

## OFFERING MEMORANDUM

No securities regulatory authority or regulator has assessed the merits of these securities or reviewed this Offering Memorandum. Any representation to the contrary is an offence. This is a risky investment. See "Item 8 – Risk Factors" in this Offering Memorandum.

<b>Dated:</b>	<b>July 14, 2017</b>
<b>Name:</b>	<b>BUILDERS CAPITAL MORTGAGE CORP. (THE "CORPORATION")</b> Suite 405, 1210 – 8 Street S.W., Calgary, Alberta T2R 1L3 Phone: (403) 403-685-9888 Fax 403-225-9470 Email: <a href="mailto:info@builderscapital.ca">info@builderscapital.ca</a>
<b>Currently Listed:</b>	<b>Yes. These securities are traded on the TSX Venture Exchange.</b>
<b>Reporting Issuer:</b>	Yes, in Alberta, British Columbia, Saskatchewan, Manitoba and Ontario
<b>SEDAR Filer:</b>	Yes.

### THE OFFERING

<b>Securities Offered:</b>	Class A Non-voting Common (the "Class A Non-Voting Shares").
<b>Price Per Security:</b>	\$10 per Class A Non-Voting Share.
<b>Maximum Offering:</b>	\$30,000,000 (3,000,000 Class A Non-Voting Shares). <b>Funds available under the Offering may not be sufficient to accomplish our proposed objectives.</b>
<b>Minimum Offering:</b>	<b>There is no minimum. You may be the only purchaser.</b>
<b>Minimum Subscription Amount:</b>	\$1,000 (100 Class A Non-Voting Shares)
<b>Payment Terms:</b>	The subscription price is payable at the time of Closing by cheque, bank draft or such other manner as may be accepted at Closing by the Corporation in its sole discretion. All dollar amounts in this Offering Memorandum are in Canadian dollars unless otherwise indicated.
<b>Proposed Closing Dates:</b>	Continuous Offering. Closings may occur at such dates as may be determined by the Corporation in its sole discretion. <b>See "Item 5.2 – Subscription Procedure".</b>
<b>Tax Consequences:</b>	There are important tax considerations relating to the ownership of these securities. <b>All investors will be responsible for the preparation and filing of their own tax returns in respect of this investment. Costs associated with the preparation and filing of such returns may be material. See "Item 6 – Income Tax Consequences".</b>
<b>Selling Agent:</b>	Where allowed by applicable securities legislation, the Corporation intends to offer compensation of up to 5% on the gross proceeds realized from the sale of Class A Non-Voting Shares under this Offering to any one of, or a combination of, the following parties: investment dealers, Exempt Market Dealers and/or their dealing representatives, parties related to the Corporation and employees and/or contractors of such parties.
<b>Resale Restrictions and Redemption Rights:</b>	You will be restricted from selling your Class A Non-Voting Shares for 4 months and a day. <b>See "Item 10 – Resale Restrictions".</b>
<b>Purchasers Right:</b>	You have two (2) Business Days to cancel your agreement to purchase the Class A Non-Voting Shares. If there is a misrepresentation in this Offering Memorandum, you have the right to sue either for damages or to cancel the agreement. <b>See "Item 11 – Purchasers' Rights".</b>

## **ABOUT THIS OFFERING MEMORANDUM**

The Corporation, a company incorporated on March 28, 2013 under the ABCA and which amended its Articles of Incorporation on December 10, 2013, is authorized to issue an unlimited number of Class A Non-Voting Shares, an unlimited number of Class B Non-Voting Shares and 1,000 Voting Shares. The rights, privileges, conditions and restrictions of the Class A Non-Voting Shares, Class B Non-Voting Shares and Voting Shares are as set forth under the heading "**Item 5 – Description of Securities Offered**".

Capitalized terms used in this Offering Memorandum have defined meanings. Please refer to "Glossary of Terms" for a list and the meaning of defined terms used herein.

In this Offering Memorandum, references to "\$" are to Canadian dollars.

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## GLOSSARY OF TERMS

In this Offering Memorandum (including in the Summary pages hereof), unless the context otherwise requires, the following words and terms shall have the indicated meanings and grammatical variations of such words and terms shall have corresponding meanings:

"**ABCA**" means the *Business Corporations Act* (Alberta), as from time to time amended, including the regulations from time to time promulgated thereunder.

"**AAM Allocation**" has the meaning set forth under "**Item 2 – Business of the Corporation, 2.2.3 - The Portfolio**".

"**ABCP**" means asset backed commercial paper.

"**affiliate**" or "**associate**" when used to indicate a relationship with a person or company, has the same meaning as set forth in the *Securities Act* (Alberta).

"**Aggregate Funded and Committed Assets**" means (a) all existing mortgage investments and interim investments comprising the Portfolio; plus (b) all existing mortgage investments and mortgage investments previously approved and mortgage investments committed by or on behalf of the Corporation; plus (c) in the context of a mortgage loan approval review, the proposed mortgage investment being considered for approval; plus (d) cash and cash equivalents.

"**Annual Redemption Date**" means the last business day of October of each year.

"**Annual Redemption Price**" means (a) in respect of the Class A Non-Voting Shares, 95% of the NAV per Share, and (b) in respect of the Class B Non-Voting Shares, (i) 100% of the NAV per Share if the Class B Non-Voting Shares are not listed for trading on the TSX or such other recognized stock exchange in Canada or (ii) 95% of the NAV per Share if the Class B Non-Voting Shares are listed for trading on the TSX or such other recognized stock exchange in Canada, in each case on the applicable Annual Redemption Date.

"**Annual Redemption Right**" means the right to redeem Class A Non-Voting Shares on the Annual Redemption Date, as described under "**Item 5 – Description of Securities Offered, 5.1.8 - Redemption of Shares – Annual Redemptions**".

"**Asset Allocation Model**" means, collectively, the set of investment guidelines governing the allocation of investments in which the Corporation's assets are placed, as summarized under "**Item 2 – Business of the Corporation – Investment Objectives of the Corporation - Asset Allocation Model**".

"**applicable law**" means any applicable law including any statute, regulation, by-law, treaty, guideline, directive, rule, standard, requirement, policy, order, judgment, decision, injunction, award, decree or resolution of any governmental authority, whether or not having the force of law.

"**Auditors**" means the firm of chartered accountants appointed as the auditor of the Corporation from time to time.

"**Automatic Repurchase**" has the meaning set forth under "**Item 5 - Description of Securities Offered, 5.1.4 – Restrictions on Ownership**".

"**Automatic Repurchase Shareholder**" has the meaning set forth under "**Item 5 - Description of Securities Offered, 5.1.4 – Restrictions on Ownership**".

"**Available Funds**" means, at any time, such amounts as indicated in the table under "**Item 1 – Use of Available Funds, 1.1. - Available Funds**";

"**BCL**" means Builders Capital (2014) Ltd., a corporation governed by the laws of the Province of Alberta, which is a related party of the Corporation as BCL is owned, as to 100% of the voting shares of BCL, by Sandy Loutitt, the CEO and a director of the Corporation.

"**BCL Mortgage Portfolio**" means the existing portfolio of Mortgages that has been assembled and funded by BCL and managed by the Manager.

"**Board**" or "**Board of Directors**" means the board of directors of the Corporation.

"**Business Day**" means a day, other than a Saturday, Sunday or statutory holiday, when banks are generally open in Calgary, Alberta, for the transaction of banking business;

"**CEO**" means Chief Executive Officer.

"**CFO**" means Chief Financial Officer.

"**Class A Non-Voting Shares**" means the Class A non-voting common shares of the Corporation offered hereunder;

"**Class A Shareholder**" means a holder of Class A Non-Voting Shares.

"**Class B Non-Voting Shares**" means the Class B non-voting common shares of the Corporation.

"**Class B Shareholder**" means a holder of Class B Non-Voting Shares.

"**Closing**" means the acceptance by the Corporation of Subscription Agreements for Class A Non-Voting Shares by Subscribers and the distribution of Class A Non-Voting Shares to the Subscribers by the Corporation pursuant to those Subscription Agreements.

"**Closing Date**" means the date on which a Closing occurs.

"**Committed Mortgages**" has the meaning set forth under "**Item 2 – Business of the Corporation, 2.3 – Development of the Business**".

"**construction Mortgages**" means Mortgages provided to borrowers to assist with the funding of the construction of a new project or the construction or redevelopment of an existing project.

"**Conventional Mortgages**" means Mortgage loans for which the principal amount of the loan, at the time of commitment, together with all other equal and prior ranking Mortgages does not exceed 80% of the value of the underlying real property securing the loan.

"**Corporation**" means Builders Capital Mortgage Corp., a corporation incorporated under the laws of the Province of Alberta.

"**Counsel**" means a barrister or solicitor or firm of barristers and solicitors or other lawyers in an appropriate jurisdiction retained by the Corporation.

"**CRA**" means the Canada Revenue Agency.

"**DPSPs**" means deferred profit sharing plans as defined in the Tax Act.

"**DRIP**" means the dividend reinvestment plan implemented by the Corporation for its Class A Non-Voting Shares. See "**Item 5 – Description of Securities Offered, 5.1.10 – Dividend Reinvestment Plan**".

"**Funded Mortgages**" has the meaning set forth under "**Item 2 – Business of the Corporation, 2.3 – Development of the Business**".

"**governmental authority**" includes any court (including a court of equity); any multinational, federal, provincial, state, regional, municipal or other government or governmental department, ministry, commission, board, bureau, agency or instrumentality; any securities commission, stock exchange or other regulatory or self-regulatory body; any arbitrator or arbitration authority; or any other governmental authority.

"**Gross Proceeds**" means, at any time, the aggregate gross proceeds of this Offering.

"**Lender Fees**" means the mortgage origination and servicing fees generated in connection with Mortgages sourced and managed by the Manager.

"**Management Services Agreement**" means the management services agreement entered into between the Corporation and the Manager whereby the Manager will act as the manager of and portfolio advisor to the Corporation.

"**Manager**" means Builders Capital Management Corp., a corporation governed by the laws of the Province of Alberta.

"**Manager Fee**" has the meaning set forth under "**Item 3 – Directors, Management and Principal Holders, 3.1 – Compensation and Securities Held – Management Fee of the Manager**".

"**Maximum Offering**" means the maximum offering hereunder of 3,000,000 Class A Non-Voting Shares, for gross proceeds of \$30,000,000.

"**MIC**" means a "mortgage investment corporation" as defined under the Tax Act.

"**Mortgage**" means an interest in a mortgage, a mortgage of a leasehold interest (or other like instrument, including an assignment of or an acknowledgement of an interest in a mortgage), a hypothecation, a deed of trust, a charge or other security interest of or in real property used to secure obligations to repay money by a charge upon the real property.

"**Mortgage Loan Impairment**" means any loan, where, in the Manager's opinion, there has been a deterioration of credit quality to the extent that the Corporation no longer has reasonable assurance as to the timely collection of the full amount of the principal and interest.

"**NAV**" means the net asset value of the Corporation and is the value of the consolidated assets of the Corporation less (a) the consolidated liabilities of the Corporation and (b) the stated capital of the Voting Shares of the Corporation, being \$1,000.

"**NAV per Share**" has the meaning set forth under "**Valuation Policies and Procedures of the Corporation**".

"**NI 45-106**" means National Instrument 45-106 *Prospectus Exemptions*.

"**Non-Conventional Mortgage**" means the Mortgage loans that do not satisfy as a Conventional Mortgage.

"**Non-Resident**" means: (i) a person (within the meaning of the Tax Act but, for greater certainty, not including a partnership) who is not resident in Canada for the purposes of the Tax Act; or (ii) a partnership that is not a "Canadian partnership" as defined in the Tax Act.

"**Offering**" means the offering of the Class A Non-Voting Shares described herein or in any amendment hereto.

"**Offering Jurisdictions**" means all provinces and territories of Canada, except Quebec.

"**Offering Memorandum**" means this offering memorandum, including any amendment hereto.

"**Person**" includes any individual, body corporate, limited partnership, general partnership, joint stock company, limited liability trust, association, joint venture, trust, bank, trust company, pension fund, business trust other organization or entity (whether or not a legal entity) or governmental authority, agency and political subdivision thereof.

"**Plans**" means collectively, the RDSPs, RESPs, RRIFs, RRSPs and DPSPs.

"**Pooled Funds**" has the meaning set forth under "**Item 2 – Business of the Corporation, 2.2.2 – Development and Rationale of the Corporation**".

"**Portfolio**" means the current portfolio of Mortgages of the Corporation as set forth under "**Item 2 – Business of the Corporation, 2.2.3 – The Portfolio**".

"**Principal Shareholders**" means the holders of the Voting Shares, being Sandy Loutitt, John Strangway, Brent Walter, David Pinkman and John Drummond.

"**RDSPs**" means registered disability savings plans as defined in the Tax Act.

"**real property**" means land, rights or interest in land in Canada (including, without limitation, leaseholds, air rights and rights in condominiums, but excluding Mortgages) and any buildings, structures, improvements and fixtures located thereon.

"**Repurchased Shares**" has the meaning set forth under "**Item 5 – Description of Securities Offered, 5.1.4 - Restrictions on Ownership**".

"**RESPs**" means registered education savings plans as defined in the Tax Act.

"**RRIFs**" means registered retirement investment plans as defined in the Tax Act.

"**RRSPs**" means registered retirement savings plans as defined in the Tax Act.

"**Shareholders**" means, collectively, the Class A Shareholders and the Class B Shareholders.

"**Shares**" means, collectively, the Class A Non-Voting Shares and the Class B Non-Voting Shares.

"**Resident**" means a person who is resident in Canada for the purposes of the Tax Act.

"**Securities Act**" means the *Securities Act* (Alberta), including the rules and regulations promulgated thereunder, as may be amended from time to time.

"**Selling Commissions**" means the commissions of up to 5% of the Gross Proceeds from the sale of the Class A Non-Voting Shares pursuant to this Offering payable to parties who sell the Class A Non-Voting Shares and who are entitled to receive such commissions under applicable securities laws. See "**Item 7 – Compensation Paid to Sellers and Finders**".

"**Shares**" means the Class A Non-Voting Shares, Class B Non-Voting Shares and Voting Shares.

"**Subscribers**" means those persons subscribing for Class A Non-Voting Shares pursuant to this Offering.

"**Subscription Agreement**" means a subscription agreement to be executed by each Subscriber providing for the purchase by such Subscriber of Class A Non-Voting Shares, in the form attached hereto as Schedule "A".

"**Subscription Amount**" means the product of the number of Class A Non-Voting Shares purchased by a Subscriber multiplied by the price per Class A Share.

"**Target Allocation**" has the meaning set forth under "**Item 2 – Business of the Corporation, 2.2.3 - The Portfolio**".

"**Tax Act**" means the *Income Tax Act* (Canada) and the regulations thereunder, as amended from time to time.

"**TFSA**" means tax-free savings accounts as defined in the Tax Act.

"**Threshold**" has the meaning set forth under **Item 5 – Description of Securities Offered, 5.1.9 – Limitations and Suspensions of Redemptions**".

"**Triggering Transaction**" has the meaning set forth under "**Item 5 – Description of Securities Offered, 5.1.4 - Restrictions on Ownership**".

"**TSX-V**" means the TSX Venture Exchange.

"**U.S. Securities Act**" has the meaning set forth on the face page of this offering memorandum.

"**Voting Shares**" means the common voting shares of the Corporation.

"**Voting Share Unanimous Shareholders Agreement**" has the meaning set forth under "**Item 3 – Directors, Management and Principal Holders, 3.1 – Compensation and Securities Held**".

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Offering Memorandum, and in certain documents incorporated by reference into this Offering Memorandum, constitute forward-looking statements and forward-looking information (collectively referred to herein as "**forward-looking statements**") within the meaning of applicable Canadian securities laws. Such forward-looking statements relate to future events or the Corporation's future performance. All statements other than statements of historical fact may be forward-looking statements. Such forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Corporation believes the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this Offering Memorandum should not be unduly relied upon. These forward-looking statements speak only as of the date of this Offering Memorandum or as of the date specified in the documents incorporated by reference into this Offering Memorandum, as the case may be.

In particular, this Offering Memorandum, and the documents incorporated by reference herein, contain forward-looking statements, pertaining to the following:

- the closing date and the expected use of proceeds of the Offering;
- obtaining of all required regulatory approvals in connection with the Offering;
- the use of proceeds from the Offering; and
- the annualized yield of the Corporation that the Manager is targeting and the amount and the timing of the payment of such dividends.

Although the forward-looking statements contained in this Offering Memorandum are based upon assumptions which management of the Corporation believes to be reasonable, the Corporation cannot assure investors that actual results will be consistent with these forward-looking statements. With respect to forward-looking statements contained in this Offering Memorandum, the Corporation has made assumptions regarding, but not limited to:

- the Corporation's ability to fulfil all of the conditions and obtain all of the approvals required in relation to the Offering;
- the completion of the Offering;
- the ability of the Corporation to maintain a portfolio of Mortgages capable of generating the necessary annual yield or returns to enable the Corporation to achieve its investment objective and to pay dividends;
- the ability of the Corporation to establish and maintain relationships and agreements with key strategic and financial partners;
- the qualification of the Corporation as a MIC under the Tax Act;
- the maintenance of prevailing interest rates at favourable levels;
- the ability of borrowers to service their obligations under the Mortgages of the Corporation;
- the ability of the Manager to effectively perform its obligations owed to the Corporation;
- anticipated costs and expenses;
- competition;
- changes in general economic conditions;
- no material variations in the current tax and regulatory environments; and
- future levels of indebtedness and the current economic conditions remaining unchanged.

The Corporation's actual results could differ materially from those anticipated in the forward-looking statements as a result of the risk factors set forth herein and in the documents incorporated by reference herein, including but not limited to:

- general business, economic, competitive, political and social uncertainties;
- general capital market conditions and market prices for securities;
- delay or failure to receive regulatory approvals;
- the actual results of future operations;
- competition;
- changes in legislation, including environmental legislation, affecting the Corporation;
- the timing and availability of external financing on acceptable terms;
- conclusions of economic evaluations and appraisals;
- lack of qualified, skilled labour or loss of key individuals;
- changes in operating and capital costs;
- the availability of Mortgages;
- discretion in the use of proceeds of the Offering;
- interest changes;
- fluctuations in NAV and Distributions; and
- other factors, many of which are beyond the control of the Corporation, which are discussed under the heading "**Item 8 - Risk Factors**" in this Offering Memorandum.

