



Builders Capital Mortgage Corp.

Management's Discussion and Analysis
Quarter Ended September 30, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis (MD&A) has been prepared by Builders Capital Mortgage Corp. (Builders Capital or the company) as of November 29, 2021. It should be read in conjunction with the company's audited consolidated financial statements and accompanying notes for the year ended December 31, 2020, available on SEDAR at www.sedar.com and on our website at www.builderscapital.ca. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). All financial information is presented in Canadian dollars.

Notice Regarding Forward-Looking Information

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

Background and Overview

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

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

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

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

Investment Strategy

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

Investments in our portfolio are strategically concentrated on:

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

Investment Restrictions

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

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

Operations

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

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

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

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

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

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

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

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

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

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

At inception, we target a loan-to-value ratio not exceeding 75%. However, calculating a loan-to-value ratio requires estimates of value, which are subject to uncertainty. For various reasons, including accruing interest, delays in completion of projects and changing market values, this target ratio is sometimes exceeded.

Q3 2021 Summary

Performance Highlights

- Increased earnings per share to \$0.20 in the third quarter of 2021, up 18% from \$0.17 in Q3 2020. For the first nine months of 2021, total comprehensive income of \$1.7 million and earnings per share of \$0.58 were both up 5% from \$1.6 million and \$0.55, respectively, in the first nine months of 2020.
- Consistent with our targeted distribution, dividends paid to Class A public shareholders in the quarter were \$0.2016 per share, representing an 8% annual return on the original \$10.00 issue price for the 31st consecutive quarter since inception.
- Mortgage assets increased by 56% from their low point in April 2021.
- Achieved an approximate weighted average loan-to-value ratio of 72% on our mortgage portfolio, a full three percentage points below our 75% target level.
- Our mortgage portfolio has strengthened such that the provision required for loan losses was the lowest it has been for any nine-month period since inception in 2013.

Business Environment

- Housing market conditions in our core western Canadian markets have held up well, and in some cases, shown strong improvement. The positive housing market conditions are supported by low interest rates and improving employment levels.
- Our strategy continues to concentrate on shifting assets from Alberta to the BC market as we receive repayments on older mortgages. We are also considering new markets where we see positive economic fundamentals and opportunities for productive portfolio growth, but we will continue to bring a conservative approach to making new loans.
- We are moving forward with a healthy weighted average loan-to-value ratio on our portfolio, which provides significant stability.

Financial Overview

	Three months ended September 30, 2021 \$	Three months ended September 30, 2020 \$	Nine months ended September 30, 2021 \$	Nine months ended September 30, 2020 \$
Revenues	780,972	837,084	2,176,969	2,400,758
Total comprehensive earnings	575,009	496,407	1,687,166	1,601,683
Net mortgages receivable, end of period	27,293,615	25,718,826	27,293,615	25,718,826
Total assets	29,778,385	28,680,936	29,778,385	28,680,936
Shareholders' equity	26,854,608	27,131,174	26,864,608	27,131,174
Earnings per share	0.20	0.17	0.58	0.55
Cash dividends declared	584,765	590,293	1,649,116	1,458,784
Cash dividends declared per Class A share	0.2016	0.2016	0.5983	0.5983
Cash dividends declared per Class B share	0.1995	0.1995	0.4975	0.2751

Investment Portfolio

At September 30, 2021

Property Type	Mortgage Portfolio (No.)	Outstanding Balance (\$)	Total Committed Mortgage Principal (\$)	%
Single family – Detached	23	15,139,210	22,575,000	55%
Single family – Attached	13	12,390,927	21,545,000	45%
Total:	36	27,530,137	44,120,000	100%
Geographic Location of Property				
Calgary and Area	15	12,433,390	22,060,000	45%
Edmonton and Area	4	1,619,587	2,420,000	6%
Other Alberta	8	3,884,140	5,605,000	14%
British Columbia	9	9,593,020	14,035,000	35%
Total:	36	27,530,137	44,120,000	100%
Interest Rate (excluding fees)				
Less than 10%	3	2,545,239	6,175,000	9%
10%-10.99%	25	16,425,061	26,825,000	60%
11%-11.99%	7	7,873,070	10,620,000	29%
Greater than 12%	1	686,767	500,000	2%
Total:	36	27,530,137	44,120,000	100%
Original Funding Date *				
Calendar 2021	17	10,349,123	18,540,000	38%
Calendar 2020	11	10,508,763	14,605,000	38%
Calendar 2019	3	2,489,459	5,100,000	9%
Calendar 2017	3	2,227,553	1,650,000	8%
Calendar 2016 or earlier	2	1,955,239	4,225,000	7%
Total:	36	27,530,137	44,120,000	100%

