

**Builders Capital Mortgage Corp.**  
**Consolidated Financial Statements**  
*For the years ended December 31, 2020 and 2019*

To the Shareholders of Builders Capital Mortgage Corp.:

## Opinion

We have audited the consolidated financial statements of Builders Capital Mortgage Corp. and its subsidiary (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and December 31, 2019, and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

## Basis for Opinion

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

## Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Calgary, Alberta

April 27, 2021

*MNP LLP*

Chartered Professional Accountants

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

*As at December 31, 2020*  
*(Expressed in Canadian dollars)*

	2020	2019
<b>ASSETS</b>		
Cash	\$ 982,098	\$ 930,009
Accounts receivable (Note 4)	2,737	315,729
Mortgages receivable (Note 5)	24,274,040	22,340,692
Prepaid expenses	4,375	3,826
Assets held for sale (Note 6)	2,089,016	3,562,573
<b>Total Assets</b>	<b>\$ 27,352,266</b>	<b>\$ 27,152,829</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 41,932	\$ 57,568
Due to related party (Note 10)	-	20,368
Dividends payable (Note 11)	402,654	396,763
Deferred lender fees	91,122	123,415
<b>Total Liabilities</b>	<b>\$ 535,708</b>	<b>\$ 598,114</b>
<b>Shareholders' Equity</b>		
Share capital (Note 8)	\$ 26,712,456	\$ 26,554,296
Retained earnings	104,102	419
	\$ 26,816,558	\$ 26,554,715
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 27,352,266</b>	<b>\$ 27,152,829</b>

Subsequent events (Note 15)

Approved on behalf of the Board:

(Signed) "Brent J. Walter"

Director

(Signed) "Sandy L. Loutitt"

Director

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

*For the years ended December 31, 2020*

*(Expressed in Canadian dollars)*

	2020	2019
<b>Revenues</b>		
Interest	\$ 2,931,507	\$ 2,699,540
Lender fees	299,228	222,138
<b>Total revenues</b>	<b>3,230,735</b>	<b>2,921,678</b>
<b>Expenses</b>		
General and administrative	106,588	120,123
Interest <i>(Note 7)</i>	96,700	73,336
Provision for mortgage losses <i>(Notes 5, 6 and 14)</i>	608,192	995,815
Management fees <i>(Note 10)</i>	294,336	286,770
<b>Total expenses</b>	<b>1,105,816</b>	<b>1,476,044</b>
<b>Total comprehensive income</b>	<b>\$ 2,124,919</b>	<b>\$ 1,445,634</b>
<b>Earnings per share <i>(Note 9)</i></b>		
Basic and diluted	\$ 0.72	\$ 0.50

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

	Share capital		Retained earnings	Total
	Number	Amount		
		\$	\$	\$
Balance, December 31, 2018	2,799,246	25,647,520	603,369	26,250,889
Class A Non-Voting Common Shares issued for cash <i>(Note 8)</i>	105,000	1,050,000	-	1,050,000
Offering costs <i>(Note 8)</i>	-	(28,224)	-	(28,224)
Class A Non-Voting Common Shares redeemed for cash <i>(Note 8)</i>	(11,500)	(115,000)	12,420	(102,580)
Dividends declared <i>(Note 11)</i>	-	-	(2,061,004)	(2,061,004)
Total comprehensive income for the year	-	-	1,445,634	1,445,634
Balance, December 31, 2019	2,892,746	26,554,296	419	26,554,715
Class A Non-Voting Common Shares issued for cash <i>(Note 8)</i>	<b>45,023</b>	<b>450,230</b>	-	<b>450,230</b>
Offering costs <i>(Note 8)</i>	-	<b>(16,670)</b>	-	<b>(16,670)</b>
Class A Non-Voting Common Shares redeemed for cash <i>(Note 8)</i>	<b>(15,800)</b>	<b>(158,000)</b>	<b>18,391</b>	<b>(139,609)</b>
Class B Non-Voting Common Shares redeemed for cash <i>(Note 8)</i>	<b>(11,740)</b>	<b>(117,400)</b>	<b>8,206</b>	<b>(109,194)</b>
Dividends declared <i>(Note 11)</i>	-	-	<b>(2,047,833)</b>	<b>(2,047,833)</b>
Total comprehensive income for the year	-	-	<b>2,124,919</b>	<b>2,124,919</b>
<b>Balance, December 31, 2020</b>	<b>2,910,229</b>	<b>26,712,456</b>	<b>104,102</b>	<b>26,816,558</b>