Forward-looking statements and other information contained herein concerning the residential and commercial Mortgage industry in Canada and the Corporation's general expectations concerning this industry are based on estimates prepared by management of the Corporation using data from publicly available industry sources as well as from market research and industry analysis and on assumptions based on data and knowledge of this industry, which the Corporation believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While the Corporation is not aware of any material misstatements regarding any industry data presented herein, the storage industry involves numerous risks and uncertainties and is subject to change based on various factors.

Management of the Corporation has included the above summary of assumptions and risks related to forward-looking information provided in this Offering Memorandum in order to provide shareholders with a more complete perspective on the Corporation's current and future operations and such information may not be appropriate for other purposes. The Corporation's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that the Corporation will derive therefrom.

Readers are cautioned that the foregoing list of important factors is not exhaustive and they should not unduly rely on the forward looking statements included in this Offering Memorandum or in any of the documents incorporated by reference herein. These forward-looking statements are made as of the date of this Offering Memorandum and the Corporation disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws. All forward looking statements contained in this Offering Memorandum are expressly qualified by this cautionary statement. Readers should refer to the Corporation's filings under its SEDAR profile at [www.sedar.com](http://www.sedar.com) for further information about the factors affecting forward looking statements and management's assumptions and analysis thereof.

### **VALUATION POLICIES AND PROCEDURES OF THE CORPORATION**

The NAV is the value of the consolidated assets of the Corporation less (a) the consolidated liabilities of the Corporation and (b) the stated capital of the Voting Shares of the Corporation (being \$1,000).

In calculating the NAV:

- (a) the value of any cash, receivables and prepaid expenses, will be carried at face value unless the Manager, or its delegate, deems otherwise;

- (b) Mortgage loans will be stated at fair value. Interest income is recorded on the accrual basis provided that there is no Mortgage Loan Impairment. As the Mortgages comprising the Portfolio do not trade in actively quoted markets, the Manager will estimate fair value based upon: market interest rates, credit spreads for similar loans and the specific creditworthiness and status of an existing borrower. The Manager will consider, but not be limited in considering, the following as part of the creditworthiness and status of a borrower: payment history, value of underlying property securing the loan or Mortgage, overall economic conditions, status of construction or property development (if applicable) and other conditions specific to the underlying property or building;
- (c) the value of short-term investments (treasury bills, money market instruments, or similar) will be the cost of such instrument plus accrued interest up to and including the Valuation Date;
- (d) the value of any other property will be the value determined by the Manager, or its delegate, which most accurately reflects its fair value; and

all expenses or liabilities will be recorded on an accrual basis.

## ITEM 1 – USE OF AVAILABLE FUNDS

### 1.1 Available Funds

The following table discloses the available funds of this Offering:

		<b>Assuming Minimum Offering</b>	<b>Assuming Maximum Offering</b>
A	Amount to be raised by issuance of this Offering	N/A	\$30,000,000
B	Selling Commissions	N/A	\$1,500,000 <sup>(1)</sup>
C	Estimated Offering costs	N/A	\$20,000
D	Available Funds: $D = A - (B + C)$	N/A	\$28,480,000
E	Additional sources of funding required	N/A	Nil
F	Working Capital Deficiency	N/A	Nil <sup>(2)</sup>
G	Total: $G = D + E - F$	N/A	\$28,480,000

**Notes:**

- (1) The Class A Non-Voting Shares will be offered for sale by agents or sub-agents as may be appointed from time to time as agents for the Corporation. The total Selling Commissions payable to agents or sub-agents will not exceed 5% of the Gross Proceeds of this Offering. See "Item 2 – Business of the Corporation" and "Item 7 – Compensation Paid to Sellers and Finders".
- (2) As of the date of this Offering Memorandum, the Corporation does not have a working capital deficiency.

### 1.2 Use of Available Funds

<b>Description of intended use of available funds listed in order of priority</b>	<b>Assuming Minimum Offering</b>	<b>Assuming Maximum Offering</b>
Funding mortgage loans and general working capital	N/A	\$28,480,000
<b>Total</b>	N/A	\$28,480,000

## ITEM 2 - BUSINESS OF THE CORPORATION

### 2.1 Business Structure

Builders Capital Mortgage Corp. was incorporated on March 28, 2013 under the ABCA. On December 10, 2013, the Corporation amended its Articles of Incorporation to create and authorize the issuance of an unlimited number of Class A Non-Voting Shares and Class B Non-Voting Shares and 1,000 Voting Shares. The head office of the Corporation is located at Suite 405, 1210 – 8<sup>th</sup> Street SW, Calgary, Alberta, T2R 1L3 and its registered office is at #310, 525 -11 Avenue S.W.

### 2.2 Business of the Corporation

The Corporation invests and reinvests its assets in construction and other Mortgages. For greater certainty, the Corporation is not considered to be an investment fund or mutual fund under applicable Canadian securities

legislation. Consequently, the Corporation is not subject to certain policies and regulations that apply to publicly offered investment funds or mutual funds and accordingly is permitted to invest in Mortgages and to borrow funds.

The Corporation qualifies as a MIC under the Tax Act. By qualifying as a MIC, the Corporation is a non-bank provider of residential and construction real estate finance. The Corporation holds all registrations or licenses that may be necessary to be a non-bank provider of residential real estate finance that carries on business as a non-bank provider of residential and construction real estate finance in any jurisdiction. The Corporation is not a trust company and, accordingly, is not registered under the trust company legislation of any jurisdiction. The Class A Non-Voting Shares are not "deposits" within the meaning of the *Canadian Deposit Insurance Fund Act* (Canada) and are not insured under the provisions of that act or any other legislation.

The Corporation will not make any investment or conduct any activity that would result in the Corporation failing to qualify as a MIC.

### **2.2.1 The Manager**

The Corporation was created to provide investors an opportunity to invest indirectly by holding Class A Non-Voting Shares in Mortgages selected by the Manager in accordance with the Corporation's Asset Allocation Model and its investment objectives and restrictions.

The Manager is the manager and portfolio advisor of the Corporation. The Manager is also responsible for directing the affairs and managing the business of the Corporation. The Manager has a value oriented investment philosophy, and specializes in originating and managing residential construction Mortgages on behalf of qualified investors. The Manager also provides, directly or indirectly through licensed service providers, as applicable, Mortgage management and day-to-day Mortgage administration services, including the sourcing, structuring and management of Mortgages on behalf of the Corporation. The directors, officers and principals of the Manager have experience sourcing, underwriting, structuring and syndicating Mortgages. The Manager will source Mortgages, evaluate projects, collect payments from borrowers, deal with enforcement proceedings and administer Mortgages. The Manager charges Lender Fees directly to borrowers as compensation for such services. For details regarding the services provided by the Manager, see "**Item 3 – Directors, Management and Principal Holders, Section 3.2.2 – Manager and Portfolio Advisor of the Corporation**".

### **2.2.2 Development and Rationale of the Corporation**

The principals behind the Corporation have a history of operations in the Mortgage lending business in Alberta. For the past fourteen years, Sandy Loutitt and his associates have managed a pool of funds which as of the date of this Offering Memorandum, is in excess of \$56 million (the "**Pooled Funds**") which has been used to finance small-scale residential construction projects in western Canada. Currently this managed pool of funds consists of the Portfolio and the BCL Mortgage Portfolio.

In addition to the Manager's experience in sourcing and administering residential construction Mortgages, the Manager also has construction capabilities for both residential and small scale commercial construction projects. The Manager has experience with all aspects of residential construction, and through staffing, and its relationships with industry partners, has ready access to building trades and materials at preferred rates. This construction expertise provides the Manager with the opportunity to complete any unfinished development projects which the Corporation holds or may acquire through enforcement proceedings or otherwise in a timely and cost efficient manner. Generally, the Corporation will transfer any unfinished development projects to a newly created corporate subsidiary or limited partnership in which the Corporation will hold limited partnership units, for the purposes of managing liability. The Corporation and the Manager will ensure that all activities, if any, undertaken by the Manager or any subsidiary or limited partnership of the Corporation to complete a property acquired through foreclosure will not cause the Corporation to cease qualifying as a MIC.

In order to acquire and develop real estate, most participants in the Canadian residential real estate industry require some form of Mortgage financing. The Manager's view is that the Canadian construction Mortgage

lending market for smaller residential builders is generally underserved, as most Canadian financial institutions tend to focus on loans with larger principal values and longer terms. The Manager believes that construction Mortgages also generally require more active and ongoing management oversight than those required in conventional lending, which does not typically fit well within larger institutional structures. In the Manager's experience, such market conditions create an opportunity for the Corporation to source and invest in a portfolio of construction Mortgages, secured by development stage residential real property (including multi-residential), which may generate attractive yields relative to their risk. These construction Mortgages are generally offered for terms of one year or less, which the Manager believes greatly reduces the Corporation's exposure to the systemic risk that presently exists in the Canadian Mortgage lending industry. Systemic risks include risks that the mortgage rates or property values change significantly. Shorter mortgage terms allow the Corporation to adapt to the changing market.

The Manager believes that it has a specialized skill set in the construction lending market, and therefore has established the Corporation for the purpose of bringing the business concept to the public. The Corporation focuses its investments primarily in urban markets and their surrounding areas, which the Corporation believes are typically more liquid and provide less volatile security for Mortgage loans. The Corporation also focuses its investment in western Canada, however, the Corporation's Asset Allocation Model permits the Corporation to invest in Mortgages across Canada if the Manager deems it to be advisable. The Corporation intends to further grow its portfolio by periodically raising capital through equity offerings and using the proceeds of such offerings to fund additional construction Mortgages generated through the Manager or other sources.

The Manager manages and administers the Mortgages, for and on behalf of the Corporation, from sourcing the borrowers through to repayment of the loan, which is intended to provide the Corporation and the Shareholders full knowledge and control of the composition and performance of the portfolio.

In accordance with the investment restrictions of the Corporation (as discussed in "**Item 2 – Business of the Corporation, 2.3.1 – Investment Objectives of the Corporation – Investment Restrictions**"), the Corporation has, and will have, no exposure to the ABCP securitization market and will not invest directly or indirectly in securitized pools of Mortgages, including securitized pools of sub-prime Mortgages. It is the Corporation's view that the term "sub-prime", while not conclusively defined, typically refers to loans made to borrowers with bad or no credit history on completed properties with no commercial intent. The Corporation's primary security on any Mortgages will be real property. The due diligence process the Manager undertakes with respect to each investment will determine if the real property securing a loan is able to adequately support the Mortgage loan. Further, the Manager as part of its underwriting process assesses the ultimate remedy that includes taking ownership of the project or property. The Corporation will only advance Mortgage credit if the Manager is reasonably satisfied that this security will potentially mitigate risk.

Focusing on preservation of invested capital by way of directly secured lending positions, the Corporation takes advantage of opportunities to invest in loans in the Canadian construction Mortgage lending market in an effort to generate returns that are greater than those typically generated by other MICs and fixed income products.

### **2.2.3 The Portfolio**

As of March 31, 2017, the Portfolio consists of 31 Mortgage loans of various types with approximately \$25 million in outstanding balance, all of which are in good standing and not in default. All Mortgages in the Portfolio have a term of one year or less and are payable on demand. During the term of the Mortgage, no payments of either principal or interest is received by the Corporation. Interest accrues until the end of the term, at which time, principal and accrued interest are paid by the borrower to the Corporation.

#### Portfolio – Property Types

The following table illustrates, as of March 31, 2017, the Portfolio by property type relative to the allocation targeted by the Manager ("**Target Allocation**") and the maximum allocation levels specified in the Asset Allocation Model ("**AAM Allocation**"):

Property Type	Mortgage Portfolio (No.)	Outstanding Balance (\$)	Total Committed Mortgage Principal (\$)	%	AAM Allocation*
<b>Residential</b>					
Single family – Detached	25	18,887,379	29,327,000	76%	100%
Single family – Attached	6	5,805,906	8,565,000	24%	100%
<b>Total:</b>	<b>31</b>	<b>24,693,285</b>	<b>37,892,000</b>	<b>100%</b>	<b>N/A</b>
<b>Geographic Location of Property</b>					
Calgary and Area	15	13,014,100	20,947,000	53%	100%
Edmonton and Area	1	1,651,026	3,000,000	7%	100%
Other Alberta	10	5,294,625	8,025,000	21%	100%
British Columbia	4	3,796,003	4,970,000	15%	50%
Saskatchewan	1	937,531	950,000	4%	25%
<b>Total:</b>	<b>31</b>	<b>24,693,285</b>	<b>37,892,000</b>	<b>100%</b>	<b>N/A</b>
<b>Interest Rate (excluding fees)</b>					
Less than 11%	5	5,392,638	9,250,000	27%	N/A
11%-11.99%	4	2,494,885	8,027,000	11%	N/A
12%-12.99%	14	6,576,207	8,470,000	21%	N/A
Greater than 12.99%	8	10,229,555	12,145,000	41%	N/A
<b>Total:</b>	<b>31</b>	<b>24,693,285</b>	<b>37,892,000</b>	<b>100%</b>	<b>N/A</b>
<b>Original Funding Date **</b>					
Calendar 2017	3	1,508,119	3,650,000	41%	N/A
Calendar 2016	15	8,591,378	14,372,000	27%	N/A
Calendar 2015	6	6,812,070	7,545,000	25%	N/A
Calendar 2014 or earlier	7	7,781,718	12,325,000	7%	N/A
<b>Total:</b>	<b>31</b>	<b>24,693,285</b>	<b>37,892,000</b>	<b>100%</b>	<b>N/A</b>

The Portfolio consists of a diversified pool of construction Mortgages, or interests therein, meeting the criteria established in the Asset Allocation Model. The Mortgage loans comprising the Portfolio typically include the following attributes:

1. interest only loans with a typical duration of 12 months;
2. first and subordinate Mortgage positions;
3. Mortgages invested primarily in large urban markets across western Canada, primarily in Alberta;
4. Mortgages secured by the properties to which they relate and which typically include corporate and/or personal guarantees of the borrowers or the principals thereof; and
5. all loans are uninsured Conventional Mortgage loans.

### 2.3 Development of Business

Since the Corporation filed its final prospectus on October 25, 2013, the Corporation has raised approximately \$26.9 million through the sale of Class A Non-Voting Shares and Class B Non-Voting Shares. With the funds

raised, the Corporation originally acquired a portfolio of 30 mortgages, and has since continued to operate an active lending business with ongoing mortgage loan originations and repayments.

Since acquiring the original Portfolio in 2013 to March 31, 2017, the Manager has funded a total of approximately \$113 million in Mortgage investments, including charged interest and fees of approximately \$12.4 million, of which \$107.8 million has been repaid by borrowers during this period. The Manager regularly extends to potential borrowers, commitment letters to fund new Mortgage loans. Collectively, all such outstanding commitments are referred to as "**Committed Mortgages**". There can be no assurance that Committed Mortgages will become funded Mortgage loans until executed by the borrowers, however, the Manager anticipates that the majority of the Committed Mortgages outstanding from time to time will be accepted and become funded Mortgage loans ("**Funded Mortgages**"). As of March 31, 2017, there were Committed Mortgages representing approximately \$37.9 million in principal amount. Funded Mortgages are Mortgages in which all previously negotiated funds have been advanced to the borrower. Mortgages in which construction is progressing and the Manager issues progress draws based on the applicable development stage are referred to as "**Partially Funded Mortgages**".

### **2.3.1 Investment Objectives of the Corporation**

The investment objective of the Corporation is, with a focus on capital preservation to acquire and maintain a Portfolio consisting primarily of construction Mortgages that generates attractive returns relative to their risk in order to permit the Corporation to pay distributions to its shareholders. The Corporation intends to declare quarterly cash distributions by way of dividends to holders of Class A Non-Voting Shares and Class B Non-Voting Shares of record on the last business day of each quarter. However, there is no assurance that the Corporation will be able to declare any dividends in any period or at all. See "**Item 5 – Description of Securities Offered**" and "**Item 8 - Risk Factors**".

#### Investment Strategies

The Corporation works to achieve its investment objective by investing in a Portfolio consisting primarily of construction Mortgages combined with other Mortgages which the Manager deems advisable that are secured by development stage residential (including multi-residential) real property. The Corporation intends to focus its investments primarily in urban markets and their surrounding areas, which the Corporation believes are typically more liquid and provide less volatile security for Mortgage loans. The Corporation intends to focus its investment in western Canada, however, the Corporation's Asset Allocation Model permits the Corporation to invest in Mortgages across Canada if the Manager determines it to be advisable.

The Manager is responsible for directing the affairs and managing the business of the Corporation. The Manager sources Mortgages, evaluates projects, collects payments from borrowers, deals with enforcement proceedings and administers the Mortgages. The Manager charges Lender Fees directly to borrowers as compensation for such services. For details regarding the services provided by the Manager, see "**Item 3 - Directors, Management and Principal Holders, 3.2.2 - Manager and Portfolio Advisor of the Corporation**".

Through direct marketing to the construction industry, and through a network of Mortgage brokers, the Manager sources construction projects for which the Corporation can provide loans. The Corporation charges premium interest rates due to the inefficient nature of this marketplace. In addition, a portion of Lender Fees charged to borrowers will be paid to the Corporation which will enhance the income of the Corporation and the return on investment for investors. In circumstances where Lender Fees are payable, the Corporation is entitled to receive an amount equal to 28.6% of the Lender Fees with the remaining portion, being 71.4%, retained by the Manager. The Corporation's focus on short-term Mortgages is primarily designed to reduce risk in the Portfolio and increase liquidity of the investments, but also contributes to the Corporation's income by increasing the opportunities of the Corporation to generate Lender Fees. The Manager believes that these strategies combine to provide the Corporation with opportunities to:

- obtain favourable yields and maximize returns through efficient sourcing and management of Mortgages secured by real property and through participation in the underserved construction lending niche market which requires more active management and provides premium returns,
- gain access to a continuous supply of construction Mortgage investment opportunities; and
- mitigate risk in the lending process by focusing on short-term Mortgages and utilizing the construction and lending experience and underwriting practices of the Manager.

The long-term strategy of the Corporation is to grow the Portfolio by continuing to fund construction Mortgages. This continuing growth will enhance the economies of scale and returns achieved by the Corporation as a whole. Moreover, the Manager expects that a larger size Portfolio will provide the Corporation with greater diversification of Mortgages and increased Mortgage funding capacity and flexibility.

### Investment Process

The Corporation utilizes an investment process that is characterized by a macro to micro approach to identify attractive Mortgage investment opportunities, beginning first with a macro-level economic analysis of various geographic housing markets and properties, and second with the identification of individual Mortgage investment opportunities and the assessment of specific details of each project and borrower. This macro to micro approach to loan selection is expected to yield Mortgage investments that are determined to be high quality by the Manager. The constant assessment of macro-economic factors affecting local lending markets allows the Manager to react proactively to negative factors by reducing lending limits and/or reducing new Mortgage origination in lending markets in which the Manager has identified negative factors. In the Manager's opinion, "high quality" Mortgage investments are investments in Mortgage loans where: (a) the Corporation has a clear exit strategy, (b) the Mortgage is secured by real property that is reasonably liquid, (c) the borrower has a reasonable amount of equity invested in the specific asset securing the loan and (d) the borrower has the skills and abilities necessary to successfully complete the project.