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

Introduction

We continued to benefit from improving market conditions in the third quarter and first nine months of 2021. Construction activity in our markets was strong and real estate prices remained generally stable or strengthened, supported by historically low interest rates, improving employment levels, and significant resiliency among consumers in pursuing home purchases.

During the nine months ended September 30, 2021, we continued to increase the turnover rate in our mortgage portfolio. This improving trend, which began in the final quarter of 2020, saw us turn 96% of our net invested capital in the year-to-date period with \$22.7 million in mortgage repayments received, and \$28.4 million in a combination of advances made and interest charged to borrowers. We are pleased with this result as our goal is to fully turn our capital approximately once every nine months. The improved turnover rate also contributed to a 40% year-over-year increase in third quarter lender fees and culminated in a more current portfolio of mortgages, helping to decrease risk.

A key metric of the stability of our portfolio is the average loan-to-value (LTV) ratio of our mortgages as this is a key predictor of how likely we are to experience a loss on any given loan if future real estate markets weaken. While the LTV calculation can be subject to uncertainties, particularly given fluctuating values, our estimated weighted average LTV is currently at 72%, a full three percentage points below our target of 75%. This is a substantial improvement over the higher LTV ratios we experienced amidst the market challenges of 2018 and 2019.

The resiliency of our portfolio has been further enhanced by our increasing geographic diversity as we continue to better balance our loan portfolio between the BC and Alberta markets. As at September 30, 2021, 35% of our loan portfolio was related to properties in British Columbia, as compared to 16% at the beginning of 2020. We are also actively pursuing new markets on Canada's East Coast where property values are rising and building activity is brisk. We hope to begin lending to builders in the Maritimes in the near future.

Operating Results for the Three and Nine Months Ended September 30, 2021

Through late 2020 and into the first half of 2021, we experienced an elevated rate of mortgage repayments, which created a surplus of cash while we worked to identify appropriate new mortgage opportunities for these funds. The resulting portfolio turnover contributed to increased lender fee revenue, while helping to keep the portfolio healthy and current, but the lower capital utilization rate contributed to a near-term reduction in interest revenue. During the third quarter we were successful in growing our capital utilization ratio as we deployed cash into new mortgages. Our utilization ratio, as measured by net mortgages receivable as a percentage of shareholders' equity balance, rose to 101.6% by the end of the third quarter, up from 98.8% at the end of Q2 2021 and 90.5% at the end of Q3 2020. With more confidence among builders and a growing presence in the market, we anticipate a continued strengthening of our utilization rate as we move forward.

Our portfolio of foreclosed properties remains well below the levels experienced in recent years. At the beginning of the third quarter, we held just two properties for sale: a completed home and a partially completed home both in Leduc, AB. During the third quarter we took possession of an additional duplex property in Calgary, AB. We subsequently sold one side of that duplex early in Q4 and we recently

secured a sales contract for the partially completed Leduc home, which is expected to close in January 2022.

The stronger markets and significantly reduced pace of foreclosures has enabled us to lower our provision for mortgage losses. In Q3 our provision was 61% lower than in Q3 2020 and our nine-month provision was 58% lower year-over-year. Our current nine-month provision, which is more in line with historical norms for our business, amounted to 8.2% of revenues for the period. Going forward, we expect to maintain the provision at or near this level as market conditions and our geographic diversification continue to improve.

Third quarter cash advances and invoiced interest grew a significant 82.2% to \$9.2 million, from \$5.0 million in the same period last year as we sourced additional mortgage investments. Repayments of \$6.5 million were reasonably consistent with \$7.0 million in Q3 2020.

We are pleased that the approximate weighted average loan-to-value ratio ("LTV") of our mortgage portfolio was reduced again this quarter to 72%, which was below our target rate of 75%. Our success in improving and maintaining our weighted average loan-to-value ratio provides important stability as we continue to grow the company.

