

**Builders Capital Mortgage Corp.**  
**Condensed Consolidated Interim Financial Statements**  
*For the Three Months ended March 31, 2020 and 2019*

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

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In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited condensed consolidated interim financial statements as at, and for the three months ended, March 31, 2020 and 2019.

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

*As at March 31, 2020 and December 31, 2019*

	2020 (unaudited)	2019 (audited)
<b>ASSETS</b>		
Cash	\$ 2,102,752	\$ 930,009
Accounts receivable (Note 3)	62,889	315,729
Mortgages receivable (Note 4)	25,678,648	22,340,692
Prepaid expenses	6,655	3,826
Assets held for sale (Note 5)	3,874,988	3,562,573
<b>Total Assets</b>	<b>\$ 31,725,932</b>	<b>\$ 27,152,829</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Line of credit (Note 6)	\$ 4,012,352	\$ -
Accounts payable and accrued liabilities	156,435	57,568
Due to related party (Note 10)	48,147	20,368
Dividends payable (Note 8)	396,982	396,763
Deferred lender fees	114,890	123,415
<b>Total Liabilities</b>	<b>\$ 4,728,806</b>	<b>\$ 598,114</b>
<b>Shareholders' Equity</b>		
Share capital	\$ 26,987,856	\$ 26,554,296
Retained earnings (Deficit)	9,270	419
	<b>\$ 26,997,126</b>	<b>\$ 26,554,715</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 31,725,932</b>	<b>\$ 27,152,829</b>

Approved on behalf of the Board:

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

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

**Builders Capital Mortgage Corp.**  
**Condensed Consolidated Interim Statements of Comprehensive Income**  
*For the three months ended March 31,*  
*(Unaudited)*

	2020	2019
<b>Revenues</b>		
Interest	\$ 634,700	\$ 783,986
Lender fees	68,938	61,728
<b>Total revenues</b>	<b>703,638</b>	<b>845,714</b>
<b>Expenses</b>		
General and administrative	22,241	33,471
Interest (Note 6)	5,049	43,987
Provision for mortgage losses (Notes 4 and 12)	127,377	106,008
Management fees (Note 10)	73,240	69,020
<b>Total expenses</b>	<b>227,907</b>	<b>252,486</b>
<b>Total comprehensive income</b>	<b>\$ 475,731</b>	<b>\$ 593,228</b>
<b>Earnings per share (Note 7)</b>		
Basic and diluted	\$ 0.16	\$ 0.21

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

**Builders Capital Mortgage Corp.**  
**Condensed Consolidated Interim Statements of Changes in Shareholders' Equity**  
*For the three months ended March 31,*  
*(Unaudited)*

	Share capital		Retained earnings	Total
	Number	Amount		
		\$	\$	\$
Balance at December 31, 2018	2,799,246	25,647,520	603,369	26,250,889
Class A Non-Voting Common Shares issued for cash	30,000	300,000	-	300,000
Dividends declared	-	-	(491,066)	(491,066)
Total comprehensive income for the period	-	-	593,228	593,228
Balance at March 31, 2019	2,829,246	25,947,520	705,531	26,653,051
Balance at December 31, 2019	<b>2,892,746</b>	<b>26,554,296</b>	<b>419</b>	<b>26,554,715</b>
Class A Non-Voting Common Shares issued for cash	<b>45,023</b>	<b>450,230</b>	-	<b>450,230</b>
Offering costs		<b>(16,670)</b>	-	<b>(16,670)</b>
Dividends declared <i>(Note 8)</i>	-	-	<b>(466,880)</b>	<b>(466,880)</b>
Total comprehensive income for the period	-	-	<b>475,731</b>	<b>475,731</b>
<b>Balance at March 31, 2020</b>	<b>2,937,769</b>	<b>26,987,856</b>	<b>9,270</b>	<b>26,997,126</b>