At an early stage of the identification and evaluation process, the Manager confirms that a Mortgage opportunity satisfies the Corporation's lending criteria and Asset Allocation Model. Once determined by the Manager to be satisfactory based on an initial review, the Manager is required to perform comprehensive due diligence of the underlying assets. This due diligence process revolves around the Manager's system of underwriting loans, and evaluating projects and borrowers and includes a thorough assessment of the costs and valuation of the project. The process may include (but is not limited to), obtaining structural reports, environmental reports, appraisals and title insurance.

The due diligence procedures undertaken by the Manager generally include, but are not limited to, the following considerations:

Duties Performed	Matters Considered
A. General Market Analysis	<ul style="list-style-type: none"> <li>• Macroeconomic variables</li> <li>• Demographic characteristics</li> <li>• Socioeconomic outlook</li> </ul>
B. Local Market Analysis	<ul style="list-style-type: none"> <li>• Assessment of local market conditions</li> <li>• Level of infrastructure development</li> <li>• Assessment of potential liquidity of local market</li> </ul>
C. Project Analysis	<ul style="list-style-type: none"> <li>• Valuation of completed project</li> <li>• Costs to complete</li> </ul>

Duties Performed	Matters Considered
D. Debt Analysis	<ul style="list-style-type: none"> <li>• Interest rate sensitivity</li> <li>• Market appetite for increased leverage</li> </ul>
E. Borrower Analysis	<ul style="list-style-type: none"> <li>• Financial status of borrower</li> <li>• Borrower's skills and ability to successfully complete the project, and credentials of all borrowers and sponsors</li> </ul>
F. Type of Due Diligence	<ul style="list-style-type: none"> <li>• Financial due diligence</li> <li>• Legal due diligence - including title and off-title searches (property tax payments, work orders, fire code compliance, etc.)</li> <li>• Regular physical inspections of properties and progress by inspectors with construction experience</li> <li>• Analysis of taxes/utilities/expenses</li> <li>• Environmental and soil/structural reports completed by consultants</li> <li>• Independent valuation/appraisal report</li> </ul>

The due diligence procedures undertaken by the Manager are tailored to each lending opportunity according to the relevant aspects thereof. The Manager does not believe that all due diligence considerations are required or are performed for all loan investments. As the Corporation is an asset based lender, the bulk of the evaluation of a loan investment centers on the value proposition inherent in the project itself, and on the equity which the borrower has invested. Only minimal, if any, reliance is placed on an assessment of the credit worthiness of the borrower.

#### Funding Process

Mortgages that are determined to be satisfactory by the Manager upon completion of its due diligence and that meet the requirements of the Asset Allocation Model (on a stand-alone basis as well as in the context of the Aggregate Funded and Committed Assets), or which are otherwise considered desirable due to certain attractive features, are funded.

The Manager considers each Mortgage lending opportunity and makes the lending decision on behalf of the Corporation.

The Mortgages that the Manager funds are generally for a one-year term or less, are granted to experienced builders for the purpose of construction or renovation of wood-frame residential housing, have a flexible security structure which allows them to be re-advanced upon the substitution of acceptable additional security, generally do not require payments until after substantial completion or the sale of the constructed property, are generally kept, at the beginning of the loan, within an 80% loan-to-value ratio, and generally allow for an unlimited number of draws.

In practice, any or all of the Corporation's Mortgages may become "revolving" in nature, however there is no obligation on the part of either the Corporation or the borrower for any loan to be "revolving". The revolving aspect, if any, is entirely dependent on the Corporation's satisfaction with, among other things, the performance of the borrower, the state of the real estate markets, the current value of available security and other factors, including the borrower's desire to continue to utilize the Corporation's financing.

In cases where the project being funded has not been completed and/or sold by the end of the initial term, and assuming that the Manager is comfortable with the marketing efforts made by the borrower and its security position, then the Corporation will generally renew the Mortgage to give additional time for completion and marketing. In these cases, no cash is generally received on the renewal, although the Corporation sometimes requires a payment or additional security from the borrower.

In other cases, the intention of the Corporation 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. Borrowers who are builders will generally have a number of projects under construction at varying stages of completion. At term-end, the Mortgages are typically renewed and the borrower draws down on the renewed Mortgage to continue to fund their other projects. In these cases, there is a revolving aspect to the Mortgage but no cash is generally received on the renewal.

Payments of principal, interest and fees are generally only required on the sale or refinancing of the property forming the security for the Corporation's Mortgages. However, the standard Mortgage terms stipulate that payments are expected after substantial completion of a project. Further, all of the Mortgages are demand loans, which can be called at the Corporation's discretion.

At inception, the Corporation targets a loan to value ratio not exceeding 80%. For various reasons including accruing interest, delays in completion of projects and changing market values, this target ratio is sometimes exceeded. The Corporation generally considers any loan that exceeds an estimated 85% loan to value to be impaired.

Calculating a loan to value ratio requires estimates of value, which are subject to uncertainty.

Liquidity risk for the Corporation comes primarily from the prospect of funding the full amount of Committed Mortgages for which sufficient funds may not be available to make draws as requested by the borrower. The Corporation has different methods to manage liquidity and to ensure that commitments can be met. These methods include the availability of the Corporation's \$3.5 million line of credit to address short term cash flow issues, detailed cash flow planning procedures and the Corporation's network of affiliates and mortgage industry contacts, through which Mortgages can be sold or syndicated as required for cash flow purposes. The Corporation may purchase Mortgages when excess cash is on hand, quality Mortgages are available to purchase, and opportunities to immediately fund additional Mortgages are not available. The acquisition of Mortgages helps to minimize excess cash balances and maximize interest revenue. Mortgages are sold when, notwithstanding the availability of the Corporation's line of credit, additional cash is required or is forecast to be required in order to fund Mortgage draws, commitments or new Mortgages.

Notwithstanding the fact that the Corporation may sell or purchase Mortgages to or from a variety of third parties, historically almost all of the sales and purchases of Mortgages, which have helped keep the Mortgage book full and which have been a source of liquidity as required, have been to and from related parties, in particular BCL. The Corporation has often been reliant on BCL (a related party) as a vendor and purchaser of Mortgages and as a source for liquidity, including at certain times of low cash flow, for payment of its dividends.

This reliance means that if BCL was unwilling, or unable, to act as a purchaser or vendor of Mortgages then the Corporation, would have to leave a substantially larger margin for error in its cash management practices, which would reduce profitability. The Corporation expects to continue to be able to rely on BCL as a source of liquidity in the future. It is unlikely that another party could be found which could provide liquidity as quickly or as efficiently. See "**Item 8 - Risk Factors – The Corporation may be Unable to Fund Investments**".

Mortgages purchased from BCL are often subsequently sold back and vice versa. The purchase and sale of Mortgages from and to BCL sometimes results in balances due to or from BCL being outstanding for short periods of time. These balances are unsecured and are non-interest bearing. In some instances, the Corporation may purchase and sell the same Mortgages with BCL within a short period of time (potentially occurring within a day of each other) in order to meet its cash flow commitments. The nature of the Corporation's business results in extremely variable cash flows, with fluctuations from excess cash to shortages of cash occurring very quickly.

In addition to the foregoing methods of managing liquidity, the Corporation's Mortgage documents include language whereby a borrower cannot compel the Corporation to advance funds. One of the Corporation's primary

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

### Investment by the Corporation

The Corporation funds Mortgage loans generated for the Corporation through the Manager. The Manager reviews the loans for compliance with its underwriting guidelines and the Asset Allocation Model (based on the Aggregate Funded and Committed Assets) and, if deemed appropriate or otherwise considered desirable, approves the funding or purchase of the loan and investment of the portfolio assets in the subject Mortgage.

The Manager may source additional Mortgages through various methods, including, but not limited to, asset acquisitions, origination, syndication with other participants or in such other manner deemed advisable.

### Asset Allocation Model

The Manager has instituted an Asset Allocation Model in order to seek to manage the risk profile of the Portfolio. Accordingly, the Manager actively and regularly evaluates the Aggregate Funded and Committed Assets for compliance with the Asset Allocation Model.

The Asset Allocation Model is a dynamic investment tool that assists the Manager in its development and maintenance of the Portfolio with a view to achieving the investment objective of the Corporation. Based on evolving market conditions and the investment history of the Portfolio, the Asset Allocation Model may be amended from time to time by the Manager in order to maintain the currency and relevance of the model on the overall investment approach of the Corporation.

The Asset Allocation Model, as summarized below, dictates the allocation of the Aggregate Funded and Committed Assets based upon geographical, economic sector, term, borrower and loan-to-appraised value criteria. The Asset Allocation Model criteria include, without limitation, the following:

1. not more than 15% of the Aggregate Funded and Committed Assets can be allocated to a Mortgage loan secured by any one property;
2. not more than 20% of the Aggregate Funded and Committed Assets can be allocated to a Mortgage loan with any one borrower or group of related borrowers;
3. the average term to maturity on Mortgage loans, comprising the Aggregate Funded and Committed Assets, shall not exceed 14 months. The target term to maturity on any one Mortgage investment, shall be 12 months;
4. not more than 80% of the Aggregate Funded and Committed Assets shall be secured by second Mortgage positions;
5. not more than the following percentages set out below of the Aggregate Funded and Committed Assets can be invested in the corresponding regions:

Alberta	100%
Ontario	50%
British Columbia	50%
Quebec	35%
Atlantic Provinces	25%
Manitoba and Saskatchewan	25%
Yukon, Northwest Territories and Nunavut	10%

6. not more than the following percentages set out below of the Aggregate Funded and Committed Assets can be invested in Mortgages secured by the product type set out below:

Residential and Multi-Residential Buildings	100%
Retail Buildings	10%
Industrial Buildings	10%
Office Buildings	10%
Self-Storage Buildings	5%
Hotels	5%

7. on the date of funding, the maximum loan-to-value ratio of any one Mortgage loan comprising the Aggregate Funded and Committed Assets shall not exceed 80%; and
8. the Corporation will not borrow money in excess of 25% of the Corporation's NAV at the time of borrowing.

Exceptions to the Corporation's Asset Allocation Model may be made by the Manager, provided that (i) each individual exception, excluding the effect of any subsequent exceptions, must be remedied within 120 days from the date of funding of the subject Mortgage; and (ii) in the aggregate at any given time, permitted exceptions to the Asset Allocation Model shall not represent more than 15% of the Corporation's NAV. Based on evolving market conditions and the investment history of the Portfolio, the Asset Allocation Model may be amended from time to time by the Manager in order to maintain the currency and relevance of the model on the overall investment approach of the Corporation.

Unless expressly approved by the Board, the Corporation's assets will not be invested in (i) loans made against the security of property owned or against which the senior Mortgage interest is held by any affiliate of the Corporation or the Manager, or (ii) any other non-arm's length loans.

#### Amendments to Investment Policies

The Corporation's investment policies as set out above may be changed, or waived in respect of specific Mortgage applications, with the approval of the shareholders.

#### Leverage

The Corporation will not generally utilize leverage to enhance returns. However, the Corporation does have and will continue to maintain one or more credit facilities with arms-length financial institutions or other lenders to, among other things: (i) facilitate operating activities and fund ordinary course of business expenses; (ii) facilitate payment of redemptions and enhance liquidity of assets; and (iii) facilitate entering into Mortgage loans or funding subsequent advances in an expedient manner. In connection with any funding facility, the Corporation may grant security over any individual asset or over any pool of assets.

The two key debt covenants of the Corporation's credit facilities are:

**Total Cash Flow Coverage Ratio of no more than 12 months:** This debt covenant provides that the balance outstanding on the credit facility at month end plus accrued interest is not to exceed the total amount of the outstanding principal balance of Mortgages with maximum terms of 12 months or less. Interest on the line of credit is paid monthly, so no significant interest accrual is outstanding. None of the Corporation's Mortgages have terms of greater than 12 months, and interest receivable on the Corporation's Mortgage loans is compounded and added to the outstanding principal balance monthly. Therefore, the Mortgages receivable balance in the financial statements is equal to the outstanding principal balance of the Mortgages as defined in the covenant.

At December 31, 2015, the credit facility balance, including accrued interest, was \$909,467 and the outstanding principal balance of Mortgages was \$24,187,167. At December 31, 2016, the credit facility balance was \$nil and the outstanding principal balance of Mortgages was \$23,354,550. In each case the threshold was exceeded by approximately 25 times.

**Tangible Net Worth of not less than 10,000,000:** Tangible net worth is defined as the aggregate of share capital and retained earnings, less intangible assets. At December 31, 2015 it was \$22,403,082 and at December 31, 2016 it was \$23,128,607. In each case, it exceeded \$10,000,000 by more than 2 times.

The Corporation is also restricted in its use of leverage by the requirement to maintain its status as a MIC. See "**Item 6 - Canadian Federal Income Tax Considerations, 6.2.2 – MIC Requirements**".

### Investment Restrictions

As a general rule, the assets of the Corporation will be invested in accordance with its investment objective and, subject to certain duly approved exceptions described above, the Asset Allocation Model. However, as the Corporation intends to continue to qualify as a MIC, the Corporation is subject to certain other investment restrictions under applicable law or otherwise that, among other things, limit the investments that may be made by the Corporation. The articles of the Corporation provide the following investment restrictions. These investment restrictions may not be changed without the approval of both the regular voting, and the Shareholders in accordance with applicable law:

1. the Corporation will not make any investment or conduct any activity that would result in the Corporation failing to qualify as a "mortgage investment corporation" within the meaning of the Tax Act;
2. the Corporation will not invest in asset backed commercial paper or in securitized pools of Mortgage loans, including securitized pools of sub-prime mortgage loans;
3. the Corporation will not invest in securities other than (i) first and subordinate Mortgages secured by real property and, (ii) 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 3 years or less. For greater certainty, the Corporation shall not be precluded from owning securities of its subsidiaries or affiliates;
4. the Corporation will not engage in securities lending; and
5. the Corporation will not engage in derivative transactions, other than derivative transactions to hedge interest rate and not for speculative purposes.

### **2.3.2 Competitive Advantages of the Corporation**

The Manager believes that the following competitive advantages will allow the Corporation to continue to achieve its investment objectives.

#### Experienced and Reputable Management

The directors, officers and principals of the Corporation and the Manager have experience, a proven track record, an established reputation and a network of long-term relationships in the construction and Mortgage lending industries in western Canada.

The Corporation benefits from the construction, asset management and debt recovery experience of the Manager. Since the inception of the Manager and its predecessor, its team of professionals has founded and built a full-service Mortgage management platform that has the capacity to successfully underwrite, finance, acquire and

manage assets that fit the investment profile and mandate of the Corporation. As of the date of this Offering Memorandum, the Manager had over \$56 million in assets under management. The directors, officers and principals of the Corporation and the Manager have expertise in three areas they consider key to generating attractive returns for the Corporation, namely (a) knowledge of Mortgage underwriting and finance structuring; (b) knowledge of residential construction and the construction process; and (c) the capacity to provide comprehensive and structured Mortgage loan oversight, servicing and collection methodology.

#### Structured to Enhance Returns and Investor Confidence

The structure of the Corporation is designed to enhance returns and instill investor confidence in the Corporation. The principal components of this structure are:

*Aligned Interests; Simple Fee Arrangements.* The Manager's interests are aligned with those of the Corporation and the Shareholders. The Corporation receives 28.6% of the Lender Fees from borrowers. In the event of a Mortgage Loan Impairment where the Corporation is not able to fully recover the original principal amount invested in the applicable Mortgage, the Manager is obligated to contribute to the Corporation in connection with a Mortgage the lesser of: (a) the portion of the loss of the principal amount invested by the Corporation; and (b) the portion of the Lender Fees the Manager received in respect of the then current term of such loan.

Subject to compliance with the MIC requirements under the Tax Act, the principals of the Manager and the members of the Board as well as certain affiliates and associates have invested in the Corporation's subordinated Class B Non-Voting Shares.

The expenses of the Manager will be satisfied by the Manager from the Manager Fee and the Lender Fees. See "**Item 3 – Directors, Management and Principal Holders, 3.1 – Compensation and Securities Held – Management Fee of the Manager**".

*Asset Allocation Model.* The Corporation has adopted an Asset Allocation Model that is focused on capital preservation and on the achievement of the Corporation's investment objective and prescribed or targeted returns. The Corporation's Asset Allocation Model sets specific thresholds that are regularly monitored and that must be complied with at the time of issuance of every Mortgage investment commitment (subject to duly approved exceptions). See "**Item 2 – Business of the Corporation, 2.3.1 - Investment Objectives of the Corporation – Asset Allocation Model**".

*Construction Experience and Capabilities.* The Manager has experience with all aspects of residential construction and through staffing, and its relationships with industry partners, has ready access to building trades and materials at preferred rates. This construction expertise provides the Manager with the opportunity to complete any unfinished development projects which the Corporation holds or may acquire through enforcement proceedings or otherwise in a timely and cost efficient manner.

*Governance Structure.* The Corporation is governed by the Board, a majority of the members of which are independent directors.

## **2.4 Long Term Objectives**

The long term objectives of the Corporation are to continue to grow its mortgage portfolio in order to further diversify its investments and to create additional opportunities to, with a focus on capital preservation, acquire and maintain, a portfolio consisting primarily of construction Mortgages that generates attractive returns in order to permit the Corporation to pay distributions to its shareholders.

## **2.5 Short Term Objectives**

The Corporation's objective for the next 12 months is to use the funds raised under this Offering to increase the size of its mortgage portfolio by purchasing loans from a third party, by funding new loans, or by funding draws on existing Committed Mortgages.

## 2.6 Insufficient Funds

The available funds of the Offering may not be sufficient to accomplish the Corporation's proposed objectives and there is no assurance that alternative financing to pay for such objectives will be available. See "**Item 1 – Available Funds, 1.2 - Use of Available Funds**".

A purchaser of Class A Non-Voting Shares will not be required to contribute any additional funds over and above its subscription amount. The proceeds from this Offering may not be sufficient to accomplish the proposed objectives.

