mortgage industry contacts, through which mortgages can be sold or syndicated as required for cash flow purposes. In addition, our mortgage documents include language whereby a borrower cannot compel the company to advance funds. Our

primary goal is to minimize unused cash balances, while ensuring that borrower needs and other commitments can always be met.

Since inception, almost all of the sales and purchases of mortgages, which have both helped keep the mortgage book full and been a source of liquidity as required, have been to and from related parties, in particular Builders Capital (2014) Ltd. ("BCL"). BCL is a privately held corporation, of which Builders Capital directors Sandy Loutitt and John Strangway are also both directors. The company has often been reliant on BCL as a vendor and purchaser of mortgages and as a source for liquidity, including at certain times of low cash flow, for payment of dividends. This reliance means that if BCL was unwilling, or unable, to act as a purchaser or vendor of mortgages, the company would have to leave a substantially larger margin for error in our cash management practices, which would reduce profitability. The company expects to continue to be able to rely on BCL as a source of liquidity in the future. It is unlikely we could find another party that could provide liquidity as quickly or as efficiently.

We are prepared to increase our issued capital and regularly make solicitations for investments in Class A Common non-voting shares. Should such shares be issued, the proceeds will be used for general cash flow and for expansion of our mortgage portfolio. Builders Capital is financed, and will continue to be financed, primarily by the issuance of common shares.

According to our share terms, Class A Non-voting shareholders have an annual right to redeem their shares on October 31 each year at 95% of Net Asset Value. Payment for the redemptions is to be made on November 30 each year. During 2018 we received a redemption request for 1,200 shares, which were redeemed on November 30, 2018 for \$10,920.

Related-Party Transactions

Our manager is a company controlled by Sandy Loutitt and John Strangway, both of whom are also directors of Builders Capital. The manager receives a management fee calculated as 1% per annum of the book value of the share capital of the company. Management fees amounted to \$69,000 for the first quarter (2018 - \$66,000).

In addition to the management fee, the manager charges lender fees directly to borrowers both on loan originations and on loan 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 from the borrower, both on our own behalf and on behalf of the manager, by adding them to the principal amount of the mortgage, generally on the first advance to the borrower. The company then pays the manager's share of the fees to the manager, regardless of whether or not any payments have been received on the mortgage. Such payments to the manager are generally made within 30 days of having been charged to the borrower. Renewal fees are also charged to the borrower and paid to the manager during the term of the mortgage. During the first quarter, the amount of these fees collected on behalf of the manager totaled \$92,000 (2018 – \$33,000).

In general, mortgages are purchased when the company has excess cash on hand, quality mortgages are available to purchase, and opportunities to immediately fund additional mortgages are not available. The acquisition of mortgages helps us to minimize excess balances and maximize interest revenue. Mortgages are sold when, despite the line of credit being fully drawn, additional cash is required, or is forecast to be required, to fund mortgage draws and commitments. Often, mortgages purchased are subsequently sold back and vice versa. The purchase and sale of mortgages sometimes results in

balances due to or from related parties being outstanding for short periods of time. These balances are unsecured and non-interest bearing. During the quarter ended March 31, 2019, no mortgages were purchased or sold.

Market Outlook

The following discussion is qualified in its entirety by the Notice Regarding Forward-Looking Information at the beginning of this MD&A and by the section entitled Risks and Uncertainties that follows this Outlook section.

While economic indicators are positive with anticipated growth in GDP, employment and population, newly introduced mortgage qualification rules and a persistent oversupply of housing inventory are expected to continue to weigh on Western Canada's real estate markets through most of 2019.

In our primary market of Calgary, Alberta, the Calgary Real Estate Board predicts further price declines in 2019 and a continuing difficult market which is not expected to improve until the end of 2019 and into 2020.

In British Columbia, Royal Bank Economic Research predicts that economic growth will be boosted substantially as construction begins on the liquified natural gas project in Northwestern BC. While housing affordability is still a significant concern in the large urban markets of BC's Lower Mainland, we believe that employment growth will drive housing demand in other areas of the province and our goal is to source projects in regions where demand is predicted to be strong.