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

# Builders Capital Mortgage Corp. Consolidated Statements of Cash Flows

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

	2020	2019
<b>Cash flows related to the following activities:</b>		
<b>Operating activities</b>		
Cash receipts of interest and fees from borrowers	\$ 2,892,031	\$ 3,040,090
Cash receipt of principal payments from borrowers	25,244,802	19,833,108
Cash receipts on sale of assets held for sale, net of selling costs	1,999,787	1,585,657
Cash advanced to borrowers	(26,553,188)	(17,179,959)
Cash advanced to purchase mortgages	(426,260)	(1,900,927)
Cash paid on assets held for sale	(712,499)	(734,715)
Cash paid for operating expenses other than interest	(438,699)	(486,447)
Cash paid for interest	(96,700)	(73,336)
<b>Total cash flows generated from operating activities</b>	<b>\$ 1,909,274</b>	<b>\$ 4,083,471</b>
<b>Financing activities</b>		
Repayment of line of credit	\$ -	\$ (1,385,999)
Repayment of loan payable	-	(650,000)
Proceeds from issuance of common shares, net of offering costs (Note 8)	433,560	1,021,776
Redemption of common shares (Note 8)	(248,803)	(102,580)
Dividends paid (Note 11)	(2,041,942)	(2,042,153)
<b>Total cash used in financing activities</b>	<b>\$ (1,857,185)</b>	<b>\$ (3,158,956)</b>
<b>Net increase in cash</b>	<b>\$ 52,089</b>	<b>\$ 924,515</b>
Cash, beginning of year	930,009	5,494
<b>Cash, end of year</b>	<b>\$ 982,098</b>	<b>\$ 930,009</b>

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

# Builders Capital Mortgage Corp.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019  
(Expressed in Canadian dollars)

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### 1. Incorporation and operations

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

The Company became a reporting issuer on October 25, 2013 and the shares of the Company are publicly listed on the TSX Venture Exchange (the "Exchange") under the symbol "BCF". The address of the registered office is 206 – 1414 8<sup>th</sup> Street SW, Calgary, Alberta T2R 1J6.

During 2020, 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.

### 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 year ended December 31, 2020 were approved by the Board of Directors on April 27, 2021.

#### 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:

##### i) 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.

##### ii) 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.

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# Builders Capital Mortgage Corp.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019  
(Expressed in Canadian dollars)

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### 2. Basis of preparation (continued from previous page)

#### iii) 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.

#### E. 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. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented in these consolidated financial statements.

#### A. Finance income, finance costs and revenue recognition

The Company's finance income and finance costs include:

- interest income;
- Interest expense;
- the net gain or loss on financial assets at fair value through profit or loss ('FVTPL');
- Interest income and expenses are accounted for using the effective interest method under which the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.
- Lender fees received are an integral part of the yield on the mortgages receivable and are amortized to the consolidated statement of comprehensive income over the expected life of the specific mortgage receivable. Forfeited lender fees are taken to the consolidated statement of comprehensive income at the time a borrower has not fulfilled the terms and conditions of a lending commitment and payment has been received.

# Builders Capital Mortgage Corp.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019  
(Expressed in Canadian dollars)

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

#### B. 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 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 the Company changes its business model for managing financial assets, in which case all affected financial assets would be reclassified on the first day of the first reporting period following the change in the business model.

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

- it is held within a business model whose objective is to hold assets to collect contractual cash flows;
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and,

The Company classifies its mortgages receivable as at amortized cost.

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

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

The Company has no debt investments measured at FVOCI.

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

##### iii) Financial assets - business model assessment

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

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

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

# Builders Capital Mortgage Corp.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

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

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

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

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

#### v) Financial assets - Subsequent measurement and gains or losses

- 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.

# Builders Capital Mortgage Corp.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

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

#### vii) Impairment

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

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

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

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

The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing on 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 the Company in accordance with the contract. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.
- The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.
- Allowances for credit-impaired financial assets (Stage 3) are recorded for individually identified loans in amounts calculated to reduce their carrying value to the expected recoverable amount. The Company reviews its loans at least quarterly and assesses the ultimate collectability and estimated recoveries for any loans considered to be credit-impaired.