## 2.7 Material Agreements

The following sets out each of the material agreements relating to the Corporation and this Offering (the material terms of which are discussed herein):

### 1. Management Services Agreement

The Corporation has entered into the Management Services Agreement with the Manager to provide management and portfolio advisory services as well as underwriting and mortgage management services. See "**Item 3 – Directors, Management and Principal Holders, 3.1 – Compensation and Securities Held – Management Fee of the Manager**". For a description of the duties to be provided under the agreement by the Manager, see "**Item 3 – Directors, Management and Principal Holders – 3.2.2. - Manager and Portfolio Advisor of the Corporation**" a copy of this agreement can be found on SEDAR.

### 2. Voting Share Unanimous Shareholders Agreement

The Corporation has entered into the Voting Share Unanimous Shareholders Agreement with all of the shareholders of the Voting Shares. See "**Item 3 – Directors, Management and Principal Holders, 3.1 – Compensation and Securities Held**".

## ITEM 3 - DIRECTORS, MANAGEMENT AND PRINCIPAL HOLDERS

### 3.1 Compensation and Securities Held

The Principal Shareholders are Messrs. Sandy Loutitt, John Strangway, Brent Walter, David Pinkman and John Drummond as each owns beneficially and of record 20% of the issued and outstanding Voting Shares of the Corporation. The following tables set out information about each of the holders and each person who, directly or indirectly, beneficially owns or controls 10% or more of any class of shares. To the knowledge of the Corporation, no other person holds more than 10% of the Voting Shares except as disclosed below:

Name and municipality of principal residence	Position held and date of obtaining that position <sup>(1)</sup>	Compensation paid by the Corporation since inception and the compensation anticipated to be paid in current financial year	Number, type and percentage of securities of the Corporation held	Number, type and percentage of securities of the Corporation held after the completion of the Maximum Offering
Sandy L. Loutitt Calgary, Alberta	Director March 28, 2013	\$6,500/\$3,000	20 Voting Shares (20%) 16,795 Class A Non-Voting Shares (1.2%) 211,240 Class B Non-Voting Shares (21.7%)	20 Voting (20%) 16,795 Class A (<1%) 211,240 Class B (21.7%)
John Strangway Abbotsford, British Columbia	Director March 28, 2013	\$6,500/\$3,000	20 Voting (20%) 550 Class A (<1%)	20 Voting (20%) 550 Class A (<1%)
Brent J. Walter Calgary, Alberta	Director March 28, 2013	\$6,000/\$3,000	20 Voting (20%) 13,850 Class A (1.0%) 121,200 Class B (12.4%)	20 Voting (20%) 13,850 Class A (<1%) 121,200 Class B (12.4%)
John A. Drummond Calgary, Alberta	Director March 28, 2013	\$6,500/\$3,000	20 Voting (20%) 10,000 Class A (<1%) 6,050 Class B (<1%)	20 Voting (20%) 10,000 Class A (<1%) 6,050 Class B (<1%)
David E.T. Pinkman Calgary, Alberta	Director March 28, 2013	\$6,000/\$3,000	20 Voting (20%) 63,320 Class B (6.5%)	20 Voting (20%) 63,320 Class B (6.5%)
Victor P. Harwardt Vancouver, British Columbia	Director March 11, 2014	\$6,000/\$3,000	1,000 Class A (<1%) <sup>(2)</sup>	1,000 Class A (<1%) <sup>(2)</sup>

**Notes:**

- (1) Each of the above persons has held these positions since the establishment of the Corporation.  
(2) Shares held by Mr. Harwardt through a professional corporation controlled by him.

All of the Voting Shares of the Corporation held by the Principal Shareholders are subject to a unanimous shareholders' agreement (the "**Voting Share Unanimous Shareholders Agreement**") dated December 10, 2013 among the Principal Voting Shareholders. Under the Voting Share Unanimous Shareholders Agreement, none of the Voting Shares of the Corporation may be disposed of or dealt with in any manner except in accordance with the terms thereof.

Messrs. Sandy Loutitt and John Strangway are considered to be associates of each other in accordance with applicable Canadian securities law as each are shareholders, directors and officers of the Manager.

Management Fee of the Manager

For acting as manager and portfolio advisor of the Corporation, the Manager receives from the Corporation a management fee (the "**Manager Fee**") equal to 1% per annum of the book value of the share capital of the Corporation, calculated daily, aggregated and paid monthly in arrears, plus applicable taxes. In addition, the Manager charges, collects and retains Lender Fees from borrowers. Lender Fees are charged as compensation for services rendered by the Manager in the origination, undertaking and oversight of Mortgages. As a result of

the increased effort required to oversee construction Mortgages involving multiple advances compared to Conventional Mortgages, Lender Fees are higher for construction Mortgages. Generally, the Lender Fees charged to the borrower will equal 3.5% of the approved loan amount. However, there is no assurance that the Lender Fees will be equal to or be greater than 3.5%. In circumstances where Lender Fees are payable, the Corporation will receive an amount equal to 28.6% of the Lender Fee with the remaining portion, being 71.4%, retained by the Manager. The Corporation collects these fees from the borrower, both on its 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 Corporation then pays the Manager's share of the fees to the Manager, regardless of whether or not any payments have been received on the Mortgage. Such payments to the Manager are generally paid within 30 days of having been charged to the borrower. Renewal fees are also charged to the borrower and paid to the Manager during the term of the Mortgage.

In the event of a Mortgage Loan Impairment and the Corporation is not able to fully recover the original principal amount invested in the applicable Mortgage, the Manager is obligated to contribute to the Corporation in connection with the Mortgage, the lesser of: (a) the portion of the loss of principal amount invested by the Corporation; and (b) the portion of the Lender Fees the Manager received in respect of the then current term of such loan.

The Corporation, directly or indirectly, will pay for or cause to be paid all expenses the Manager incurs in connection with the Corporation's operations and management. In addition to the fees and expenses referenced elsewhere in this Offering Memorandum, it is expected that these expenses will include, without limitation: (a) financial reporting costs, and mailing and printing expenses for periodic reports to securityholders (including Class A Non-Voting Shareholders) and other securityholder communications including marketing and advertising expenses; (b) fees payable to its transfer agent; (c) costs and fees payable to any agent, legal counsel, actuary, valuator, technical consultant, accountant or auditor or other third party service provider; (d) ongoing regulatory filing fees, license fees and other fees (including in respect of the Corporation, stock exchange fees, corporate filing fees and listing fees); (e) any expenses incurred in connection with any foreclosure proceedings and any other legal proceedings in which the Manager participates on behalf of the Corporation for the purpose of providing the property of the Corporation, including without limitation, costs associated with the enforcement of Mortgages; (f) all expenses related to foreclosure administration and disposal and costs incurred by the Corporation in repairing or completing the property as deemed necessary by the Manager, provided that the Corporation shall be entitled to all net sales proceeds resulting from the disposal of any foreclosed properties and the Manager will not receive any profit from such foreclosure activities; (g) any fees, expenses or indemnity payable to, and expenses incurred by, the Board; (h) any additional fees payable to the Manager for performance of extraordinary services on behalf of the Corporation; (i) allowance for bad debts expense; (j) consulting fees including website maintenance costs and expenses associated with the preparation of tax filings; and (k) other administrative expenses of the Corporation (including the calculation of NAV). The aggregate annual amount of the general operating and administrative fees and expenses payable by the Corporation (excluding the Manager Fee, interest and the annual allowance for bad debts) are estimated to be \$100,000 per annum (assuming a NAV of the Corporation of approximately \$30 to \$40 million). The Corporation will also be responsible for all taxes, commissions, brokerage commissions and other costs of securities transactions, debt service and costs or amounts relating to any credit facilities and any extraordinary expenses which it may incur or which may be incurred on its behalf from time to time, as applicable.

The expenses of the Manager will be satisfied by the Manager. Pursuant to the terms of the Management Services Agreement, the Manager will bear all costs and expenses incurred by the Manager in connection with: (a) the salaries, wages and other employee expenses; (b) expenses and fees payable to any investment advisor(s) for services rendered to the Corporation; (c) rent payable for space used by the Manager and utilities, office furniture and equipment for such space; (d) other expenses customarily considered to be overhead expenses; and (e) all costs and fees associated with obtaining, maintaining and complying with licensing requirements of the *Real Estate Act* (Alberta) and similar legislation in other jurisdictions of Canada where the Corporation carries on business.

Certain other fees associated with Mortgage loans are generally paid by the borrowers thereunder. For instance, Mortgage brokers are generally compensated for services by brokerage fees paid by the Mortgage loan borrower. Further, the costs of initially establishing a Mortgage loan (e.g., legal expenses, administrative fees, etc.) are generally paid by the Mortgage loan borrower.

### 3.2 Management Experience

#### 3.2.1 The Directors and Executive Officers of the Corporation

The following table discloses the principal occupations of the directors and executive officers of the Corporation over the past five years:

Name	Principal Occupation	Related experience
Sandy Loutitt Director, President and CEO of the Corporation Director and CEO of the Manager	President, CEO and director of (a) BCL since 2014; and (b) the Manager since January 2011; and (c) Red Rock Energy Inc. (TSX-V) (" <b>Red Rock</b> ") from April 2005 to May 2017.	Mr. Loutitt is the founder of the various organizations under the "Builders Capital" name and the President and CEO of BCL, the Corporation and the Manager. Mr. Loutitt serves on the board of directors of BCL, the Corporation and the Manager. He is a licensed Mortgage broker and has been actively involved in construction financing for over 10 years. Mr. Loutitt is an active member of the Alberta Mortgage Brokers Association. He was also President and CEO of Red Rock, a TSX-V listed resource company from April 2005 to May 2017 and continues to be a director of Red Rock. He received a Bachelor of Arts degree in Economics from the University of British Columbia in 1996. His previous experience includes ownership and operation of a design/build construction company for 15 years. Mr. Loutitt is 48 years old.
John Strangway Director and CFO of the Corporation Director, Chief Compliance Officer and CFO of the Manager	CFO of BCL and the Manager since 2014; prior thereto Chartered Accountant (self-employed) from 1995 to January 2011.	Mr. Strangway is the CFO for various organizations under the "Builders Capital" name, including BCL and the Manager and is responsible for overseeing reporting and compliance issues. He has an extensive background in public practice and also serves as the chief compliance officer for the Manager. He is a member of the board of directors of BCL, the Corporation and the Manager. Mr. Strangway received his Bachelor of Commerce degree from the University of British Columbia in 1990 and obtained his Chartered Accountant designation from the Institute of Chartered Accountants of British Columbia in 1993. Mr. Strangway is 48 years old.
Brent Walter Director of the Corporation	Lawyer, ProVenture Law LLP since 2004.	Mr. Walter is a partner with the firm ProVenture Law LLP in Calgary, Alberta, and practices primarily in the areas of securities and corporate/commercial law. Mr. Walter served as a director and officer of Red Rock from April 2005 to May 2017 and is currently a director of one publicly listed company and a number of private corporations. Mr. Walter received a J.D. degree from the University of Saskatchewan in 1990. Mr. Brent Walter is a member of the Law Societies of Alberta (active) and Saskatchewan (inactive). Mr. Walter is 51 years old.

Name	Principal Occupation	Related experience
David E. Pinkman Director of the Corporation	CEO, CFO and director of International Softrock Oil Company Limited (" <b>Softrock</b> "), (TSX-V) since January 2013. CFO and director of SynStream Energy Corp. (" <b>SynStream</b> "), (TSX-V) since May 2007; prior thereto CFO and director of PanWestern Energy Inc. (now Valeura Energy Corp.) from November 2001 to April 2010 (TSX-V).	Mr. Pinkman has been the CFO and a director of SynStream (formerly Saccharum Energy Ltd.), a junior oil and gas exploration company (TSX-V) since its inception in May 2007. He was appointed CEO, CFO and a director of Softrock (formerly SFR Energy Ltd.) in January 2013. In April 2013, Softrock became a reporting issuer upon its completion of its initial public offering on the TSX-V as a capital pool company. He has been a director of Red Rock (TSX-V) since April 2005. Previously, he was the CFO and a director of PanWestern Energy Inc. (now Valeura Energy Corp.), a junior oil and gas company from November 2001 to April 2010 (TSX-V). He was also President and a director of Explorer Resources Inc., a capital pool company from September 2005 to January 2007. Prior to that, he was Vice President and a director of Powermax Energy Inc., an oil and gas issuer (TSX- V), from November 2001 until September 2005. He has also served on the board of directors of Renewable Energy Inc., (TSX-V) and Renewable Power & Light Plc., an AIM-listed independent power production company. From 1991 to 2000, Mr. Pinkman was also a partner practicing primarily in the fields of corporate and securities law with the firm of Pinkman, McArdle Barristers and Solicitors. He received a Bachelor of Arts degree from the University of Calgary in 1980, an LL.B. degree from the University of British Columbia in 1984, and became a member of the Law Society of Alberta in 1985 (currently inactive). Mr. Pinkman is 59 years old.
Mr. John Drummond Director of the Corporation	President of Drummond Financial Services Ltd. since January 2006.	Mr Drummond is President of Drummond Financial Services Ltd and serves the mortgage lending industry in select sectors. He is a graduate of McGill University and the University of Windsor and was called to the Alberta bar in 1977; retiring from Gowling Lafleur, Henderson as Counsel in 2005, he remains active in the business community. He was Chair of the Foreclosure Subsection of the Canadian Bar Association in Calgary for many years with a practise focused on litigation relating to interests in land. He is 65 years of age.

Name	Principal Occupation	Related experience
Mr. Victor Harwardt Director of the Corporation	Lawyer, Salley, Bowes Harwardt Law Corp. since 1995	Mr. Victor P. Harwardt received a Bachelor of Arts degree from the University of Calgary and, in 1982, a Bachelor of Laws degree from the University of British Columbia. He was admitted to the Law Society of British Columbia in 1984. Mr. Harwardt's preferred areas of practice are securities, corporate finance and corporate and commercial law. He represents companies in the natural resource and technology sectors and assists them in a variety of matters including public and private equity financings, stock exchange listings, mergers, acquisitions and other corporate combinations. A significant element of his practice is international in scope. Mr. Harwardt has served as a director or senior officer of a number of publicly listed companies. He is Past President and sits on the advisory board of the British Columbia Housing Foundation, a non-profit society which provides affordable housing in Vancouver for low income seniors. Mr. Harwardt is 59 years old.

### 3.2.2 Manager and Portfolio Advisor of the Corporation

Builders Capital Management Corp., being the manager to and portfolio advisor of the Corporation, was incorporated under the ABCA on January 27, 2011. Mr. Sandy Loutitt will be principally responsible for making investment decisions on behalf of the Corporation in his capacity as investment advisor with the Manager. The head office, registered office and principal business address of the Manager is located at Suite 405, 1210 - 8th Street SW, Calgary, Alberta. The Manager is principally owned, directly or indirectly, by Sandy Loutitt and John Strangway, each of whom are directors of the Corporation and the Manager.

#### Role of the Manager and Details of the Management Services Agreement

The following is a summary of the Management Services Agreement and is qualified in its entirety by reference to the Management Services Agreement.

Pursuant to the terms of the Management Services Agreement, the Manager has been appointed as the portfolio adviser and manager of the affairs of the Corporation and as such, is responsible for making investment decisions of the Corporation in accordance with its investment objective, strategies and restrictions and for arranging for the execution of all Portfolio transactions. See "**Item 2 – Business of the Corporation, 2.3.1 – Investment Objective of the Corporation - Investment Objective**" and "**Item 2 – Business of the Corporation, 2.3.1 – Investment Objective of the Corporation - Investment Strategies**". In such capacity, the Manager is responsible for the day-to-day activities of the Corporation (including in connection with the Mortgages) and, as applicable, any subsidiary entity of the Corporation from time to time. The services provided by the Manager under the terms of the agreement include, without limitation: (i) managing the businesses, operations and affairs of the Corporation, including its investments, (ii) seeking out and evaluating investment opportunities for the Corporation, (iii) appointing, supervising and removing service providers for the Corporation as the Manager sees fit, (iv) attending meetings of the board of directors of the Corporation, (v) carrying out all capital markets responsibilities, such as securities offerings, (vi) preparing or causing to be prepared the requisite continuous disclosure documents of the Corporation, (vii) determining the NAV and the NAV per Share, (viii) actively and regularly evaluating the Portfolio in the context of the investment objective of the Corporation and for compliance with the Asset Allocation Model and the Corporation's investment restrictions and monitoring regularly on an ongoing basis the Corporation's compliance with applicable laws and regulatory requirements,

and with the requirements under the Tax Act to qualify as a "mortgage investment corporation" thereunder, (ix) maintaining proper books, accounts and records of the Corporation and its Portfolio, (x) providing employees having the requisite experience and skill to perform the obligations of the Manager under the Management Services Agreement, and (xi) doing all such other acts or things as may be necessary or ancillary to the performance of the Manager's obligations and entering into agreements or documents on behalf of the Corporation to seek to achieve the investment objective of the Corporation or as the Corporation may from time to time reasonably request. In carrying out its obligations under the Management Services Agreement, the Manager is required to exercise its powers and discharge its duties diligently, honestly and in good faith and in the best interests of the Corporation, including without limitation exercising the standard of care, diligence and skill that a reasonably prudent person would exercise in similar circumstances. The Manager has undertaken not to, or omit to, do or take any actions, proceeding or thing that would cause or result in the Corporation ceasing to qualify as a MIC.

The Management Services Agreement also provides for the Manager to deliver to the Corporation, without limitation, the additional following services: (i) to seek out and evaluate opportunities for investments by the Corporation in Mortgages and refer to the Corporation any Mortgage investment opportunity it directly or indirectly sources that may meet the investment restrictions and the Asset Allocation Model with the goal of achieving the investment objective of the Corporation; (ii) the ongoing evaluation and, as required, adjustment of the Asset Allocation Model; and (iii) as required to perform its obligations, engage the services of third parties registered under the *Real Estate Act* (Alberta) and other similar legislation in jurisdictions of Canada where the Corporation carries on business.

The Manager will continue as manager until the dissolution of the Corporation unless: (i) the Manager resigns by written notice to the Corporation upon not less than 120 days' notice to the Corporation, (ii) the Manager is removed by written notice given by the Corporation following the occurrence of certain specified events of default (as described below), (iii) Manager is removed by written notice given by the Corporation only if the Manager is in material breach or default of the agreement and, if capable of being cured, any such breach or default has not been cured within 30 days of notice of such breach or default to the Manager; (iv) termination by mutual agreement of the Corporation and the Manager; (v) the Manager elects to resign if the Corporation is in breach or default of the provisions of the Management Agreement and, if capable of being cured, any such breach or default has not been cured within 30 days of notice of such breach or default to the Corporation; and (vi) the holders of Class A Non-Voting Shares and holders of Class B Non-Voting Shares approve by extraordinary resolution, to remove the Manager as manager of the Corporation and appoint a successor manager. The following comprise an event of default under the Management Services Agreement: (i) the bankruptcy or insolvency of the Manager, or if the Manager either voluntarily or under an order of a court of competent jurisdiction makes a general assignment for the benefit of its creditors or otherwise acknowledges its insolvency; (ii) the Manager's willful misconduct, bad faith, negligence or breach of its standard of care owed under the Management Services Agreement, which in the case of negligence which is capable of being cured, is not cured within 30 days following written notice to the Manager from the Corporation specifying in reasonable detail the nature of such negligence; or (iii) the Manager no longer holds the licenses, registrations or other authorizations necessary to carry out its obligations under the Management Services Agreement and is unable to obtain them within a reasonable period after their loss.