In Saskatchewan, Royal Bank Economic Research predicts nominal employment growth of approximately 0.3% in 2019, which is expected to weigh on housing demand. This is reflected in a predicted housing starts level of just 4,300 units for the province in 2019. Given these conditions, we do not anticipate making any loans in the Saskatchewan market in 2019.

While all of our primary markets face challenges in the coming year, we are a very small player in these mortgage markets and we believe that there is still ample room for us to continue to source quality projects with good builders going forward.

Over the past 18 months, we have foreclosed on 13 properties and sold or conditionally sold seven of them. We have also reduced the weighted average loan-to-value ratio on our portfolio to 75.5% and believe that there is sufficient equity in the majority of the loans in our portfolio to minimize the risk of further loan losses. As always, however, it remains possible that we will need to take additional steps to collect on some of our mortgage assets over the coming months. That said, we believe that the necessary safeguards are in place to assure our ability to maintain the Class A Non-Voting Share dividend at 8% per annum.

These safeguards include maintaining a prudent debt-to-equity ratio, generally restricting our lending to 75% of what we believe to be the fair market value of a property at any given time, and taking adequate allowances for expected credit losses allowing us to build a cushion of funds to further protect investors. In addition, by investing only in short-term mortgages, we maintain the liquidity necessary to preserve capital. In the event that we believe a market has become too risky, we will work on converting our investments to cash, and will forego returns in order to protect the capital with which we've been entrusted.

Finally, safeguards built into our share structure give Builders Capital's public Class A Non-Voting shareholders priority on all capital and income distributions over our Class B Non-Voting shareholders. In the event of a serious decline in the earning potential or value of our portfolio, Class B shareholders would forego all distributions until the Class A shareholders have received both their 8% return and, in the case of a dissolution, their capital. As demonstrated during the first quarter, with the impact of our increased allocation of funds against potential loan losses borne entirely by Class B Non-Voting shareholders, this structure is functioning as intended.

Going forward, we are confident of our ability to keep our capital fully utilized and to continue to grow our business. Given the size of the marketplace, our current relatively small market share, and the opportunities that exist to expand our geographic footprint, we are well positioned to continue sourcing high-quality lending opportunities.

Financial Instruments

Accounting Policies

As part of our operations, we carry financial instruments consisting of cash, mortgages receivable, line of credit, accounts payable and accrued liabilities and amounts due to a related party. The following are our accounting policies for financial instruments:

i) Recognition and initial measurement

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 fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

ii) Financial assets - classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at: amortized cost; fair value through other comprehensive income (FVOCI) – debt investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless we change our 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 our 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
- we classify our 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.

We have 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.

iii) Financial assets - business model assessment

We make 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 our 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 our 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

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, we consider 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, we consider:

- 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 our 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

- 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 Other comprehensive income (OCI). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss

vi) 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.

vii) Impairment

We recognize allowances for expected credit losses (ECLs) on financial assets measured at amortized cost.

We measure ECLs 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. We measure 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, we consider 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 our historical experience and informed credit assessment and includes forward-looking information.

In assessing credit risk and in calculating the amount of expected credit losses, we rely on estimates and exercise 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.

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

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 us in accordance with the contract. Twelve-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 we are 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. We review loans at least quarterly and assess 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.

viii) Financial Instruments – Derecognition

- **Financial Assets**

We derecognize 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 we neither transfer nor retain substantially all of the risks and rewards of ownership and we do not retain control of the financial asset.

- **Financial liabilities**

We derecognize a financial liability when our 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.

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 our 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 our mortgages. We mitigate this risk by adhering to our investment and operating policies.

All mortgages to which we commit are individually evaluated by our 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 our 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, our mortgages receivable are secured by registered charges over real property.

We utilize 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.

Our 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 either 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.

Although we write 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, we assess the mortgage for impairment.

Mortgages which were funded prior to the end of the previous fiscal year, 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.

Management believes the credit risk with respect to cash that is held at a Schedule 1 Canadian bank to be minimal.

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. We manage our 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, we are not exposed to significant cash flow interest rate risk. As at March 31, 2019, our 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 our cash flows or comprehensive income for the year as mortgages receivable carry a fixed rate of interest.