Generally, the only debt that we employ is our line of credit, which is used primarily as a cash flow tool to facilitate making advances to borrowers. As uncertainty persisted throughout 2020, we remained cautious in our lending and by the end of the year had reduced our line of credit balance to zero. As market conditions have improved in 2021, our strategy has shifted to additional utilization of this facility to expand our mortgage portfolio. At June 30, 2021, we had \$1.2 million outstanding on our line of credit and by the end of the third quarter, this had increased to \$2.3 million. As we continue to work to expand the mortgage portfolio, we expect to make further use of the credit facilities.

As at the end of the third quarter of 2021, the total value of our mortgage portfolio, before considering our \$237,000 allowance for mortgage losses, was \$27.5 million. This was a 5% increase from \$26.1 million a year ago and 12% higher than \$24.6 million at the end of fiscal 2020. As at September 30, 2021, our loan portfolio was made up of 36 mortgages with an average outstanding balance of \$765,000. This compares to 34 mortgages averaging \$766,000 as at September 30, 2020.

Revenue

For the three months ended September 30, 2021, we generated revenues of \$781,000, 6.7% below the \$837,000 achieved in the same period last year. The Q3 2021 revenue was comprised of \$677,000 in interest and \$104,000 in lender fees. While interest revenue was 11.3% lower than the \$763,000 achieved in Q3 2020, reflecting a lower capital utilization rate through part of the period, higher turnover in the quarter resulted in lender fees increasing by 40%.

For the nine months ended September 30, 2021, revenues decreased 9.3% to \$2.2 million, from \$2.4 million in the same period last year. The 12.2% decline in interest revenues was partially offset by a 19.7% increase in lender fees.

Lender fees are tied to the negotiation of new mortgages, generally at 1% of the approved loan amount, and are charged for an annual term to borrowers when new loans are made or existing loans are renewed. Lender fees are maximized when turnover in the portfolio is highest. Lender fees earned in the

third quarter exceeded management fees paid by a healthy margin of 41.5%, consistent with our goal of maintaining lender fee revenues at amounts exceeding management fee expense.

Expenses

Operating expenses, excluding funds set aside to provide for loan losses and interest expense, were \$101,000 in the third quarter and \$294,000 in the first nine months of 2021. This was in line with operating expenses of \$102,000 and \$296,000, respectively, in the same periods of 2020.

Our third quarter 2021 provision for mortgage losses was \$96,000, down 55% from the same period in 2020. Year-to-date, our provision of \$179,000 was 58% lower than the \$423,000 required in the first nine months of 2020. Provisions for mortgage losses are determined based on our ongoing assessment of our mortgage portfolio and current market conditions. The lower provisions in the 2021 periods reflect our success in reducing problem loans and improving the strength of our portfolio, as well as the increased stability in our markets.

The current nine-month provision for mortgage losses is the lowest that we have required since our inception in 2013. This in turn, has had a positive impact on our bottom-line results. Earnings per share for the nine-months ended September 30, 2021 were up \$.08 year-over-year as a result of the \$245,000 year-over-year reduction in our nine-month mortgage loss provision. We are optimistic that we can maintain our provisions at these lower levels going forward given the stabilization in local market conditions and our more current and diverse portfolio of mortgages.

Management fees were \$74,000 in the third quarter, calculated on the total gross amount of Class A and Class B Non-Voting Shares outstanding, and \$218,000 in the first nine months of the year. Our intention is to continue to grow our capital base, resulting in these fees increasing, but our expectation is that this impact will be more than offset by higher revenues.

Interest expense applies to our operating line of credit, which we use as a cash flow tool to fund mortgage draws. A higher utilization rate for our capital will provide better returns in the form of additional interest income, but will also necessitate increased use of our line of credit for funding draws when our own funds are fully employed. During the third quarter our cash utilization improved and we began to make more use of our line of credit. This increased our interest expense to \$9,000, a 98% increase from the previous quarter, but was still 63% lower than in Q3 2020. For the nine-month period, interest expense decreased by 79% to \$17,000, from \$79,000 in 2020.

Total Comprehensive Income

We generated earnings per share of \$0.20 in the third quarter of 2021, up 18% from \$0.17 in Q3 2020. For the first nine months of 2021, total comprehensive income of \$1.7 million and earnings per share of \$0.58 were up 5% from \$1.6 million and \$0.55, respectively in the first nine months of 2020.