The Management Services Agreement contains indemnification provisions whereby the Corporation indemnifies the Manager against any loss, expense, damage or injury suffered in the scope of its authority under the agreement, provided the same does not result from willful misconduct, bad faith, negligence or breach of its standard of care owed under the agreement or breach or default of its obligations under the agreement. In addition, under the Management Services Agreement, the Manager indemnifies the Corporation against any loss, expense, damage or injury suffered as a result of the Manager's willful misconduct, bad faith, negligence or breach of its standard of care owed under the agreement or breach or default of its obligations under the agreement.

For its services, the Manager will be paid the Management Fee described under "**Item 3 – Directors, Management and Principal Holders, 3.1 – Compensation and Securities Held - Management Fees of the Manager**". Pursuant to the terms of the Management Services Agreement, the Manager will bear all costs and

expenses incurred by the Manager in connection with (a) salaries, wages and other employee expenses of the Manager; (b) expenses and fees payable to any investment advisor(s) for services rendered to the Corporation; (c) rent for space used by the Manager and other expenses customarily considered to be overhead expenses; and (d) all costs and fees associated with obtaining, maintaining and complying with licensing requirements of the *Real Estate Act* (Alberta) and other similar legislation in jurisdictions of Canada where the Corporation carries on business.

The management services to be provided by the Manager under the Management Services Agreement are to be provided on a non-exclusive basis to the Corporation, and accordingly, there are no restrictions on the Manager from providing similar management services to other entities, including investment funds or from engaging in other activities in the future (whether or not their investment objectives, strategies and policies are similar to those of the Corporation). Pursuant to the Management Services Agreement, the Corporation has agreed that the Manager will allocate opportunities for Mortgage investment among the Corporation and the Manager's other clients and managed accounts in accordance with the Manager's investment allocation policy provided that the Manager is carrying out its duties in an honest and diligent manner, in good faith and in the best interests of the Corporation. See "**Item 8 - Risk Factors – Fair Allocation**".

Messrs. Sandy Loutitt and John Strangway, each directors and officers of the Corporation and the Manager will act as portfolio advisors pursuant to the terms of the Management Services Agreement.

The Manager will carry out any regulated activities through duly licensed third parties in accordance with applicable legislation and will perform such activities directly as it is licensed to perform under the *Real Estate Act* (Alberta).

The Manager has sole discretion in determining which Mortgages and investments it will make available to the Corporation, that may meet the investment objectives of the Corporation and the Asset Allocation Model with the goal of achieving the investment objective of the Corporation.

#### Mortgage Servicing

The Manager will actively oversee the servicing of all Mortgages in the Portfolio in order to monitor the status of all loans and respond to any potential issues that may arise. The Manager will provide day-to-day administration of individual Mortgages in the Portfolio either directly or in instances where the Corporation is a participant in a syndicated Mortgage, other direct participants in the investment may act as the servicing agent for such investment. The Manager will ensure that the servicing agents appointed to administer an individual Mortgage are licensed in accordance with the requirements of the *Real Estate Act* (Alberta) or other applicable legislation in jurisdictions of Canada where the Corporation carries on business. The Manager's duties are the day-to-day administration of individual Mortgages including, among other things, responsibilities such as the collection of monthly payments, management of property tax and other escrow accounts, regular remittance to the Corporation of interest (and other income) collected, monitoring the status of loans, and regular reporting to the Corporation, as required.

There may be circumstances in which servicing agents or other appropriate entities are registered on title. In such cases, these entities will hold the Mortgages in trust as custodian for the Corporation pursuant to a bare trust arrangement. The Manager will monitor the placement and servicing of all Mortgages.

#### Directors and Officers of the Manager

Messrs. Sandy Loutitt and John Strangway, each directors of the Corporation and providing services identical or similar to an executive officer to the Corporation, are also directors and/or officers of the Manager. Accordingly, such individuals will be required to comply with the disclosure and other requirements of applicable Canadian securities legislation imposed on insiders of a reporting issuer. These requirements include, but are not limited to, the requirement to file insider reports regarding any purchase, sale or other acquisition or disposition of securities of the Corporation.

### Conflicts of Interest

The Manager and its affiliates are engaged in a wide range of investment management, investment advisory and other business activities. The services provided by the Manager under the Management Services Agreement will not be exclusive and nothing in such agreement will prevent the Manager, or any of its affiliates from establishing or providing similar services to other entities, including investment funds and other persons (whether or not their investment objectives, strategies and policies are similar to those of the Corporation) or from engaging in other or competing activities. The Manager's investment decisions for the Corporation will be made independently of those made for other persons and independently of its own investments. On occasion, however, the Manager may decide on the same investment for the Corporation and for one or more of its other clients. If the Corporation and one or more of the other clients of the Manager or its affiliates are engaged in the purchase or sale of the same investment, the transaction will be effected on an equitable basis.

When the Manager presents an investment opportunity to the Corporation, it will provide details of any interest, direct or indirect, or proposed interest that the Manager or any of its affiliates has in such investment.

As a result of the relationships between the Corporation, the Manager and certain of their respective directors and officers, there are potential conflicts of interest that could arise in connection with the Manager acting in those capacities. The securities laws of the Province of Alberta require securities dealers and advisers, when they trade in or advise with respect to their own securities or securities of certain other issuers (including Mortgages) to which they, or certain other parties related to them, are related or connected, to do so only in accordance with particular disclosure and other rules. These rules require dealers and advisers, prior to trading with or advising their customers or clients, to inform them of the relevant relationships and connections with the issuer of the securities.

#### **3.2.3 Promoter**

The Manager has taken the initiative in organizing the Corporation and, accordingly, may be considered to be a "promoter" of the Corporation within the meaning of the securities legislation of certain provinces of Canada. The Manager will receive fees from the Corporation and may be entitled to reimbursement of expenses incurred in relation to the Corporation as described under "**Item 3 – Directors, Management and Principal Holders – 3.1 – Compensation and Securities Held - Management Fees of the Manager**". The Manager does not own any Voting Shares, Class A Non-Voting Shares or Class B Non-Voting Shares. However, Sandy Loutitt and John Strangway, the directors, officers and director or indirect shareholders of the Manager, own shares of the Corporation as disclosed in "**Item 3 – Directors, Management and Principal Holders – 3.1 – Compensation and Securities Held**".

#### **3.3 Penalties, Sanctions and Bankruptcy**

No director, officer or controlling shareholder of the Corporation has or is, within the past ten years, been a director or chief executive officer or chief financial officer of any other issuer that, while that person was acting in that capacity:

- (a) was the subject of a cease trade or similar order or an order that denied the issuer access to any statutory exemptions under Canadian securities legislation for a period of more than 30 consecutive days;
- (b) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the issuer being the subject of a cease trade or similar order or an order that denied the relevant issuer access to any exception under Canadian securities legislation, for a period of more than 30 consecutive days; or
- (c) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets,

except that: (a) Mr. David Pinkman is a director of Softrock which recently was cease traded by the TSX-V on May 9, 2017 for failure to file annual financials. Softrock is in the process of having the audit completed on its financial statements and anticipates all required documents will be filed before the expiry of the 30-day period with respect to this cease trade order; (b) Mr. Pinkman, was a director of SynStream since September 2007, which corporation was cease traded by the TSX-V on April 1, 2010 for failure to complete its qualifying transaction. The qualifying transaction was subsequently completed and the cease trade order was lifted on July 2, 2010; (c) Mr. Pinkman, was the chief financial officer and director of International Sasha Corp. from November 2004 to April 2010, which corporation's shares were halted and suspended by the TSX-V for failure to complete its qualifying transaction within the prescribed time period. The qualifying transaction was subsequently completed and the halt was lifted and the resulting corporation subsequently resumed trading under the name PanWestern Energy Inc. (now known as Valeura Energy Corp.); (d) Mr. Walter was a director of Mystique Energy, Inc., a corporation which filed a petition under the *Companies' Creditors Arrangement Act* (Canada) on April 23, 2007, seeking an arrangement with certain of its creditors. Mr. Walter resigned as a director on or about May 21, 2009. The CCAA process was completed by way of an Order of the Court of Queen's Bench of Alberta, Judicial District of Calgary (the "**Court**"), on October 29, 2009; (e) Mr. Walter was a director of Fair Sky Resources Inc. until shortly before a receivership order was granted by the Court on December 7, 2007; and (f) Mr. Walter was a director of Maskal Energy Ltd. until December 2009, which corporation has been cease traded by the securities commissions of Alberta and British Columbia since on or about June 4, 2008 for failure to file interim financial disclosure.

#### ITEM 4 - CAPITAL STRUCTURE

##### 4.1 Share Capital

The Corporation is authorized to issue an unlimited number of Class A Non-Voting Shares and Class B Non-Voting Shares and 1,000 Voting Shares. The share capitalization of the Corporation as at the date of this Offering Memorandum is set forth in the table below.

Description of Security	Number/ Amount Authorized	Price per Security	Outstanding as at the Date of this Offering Memorandum	Outstanding Assuming Maximum Offering <sup>(1)</sup>
Class A Non-Voting Shares	Unlimited	\$10 per Class A Non-Voting Share	\$16,202,700 <sup>(2)</sup> (1,620,270 shares)	\$46,202,700 (4,620,270 shares)
Class B Non-Voting Shares	Unlimited	\$10 per Class B Non-Voting Share	\$9,745,760 <sup>(3)</sup> (974,576 shares)	\$9,745,760 (974,576 shares)
Voting Shares	1,000	\$10 per Voting Share	\$1,000 (100 shares)	\$1,000 (100 shares)

**Note:**

- (1) Prior to taking into effect the Agent's fees and other financing expenses of the Offering.
- (2) Financing costs as of December 31, 2016 totaled \$1,685,367 for the Class A Non-Voting Shares.
- (3) Financing costs as of December 31, 2016 totaled \$17,507 for the Class B Non-Voting Shares.

## 4.2 Long Term Debt

The Corporation has no long term debt.

## 4.3 Prior Sales

The following table sets forth sales of security of the Corporation in the last twelve months:

Date of Issuance	Type of Security Issued	Number of Securities Issued	Price per Security	Total Funds Received
May 31, 2017	Class A Non-Voting Shares	219,975 Class A Non-Voting Shares	\$10.00 per Class A Non-Voting Share	\$2,199,750
September 15, 2016	Class A Non-Voting Shares	32,400 Class A Non-Voting Shares	\$10.00 per Class A Non-Voting Share	\$324,000

**Note:**

- (1) Issued pursuant to a prospectus.
- (2) Issued pursuant to a private placement.

## ITEM 5 - DESCRIPTION OF SECURITIES OFFERED

### 5.1 Shares

#### 5.1.1 General

The Corporation is authorized to issue an unlimited number of Class A Non-Voting Shares and Class B Non-Voting Shares and 1,000 Voting Shares, a summary of the terms and conditions of which is set forth below. As of the date hereof, there are 1,400,295 Class A Non-Voting Shares, 974,576 Class B Non-Voting Shares and 100 Voting Shares issued and outstanding.

Class A Non-Voting Shares will be issued upon the closing of this Offering and any offerings that may be completed by the Corporation in the future. The holder of a Voting Share, Class A Non-Voting Share or Class B Non-Voting Share shall not be precluded on the reduction or redemption of the capital stock of the Corporation from participating in the assets of the Corporation beyond the amount paid up on such share plus a fixed premium and a fixed rate of dividend.

#### 5.1.2 Voting Shares

The Voting Shares have nominal value and are owned by the Principal Shareholders, being Sandy Loutitt, John Strangway, Brent Walter, David Pinkman and John Drummond, as to 20% each. Accordingly, the Principal Shareholders, as holders of all of the issued and outstanding Voting Shares, will have the power to vote on all matters to be considered by the holders of Voting Shares. Voting Shares are subject to a Voting Share Unanimous Shareholders Agreement. See "**Item 3 – Directors, Management and Principal Holders, 3.1 – Compensation and Securities Held**".

The holders of Voting Shares are entitled to receive dividends as and when declared by the Board subject to the preference and priority rights of the Class A Non-Voting Shares and Class B Non-Voting Shares, as discussed below. The Voting Shares rank subsequent to both the Class A Non-Voting Shares and the Class B Non-Voting Shares with respect to distributions on the dissolution, liquidation or winding-up of the Corporation. See "**5.1.3**

- **Class A Non-Voting Shares and Class B Non-Voting Shares**" below for further discussion of the share attributes of the Voting Shares.

### 5.1.3 Class A Non-Voting Shares and Class B Non-Voting Shares

The Class A Non-Voting Shares and Class B Non-Voting Shares are entitled to receive dividends as and when declared by the Board. The holders of Class A Non-Voting Shares and the holders of Class B Non-Voting Shares will not be entitled to vote at any meeting of shareholders, other than at meetings in connection with any amendments to the investment restrictions, an amendment or variation in the share terms or rights, a change in the Manager, in limited circumstances under the ABCA and in accordance with applicable securities laws and the rules and policies of the TSX-V or the TSX, as applicable or any acquisition or disposition by the Corporation to a Non-Arm's Length Party (as defined under the rules and policies of the TSX-V) or a related party, for which the approval of the holders of the Shares is required by the TSX-V pursuant to its policies or rules, in effect from time to time (any one of the foregoing a "**Shareholder Matter**"). For greater certainty, holders of the Shares are not entitled to vote for among other things, the election of directors and the appointment of auditors.

At any meetings of holders of Shares, or a class thereof, with respect to a Shareholder Matter, holders of Shares shall have one vote for each Share held. The holders of Class A Non-Voting Shares and Class B Non-Voting Shares shall be given notice of all meetings of shareholders at least 21 days in advance of such meetings and shall be permitted to attend, in person or by proxy, and to speak at all meetings of shareholders to the extent that a holder of Voting Shares would be entitled to attend, speak and vote at meetings of shareholders.

The Corporation intends to declare quarterly cash distributions by way of dividends to holders of Class A Non-Voting Shares of record on the last business day of each quarter. However, there is no assurance that the Corporation will be able to declare any dividends in any period or at all. Declared dividends, if any, will be paid by the end of the month following the quarter in which they are declared. Notwithstanding the above, the Corporation has the right to determine the applicable record date that is other than the last business day of each quarter as it deems advisable.

The Manager will use its best efforts to achieve the targeted yields set forth below, however, no assurance is given that the Corporation will achieve such yield. If the Corporation's annual return is less than the amount necessary to fund dividends, the Corporation may not pay the full distribution amounts to shareholders as set forth in the articles of the Corporation or at all.

The Class A Non-Voting Shares rank in preference to the Class B Non-Voting Shares and Voting Shares with respect to the payment of distributions by way of dividends and the repayment of capital on the dissolution, liquidation or winding up of the Corporation.

The Class A Non-Voting Shareholders are entitled to receive as and when declared by the directors of the Corporation initial preferential non-cumulative dividends at rate of up to, but not exceeding 8% per annum calculated on the Offering price of \$10.00 per Class A Non-Voting Share payable in one or more installments.

The Class B Non-Voting Shares shall not be entitled to receive dividends in any period unless and until the maximum amount of the above-noted dividends have been paid or declared and set apart for payment to the Class A Non-Voting Shareholders, following which holders of Class B Non-Voting Shares may receive in preference and priority to any further dividends on the Class A Non-Voting Shares and Voting Shares, initial non-cumulative dividends at a rate of up to, but not exceeding 8% per annum on the initial issue price of \$10.00 per Class B Non-Voting Shares, payable in one or more installments.

The holders of Voting Shares are entitled to receive initial dividends as and when declared by the board of directors of the Corporation subject to the preference and priority rights of the Class A Non-Voting Shares and Class B Non-Voting Shares, described above at a rate of up to, but not exceeding 8% per annum on the initial issue price of \$10.00 per Voting Share, payable in one or more installments.

In each financial year, after the maximum amounts as stated above in respect of Class A Non-Voting Shares, Class B Non-Voting Shares and Voting Shares have been paid or declared and set apart for payment, the holders of Class B Non-Voting Shares shall, in the discretion of the board of directors of the Corporation and in preference and priority to any further distributions on the Class A Non-Voting Shares or on the Voting Shares, be entitled to an additional Class B non-cumulative dividend at the rate of up to, but not to exceed 8% per annum calculated in the initial issue price of \$10 per Share.

In each financial year of the Corporation, after the maximum amount of the dividends provided for above have been paid or declared and set apart for payment, any and all further dividends declared in such year shall be declared and paid in equal amounts per share on all the Voting Shares, Class A Non-Voting Shares and Class B Non-Voting Shares without preference or distinction.

The Articles of the Corporation provide that the directors may not declare dividends, make a return of capital or otherwise make a distribution on (a) the Class B Non-Voting Shares, Voting Shares or any other class of shares of the Corporation ranking junior to the Class A Non-Voting Shares if following such declaration of dividends, return of capital or distribution the Corporation will be unable to redeem all of the outstanding Class A Non-Voting Shares or (b) the Voting Shares or any other class of shares of the Corporation ranking junior to the Class B Non-Voting Shares if following such declaration of dividends, return of capital or distribution the Corporation will be unable to redeem all of the outstanding Class B Non-Voting Shares.

In the event of any liquidation, dissolution or winding-up of the Corporation or other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs:

- (a) the holders of Class A Non-Voting Shares are entitled, in preference to the rights of holders of the Voting Shares, Class B Non-Voting Shares and any shares of a class ranking junior to the Class A Non-Voting Shares, but subject to the rights of holders of any class of shares ranking senior to the Class B Non-Voting Shares, to be paid out of the assets of the Corporation available for distribution to holders of the Corporation's capital stock, for each Class A Non-Voting Share, \$10 together with all declared but unpaid dividends on each Class A Non-Voting Share; and
- (b) the holders of Class B Non-Voting Shares are entitled in preference to the rights of holders of Voting Shares and any other shares of a class ranking junior to the Class B Non-Voting Shares, but subject to the rights of the holders of the Class A Non-Voting Shares to receive the payment described in clause (a) above and the rights of any other class of shares ranking senior to the Class B Non-Voting Shares, to be paid out of the assets of the Corporation available for distribution to holders of the Corporation's capital stock, for each Class B Non-Voting Share, an amount equal to \$10, together with all declared but unpaid dividends on each Class B Non-Voting Share.
- (c) after the payments referred to above in clauses (a) and (b) have been made in full to the holders of Class A Non-Voting Shares and Class B Non-Voting Shares, or funds necessary for such payments have been set aside by the Corporation in trust for the exclusive benefit of holders of Class A Non-Voting Shares and Class B Non-Voting Shares so as to be available for such payments, the holders of Voting Shares are entitled to receive, subject to the rights of the holders of Class A Non-Voting Shares and Class B Non-Voting Shares to receive the payments described above and the rights of any other class of shares ranking senior to the Voting Shares, to be paid out of the assets of the Corporation available for distribution to holders of the Corporation's capital stock, for each Voting Share, an amount equal to \$10, together with all declared but unpaid dividends on each Voting Share.