We are exposed to interest rate risk on our 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 quarter ended March 31, 2019 would be approximately \$7,000.

ii) Foreign Currency Risk

We do 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 our obligations as they arise and become due. Furthermore, liquidity risk also arises if we are not able to obtain financing on favorable terms.

Our 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. Our 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 we were unable to meet our other liquidity requirements from ongoing operating activities.

Our approach to managing liquidity is to ensure that we will have sufficient financial resources available to meet our liabilities as they become due. This includes monitoring of cash, line of credit, loan payable and accounts payables and accrued liabilities. We intend to mitigate our liquidity risk by not entering into property acquisitions unless we have secured or are confident that we 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.

Critical Accounting Estimates

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:

Measurement of fair values

Our 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. We classify 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.

We review significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, we 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

We are 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.

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. Our 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.

Responsibility of Management and the Board of Directors

Management is responsible for the information disclosed in this MD&A and has in place the appropriate information systems, procedures and controls to ensure that the information used internally by management and disclosed externally is materially complete and reliable. In addition, our Board of Directors and Audit Committee provide an oversight role with respect to our public and financial disclosures. Both have reviewed and approved this MD&A and the accompanying consolidated financial statements for the quarter ended March 31, 2019.

Outstanding Share Data

The company's authorized share capital as at May 28, 2019, consists of 1,000 Voting Shares, of which 100 were outstanding at year-end; an unlimited number of Class A Non-Voting Shares, of which 1,979,570 are outstanding; and an unlimited number of Class B Non-Voting Shares, of which 924,576 are outstanding.

Risk and Uncertainties

There are two primary areas of risk for us as a lender. The first is the risk that borrowers will fail to meet their obligations and repay mortgages as they come due. Secondly, there is a risk that sufficient quality investment opportunities will not be available to keep our capital fully deployed. As our primary goal is the preservation of our investors' capital, even at the expense of potential returns, we consider the risk of borrower default to be our primary concern.

A robust new home construction market greatly reduces both of these risks, as it provides a strong marketplace into which builders can sell their completed projects, it maintains or increases the value of the security for our loans, and it provides an ongoing source of new projects and borrowers. A downturn in the market that substantially decreases security values could have a significant negative effect on our business. We cannot predict the performance of the housing market in the future with certainty.

In order to mitigate these risks, we restrict our loan amounts to a target of up to 75% of what we consider the fair market value of the security to be. The 25% equity component is a requirement for our borrowers and we believe it provides us with a sufficient margin for error in the event of a drop in property values. The short-term nature of our loans also gives us the flexibility to convert our entire portfolio of mortgages to cash within a reasonable time period, if economic conditions warrant. We also maintain sufficient construction expertise to allow us to economically complete any project on which we have loaned funds.

Our share terms provide that the Class A Non-Voting shareholders have a priority over other shareholders with respect to both the payment of dividends at an 8% rate, and any potential return of capital. This creates a significant reduction in the risk profile of the Class A Non-Voting Shares, as an impairment in the value of the mortgage portfolio, or a lack of funds available for distributions, will always be absorbed, to the full extent of their investment, by the Class B Non-Voting Shares before the Class A shareholders' rights are affected. We believe that this structure substantially reduces risk for the Class A shareholder.

Other risks and uncertainties exist for our business that are typical for business in general and for lenders in particular. These include changes in interest rates, potential environmental issues associated with the mortgage security, borrower solvency, any significant changes in competition, changes in tax legislation and other factors as described under Forward-Looking Information. The company has also recently been named in a lawsuit brought by a potential purchaser of a property under construction on which we held a mortgage. We foreclosed on the property in 2017 and, as a result, the potential purchaser's interest was foreclosed off the title. Their claim is for \$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. Accordingly, no provision for this claim has been recorded in the

consolidated financial statements. Should any payment be required in the future, amounts to settle the liability would be considered a loan loss and be drawn from our accumulated allowance for such losses.

Additional Information

Additional information about Builders Capital is available on SEDAR at www.sedar.com and on our website at www.builderscapital.com.