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

#### viii) Financial Instruments – Derecognition

##### Financial Assets

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

##### Financial liabilities

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

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

#### C. Taxes

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

# Builders Capital Mortgage Corp.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

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

#### D. Equity instruments

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

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

#### E. Assets held for sale

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

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

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

#### F. Basic and diluted earnings per share calculation

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

#### G. IFRS 16 Leases

As noted in Note 1, the Company is managed by Builders Capital Management Corp. for which the Company pays a fee (note 10). Accordingly, the Company does not have any leases within the scope of IFRS 16.

### 4. Accounts receivable

Accounts receivable consists of trade receivables of \$2,737 (2019 – \$315,729). As the amounts were collected shortly after the year-end, there are no ECLs associated with this balance.

# Builders Capital Mortgage Corp.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

### 5. Mortgages receivable

Mortgages receivable consist of the following:

	2020	2019
Conventional first mortgages	\$ 20,525,071	\$ 17,479,460
Conventional non-first mortgages	4,050,530	5,636,889
	<b>24,575,601</b>	23,116,349
Allowance for mortgage losses	<b>(301,561)</b>	(775,657)
<b>Total mortgages receivable</b>	<b>\$ 24,274,040</b>	<b>\$ 22,340,692</b>

Mortgages receivable consist of conventional mortgages which are secured by a mortgage charge with aggregate loan to values not exceeding 75% at their initiation. As at December 31, 2020, conventional first mortgages comprised 84% (2019 – 76%) and conventional non-first mortgages comprised 16% (2019 – 24%) of the total portfolio. Of the total balance of mortgages receivable, 4 mortgages totalling \$4,144,013 were first advanced in 2014 or earlier, 1 mortgage totalling \$787,515 was first advanced in 2015, 1 mortgage totalling \$734,110 was first advanced in 2016, 3 mortgages totalling \$2,066,095 were first advanced in 2017, 1 mortgage totalling \$97,311 was first advanced in 2018, 7 mortgages totalling \$8,692,050 were first advanced in 2019, and the balance of 15 mortgages totalling \$8,054,507 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 11.19% (2019 – 11.41 %) per annum and mature between January 1, 2021 and January 1, 2022. The mortgages are initially entered into for a term of one year. At each maturity date, the mortgages are assessed for renewal and if collection of the mortgage is reasonably assured, the mortgages are renewed for an additional term of one year or less. If collection is not reasonably assured, the mortgage is not renewed and collection procedures are initiated. As at December 31, 2020, the Company had one mortgage receivable that had not been renewed (2019 – nil). Additional information regarding mortgages which could be considered past due but not impaired is contained in Note 14.

Principal repayments based on contractual maturity dates are as follows:

	2021	2020
Year 1	\$ 24,575,601	\$ 23,116,349
Year 2	-	-
	<b>\$ 24,575,601</b>	<b>\$ 23,116,349</b>

Allowance for ECLs:

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

**Gross carrying amount by mortgage type, December 31, 2020:**

	Stage 1	Stage 2	Stage 3	Total
Conventional first mortgages	\$ 17,176,878	\$ 2,677,406	\$ 670,787	\$ 20,525,071
Conventional non-first mortgages	3,263,015	787,515	-	4,050,530
	<b>\$ 20,439,893</b>	<b>\$ 3,464,921</b>	<b>\$ 670,787</b>	<b>\$ 24,575,601</b>

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>

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

*For the years ended December 31, 2020 and 2019*  
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**5. Mortgages receivable** (continued from previous page)

The balances of, and the changes in, the allowance for ECLs as at, and during the years ended, December 31, 2020 and 2019 were as follows:

ECLs by mortgage type and by Stage in the ECL model:

	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Balance, January 1, 2019	\$ 220,794	\$ 76,302	\$ 415,753	\$ 712,849
Transfers to (from) Stage 1	(62,233)	-	-	(62,233)
Transfers to (from) Stage 2	-	(5,494)	-	(5,494)
Transfers to (from) Stage 3	-	-	67,727	67,727
Recoveries	-	(30,828)	-	(30,828)
Net re-measurement	-	83,482	715,194	798,676
Mortgage advances	186,762	42,313	-	229,075
Mortgage repayments	(119,515)	(37,219)	(28,589)	(185,323)
Write-offs	-	(116,209)	(632,583)	(748,792)
<b>Balance, December 31, 2019</b>	<b>\$ 225,808</b>	<b>\$ 12,347</b>	<b>\$ 537,502</b>	<b>\$ 775,657</b>
Transfers to (from) Stage 1	(27,789)	-	-	(27,789)
Transfers to (from) Stage 2	-	12,702	-	12,702
Transfers to (from) Stage 3	(5,024)	-	20,111	15,087
Net re-measurement	(110,310)	(2,716)	(320)	(113,346)
Recovery	99,404	-	-	99,404
Mortgage advances	330,330	122,257	100,192	552,779
Mortgage repayments	(313,549)	(84)	(233)	(313,866)
Write-offs	(46,828)	-	(652,239)	(699,067)
<b>Balance, December 31, 2020</b>	<b>\$ 152,042</b>	<b>\$ 144,506</b>	<b>\$ 5,013</b>	<b>\$ 301,561</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 ECLs was \$301,561 as at December 31, 2020 (2019 - \$775,657). For the year ended December 31, 2020, the Company recognized a total provision for mortgage losses of \$608,192 (2019 - \$995,815)

**6. Assets held for sale**

	<b>2020</b>	<b>2019</b>
Foreclosed property	<b>\$ 2,089,016</b>	<b>\$ 3,562,573</b>

During the year ended December 31, 2020, no properties (2019 – eight properties) were obtained in foreclosure actions on mortgages receivable. Of the properties held during the year, two (2019 – five properties) were sold for cash in the year. During 2019, one property was disposed of by way of a vendor take-back mortgage for proceeds of \$2,000,000. At December 31, 2020, the assets held for sale consisted of one completed condominium unit in Calgary, Alberta and one completed home in Edmonton, Alberta. Subsequent to the year-end the company entered into a contract to sell the Alberta condominium property.

The accumulated write-downs required on the foreclosed properties during the year totalled \$482,623 (2019 – \$153,398). This amount is recorded as part of the provision for mortgage losses in the consolidated statement of comprehensive income in the year in which it was incurred.

# Builders Capital Mortgage Corp.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

### 7. Line of credit and loan payable

The Company has a loan agreement in place with Canadian Western Bank, which provides for two demand operating overdraft facilities; one of \$5,500,000 and one of \$1,000,000. The agreement also provides the Company with a demand loan in the amount of \$1,300,000. Both the \$5,500,000 demand operating overdraft and the demand loan carry a floating rate of interest at prime plus 2.25% per annum. The \$1,000,000 demand operating overdraft carries a floating rate of interest at prime plus 2.0% per annum. All are due on demand. As at December 31, 2020, \$nil (2019 - \$nil) remained outstanding on the \$5,500,000 demand operating overdraft, \$nil (2019 - \$nil) remained outstanding on the \$1,000,000 demand operating overdraft and \$nil (2019 - \$nil) on the demand loan. The Company incurred interest expense relating to the line of credit and loan payable totalling \$96,700 during the year ended December 31, 2020 (2019 - \$73,336).

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);
- (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); and,
- (v) The maximum amount of vacant land margined will not exceed 50% of all margined land (tested monthly).

The Company is in compliance with all its bank covenants as at December 31, 2020 and 2019.

### 8. Share capital

#### Authorized shares

Authorized	Name
1,000	Voting Common Shares
Unlimited	Class A – Non-Voting Common Shares
Unlimited	Class B – Non-Voting Common Shares

The Class A Non-Voting Common Shares and Class B Non-Voting Common shares carry a redemption feature under which shareholders can request redemption of up to 15% of the outstanding shares in any given year. Class A Non-Voting Common Shares redeemed under this feature are redeemed for 95% of the Company's net asset value per share, while Class B Non-Voting Common Shares are redeemed for the net asset value per share. The objective of this feature is to provide additional liquidity for our shareholders. The Company's policy is to honour any redemption requests to the best of its ability. The redemption feature is available only once per year and has specific notice periods which allow the Company 60 days between receiving notice and making payment. The amount of possible redemptions is not determinable but based on the number of Class A and B Non-Voting Common shares outstanding at year-end and the net asset value per share on that date, the maximum potential redemption would be \$3,882,530 (2019 – \$3,783,713). The redemption feature is subject to certain restrictions which give Management the ability to effectively defer redemption indefinitely.