After the payments referred to above have been made in full to the holders of Class A Non-Voting Shares, Class B Non-Voting Shares and Voting Shares, or funds necessary for such payments have been set aside by the Corporation in trust for the exclusive benefit of such holders of Class A Non-Voting Shares, Class B Non-Voting Shares and Voting Shares so as to be available for such payments, any assets remaining available for distribution shall be distributed equally, share for share, to the holders of the Voting Shares, Class A Non-Voting Shares and the Class B Non-Voting Shares, without preference or distinction.

**The Corporation intends to maintain a ratio of not more than three Class A Non-Voting Shares for each Class B Non-Voting Share outstanding.**

#### **5.1.4 Restrictions on Ownership**

No shareholder of the Corporation is permitted, together with related persons, at any time to hold more than 25% of any class of the issued shares of the Corporation.

In the event that (i) the exercise by any Shareholder of an annual redemption right associated with Class A Non-Voting Shares or Class B Non-Voting Shares, as applicable, or (ii) as determined by the Board in its sole discretion, any other transaction affecting the Shares (each a "**Triggering Transaction**"), if completed, would cause any Shareholder(s) (each an "**Automatic Repurchase Shareholder**"), together with Related Persons, to hold more than 25% of any class of the issued Shares of the Corporation, that portion of the Shares held by each Automatic Repurchase Shareholder which constitutes in excess of 24.9% of the issued shares of any class of Shares (the "**Repurchased Shares**") will, simultaneously with the completion of a Triggering Transaction, automatically be repurchased and cancelled by the Corporation (an "**Automatic Repurchase**") without any further action by the Corporation or the Automatic Repurchase Shareholder. The purchase price for any Repurchased Shares will be equal to the Annual Redemption Price, as applicable, on the date of the Triggering Transaction. The proceeds of any Automatic Repurchase will be remitted to each applicable Automatic Repurchase Shareholder within 60 days of the Automatic Repurchase.

#### **5.1.5 Purchase for Cancellation**

Subject to applicable law, the Corporation may at any time or times purchase Shares for cancellation at a price per share not exceeding the applicable NAV per Share calculated on the business day immediately prior to such purchase.

#### **5.1.6 Amendments**

Amendments to the terms of the Class A Non-Voting Shares, Class B Non-Voting Shares or Voting Shares must be approved by the applicable shareholders of the Corporation in accordance with applicable laws.

#### **5.1.7 Termination of the Corporation**

The Corporation does not have a fixed termination date but may be terminated at any time with the approval of its shareholders of each class in certain circumstances and shall provide notice to shareholders of such wind-up, each in accordance with applicable law. In addition, if the Manager believes that it is no longer economically practical to continue the Corporation or that it would be in the best interests of the Corporation's shareholders to wind-up the affairs of the Corporation, the Manager may, with the approval of each class of its shareholders, initiate a winding-up of the Corporation. Upon termination of the Corporation, the net assets of the Corporation will be distributed to the shareholders of the Corporation in accordance with its articles. Prior to the date fixed for the termination of the Corporation (the "**Corporation End Date**"), the Manager will, to the extent practicable, convert the assets of the Corporation to cash. The Corporation shall advise shareholders by press release or written notice of the Corporation End Date upon not less than ten business days' prior written notice to shareholders. The Corporation will be dissolved following the distribution of its net assets to the shareholders.

## 5.1.8 Redemption of Shares

### Annual Redemptions

Subject to the restrictions set forth under "**Item 5.1.9 – Limitation and Suspension of Redemptions**" below, Class A Non-Voting Shares may be redeemed on the last business day in October of each year (each, an "**Annual Redemption Date**") at a redemption price per Class A Non-Voting Share equal to 95% of NAV per Share less any costs associated with such redemption. Class B Non-Voting Shares may be redeemed on an Annual Redemption Date at a redemption price per Class B Non-Voting Share equal to (a) 100% of NAV per Share if the Class B Non-Voting Shares are not listed for trading on the TSX-V or such other recognized stock exchange in Canada or (b) 95% of NAV per Share if the Class B Non-Voting Shares are listed for trading on the TSX-V or such other recognized stock exchange in Canada, in each case less any costs associated with such redemption. See "**Valuation Policies and Procedures of the Corporation**". Class A Non-Voting Shares must be surrendered for annual redemption to the Corporation's registrar and transfer agent by no later than 4:00 p.m. (Calgary time) on October 1<sup>st</sup> of such year or the immediately preceding business day, in the event that October 1<sup>st</sup> is not a business day. Payment of the proceeds of redemption will be made on or before the last business day of the month following the Annual Redemption Date.

### Exercise of Redemption Privileges

The redemption right must be exercised by causing written notice to be given within the notice periods prescribe herein.

## 5.1.9 Limitation and Suspension of Redemptions

The Corporation shall not be required to accept for redemption in the same calendar year Class A Non-Voting Shares or Class B Non-Voting Shares representing more than 15% of the average number of such Shares outstanding for the 180-day period immediately preceding the Annual Redemption Date (the "**Threshold**"). In the event that the number of Shares tendered for redemption in respect of an Annual Redemption Date exceeds the Threshold and the board of directors of the Corporation determined not to redeem shares in excess of the Threshold, the Corporation shall redeem such Class A Non-Voting Shares or Class B Non-Voting Shares, as applicable tendered for redemption and not withdrawn or revoked, on a *pro rata* basis.

The directors of the Corporation may, in their sole discretion, redeem Class A Non-Voting Shares and Class B Non-Voting Shares in excess of the Threshold on one or more Annual Redemption Dates.

If the redemption by the Corporation of all Shares surrendered for redemption in any period would be contrary to applicable law, the Corporation will redeem only the maximum number of Shares (rounded to the next lower multiple of 1,000 Shares) which it is then permitted to redeem on a *pro rata* basis.

In addition, for any period not exceeding 120 days during which the Corporation or Manager determines that conditions exist which render impractical the sale of Mortgages comprising the Portfolio or which impair the ability of the Manager to determine the value of the assets of the Corporation or the Portfolio, the Corporation may suspend redemptions of Shares. The suspension may apply to all requests for redemption received prior to the suspension but as to which payment has not been made, as well as to all requests received while the suspension is in effect. All holders of Shares making such requests shall be advised by the Corporation or the Manager of the suspension and that the redemption will be effected at a price determined on the first Annual Redemption Date, following the termination of the suspension or such other date as the Manager may determine upon the conditions giving rise to such suspension having ceased to exist or no longer being applicable. All such holders of Shares shall have and shall be advised that they have the right to withdraw their requests for redemption. The suspension shall terminate in any event on the first day on which the condition giving rise to the suspension has ceased to exist provided that no other condition under which a suspension is authorized then exists. To the extent not inconsistent with the rules and regulations promulgated by any governmental body

having jurisdiction over the Corporation, any declaration of suspension made by the Corporation or the Manager shall be conclusive.

### 5.1.10 Dividend Reinvestment Plan

The Corporation implemented a dividend reinvestment plan (the "**DRIP**") effective June 9, 2016. Registered Shareholders who are residents of Canada may elect to participate in the DRIP. Participation in the DRIP is optional and will not affect shareholders' cash dividends unless they elect to participate in the DRIP. Quarterly dividends are only payable as and when declared by the Corporation's Board of Directors and there is no entitlement to any dividend prior thereto. The DRIP allows shareholders to reinvest their cash dividends into additional Class A Non-Voting Shares which will either be issued from treasury at a fixed value of \$10.00 per Class A Non-Voting Share or purchased in the open market. No more than an aggregate of 10% of the current issued and outstanding Class A Non-Voting Shares of the Corporation may be issued from treasury pursuant to the DRIP without public disclosure and the approval of the Board of Directors of the Corporation and the TSX-V. No commissions, service charges or brokerage fees are payable by shareholders who elect to participate in the DRIP. Participation in the DRIP does not relieve shareholders of any liability for taxes that may be payable in respect of dividends that are reinvested in Class A Non-Voting Shares under the DRIP. A complete copy of the DRIP is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Corporation's website at [www.builderscapital.ca](http://www.builderscapital.ca).

### 5.2 Subscription Procedure

The Corporation is offering Class A Non-Voting Shares to residents of all Provinces and Territories in Canada, excepting Quebec. The Offering is being made pursuant to the exemptions from the prospectus requirements afforded by Section 2.9 of NI 45-106 (the "**Offering Memorandum Exemption**").

The Offering Memorandum Exemption pursuant to Section 2.9 of NI 45-106 is available for distributions to subscribers resident in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, Newfoundland and Labrador, Nova Scotia, Prince Edward Island, Northwest Territories, Nunavut and Yukon (the "**Qualifying Jurisdictions**") if the following are true:

- (1) In the case of a subscriber resident in British Columbia and Newfoundland and Labrador:
  - (a) the subscriber purchases the Class A Non-Voting Shares as principal (i.e. for themselves); and
  - (b) at the same time or before the subscriber signs the agreement to purchase the security, the Corporation:
    - (i) delivers an offering memorandum to the investors based on Form 45-106F1; and
    - (ii) obtains a signed risk acknowledgement based on Form 45-106F4 from the subscriber (incorporated into the Subscription Agreement as Exhibit 1); or
- (2) In the case of a subscriber resident in Manitoba, Northwest Territories, Nunavut, Prince Edward Island and Yukon:
  - (a) the subscriber purchases the Class A Non-Voting Shares as principal (i.e. for themselves); and
  - (b) at the same time or before the subscriber signs the agreement to purchase the security, the Corporation:
    - (i) delivers an offering memorandum to the investors based on Form 45-106F1; and

- (ii) obtains a signed risk acknowledgement based on Form 45-106F4 from the subscriber (incorporated into the Subscription Agreement as Exhibit 1); and
  - (c) if the subscriber is purchasing Class A Non-Voting Shares that exceed \$10,000, the subscriber is an "eligible investor" and completes the Eligible Investor Representation Letter in the form attached to the Subscription Agreement as Exhibit 2, or
- (3) In the case of a subscriber resident in Alberta, New Brunswick, Nova Scotia, Ontario and Saskatchewan:
  - (a) the subscriber purchases the Class A Non-Voting Shares as principal (i.e. for themselves); and
  - (b) at the same time or before the subscriber signs the agreement to purchase the security, the Corporation:
    - (i) delivers an offering memorandum to the investors based on Form 45-106F1; and
    - (ii) obtains a signed risk acknowledgement based on Form 45-106F4 from the subscriber (incorporated into the Subscription Agreement as Exhibit 1); and
  - (c) if the subscriber is an individual (and has completed the Classification of Investors and Investment Limits for Investors in the form attached to the Subscription Agreement as Schedule 1 and Schedule 2, respectively, of Exhibit 1) and the acquisition cost of all securities acquired by the subscriber in the preceding 12 months does not exceed the following amounts:
    - (i) in the case of a subscriber that is not an "eligible investor", \$10,000;
    - (ii) in the case of a subscriber that is an "eligible investor", \$30,000; or
    - (iii) in the case of a subscriber that is an "eligible investor" and that received advice from a portfolio manager, investment dealer or exempt market dealer that the investment is suitable, \$100,000.

The foregoing exemption relieves the Corporation from the provisions of the applicable securities laws of each of the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, Newfoundland and Labrador, Nova Scotia and Prince Edward Island which otherwise would require the Corporation to file and obtain a receipt for a prospectus. Accordingly, prospective investors for securities will not receive the benefits associated with a subscription for securities issued pursuant to a filed prospectus, including the review of material by securities regulatory authorities.

The exemptions from the registration requirements contained in the applicable securities laws of each of the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, Newfoundland and Labrador, Nova Scotia and Prince Edward Island allow the Corporation to offer the securities for sale directly to the investors.

Reference is made to the Subscription Agreement attached as Schedule "A" to this Offering Memorandum for the terms of these representations, warranties and covenants.

**A Subscriber should carefully review the terms of the Subscription Agreement attached hereto for more detailed information concerning the rights and obligations of the Subscriber and the Corporation. The Subscription Agreement contains representations and warranties of the Subscriber which the Corporation will be relying upon in order to determine the eligibility of the Subscriber.**

**The Subscriber must read the Subscription Agreement in full prior to execution of the Subscription Agreement, and is hereby advised to obtain independent legal advice. Execution and delivery of the Subscription Agreement will bind the Subscriber to the terms thereof, whether executed by the Subscriber or by an agent on the Subscriber's behalf.**

**You will be restricted from selling your securities for an indefinite period. See "Item 10 - Resale Restrictions".**

You may subscribe for Class A Non-Voting Shares by delivering the following documents to ProVenture Law LLP, Suite 310, 525-11<sup>th</sup> Avenue S.W., Calgary, Alberta T2R 0C9:

- (a) One (1) completed and signed copy of the Subscription Agreement (including any exhibits attached thereto);
- (b) A certified cheque, trust cheque or bank draft in an amount equal to the Aggregate Subscription Amount (as set forth in the Subscription Agreement), payable to "**ProVenture Law LLP**";
- (c) Completed and executed copies of the appropriate investor qualification form(s). The appropriate form(s) to be completed depend on the subscriber's place of residence and on the amount of the subscriber's investment:
  - (i) If the subscriber is resident in British Columbia or Newfoundland and Labrador, two (2) copies of the Risk Acknowledgement in the form attached to the Subscription Agreement as Exhibit 1 (one copy may be retained by the subscriber); or
  - (ii) If the subscriber is resident in Manitoba, Northwest Territories, Nunavut, Prince Edward Island or Yukon and is subscribing for not more than \$10,000 in Class A Non-Voting Shares, two (2) copies of the Risk Acknowledgement in the form attached to the Subscription Agreement as Exhibit 1 (one copy may be retained by the subscriber); or
  - (iii) If the subscriber is resident in Manitoba, Northwest Territories, Nunavut, Prince Edward Island or Yukon and the subscription is for more than \$10,000 in Class A Non-Voting Shares, the subscriber must submit two (2) copies of the Risk Acknowledgement in the form attached to the Subscription Agreement as Exhibit 1 (one copy may be retained by the subscriber) and one (1) completed and signed copy of the Eligible Investor Representation Letter attached to the Subscription Agreement as Exhibit 2.
  - (iv) If the subscriber is an individual and is resident in Alberta, New Brunswick, Nova Scotia, Ontario, or Saskatchewan, the subscriber must submit two (2) copies of the Risk Acknowledgement in the form attached to the Subscription Agreement as Exhibit 1 (one copy may be retained by the subscriber) and one (1) completed and signed copy of Schedule 1 and Schedule 2 of Exhibit 1.

ProVenture Law LLP will hold your subscription funds in trust until midnight on the second business day after the day on which the Corporation received your signed subscription agreement. After this, ProVenture Law LLP will hold the subscription funds in trust pending a closing under this Offering. Within a reasonable period following the closing, ProVenture Law LLP will deliver to you a copy of a certificate representing the Class A Non-Voting Shares purchased by you. **See "Item 11 - Purchasers' Rights".**

The Corporation reserves the right to accept or reject a subscription for the Class A Non-Voting Shares in whole or in part and the right to close the subscription books at any time without notice.

**You should carefully review the terms of the Subscription Agreement provided herewith for more detailed information concerning the rights and obligations of you and the Corporation. Execution and delivery of the Subscription Agreement will bind you to the terms thereof, whether executed by you or by an agent on your behalf. You should consult with your own professional advisors respecting this investment. See "Item 8 - Risk Factors".**

## **ITEM 6 – INCOME TAX CONSEQUENCES AND DEFERRED PLAN ELIGIBILITY**

### **6.1 General**

The following summary describes, as of the date hereof, the principal Canadian federal income tax considerations generally applicable to a purchaser who is an individual (other than a trust) and who acquires as beneficial owner Class A Non-Voting Shares pursuant to this Offering and who, at all relevant times, for purposes of the Tax Act, (1) is, or is deemed to be, resident in Canada, (2) deals at arm's length with the Corporation; (3) is not affiliated with the Corporation; and (4) holds the Class A Non-Voting Shares and the Class A Non-Voting Shares issued pursuant to the Offering (the "**Securities**") as capital property (a "**Holder**"). Generally, the Securities will be capital property to a Holder provided the Holder does not acquire or hold the Securities in the course of carrying on a business or as part of an adventure or concern in the nature of trade. Certain Holders may be entitled to make or may have already made the irrevocable election permitted by subsection 39(4) of the Tax Act the effect of which may be to deem to be capital property any Class A Non-Voting Shares (and all other "Canadian securities", as defined in the Tax Act) owned by such Holder in the taxation year in which the election is made and in all subsequent taxation years. Holders whose Class A Non-Voting Shares might not otherwise be considered to be capital property should consult their own tax advisors concerning this election.

This summary is not applicable to (i) a purchaser that is a "specified financial institution", (ii) a purchaser an interest in which is a "tax shelter investment", (iii) a purchaser that is, for purposes of certain rules (referred to as the mark-to-market rules) applicable to securities held by financial institutions, a "financial institution", (iv) a purchaser that reports its "Canadian tax results" in a "functional currency", or (v) a purchaser that enters into, with respect to their Class A Non-Voting Shares, a "derivative forward agreement", each as defined in the Tax Act. Such purchasers should consult their own tax advisors.

This summary is based on the current provisions of the Tax Act, the facts contained in this Offering Memorandum, a certificate of an officer of the Corporation as to certain factual matters and counsel's understanding of the current administrative policies and assessing practices of the Canada Revenue Agency published in writing prior to the date hereof. This summary takes into account all specific proposals to amend the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "**Proposed Amendments**") and assumes that all Proposed Amendments will be enacted in the form proposed. However, no assurances can be given that the Proposed Amendments will be enacted as proposed, or at all. This summary does not otherwise take into account or anticipate any changes in law or administrative policy or assessing practice whether by legislative, administrative or judicial action nor does it take into account tax legislation or considerations of any province, territory or foreign jurisdiction, which may differ from those discussed herein.