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

**Builders Capital Mortgage Corp.**  
**Condensed Consolidated Interim Statements of Cash Flows**  
*For the three months ended March 31,*  
*(unaudited)*

	2020	2019
<b>Cash flows related to the following activities:</b>		
<b>Operating activities</b>		
Cash receipts of interest and fees from borrowers	\$ 614,246	\$ 581,952
Cash receipt of principal payments from borrowers	4,105,905	2,695,005
Cash receipts on sale of assets held for sale, net of selling costs	265,165	50,000
Cash advanced to borrowers	(7,480,246)	(3,810,487)
Cash paid on assets held for sale	(227,482)	(16,784)
Cash paid for operating expenses other than interest	(79,046)	(143,711)
Cash paid for interest	(5,049)	(43,987)
<b>Total cash flows (used in) generated from operating activities</b>	<b>\$ (2,806,507)</b>	<b>\$ (688,012)</b>
<b>Financing activities</b>		
Cash drawn on line of credit	\$ 4,012,352	\$ 890,066
Proceeds from issuance of common shares, net of offering costs	433,560	300,000
Dividends paid (Note 8)	(466,661)	(493,208)
<b>Total cash flows generated from financing activities</b>	<b>\$ 3,979,251</b>	<b>\$ 696,858</b>
<b>Net increase in cash</b>	<b>\$ 1,172,744</b>	<b>\$ 8,846</b>
Cash, beginning of period	930,009	5,494
<b>Cash, end of period</b>	<b>\$ 2,102,752</b>	<b>\$ 14,340</b>

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

# Builders Capital Mortgage Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2020 and 2019  
(unaudited)

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### 1. Incorporation and operations

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

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

### 2. Basis of preparation

#### 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, 2020.

The consolidated financial statements of the Company for the three months ended March 31, 2020 were approved by the Board of Directors on May 27, 2020.

#### 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 the historical cost basis except for certain financial instruments which are measured at fair value as explained in the accounting policies.

#### 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 Condensed Consolidated Interim Financial Statements**  
*For the three months ended March 31, 2020 and 2019*  
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**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 5.

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.

**A. Functional and presentation currency**

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

**3. Accounts receivable**

Accounts receivable consists of a GST receivable and holdbacks related to earlier sales of assets held for sale. As the amounts were collected shortly after the period-end, there are no ECLs associated with this balance.

**4. Mortgages receivable**

Mortgages receivable consist of the following:

	<b>March 31, 2020</b>	December 31, 2019
Conventional first mortgages	<b>\$ 18,475,939</b>	\$ 17,479,460
Conventional non-first mortgages	<b>7,518,844</b>	5,636,889
	<b>25,994,783</b>	23,116,349
Allowance for expected credit losses	<b>(316,135)</b>	(775,657)
<b>Total mortgages receivable</b>	<b>\$ 25,678,648</b>	\$ 22,340,692



# Builders Capital Mortgage Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2020 and 2019  
(unaudited)

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

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 March 31, 2020, conventional first mortgages comprised 71% (December 31, 2019 – 76%) and conventional non-first mortgages comprised 29% (December 31, 2019 – 24%) of the total portfolio. Of the total balance of mortgages receivable, 7 mortgages totalling \$5,262,137 were first advanced in 2016 or earlier, 3 mortgages totalling \$1,432,790 were first advanced in 2017, 3 mortgages totalling \$2,091,398 were first advanced in 2018, 17 mortgages totalling \$12,959,662 were first advanced in 2019 and the balance of 6 mortgages totalling \$4,248,796 were first advanced in 2020.

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 11.32% (December 31, 2019 – 11.41%) per annum and mature between April 1, 2020 and March 31, 2021. 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 March 31, 2020, the Company had one mortgages receivable that had not been renewed (December 31, 2019 – nil). Additional information regarding mortgages which could be considered past due but not impaired is contained in Note 12.