**Builders Capital Mortgage Corp.**  
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8. **Share capital** (continued from previous page)

**Issued and outstanding – Voting Common Shares**

	Number of shares	\$
<b>Balance, December 31, 2020 and 2019</b>	<b>100</b>	<b>1,000</b>

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

	Number of shares	\$
As at December 31, 2018	1,874,570	16,418,267
Shares issued for cash (i)	105,000	1,050,000
Offering costs (i)	-	(28,224)
Shares redeemed (ii)	(11,500)	(115,000)
As at December 31, 2019	1,968,070	17,325,043
<b>Shares issued for cash (iii, iv)</b>	<b>45,023</b>	<b>450,230</b>
<b>Offering costs (iii)</b>	<b>-</b>	<b>(16,670)</b>
<b>Shares redeemed (v)</b>	<b>(15,800)</b>	<b>(158,000)</b>
<b>Balance, December 31, 2020</b>	<b>1,997,293</b>	<b>17,600,603</b>

- (i) On April 9, 2019, the Company closed a private placement totalling 105,000 Class A Non-Voting Common Shares at a price of \$10.00 per share for gross proceeds of \$1,050,000. Included in offering costs are \$28,224 in fees paid in connection with the private placement.
- (ii) On November 30, 2019, the Company repurchased 11,500 Class A Non-Voting Common Shares at a discount for \$102,580. The discount on the repurchase totalling \$12,420 was charged to retained earnings.
- (iii) On January 3, 2020 the Company closed a private placement totalling 45,000 Class A Non-Voting Common Shares at a price of \$10.00 per share for gross proceeds of \$450,000. Included in offering costs are \$16,670 in fees paid in connection with the private placement
- (iv) On February 12, 2020, under the terms of the Company's dividend reinvestment plan, 23 Class A Non-voting Common Shares were issued at a price of \$10.00 per share for gross proceeds of \$230.
- (v) On November 30, 2020, the Company repurchased 15,800 Class A Non-Voting Common Shares at a discount for \$139,609. The discount on the repurchase totalling \$18,391 was charged to retained earnings.

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

	Number of shares	\$
<b>Balance, December 31, 2018 and 2019</b>	<b>924,576</b>	<b>9,228,253</b>
<b>Shares redeemed (i)</b>	<b>(11,740)</b>	<b>(117,400)</b>
<b>Balance, December 31, 2020</b>	<b>912,836</b>	<b>9,110,853</b>

- (i) On November 30, 2020, the Company repurchased 11,740 Class B Non-Voting Common Shares at a discount for \$109,194. The discount on the repurchase totalling \$8,206 was charged to retained earnings.

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

*For the years ended December 31, 2020 and 2019*

*(Expressed in Canadian dollars)*

**9. Earnings per share**

**Basic and diluted earnings per share calculation**

	<b>2020</b>	2019
Numerator for basic earnings per share:		
Total comprehensive income	<b>\$ 2,124,919</b>	\$ 1,445,634
Denominator for basic earnings per share:		
Weighted average number of shares outstanding	<b>2,935,065</b>	2,875,612
<b>Basic and diluted earnings per share</b>	<b>\$ 0.72</b>	\$ 0.50

**10. Related party transactions**

Due to related party is comprised of the following:

	<b>2020</b>	2019
Builders Capital Management Corp. (the "Manager")	<b>\$ nil</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 year ended December 31, 2020, this amount was \$294,336 (2019 – \$286,770).

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 year, the fees paid to the Manager totalled \$670,513 (2019 - \$633,137).

During the year, the Company purchased mortgages with an aggregate value of \$426,260 (2019 - \$1,900,927) from, and sold mortgages with an aggregate value of \$nil (2019- \$nil) to Builders Capital (2014) Ltd. There were also advances totalling \$3,619 (2019 - \$nil), which were made and repaid during the year between the two companies.

Builders Capital (2014) Ltd. is related to the Company by virtue of common control, and the transactions are considered to be in the normal course of business and have been recorded at fair value on initial recognition.

**Key management compensation:**

None of the Company's key management personnel received compensation from the Company for the years ended December 31, 2020 and 2019. The Manager directs the affairs, 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 consideration, for services provided to the Company by the Manager, it is paid a management fee, as discussed above.

The total directors' fees paid for the year were \$18,000 (2019 - \$17,500). Directors' fees are set at \$1,000 annually together with \$500 for each meeting attended.

# Builders Capital Mortgage Corp.

## Notes to the Consolidated Financial Statements

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(Expressed in Canadian dollars)

### 11. 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 year ended December 31, 2020, the Company declared dividends of \$2,047,833 (2019 - \$2,061,004) to its Class A and Class B Non-Voting Common Shareholders and Voting Common Shareholders. As at December 31, 2020, \$402,654 (2019 - \$396,763) was payable and outstanding; this amount was paid on January 31, 2021 (2019 – January 31, 2020).