This summary is based upon the further assumption that the Corporation qualifies as a MIC at all relevant times. The Corporation has advised counsel that it intends to meet all of the requirements under the Tax Act to qualify as a MIC throughout its current taxation year and for all of its future taxation years. Counsel expresses no opinion as to the status of the Corporation as a MIC. If the Corporation were to cease to qualify as a MIC at any time, the income tax considerations would be materially different from those described below.

**This summary is of a general nature only and is not, and is not intended to be, legal or tax advice to any particular prospective purchaser. This summary is not exhaustive of all Canadian federal income tax considerations. Accordingly, prospective purchasers of Class A Non-Voting Shares should consult their own professional advisors to obtain advice on the income tax consequences that apply to their own particular circumstances.**

## 6.2 Status of the Corporation

### 6.2.1 Classification under Tax Act

As noted above, this summary assumes that the Corporation will qualify as a MIC at all relevant times. The Corporation has advised counsel that it intends to meet all of the requirements under the Tax Act to qualify as a MIC throughout its current taxation year and for all of its further taxation years. A MIC is deemed to be a public corporation under the Tax Act. However, the Tax Act effectively treats a corporation that qualifies as a MIC as operating as a flow-through entity to the extent it distributes its income and capital gains to its shareholders. Accordingly, with respect to such distributions, a shareholder of a MIC is generally put in a similar position from an income tax perspective as if the investments made by the MIC had been made directly by the shareholder. Counsel express no opinion as to the status of the company as a MIC. If the Corporation were not to qualify as a MIC at any time, the income tax considerations would be materially different from those described below.

### 6.2.2 MIC Requirements

The following requirements must have been met throughout a taxation year in order for the Corporation to qualify as a MIC for that taxation year:

- (1) Canadian Corporation. The Corporation must have been a Canadian corporation for the purposes of the Tax Act, which generally means a corporation incorporated and resident in Canada;
- (2) Undertaking. The Corporation's only undertaking must have been the investing of funds of the corporation and it did not manage or develop any real or immovable property;
- (3) Prohibited Foreign Investment. None of the property of the Corporation may have consisted of debts owing to the Corporation secured by real or immovable property situated outside Canada, debts owing to the Corporation by non-resident persons unless such debts were secured on real or immovable property situated in Canada, shares of the capital stock of corporations not resident in Canada, or real or immovable property situated outside of Canada or any leasehold interest in such property;
- (4) Shareholder Requirements. The Corporation must have had at least 20 shareholders, except that in the Corporation's first taxation year, this requirement will be met if the Corporation had at least 20 shareholders on the last day of that taxation year. In addition, no shareholder (together with Related Persons, see below) of the Corporation at any time in the year may have owned, directly or indirectly, more than 25% of the shares of any class of the Corporation. Special rules apply for the purposes of counting shareholders that are registered pension plans or deferred profit sharing plans;
- (5) Preferred Shareholders. Holders of preferred shares of the Corporation must have had the right, after payment to them of their preferred dividends and payment of dividends in a like amount per share to the holders of the common shares of the Corporation, to participate *pari passu* (equally) with the holders of the common shares in any further payment of dividends;
- (6) 50% Asset Test. The cost amount for tax purposes to the Corporation of its property in the form of, or as a combination of, money, debts secured on certain specified residential properties, and funds on deposit with a Canada Deposit Insurance Corporation or Régie de l'assurance-dépôts du Québec insured institution or credit union (such debts and deposits referred to as "**Required Property**"), must have constituted at least 50% of the cost amount to the Corporation of all of its property;
- (7) 25% Asset Test. The cost amount for tax purposes to the Corporation of its property in the form of interests in real or immovable property (including leaseholds but excepting real or

immovable property acquired by foreclosure after default by the mortgagor) may not have exceeded 25% of the cost amount to the Corporation of all of its property; and

- (8) Debt to Equity Ratio. Where at any time in the year the cost amount to the Corporation of its money and Required Property represented less than two-thirds of the aggregate cost amount to the Corporation of all of its property, the Corporation's liabilities may not exceed 75% of the cost amount to the Corporation of all its property. Where, however, throughout the year the cost amount to the Corporation of its money and Required Property represented two-thirds or more of the aggregate cost amount to the Corporation of all of its property, the Corporation's liabilities may not exceed 83.33% of the cost amount to the Corporation of all its property.

With respect to the requirement noted above that no shareholder (together with Related Persons) may own more than 25% of the shares of any class of the Corporation, for these purposes "Related Persons" include a corporation and the person or persons that control the corporation, a parent corporation and its subsidiary corporation(s) and corporations that are part of the same corporate group, and an individual and that individual's spouse, common-law partner or child under 18 years of age. The rules in the Tax Act defining "related persons" are complex and holders should consult with their own tax advisors in this regard.

For the purposes of the 50% asset test noted above, the requirement is that the Corporation's investments must comprise the specified minimum amount of debts that are secured by mortgages, hypothecs or in any other manner, on "houses" or on property included within a "housing project", as those terms are defined in the *National Housing Act* (Canada). Generally, a "house" includes all or part of a building or moveable structure that is intended for human habitation containing not more than two family housing shares, and "housing project" includes all or part of a building or movable structure intended for human habitation, any property intended to be converted or developed to provide housing accommodation, or property associated with housing accommodation such as parking, public and recreational facilities.

### **6.2.3 Taxation of the Corporation**

The Corporation will be considered to be a public corporation either on the basis that it qualifies as a MIC or on the basis that the Class A Non-Voting Shares are listed on the TSX or the TSX-V. As a public corporation, the Corporation is subject to tax at the full general corporate income tax rates on its taxable income. However, as long as the Corporation is a MIC, special rules in the Tax Act apply to the Corporation which generally enable it to deduct in computing its income for a taxation year the amount of its income for that taxation year that is distributed to its shareholders. Specifically, the Corporation will be entitled to deduct, in computing its income for a taxation year, the total of:

- (i) all taxable dividends, other than capital gains dividends, paid by the Corporation to its shareholders during the year (to the extent not deductible in computing the Corporation's income for the previous year) or within 90 days after the end of the year; and
- (ii) one-half of all capital gains dividends paid by the Corporation to its shareholders during the period commencing 91 days after the commencement of the year and ending 90 days after the end of the year.

The Corporation must elect to have a dividend qualify as a capital gains dividend. The Corporation may elect that dividends paid during a 12-month period commencing 91 days after the commencement of a taxation year and ending 90 days after the end of the year be capital gains dividends to the extent of the Corporation's capital gains for the year less any applicable capital losses. The election must be made in respect of the full amount of a dividend and can only be made if the Corporation qualifies as a MIC throughout the taxation year in respect of which the dividend is paid. The payment of capital gains dividends will allow the Corporation to flow capital gains it realizes through to its shareholders.

The Corporation has advised counsel that the Corporation intends to make distributions to the extent necessary so that it will generally have no taxes payable under Part I of the Tax Act and to elect to have dividends be capital gains dividends to the maximum extent allowable.

### **6.3 Taxation of Class A Non-Voting Shares**

#### **6.3.1 Taxation of Distributions**

The Corporation may pay a capital gains dividend on Class A Non-Voting Shares. The receipt by a Holder of such a capital gains dividend will be treated as a capital gain of the Holder from a disposition in the year of capital property for the year in which the dividend is received. See below under the subheading "Disposition of Class A Non-Voting Shares" for a description of the tax treatment of capital gains.

The Corporation may also pay ordinary dividends (i.e., dividends other than capital gains dividends) on the Class A Non-Voting Shares. Ordinary dividends received by a Holder on Class A Non-Voting Shares will be deemed by the Tax Act to have been received by the Holder as interest payable on a bond issued by the Corporation. Holders will therefore be required to include in their income as interest all amounts received as, or on account of, any ordinary dividends. The provisions of the Tax Act providing for interest accrual, the gross-up and dividend tax credit in respect of taxable dividends received by individuals from taxable Canadian corporations, and for the deduction generally available to corporations for inter-corporate dividends received, will not apply in respect of ordinary dividends. Similarly, the provisions of Part IV of the Tax Act will not be applicable to the receipt of ordinary dividends by Holder that is a corporation.

#### **6.3.2 Disposition of Class A Non-Voting Shares**

Generally, subject to the discussion below under the heading "Redemption", on a disposition or deemed disposition of a Class A Non-Voting Shares, a Holder will realize a capital gain (or capital loss) equal to the amount, if any, by which the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to the Holder of the Class A Non-Voting Shares immediately before the disposition or deemed disposition.

The adjusted cost base to the Holder of a Class A Non-Voting Shares acquired pursuant to this Offering will be determined by averaging the cost of such Class A Non-Voting Shares with the adjusted cost base of all other Class A Non-Voting Shares owned by the Holder as capital property at that time, if any.

Generally, a Holder is required to include in computing its income for a taxation year one-half of the amount of any capital gain (a "**taxable capital gain**") realized in the year. Subject to and in accordance with the provisions of the Tax Act, a Holder is required to deduct one-half of the amount of any capital loss (an "**allowable capital loss**") realized in a taxation year from taxable capital gains realized by the Holder in the year and allowable capital losses in excess of taxable capital gains for the year may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years.

#### **6.3.3 Redemption of Class A Non-Voting Shares**

On a redemption or acquisition of Class A Non-Voting Shares by the Corporation, a Holder will be deemed to have received, and the Corporation will be deemed to have paid, a dividend in an amount equal to the amount by which the redemption price exceeds the paid-up capital of the Class A Non-Voting Shares. This deemed dividend will be treated in the same manner as other dividends received by the shareholder from the Corporation, and will depend on whether the Corporation elects that the entire dividend be a capital gains dividend. The balance of the redemption price will constitute the proceeds of disposition of the Class A Non-Voting Shares for purposes of the capital gains rules described above under the heading "**6.3.2 – Disposition of Class A Non-Voting Shares**".

### **6.3.4 Additional Refundable Tax**

A Holder that is throughout the taxation year a "Canadian-controlled private corporation", as defined in the Tax Act, is liable for tax, a portion of which may be refundable, on investment income, including capital gains dividends and ordinary dividends received in respect of the Class A Non-Voting Shares and taxable capital gains realized on the disposition of the Class A Non-Voting Shares.

### **6.3.5 Eligibility for Investment**

On the date of issue, the Class A Non-Voting Shares will be qualified investments under the Tax Act for trusts governed by RRSPs, RRIFs, RESPs, DPSPs, RDSPs and TFSAs (collectively, the "**Plans**"), provided that either: (i) the Class A Non-Voting Shares are listed at that time on a designated stock exchange (which includes the TSX and the TSX-V) or (ii) the Corporation qualifies as a MIC throughout the taxation year that includes that date and further provided that at any time in the calendar year that includes that date, the Corporation does not hold any indebtedness, whether by way of mortgage or otherwise, of a person who is an annuitant, a beneficiary, an employer, or a subscriber under the Plan, or of any other person who does not deal at arm's length with that person.

Notwithstanding that the Securities may be qualified investments for a trust governed by a RRSP, RRIF or TFSA, the annuitant of an RRSP or RRIF or the holder of a TFSA will be subject to a penalty tax on the Securities (and other tax consequences may result) if the Securities are a "prohibited investment" for the RRSP, RRIF or TFSA, as the case may be. The Securities will not be a "prohibited investment" under the Tax Act for such RRSP, RRIF or TFSA provided the annuitant of the RRSP or RRIF or the holder of the TFSA, as the case may be, (i) deals at arm's length with the Corporation and (ii) does not have a "significant interest" (within the meaning of the Tax Act) in the Corporation. In addition, the Class A Non-Voting Shares will generally not be a "prohibited investment" if the Class A Non-Voting Shares are "excluded property" (as defined in the Tax Act). Annuitants under a RRSP or RRIF or holders of a TFSA should consult their own tax advisors as to whether the Securities will be a "prohibited investment" for such RRSP, RRIF or TFSA in their particular circumstances.

## **ITEM 7 - COMPENSATION PAID TO SELLERS AND FINDERS**

Where allowed by applicable securities legislation, the Corporation intends to offer compensation of up to 5% on the gross proceeds realized from the sale of Class A Non Voting Shares under this Offering to any one of, or a combination of, the following parties: investment dealers, Exempt Market Dealers and/or their dealing representatives, parties related to the Corporation, employees and/or contractors of such parties.

## **ITEM 8 - RISK FACTORS**

There are certain risks inherent in an investment in the Class A Non-Voting Shares of the Corporation, including the following factors, which investors should carefully consider before investing. Some of the following factors are interrelated and, consequently, investors should treat such risk factors as a whole. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Offering Memorandum. These risks and uncertainties are not the only ones that could affect the Corporation and additional risks and uncertainties not currently known to the Corporation or the Manager, or that they currently deem immaterial, may also impair the returns, NAV, NAV per Share, financial condition and results of operations of the Corporation. If any such risks actually occur, the returns, NAV, NAV per Share, financial condition and results of operations of the Corporation could be materially adversely affected and each of the financial performance of the Corporation and the ability of the Corporation to make cash distributions or satisfy requests for redemptions of Class A Non-Voting Shares and Class B Non-Voting Shares could be materially adversely affected.

### **No Assurance of Achieving Investment Objectives or Paying Distributions**

There is no assurance that the Corporation will be able to achieve its investment objectives or be able to pay distributions at all or at the targeted levels or preserve capital. The funds available for distribution to Class A

Non-Voting Shareholders will vary according to, among other things, the interest and principal payments received in respect of the Mortgage loans comprising the Portfolio. There is no assurance that the Portfolio will earn any return or that distributions will be made. The Manager, on behalf of the Corporation, may periodically re-evaluate the Corporation's targeted level of distributions and adjust it higher or lower, provided applicable Shareholder approval is obtained, which may have a material effect on the price or value of the Class A Non-Voting Shares.

An investment in the Corporation is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment and who can withstand the effect of distributions not being paid in any period or at all.

### **Changes in Land Values**

The Corporation's investments in Mortgage loans will be secured by real estate, the value of which can fluctuate. The value of real estate is affected by general economic conditions, local real estate markets, the attractiveness of the property to tenants where applicable, competition from other available properties, fluctuations in occupancy rates, operating expenses and other factors. The value of income-producing real property may also depend on the credit worthiness and financial stability of the borrowers and/or the tenants. Changes in market conditions may decrease the value of the secured property and reduce the cash flow from the property, thereby impacting the ability of the borrower to service the debt and/or repay the loan based on the property income. In particular, recent disruptions to the credit and financial markets in North America, Europe and worldwide and local economic disruptions in areas where the borrowers of the Mortgage loans are located may adversely affect the value of the real estate on which the Mortgage loans are secured and the ability of the borrowers to repay the Mortgage loans and thereby negatively impact the Corporation's business and the value of the Class A Non-Voting Shares.

Given the uncertainty in the current economic environment, there is a heightened risk of a decline in the value of real property. A decline in value of real property provided as security for a Mortgage may cause the value of the property to be less than the outstanding principal amount of the Mortgage loan held by the Corporation, and where applicable, amounts owed to other creditors with prior ranking security. Foreclosure by the Corporation or any creditor holding security in priority to the Corporation on any such Mortgage loan would not provide the Corporation, or the other secured creditors, with proceeds sufficient to satisfy the outstanding principal amount of the Mortgage loan.

While independent appraisals are often obtained before the Corporation makes any Mortgage investments, the appraised values provided therein, even where reported on an "as is" basis, are not necessarily reflective of the market value of the underlying real property. The market value of real property may fluctuate substantially within a short period at times of economic instability and turmoil. In addition, the appraised values reported in independent appraisals may be subject to certain conditions, including the completion of construction, or rehabilitation, remediation or leasehold improvements on the real property providing security for the loan. There can be no assurance that these conditions will be satisfied and if, and to the extent they are not satisfied, the appraised value may not be achieved. Even if such conditions are satisfied, the appraised value may not necessarily reflect the market value of the real property at the time the conditions are satisfied.

### **Concentration and Composition of the Portfolio**

The Portfolio is primarily invested in construction and development Mortgages although the Corporation also may hold some cash and cash equivalents on a transitional basis. Given the concentration of the Corporation's exposure to the construction and the Mortgage lending sector, the Corporation will be more susceptible to adverse economic or regulatory occurrences affecting real property than an investment fund that holds a diversified portfolio of Mortgages and that is not concentrated in a single sector. The Portfolio is also primarily invested in the Province of Alberta. A lack of diversification may result in the Corporation being exposed to economic downturns or other events that have an adverse and disproportionate effect on particular types of security, industry or geography. Investments in Mortgages are relatively illiquid. Such illiquidity will

tend to limit the Corporation's ability to vary its Portfolio promptly in response to changing economic or investment conditions.

The Asset Allocation Model, investment objectives and investment restrictions of the Corporation permit the assets of the Corporation to be invested in a broad spectrum of Mortgages. In addition, exceptions may be made to the Asset Allocation Model provided they are made by the Manager and provided that certain conditions are met. Based on evolving market conditions and the investment history of the Corporation's Portfolio, the Manager may also amend the Asset Allocation Model in order to maintain the currency and relevance of the model on the overall investment approach of the Corporation. Therefore, the composition of the Portfolio may vary widely from time to time, subject to the investment objective and investment restrictions of the Corporation. The Portfolio will be invested and may from time to time be concentrated by location of the properties, type of property, or other factors resulting in the Portfolio being less diversified than at other times and as anticipated. As a result, the returns of the Portfolio may change as its composition changes. See "**Item 2 – Business of the Corporation – 2.3.1 Investment Objectives of the Corporation - Investment Strategies – Asset Allocation Model**".

### **Construction Mortgages Involve a Higher Degree of Risk than Non-construction Mortgages**

Construction Mortgages generally require more active and ongoing management oversight than that required for non-construction Mortgages that are secured by fully-developed properties. Properties that are not fully developed are also generally less liquid than fully-developed properties. Further, with Construction Mortgages the lender will typically defer receipt of interest payments which will accrue but only be made upon completion of the construction. The rules under the Tax Act governing MICs prohibit the Corporation from managing or developing real or immovable property, and therefore there are restrictions on the manner in which the Corporation is able to complete the development of properties that the Corporation assumes ownership or control of by taking enforcement steps against defaulting borrowers. Accordingly, construction Mortgages generally involve a higher degree of risk for a MIC lender than non-construction Mortgages.