#### Principal repayments based on contractual maturity dates are as follows:

	<b>March 31, 2020</b>	December 31, 2019
Year 1	<b>\$ 25,994,783</b>	\$ 23,116,349
Year 2	-	-
	<b>\$ 25,994,783</b>	\$ 23,116,349

#### Allowance for expected credit losses:

The gross carrying amount of mortgages receivable and expected credit losses ('ECLs') by mortgage type and by stage in the ECL model are as follows:

#### Gross carrying amount by mortgage type, March 31, 2020

	Stage 1	Stage 2	Stage 3	Total
Conventional first mortgages	<b>\$ 18,475,939</b>	\$ -	\$ -	<b>\$ 18,475,939</b>
Conventional non-first mortgages	<b>6,686,395</b>	<b>805,128</b>	<b>27,321</b>	<b>7,518,844</b>
	<b>\$ 25,162,334</b>	<b>\$ 805,128</b>	<b>\$ 27,321</b>	<b>\$ 25,994,783</b>

#### ECL's by mortgage type, March 31, 2020

	Stage 1	Stage 2	Stage 3	Total
Conventional first mortgages	<b>\$ 214,782</b>	\$ -	\$ -	<b>\$ 214,782</b>
Conventional non-first mortgages	<b>77,729</b>	<b>23,391</b>	<b>233</b>	<b>101,353</b>
	<b>\$ 292,511</b>	<b>\$ 23,391</b>	<b>\$ 233</b>	<b>\$ 316,135</b>

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

Gross carrying amount by mortgage type, December 31, 2019:

	Stage 1	Stage 2	Stage 3	Total
Conventional first mortgages	\$ 16,461,928	\$ -	\$ 1,017,532	\$ 17,479,460
Conventional non-first mortgages	5,088,814	82,312	465,763	5,636,889
	<b>\$ 21,550,742</b>	<b>\$ 82,312</b>	<b>\$ 1,483,295</b>	<b>\$ 23,116,349</b>

ECLs by mortgage type, December 31, 2019:

	Stage 1	Stage 2	Stage 3	Total
Conventional first mortgages	\$ 172,488	\$ -	\$ 100,000	\$ 272,488
Conventional non-first mortgages	53,321	12,346	437,502	503,169
	<b>\$ 225,809</b>	<b>\$ 12,346</b>	<b>\$ 537,502</b>	<b>\$ 775,657</b>

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 \$316,135 as at March 31, 2020 (December 31, 2019 - \$775,657).

The changes in the allowance for ECLs during the period ended March 31, 2020 were as follows:

	Stage 1	Stage 2	Stage 3	Total
Balance, December 31, 2019	<b>\$ 225,809</b>	<b>\$ 12,346</b>	<b>\$ 537,502</b>	<b>\$ 775,657</b>
Transfers to (from) Stage 1	<b>(7,219)</b>	-	-	<b>(7,219)</b>
Transfers to (from) Stage 2	-	<b>7,219</b>	-	<b>7,219</b>
Mortgage advances	<b>114,066</b>	<b>3,826</b>	<b>39,970</b>	<b>157,862</b>
Mortgage repayments	<b>(40,145)</b>	-	-	<b>(40,145)</b>
Write-offs	-	-	<b>(577,239)</b>	<b>(577,239)</b>
Balance, March 31, 2019	<b>\$ 292,511</b>	<b>\$23,391</b>	<b>\$ 233</b>	<b>\$ 316,135</b>

**5. Assets held for sale**

	2020	December 31, 2019
Foreclosed property	<b>\$ 3,874,988</b>	\$ 3,562,573

At March 31, 2020, the assets held for sale consisted of one vacant building lot in Richmond, British Columbia, one completed home in Saskatoon, Saskatchewan, one completed condominium unit in Calgary, Alberta and one unfinished home under construction in Edmonton, Alberta. The building lot in Richmond was sold subsequent to the period end.