Subsequent to the year-end, the Company declared dividends: \$69,898 on its Class B Non-Voting Common shares which were paid on January 31, 2021 and \$396,982 on its Class A Non-Voting Common Shares to be paid on April 30, 2021.

### 12. Income taxes

The Company has non-capital tax loss carry forwards of \$2,011,036 (2019 - \$1,450,162) as at December 31, 2020. 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
2040	560,874
	<hr/>
	\$ 2,011,036

### 13. Capital management

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 7). As at December 31, 2020 and 2019, the Company was in compliance with all financial covenants.

### 14. Financial instruments

The Company, as part of its operations, carries financial instruments consisting of cash, mortgages receivable, line of credit and loan payable, accounts payable and due to related party. It is management's opinion that the Company is not exposed to significant credit, interest, currency and liquidity risks arising from these financial instruments except as otherwise disclosed. All of these financial instruments are carried at amortized cost.

#### A. Fair value hierarchy

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

The carrying value of mortgages receivable, accounts payable, due to related party and loan payable approximate their fair value because of the short-term nature of these instruments. There were no transfers between levels 1, 2 and 3 inputs during the year (2019 – none).

# Builders Capital Mortgage Corp.

## Notes to the Consolidated Financial Statements

*For the years ended December 31, 2020 and 2019*

*(Expressed in Canadian dollars)*

### 14. 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.

The Company has 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. Management also actively analyze external market conditions including prevailing real estate values and employment conditions in the markets in which we lend. In all cases, the Company's mortgages receivable are secured by registered charges over real property.

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

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

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

Management has assessed the credit quality of the Company's assets at December 31, 2020, 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, December 31, 2020:

Mortgages receivable	Stage 1	Stage 2	Stage 3	2020 Total
Standard risk	20,439,893	2,677,406	-	23,117,299
High Risk	-	787,515	-	787,515
Impaired	-	-	670,787	670,787
<b>Total</b>	<b>20,439,893</b>	<b>3,464,921</b>	<b>670,787</b>	<b>24,575,601</b>
<b>Less allowance</b>	<b>(152,042)</b>	<b>(144,506)</b>	<b>(5,013)</b>	<b>(301,561)</b>
	<b>\$ 20,287,851</b>	<b>\$3,320,415</b>	<b>\$ 665,774</b>	<b>\$ 24,274,040</b>

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

Credit quality analysis, December 31, 2019:

Mortgages receivable	Stage 1	Stage 2	Stage 3	2019 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 January 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, but not impaired as management considers collection to be reasonably assured due largely to the estimated value of the mortgage security held.

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

**Past due but not impaired as at December 31, 2020**

Funding period	Q1 2015	Q3 2017
Principal	\$ 615,122	\$ 876,910
Interest	172,393	126,850
<b>Total</b>	<b>\$ 787,515</b>	<b>\$ 1,003,760</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 December 31, 2020 relating to mortgages amounts to \$24,575,601 (2019 - \$23,116,349). 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 Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

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

#### C. Market risk

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

##### i) Interest rate risk

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will vary as a result of changes in market interest rates. The Company manages its financial instruments with the objective of mitigating any potential interest rate risks. The interest rates on the Company's mortgages receivable are fixed for the term. Therefore, the Company is not exposed to significant cash flow interest rate risk. As at December 31, 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 year ended December 31, 2020 would be approximately \$21,000.

##### ii) Foreign currency risk

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

#### D. Liquidity risk

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

The Company's main liquidity requirements will arise from mortgage acquisitions, manager fees and distributions to shareholders. All of the aforementioned liquidity requirements, except for mortgage acquisitions, are generally funded from cash flows earned on mortgage interest and fees. Mortgage acquisitions are generally funded through equity issuances. The Company's financial condition and results of operations would be adversely affected if it were unable to obtain additional funds through equity issuances or financing, or if it were unable to meet its other liquidity requirements from ongoing operating activities.

The Company's total liabilities as at December 31, 2020 totaling \$535,708 (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.

### 15. Subsequent events

On January 26, 2021, the Company declared dividends of \$0.1008 per Class B Non-Voting share and on March 22, 2021, the Company declared dividends of \$0.1972 per Class A Non-Voting share to be paid on January 31, 2021 and April 30, 2021 respectively.