As discussed earlier in this MD&A, our provision for mortgage losses has been decreasing, reflecting the success of our strategies for strengthening our mortgage portfolio, as well as stabilization in our core real estate markets. Real estate conditions in Alberta and British Columbia have strengthened substantially over the past year despite broader macroeconomic challenges related to the COVID-19 pandemic. Going forward, we believe we are well positioned to continue to improve our financial performance as we grow our mortgage portfolio and generate additional revenues, while holding potential mortgage losses steady.

Our share terms call for annual dividends of \$0.80 per Class A Non-Voting Share per year, or approximately \$0.20 per quarter, prior to any other dividends being paid. Earnings in the quarter were \$0.20 per share overall, but were \$0.29 per Class A Non-Voting Share. These earnings exceeded the amount required to satisfy the dividend committed to the Class A Non-Voting shareholders by 1.5 times. With Class B Non-Voting shareholders bearing a much greater proportion of the risk of income fluctuations, even if earnings had been only 69% of their actual figure, the company would still have been in a position to pay Class A shareholders their full, planned quarterly dividend. Given this margin, we anticipate that potential continued fluctuations in our comprehensive income will not affect the payment of our Class A Non-Voting Share dividends, just as such fluctuations did not affect dividend payments during the far more challenging market conditions of the past several years.

In order to maintain distributions on the Class B Non-Voting Shares, we have been actively working to raise capital from the sale of additional Class A Non-Voting Shares. Increasing the number of Class A Non-Voting Shares in relation to the Class B Non-Voting Shares will improve the Class B Non-Voting share returns in any period during which our net earnings exceed an 8% overall return on capital. Our share terms limit the ratio to no greater than 3:1.

Statement of Financial Position

At September 30, 2021, total assets were \$29.8 million (December 31, 2020 – \$27.4 million), \$2.5 million of which was assets held for sale, and the balance of which was funded mortgages.

Assets held for sale are comprised of properties which we have obtained in foreclosure actions. In most cases, these properties are unfinished at the time, and we typically expend resources to complete them and prepare them for sale. During the third quarter, we foreclosed on a duplex project in Calgary, Alberta, representing two units, and we disposed of one property in Edmonton Alberta. Additionally, we expended \$137,000 to prepare two homes in Leduc, Alberta for sale. At quarter end, our assets held for sale included both units of the Calgary duplex and the two homes in Leduc, one of which is now completed and one of which is partially completed. Subsequent to the quarter-end we sold one of the duplex units and entered into a contract for sale on the partially completed home in Leduc. We are optimistic that the remaining assets will be sold in the near future.

Liabilities at quarter-end, excluding our line of credit, totaled \$642,000 (December 31, 2020 – \$536,000) and were comprised of dividends relating to the fiscal quarter paid on October 29, 2021, our trade payables, amounts due to related parties, and deferred lender fees. Throughout the quarter we were in compliance with all bank covenants relating to the line of credit, and we had no off-balance sheet arrangements.

Our line of credit balance stood at \$2.3 million, as compared to nil at December 31, 2020. Use of the line of credit is an indication that our capital is fully utilized and we are pleased that our mortgage portfolio has grown to where this is again necessary.

Shareholders' Equity consists of net share capital and retained earnings. There were no share issuances or redemptions during the quarter.

Total share issue costs since inception now stand at \$2.4 million, including professional fees for offering document preparation; offering, agent and brokerage fees and commissions; and other marketing and