# Builders Capital Mortgage Corp.

## Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2020 and 2019  
(unaudited)

### 6. 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 \$5,500,000. 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 2.25% per annum and are due on demand. As at March 31, 2020, \$4,012,352 (December 31, 2019 - \$nil) was outstanding on the demand operating overdraft and \$nil (December 31, 2019 - \$nil) on the demand loan. The Company incurred interest expense relating to the line of credit and loan payable totalling \$5,049 during the period ended March 31, 2020 (2019 - \$43,987).

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 March 31, 2020 and December 31, 2019.

### 7. Earnings per share

#### Basic and diluted earnings per share calculation

	March 31, 2020	March 31, 2019
Numerator for basic earnings per share:		
Total comprehensive income	\$ 475,731	\$ 593,228
Denominator for basic earnings per share:		
Weighted average number of shares outstanding	2,936,275	2,799,579
<b>Basic and diluted earnings per share</b>	<b>\$ 0.16</b>	<b>\$ 0.21</b>

### 8. Dividends

The Company generally makes quarterly cash distributions by way of dividends on the last business day of each quarter. The Class A Non-Voting Common Shares rank first, the Class B Non-Voting Common Shares rank second and the Voting Common Shares rank third with respect to an initial non-cumulative dividend at a rate up to, but not exceeding, 8% per annum on each class of Common Shares. In each financial year, if the maximum amount of this initial dividend has been paid on all classes of Common Shares, then the Class B Non-Voting Common Shareholders, at the discretion of the Board of Directors, are entitled to an additional non-cumulative dividend at a rate of up to, but not exceeding 8% per annum. In each financial year, if the maximum amount of both the initial dividend and the additional dividend are paid, then all further dividends declared in such year shall be declared and paid in equal amounts per common share on all the classes of Common Shares.

For the period ended March 31, 2020, the Company declared dividends of \$466,880 (2019 - \$491,066) to its Class A and Class B Non-Voting Common Shareholders and Voting Common Shareholders. As at March 31, 2020, \$396,982 (December 31, 2019 - \$396,763) was payable and outstanding; this amount was paid on April 30, 2020.

### 9. Income taxes

The Company has non-capital tax loss carry forwards of \$1,450,162 as at March 31, 2020 and December 31, 2019. These tax losses can be applied against future taxable income and will, if not utilized, expire as follows:

2035	\$ 180,910	
2037	439,088	
2038	115,846	
2039	714,318	
	<b>\$ 1,450,162</b>	

**Builders Capital Mortgage Corp.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
*For the three months ended March 31, 2020 and 2019*  
*(unaudited)*

**10. Related party transactions**

Due to related party is comprised of the following:

	2020	December 31, 2019
Builders Capital Management Corp. (the "Manager")	<b>\$ 48,147</b>	\$ 20,368

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 period ended March 31, 2020, this amount was \$73,240 (2019 – \$69,020).

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 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 period, the fees paid to the Manager totalled \$150,796 (2019 - \$91,836).

**Key management compensation:**

None of the Company's key management personnel received compensation from the Company for the periods ended March 31, 2020 and 2019. 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 period were \$3,000 (2019 - \$3,000). Directors' fees are set at \$1,000 annually together with \$500 for each meeting attended.

**11. Capital disclosures**

The Company's capital consists of shareholders' equity. The Company's objectives when managing capital are, with a focus on capital preservation, to acquire, originate and maintain a portfolio consisting primarily of construction mortgages that generates attractive returns relative to risk in order to permit the Company to pay quarterly distributions to its shareholders.

The Company sets the amount of capital in relation to risk and manages the capital structure and makes adjustments to it in light of changes to economic conditions and the risk characteristics of the underlying assets.

The Company's objectives when managing capital are:

- i) to maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk; and,
- ii) to maintain investor, creditor and market confidence in order to sustain the future development of the business.

The Company is subject to externally imposed capital requirements. The credit facility contains certain financial covenants that must be maintained (see Note 6). As at March 31, 2020 and December 31, 2019, the Company was in compliance with all financial covenants.