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

Quarterly Financial Information

	Quarter ended September 30, 2021 \$	Quarter ended June 30, 2021 \$	Quarter ended March 31, 2021 \$	Quarter ended December 31, 2020 \$	Quarter ended September 30, 2020 \$	Quarter ended June 30, 2020 \$	Quarter ended March 31, 2020 \$	Quarter ended December 31, 2019 \$	Quarter ended September 30, 2019 \$
Revenues	780,972	691,848	704,149	830,155	837,084	860,036	703,638	729,749	648,104
Total comprehensive earnings	575,009	548,076	564,021	523,277	496,407	629,545	475,731	118,775	261,441
Total assets	29,778,385	28,669,052	27,454,925	27,352,266	28,680,936	30,813,268	31,725,932	27,152,829	27,660,737
Assets held for sale	2,474,098	2,542,042	3,150,165	2,089,016	2,925,470	3,049,175	3,874,988	3,562,573	3,997,616
Shareholders' equity	26,854,608	26,864,364	26,894,699	26,816,558	27,131,174	27,225,059	26,997,126	26,554,715	27,028,481
Earnings per share	.20	0.19	0.19	0.18	0.21	0.21	0.16	0.04	0.09
Cash dividends declared	584,765	578,472	485,880	589,049	590,293	401,612	466,880	489,960	491,261
Cash dividends declared per Class A share	0.2016	0.1995	0.1972	0.2016	0.2016	0.1995	0.1972	0.2016	0.2016
Cash dividends declared per Class B share	0.1995	0.1972	0.1008	0.2016	0.1995	-	0.0756	0.1008	0.0997

Distributions

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

On September 20, 2021, based on income for the third quarter of 2021, our Board of Directors declared a dividend of \$0.2016 per Class A Non-Voting Share to shareholders of record on September 30, 2021. This distribution was paid on October 29, 2021 and is recorded as payable in the accompanying condensed consolidated interim financial statements. The dividend amount was calculated to provide an annualized 8% return on the \$10.00 initial Class A Non-Voting Share price.

Subsequent to the quarter-end, on October 26, 2021, again based on income for the third quarter of 2021, the Board declared a dividend of \$0.2268 per share to Class B Non-Voting shareholders of record on that date. This distribution was also paid on October 29, 2021. This dividend is not recorded in these condensed consolidated interim financial statements as it was declared after the quarter-end.

Liquidity and Capital Resources

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

As our mortgages are predominantly short-term in nature, the continual repayment by borrowers of existing mortgage investments creates liquidity for ongoing mortgage investments and funding commitments.

Our mortgage portfolio turns over approximately annually. We expect that borrower repayments will remain at a reasonably consistent level through the balance of 2021 and into 2022 and plan to continue funding mortgages in amounts approximately equal to mortgage repayments received. It is likely that a number of our mortgages will be renewed as they come due, as discussed earlier under Operations.

Liquidity risk for the company arises primarily from the prospect of committing to a mortgage for which sufficient funds are not available to make draws as requested by the borrower. As noted in the Investment Portfolio table above, we have mortgage commitments to borrowers totaling \$44.1 million, which exceed the current amounts funded by \$17 million. We anticipate funding these commitments through the repayment of existing mortgages. Should mortgage repayments fall short of our commitments, we have a number of tools to manage liquidity and to ensure that commitments can be met. These tools include our \$7.8 million in available credit, detailed cash flow planning procedures, and Builders Capital's well-established network of affiliates and mortgage industry contacts, through which mortgages can be sold or syndicated as required for cash flow purposes. In addition, our mortgage documents include language whereby a borrower cannot compel the company to advance funds. Our primary goal is to minimize unused cash balances, while ensuring that borrower needs and other commitments can always be met.

Since inception, almost all of our sales and purchases of mortgages have been to and from related parties, in particular Builders Capital (2014) Ltd. ("BCL"). BCL is a privately held corporation, of which

Builders Capital directors Sandy Loutitt and John Strangway are also both directors. The company has often been reliant on BCL as a vendor and purchaser of mortgages and as a source for liquidity, including at certain times of low cash flow, for payment of dividends. This reliance means that if BCL was unwilling, or unable, to act as a purchaser or vendor of mortgages, the company would have to leave a larger margin for error in our cash management practices, which could reduce profitability.

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

According to our share terms, Class A Non-voting shareholders have an annual right to redeem their shares on October 31st each year at 95% of Net Asset Value. Payment for the redemptions is to be made on November 30th each year. We received no request for redemption in 2021.

Related-Party Transactions

Our manager is a company controlled by Sandy Loutitt and John Strangway, both of whom are also directors of Builders Capital. The manager receives a management fee calculated as 1% per annum of the book value of the share capital of the company. Management fees amounted to \$74,000 for the quarter (2020 - \$74,000).

In addition to the management fee, the manager charges lender fees directly to borrowers both on loan originations and on loan renewals, with 28.6% of these fees being paid to the company and the remaining 71.4% going to the manager. The company collects these fees from the borrower, both on our own behalf and on behalf of the manager, by adding them to the principal amount of the mortgage, generally on the first advance to the borrower. The company then pays the manager's share of the fees to the manager, regardless of whether 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 third quarter of 2021, fees collected on behalf of the manager totaled \$121,000 (Q3 2020 - \$89,000). For the nine months ended September 30, 2021, fees collected were \$704,000 as compared to \$366,000 in the first nine months of the prior year.

In general, mortgages are purchased when the company has excess cash on hand, quality mortgages are available to purchase, and opportunities to immediately fund additional mortgages are not available. The acquisition of mortgages helps us minimize excess balances and maximize interest revenue. Mortgages are sold when, despite the line of credit being fully drawn, additional cash is required, or is forecast to be required, to fund mortgage draws and commitments. Often, mortgages purchased are subsequently sold back and vice versa. The purchase and sale of mortgages sometimes results in balances due to or from related parties being outstanding for short periods of time. These balances are unsecured and non-interest bearing. No mortgages were purchased or sold in the quarter.

Market Outlook

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

Despite early concerns about the impact of COVID-19 on housing markets, prices and sales activity have risen sharply in many Canadian markets since the COVID-19 pandemic emerged, with demand for housing outstripping supply in most markets across Canada. RBC Economics in its Focus on Canadian Housing report dated September 23, 2021 stated, "...as many as 240,000 housing units could be completed in 2022 nationwide—the biggest push in a generation to address supply issues. Stronger levels like this will need to be repeated in years to come to make up for under-building in the past decade and meet growing demand arising from record projected immigration." We believe that this premise holds true for all the markets that we service and bodes well for a robust residential construction sector going forward.

We note that there have also been substantial price increases in many Canadian real estate markets, which generally help home builders achieve profitability on their projects and which in turn, support the successful repayment of their mortgages.

Our segment of the finance marketplace is weighted towards single family homes as we do not finance high-rise apartment construction. CMHC, in its Spring 2021 Housing Market Outlook, forecast that, "the ratio of single-detached starts to total starts will increase, reflecting the shift in preference toward single-detached units on the resale market, as indicated by their current low inventories and strong price growth." As builders gear up to increase supply to satisfy the demand for housing, we expect demand for our construction finance product to remain strong.

As a short-term lender with the ability to redeploy capital between markets relatively quickly, we are confident in our ability to derive an advantage from these market conditions. In the near term, our strategy will continue to concentrate on shifting assets from Alberta to the BC market, and from inner city to suburbs and somewhat smaller communities as we receive repayments. Our increasing emphasis on British Columbia reflects that market's stronger fundamentals.

We are also actively seeking new markets, such as Atlantic Canada, where we see positive economic fundamentals and opportunities for productive portfolio growth. We will generally adopt a conservative approach to making new loans, paying close attention to evolving market conditions, and ensuring that the borrowers to whom we lend have sufficient equity invested in the project to adequately minimize our downside risk.

Minimizing unproductive assets is a key driver in our profitability. In the near term we expect to complete the sale of the last two properties in our portfolio and will continue to focus on keeping future foreclosures to a minimum. We have also reduced the approximate weighted average loan-to-value ratio on our portfolio to below 75% and believe that there is sufficient equity in the majority of the loans in our portfolio to minimize the risk of further loan losses. As always, however, it remains possible that we will need to take additional steps to collect on some of our mortgage assets over the coming months. That said, we believe that the necessary safeguards are in place to assure our ability to maintain the Class A Non-Voting Share dividend at 8% per annum.

These safeguards include maintaining a prudent debt-to-equity ratio, generally restricting our lending to 75% of what we believe to be the fair market value of a property at any given time, and taking adequate allowances for expected credit losses allowing us to build a cushion of funds to further protect investors. In addition, by investing only in short-term mortgages, we maintain the liquidity necessary to preserve

capital. In the event that we believe a market has become too risky, we will work on converting our investments to cash, and will forego returns in order to protect the capital with which we've been entrusted.

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

Financial Instruments

Our primary business purpose is to invest in mortgages, which are the only significant financial instrument that we carry and are the source of virtually all of our revenues. These financial instruments expose us to risks which are managed as follows:

Credit Risk

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

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

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

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

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.