**12. Financial instruments**

The Company, as part of its operations, carries financial instruments consisting of cash, accounts receivable, 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 accounts receivable, 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 three months (2019 – none).

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

*For the three months ended March 31, 2020 and 2019*  
*(unaudited)*

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

**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 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.

Management has assessed the credit quality of the Company's assets at March 31, 20120 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, March 31, 2020**

Mortgages receivable	Stage 1	Stage 2	Stage 3	Total
Low risk	\$ 534,931	\$ -	\$ 7,500	\$ 542,431
Standard risk	24,627,403	714,276	-	25,341,679
High Risk	-	90,852	-	90,852
Impaired	-	-	19,821	19,821
Total	25,162,334	805,128	27,321	25,994,783
Less allowance	(292,511)	(23,391)	(233)	(316,135)
	\$24,869,823	\$ 781,737	\$ 27,088	\$ 25,678,648

**Builders Capital Mortgage Corp.**  
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*(unaudited)*

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

**Credit quality analysis, December 31, 2019:**

Mortgages receivable	Stage 1	Stage 2	Stage 3	Total
Low risk	\$ 514,094	\$ -	\$ -	\$ 514,094
Standard risk	21,036,648	-	-	21,036,648
High Risk	-	82,312	-	82,312
Impaired	-	-	1,483,295	1,483,295
<b>Total</b>	<b>21,550,742</b>	<b>82,312</b>	<b>1,483,295</b>	<b>23,116,349</b>
<b>Less allowance</b>	<b>(225,809)</b>	<b>(12,346)</b>	<b>(537,502)</b>	<b>(775,657)</b>
	<b>\$ 21,324,933</b>	<b>\$ 69,966</b>	<b>\$ 945,793</b>	<b>\$ 22,340,692</b>

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 April 1, 2019 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. If management still considers collection to be reasonably assured then they would not, however be considered impaired.

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 March 31, 2020**

Funding period	Q1 2015	Q3 2017	Q2 2018	Q3 2018
Principal	\$ 612,960	\$ 821,748	\$ 854,330	\$ 925,406
Interest	101,316	56,290	26,338	194,472
<b>Total</b>	<b>\$ 714,276</b>	<b>\$ 878,038</b>	<b>\$ 880,668</b>	<b>\$ 1,119,878</b>

**Past due but not impaired as at December 31, 2019**

Funding period	Q1 2015	Q3 2017	Q2 2018	Q3 2018
Principal	\$ 610,266	\$ 816,369	\$ 1,822,592	\$ 918,609
Interest	78,697	29,031	255,616	159,365
<b>Total</b>	<b>\$ 688,963</b>	<b>\$ 845,400</b>	<b>\$ 2,078,208</b>	<b>\$ 1,077,974</b>

The exposure to credit risk at March 31, 2019 relating to mortgages amounts to \$26,057,672 (December 31, 2019 - \$23,432,078). 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.

**Builders Capital Mortgage Corp.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
*For the three months ended March 31, 2020 and 2019*  
*(unaudited)*

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**12. 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 March 31, 2020, 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 carry a fixed rate of interest.

The Company is exposed to interest rate risk on its line of credit and loan payable as they carry a variable rate of interest. The impact on total comprehensive income if interest rates had been 1% higher or lower for the three months ended March 31, 2020 would be approximately \$1,000.

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 March 31, 2020 totaling \$4,728,806 (December 31, 2019 - \$598,114) 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.

**13. Subsequent events**

During the period, and continuing subsequently, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus.

Also, and at least somewhat related to the COVID-19 outbreak, there have been significant declines in crude oil spot prices. Real estate values in the Company's primary marketplace of Alberta are heavily influenced by the health of the oil and gas sector.

While the extent of the impact of these developments is unknown, the Company anticipates that these developments will cause reduced customer demand and reduced valuations for the real estate which secures the Company's loans receivable. It is likely that this will negatively impact the Company's business and financial condition, however, the extent to which this may impact the consolidated financial statements is indeterminable.