Market Risk

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

i) Interest Rate Risk

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will vary as a result of changes in market interest rates. We manage our financial instruments with the objective of mitigating any potential interest rate risks. The interest rates on the company's mortgages receivable are fixed for the term. Therefore, we are not exposed to significant cash flow interest rate risk. Mortgages receivable are subject to fair value interest rate risk as a decrease or increase in market interest rates will decrease or increase the fair value of the fixed rate financial asset. Any change in market interest rates will, however, have no impact on our cash flows or comprehensive income for the year as mortgages receivable carry a fixed rate of interest.

We are exposed to interest rate risk on our line of credit and loan payable as they carry a variable rate of interest.

ii) Foreign Currency Risk

We do not have assets or liabilities denominated in foreign currency.

Liquidity Risk

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

Our main liquidity requirements will arise from mortgage advances, mortgage advances, manager fees and distributions to shareholders. All of the aforementioned liquidity requirements are generally funded from cash flows earned on mortgage interest and fees. Our financial condition and results of operations would be adversely affected if it were unable to obtain additional funds through equity issuances or financing, or if we were unable to meet our liquidity requirements from ongoing operating activities.

Our approach to managing liquidity is to ensure that we will have sufficient financial resources available to meet our liabilities as they become due. This includes monitoring of cash, line of credit, loan payable and accounts payables and accrued liabilities. We intend to mitigate our liquidity risk by not entering into property acquisitions unless we have secured or are confident that we can secure the appropriate capital (debt and/or equity) to fund the particular acquisition. Liquidity risk is also mitigated by the

terms offered to investors, which state that all redemptions are at the discretion of management and are dependent on the circumstances, and to borrowers, which state that the company is never obligated to advance additional mortgages or funding.

Capital Management

Our capital consists of shareholders' equity. Our 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 us to pay quarterly distributions to our shareholders.

We set the amount of capital in relation to risk and manage the capital structure and make adjustments to it in light of changes to economic conditions and the risk characteristics of the underlying assets.

Our 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.

Our company is subject to externally imposed capital requirements. The credit facility contains certain financial covenants that must be maintained. During the period, we were in compliance with all financial covenants.

Use of Estimates and Judgements

The preparation of the condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim financial statements are:

Measurement of fair values

Our accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

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

- Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in the active market for identical assets or liabilities.
- Level 2: Fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (derived from prices).
- Level 3: Fair value measurements are those derived from valuation techniques that include

inputs for the asset or liability that are not based on observable market data.

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

Measurement of expected credit loss

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

Classification of non-voting shares with redemption feature

Under IFRS, IAS 32 requires that shares of an entity which include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset be classified as financial liabilities. Our Class A and Class B non-voting shares contain a redemption feature whereby the holders can request redemption of the shares during a specified period during the year. The redemption feature is subject to certain restrictions which give us the ability to effectively defer redemption indefinitely. Accordingly, we have 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 have determined that it would not and that the shares should be classified as equity.

Responsibility of Management and the Board of Directors

Management is responsible for the information disclosed in this MD&A and has in place the appropriate information systems, procedures and controls to ensure that the information used internally by management and disclosed externally is materially complete and reliable. In addition, our Board of Directors and Audit Committee provide an oversight role with respect to our public and financial disclosures. Both have reviewed and approved this MD&A and the accompanying condensed consolidated interim financial statements for the year ended December 31, 2020.

Outstanding Share Data

The company's authorized share capital as at November 29, 2021, consists of 1,000 Voting Shares, of which 100 were outstanding at period-end; an unlimited number of Class A Non-Voting Shares, of which 1,997,293 are outstanding; and an unlimited number of Class B Non-Voting Shares, of which 912,836 are outstanding.

Risk and Uncertainties

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

A robust new home construction market greatly reduces these risks, as it provides a strong marketplace into which builders can sell their completed projects, it maintains or increases the value of the security

for our loans, and it provides an ongoing source of new projects and borrowers. A downturn in the market that substantially decreases security values could have a significant negative effect on our business. We cannot predict the performance of the housing market in the future with certainty.

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

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

Other risks and uncertainties exist for our business that are typical for business in general and for lenders in particular. These include changes in interest rates, potential environmental issues associated with the mortgage security, borrower solvency, any significant changes in competition, changes in tax legislation and other factors as described under Forward-Looking Information.

Additional Information

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