### **Subordinated Loans and Mortgages**

Some of the Mortgages in which the Corporation intends to invest may be considered to be higher risk than senior debt financing because the Corporation may not have a first-ranking charge on the underlying property. When a charge on property is in a position other than first-ranking, it is possible for the holder of a senior-ranking charge on the property, if the borrower is in default under the terms of its obligations to such holder, to take a number of actions against the borrower in priority to the subordinate charge and ultimately against the property to realize on the security given for the loan. Such actions may include a foreclosure action, the exercising of a quit claim or an action forcing the property to be sold. A foreclosure action or the exercise of a giving-in-payment clause may have the ultimate effect of depriving any person having other than a first-ranking charge on the property of the security of the property. If an action is taken to sell the property and sufficient proceeds are not realized from such sale to pay off creditors who have prior charges on the property, the holder of a subsequent charge may lose its investment or part thereof to the extent of such deficiency unless the holder can otherwise recover such deficiency from other property owned by the debtor. The Corporation may remedy a default under the terms of a prior charge on a property or satisfy the obligation of a borrower towards the holder of a prior ranking charge if required to protect the Corporation's investments.

### **Fair Allocation**

It is the general policy of the Manager that all of its managed accounts that have investment objectives and restrictions that are compatible with a particular investment opportunity should, when practicable, participate pro rata in that investment opportunity based upon, among other things, the relative amount of assets under management in each such account and the relative importance of the investment opportunity to the fulfillment of each such account's investment objective. Accordingly, the Manager will generally present to the Corporation any investment opportunity available to the Manager that is consistent with the investment objectives and restrictions of the Corporation based upon, and subject to, (a) the amount of assets under management on behalf

of the Corporation relative to the amount of assets under management on behalf of all other accounts of the Manager that have investment objectives and restrictions that are compatible with the investment opportunity, and (b) the importance of the investment opportunity to the fulfillment of the investment objective of the Corporation relative to the importance of the investment opportunity to the fulfillment of the investment objectives of such other accounts of the Manager. An assessment of the relative importance of an investment opportunity to the fulfillment of a client account's investment objective is dependent upon a number of factors that include the availability of the resources that are required to make the investment, alternative investment opportunities, the composition of the client account's portfolio at the time, the geographic and industry sector exposure associated with the investment opportunity and the liquidity of the account. As a result of this fair allocation policy, the Corporation may, from time to time, be presented with, yet precluded from participating in, an investment opportunity available to the Manager that would otherwise be compatible with the Corporation's investment objectives and restrictions based upon the Manager's assessment of the relative importance of the investment opportunity to each of its managed accounts, including the Corporation. In addition, a substantial portion of the assets of the Corporation may be co-invested, either directly or indirectly, in Mortgage loans that have been syndicated by the Manager among the Corporation and one or more other funds that are managed or advised by the Manager.

### **No Guarantees**

There can be no assurance that Mortgage loans of the Corporation will result in a guaranteed rate of return or any return to Class A Non-Voting Shareholders or that losses will not be suffered on one or more Mortgage loans. Moreover, at any point in time, the interest rates being charged for Mortgages are reflective of the general level of interest rates and, as interest rates fluctuate, it is expected that the aggregate yield on Mortgage investments will also change.

A Mortgage borrower's obligations to the Corporation or any other person are not guaranteed by the Government of Canada, the government of any province or any agency thereof nor are they insured under the *National Housing Act* (Canada). In the event that additional security is given by the borrower or a third party or that a private guarantor guarantees the Mortgage borrower's obligations, there is no assurance that such additional security or guarantee will be sufficient to make the Corporation whole if and when resort is to be had thereto. Further, the Class A Non-Voting Shares are not "deposits" within the meaning of the *Canadian Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of that Act or any other legislation.

### **Reliance on Borrowers**

After funding a Mortgage, although the Corporation may monitor the situation and has its own limited insurance policies in place, the Corporation relies upon borrowers to maintain adequate insurance and for proper adherence to environmental regulations.

### **Competition**

The performance of the Corporation depends, in large part, on the Manager's ability to source or acquire Mortgage loans at favourable yields. The Manager competes with individuals, corporations and institutions for investment opportunities in the financing of real property. Certain of these competitors may have greater resources than the Corporation and may therefore operate with greater flexibility. As a result, the Manager may not be able to source or acquire sufficient Mortgage loans at favourable yields or at all.

### **Sensitivity to Interest Rates**

It is anticipated that the market price for the Class A Non-Voting Shares and the value of the Portfolio at any given time may be affected by the level of interest rates prevailing at such time. The Corporation's income will consist primarily of interest payments on the Mortgages comprising the Portfolio. If there is a decline in interest rates (as measured by the indices upon which the interest rates of the Corporation's Mortgages are based), the Corporation may find it difficult to source or otherwise generate additional Mortgages bearing rates sufficient to

achieve targeted annualized dividends or other distributions on the Class A Non-Voting Shares. There can be no assurance that an interest rate environment in which there is a significant decline in interest rates would not adversely affect the Corporation's ability to maintain distributions on the Class A Non-Voting Shares at a consistent level. Increasing interest rates may also adversely affect the Corporation's performance and/or the value of the Class A Non-Voting Shares and the Corporation's Portfolio.

Due to the term of the Mortgages comprising the Portfolio and the inability to accurately predict the extent to which the Corporation's Mortgages may be prepaid, it is possible that the Corporation may not be able to sufficiently reduce interest rate risk associated with the replacement of such Mortgages through new investments in Mortgages.

### **Fluctuations in NAV and Distributions**

The NAV per share and the funds available for distributions will vary according to, among other things, the value of the Portfolio and the interest earned thereon. Fluctuations in the market value of the Portfolio may occur for a number of reasons beyond the control of the Manager or the Corporation.

The Corporation will depend on revenue generated from the Portfolio. There can be no assurance regarding the amount of revenue that will be generated by the Mortgages comprising the Portfolio. The shareholders of the Corporation will be entitled to receive distributions as and when declared from time to time by the directors of the Corporation, acting in their sole discretion, out of the assets of the Corporation properly available for the payment of dividends. The amount of distributions will depend upon numerous factors, including the ability of borrowers to make applicable payments under Mortgages, composition of the Corporation's Mortgages, availability of Mortgage investments, interest rates, unexpected costs, the Corporation's financial performance, debt covenants and obligations under credit facilities, working capital requirements and other factors which may not now be known by or which may be beyond the control of the Corporation or the Manager. If the directors of the Corporation, on the advice of the Manager, determine that it would be in the best interests of the Corporation, they may reduce or suspend for any period or altogether cease indefinitely the distributions to be made to the shareholders.

No distributions will be made to holders of Class B Non-Voting Shares unless, for the year in question, the Class A Non-Voting Shareholders have or will receive in such year an initial preferential annualized non-cumulative distribution being at a rate of up to, but not exceeding 8% per annum calculated on \$10.00 per Class A Non-Voting Share, as and when declared from time to time by the directors of the Corporation, acting in their sole discretion, out of the assets of the Corporation properly available for the payment of dividends and other distributions. After payment of the initial preferential annualized non-cumulative of dividends of 8% calculated on \$10 per share on the Class A Non-Voting Shares, the registered holders of Class B Non-Voting Shares have the right to receive initial annualized non-cumulative dividends at the rate of up to, but not exceeding 8% calculated on \$10 per Class B Non-Voting Shares, as and when declared from time to time by the directors of the Corporation, acting in their sole discretion and always in preference and priority to any further distributions on the Class A Non-Voting Shares and distributions on the Voting Shares. After payment of the initial dividends of 8% on the Class A Non-Voting Shares and the Class B Non-Voting Shares, registered holders of Voting Shares have the right to receive initial annualized non-cumulative dividends at the rate of up to, but not exceeding, 8% calculated on \$10 per Voting Share as and when declared from time to time by the directors of the Corporation, acting in their sole discretion and always in preference and priority to any further distributions on the Class A Non-Voting Shares and Class B Non-Voting Shares. After payment of the initial amount of dividends of 8% on the Class A Non-Voting Shares, Class B Non-Voting Shares and Voting Shares, registered holders of Class B Non-Voting Shares have the right to receive additional annualized non-cumulative dividends at the rate of up to, but not exceeding, 8% calculated on \$10 per Class B Non-Voting Share as and when declared from time to time by the directors of the Corporation, acting in their sole discretion and always in preference and priority to any further distributions on the Class A Non-Voting Shares and Voting Shares. After payment of the above noted priority dividends on the Class A Non-Voting Shares, Class B Non-Voting Shares and Voting Shares, the holders of Class A Non-Voting Shares will participate equally with holders of Class B Non-Voting Shares and Voting Shares in any subsequent dividend distributions. There is no assurance that the Corporation

will be able to declare any dividends in any period or at all. See " **Item 5 – Description of Securities Offered, 5.1.3 – "Class A Non-Voting Shares and Class B Non-Voting Shares"**."

Distributions made to holders of Shares may exceed actual cash available to the Corporation from time to time because of items such as debt payment obligations, fluctuations in Portfolio returns and redemptions of Shares, if any. This excess cash required to fund distributions may be funded from an operating credit facility, to the extent that one is available, or from the capital of the Corporation.

### **Availability of Investments**

Because the Corporation relies on the Manager to source Mortgages it invests in, the Corporation is exposed to adverse developments in the business and affairs of the Manager, to its management and financial strength and to its ability to operate its businesses profitably. The ability of the Corporation to make investments in accordance with its investment objective and investment strategies depends upon the availability of suitable investments and the amount of funds available to make such investments. Additionally, the Corporation may occasionally hold excess funds to be invested in additional Mortgages, which may negatively impact returns.

There can be no assurance that the past yields on the Mortgages comprising the Portfolio will be representative of yields that can be obtained on future investments in Mortgages made by the Corporation.

### **Dilution**

The Corporation is authorized to issue an unlimited number of Class A Non-Voting Shares, an unlimited number of Class B Non-Voting Shares and 1,000 Voting Shares. The Board has the discretion to issue additional Class A Non-Voting Shares and Class B Non-Voting Shares from time to time. The Corporation may issue Class A Non-Voting Shares and Class B Non-Voting Shares at a discount to the NAV applicable to such Shares, without the prior approval of the Shareholders. The issuance of any additional Shares may, and the issuance of Shares at a price or for net proceeds per Share that are less than the applicable NAV per Share will, have a dilutive effect on the purchasers of Class A Non-Voting Shares and Class B Non-Voting Shares under the Offering.

### **Risks Related to Mortgage Extensions and Mortgage Defaults**

The Manager may from time to time deem it appropriate to extend or renew the term of a Mortgage past its maturity, or to accrue the interest on a Mortgage, in order to provide the borrower with increased repayment flexibility. The Manager generally will do so if it believes that there is a low risk to the Corporation of not being repaid the full principal and interest owing on the Mortgage. In these circumstances, however, the Corporation is subject to the risk that the principal and/or accrued interest of such Mortgage may not be repaid in a timely manner or at all, which could impact the cash flows of the Corporation during the period in which it is granting this accommodation. Further, in the event that the valuation of the asset has fluctuated substantially due to market conditions, there is a risk that the Corporation may not recover all or substantially all of the principal and interest owed to the Corporation in respect of such Mortgage.

When a Mortgage is extended past its maturity, the loan can either be held over on a month-to-month basis, or renewed for an additional term at the time of its maturity. Notwithstanding any such extension or renewal, if the borrower subsequently defaults under any terms of the Mortgage, the Manager has the ability to exercise its Mortgage enforcement remedies in respect of the extended or renewed Mortgage. Exercising Mortgage enforcement remedies is a process that requires a significant amount of time to complete, which could adversely impact the cash flows of the Corporation during the period of enforcement. In addition, as a result of potential declines in real estate values, there is no assurance that the Corporation will be able to recover all or substantially all of the outstanding principal and interest owed to the Corporation in respect of such Mortgages by exercising its Mortgage enforcement remedies. Should the Corporation be unable to recover all or substantially all of the principal and interest owed to the Corporation in respect of such Mortgages, the NAV would be reduced, and the returns, financial condition and results of operations of the Corporation could be adversely impacted.

## **Renewal of Mortgages Comprising the Portfolio**

There can be no assurances that any of the Mortgages comprising the Portfolio can or will be renewed at the same interest rates and terms, or in the same amounts as are currently in effect. With respect to each Mortgage comprising the Portfolio, it is possible that the mortgagor, the Mortgagee or both, will elect to not renew. In addition, if the Mortgages in the Portfolio are renewed, the principal balance of such renewals, the interest rates and the other terms and conditions of such Mortgages will be subject to negotiation between the mortgagors and the Mortgagees at the time of renewal.

## **Foreclosure and Related Costs**

One or more borrowers could fail to make payments according to the terms of their loan and the Corporation could therefore be forced to exercise its rights as Mortgagee. The recovery of a portion of the Corporation's assets may not be possible for an extended period of time during this process and there are circumstances where there may be complications in the enforcement of the Corporation's rights as Mortgagee. Legal fees and expenses and other costs incurred by the Corporation in enforcing its rights as Mortgagee against a defaulting borrower are borne by the Corporation. Although these fees, costs and expenses are usually recoverable from the borrower directly or through the sale of the Mortgaged property by power of sale or otherwise, there is no assurance that they will actually be recovered.

Furthermore, certain significant expenditures, including property taxes, capital repair and replacement costs, maintenance costs, Mortgage payments, insurance costs and related charges must be made through the period of ownership of real property regardless of whether the property is producing income or whether Mortgage payments are being made. The Corporation may therefore be required to incur additional outlays to protect its investment, even if the borrower is not honouring its contractual obligations. The Corporation and the Manager will ensure that all activities, if any, undertaken by the Corporation to complete a property acquired through foreclosure will not cause the Corporation to cease qualifying as a MIC.

## **Litigation Risks**

The Corporation may, from time to time, become involved in legal proceedings in the course of its business. The costs of litigation and settlement can be substantial and there is no assurance that such costs will be recovered in whole or at all. During litigation, the Corporation may not be receiving payments of interest on a Mortgage loan that is the subject of litigation, thereby impacting cash flows. The unfavorable resolution of any legal proceedings could have an adverse effect on the Corporation and its financial position and results of operations that could be material.

## **Ability to Manage Growth**

The Corporation intends to grow its Portfolio. In order to effectively deploy its capital and monitor its loans and investments in the future, the Corporation will need to retain additional personnel and may be required to augment, improve or replace existing systems and controls, each of which can divert the attention of management from their other responsibilities and present numerous challenges. As a result, there can be no assurance that the Corporation will be able to effectively manage its growth and, if it is unable to do so, the Corporation's Mortgages, the Portfolio and the price and NAV of the Class A Non-Voting Shares, may be materially adversely affected.

## **Speculative Nature of Class A Non-Voting Shares**

Investment in the Class A Non-Voting Shares is speculative due to the nature of the Corporation's business and involves certain risks. There is no guarantee that an investment in Class A Non-Voting Shares of the Corporation will earn any positive return in the short or long term and investors must be able to bear the risk of a complete loss of their investment and have no need for immediate liquidity in their investment.

## Significant Redemptions of Shares

Shares can be redeemed only on an annual basis as described under "**Item 5 – Description of Securities Offered, 5.1.8- Redemption of Shares**". The purpose of the Annual Redemption Right is to prevent, or reduce the likelihood of, the Class A Non-Voting Shares from trading at a substantial discount to the NAV per share and to provide holders of Class A Non-Voting Shares with the right to realize their investment once per year without any trading discount to the NAV per Share or incurring selling commissions. While the Annual Redemption Right provides Class A Non-Voting Shareholders with the option of annual liquidity at 95% of NAV per Share, there can be no assurance that it will reduce trading discounts or allow a holder to redeem all of the Class A Non-Voting Shares sought to be redeemed. If a significant number of Class A Non-Voting Shares are redeemed, the trading liquidity of the Class A Non-Voting Shares could be significantly reduced. Class B Non-Voting Shares may be redeemed at the Annual Redemption Price, as applicable, which is currently 100% of the NAV per Share. The holders of Class A Non-Voting Shares and Class B Non-Voting Shares are also subject to certain restrictions and limitations on their ability to redeem Shares. See "**Item 5 – Description of Securities, 5.1.9 – Limitations and Suspension of Redemptions**".

In addition, if a significant number of Class A Non-Voting Shares or Class B Non-Voting Shares are redeemed: (i) the Corporation may be required to sell Portfolio assets in order to satisfy redemption payment obligations and may not be able to complete such Portfolio asset sales on favourable terms or at all; (ii) the expenses of the Corporation would be spread among fewer Class A Non-Voting Shares or Class B Non-Voting Shares resulting in a higher management expense ratio per Share; (iii) Class A Non-Voting Shares submitted for redemption in excess of the redemption limits described under "**Item 5 – Description of Securities, 5.1.9 – Limitations and Suspension of Redemptions**" may not be redeemed; and (iv) the satisfaction of the redemption payment obligations may cause cash flow issues for the Corporation in its funding of Mortgages, dividend payments or payments of operating expenses.

The share terms of the Class A Non-Voting Shares and the Class B Non-Voting Shares help to mitigate the risk of significant redemption of Shares in a period of time. Under the share terms, the Corporation has the right to suspend redemptions for certain periods of time. In the Corporation's view, the conditions for suspension are broad enough that, effectively, redemptions can be suspended indefinitely. The Schedule to the Articles of the Corporation provide that "for any period not exceeding 120 days during which the Corporation or Manager determines that conditions exist which render impractical the sale of Mortgages comprising the Portfolio or which impair the ability of the Manager to determine the value of the assets of the Corporation or the Portfolio, the Corporation may suspend redemptions of Shares."

Furthermore if, as a result of significant redemptions, the Manager determines that it is in the best interests of Class A Non-Voting Shareholders to terminate the Corporation, the Manager could seek to dissolve the Corporation with the approval of the Corporation's shareholders.

## Trading Price of Class A Non-Voting Shares and Liquidity

The Class A Non-Voting Shares may trade in the market at a premium or discount to the NAV per share and there can be no assurance that the Class A Non-Voting Shares will trade at a price equal to the NAV applicable to such Shares or that a liquid market will develop. This risk is separate and distinct from the risk that the NAV applicable to Class A Non-Voting Shares may decrease.

In recognition of the possibility that the Class A Non-Voting Shares may trade at a discount, the terms and conditions attaching to the Class A Non-Voting Shares have been designed to attempt to reduce or eliminate a market value discount from the NAV per share. The Corporation believes that optional purchases of Class A Non-Voting Shares by the Corporation, as described under "**Item 5 – Description of Securities, 5.1.5 Purchase for Cancellation**", and redemptions described under "**Item 5 – Description of Securities, 5.1.9 – Limitations and Suspension of Redemptions**" are attributes that may help to reduce or eliminate a market value discount from the NAV per Class A Non-Voting Share. There can be no assurance that such measures will result in the Class A Non-Voting Shares trading at a price which is equal to the NAV per share. In the past year, the trading

history of the Corporation has consistently been below the NAV per share. The Corporation anticipates that the market price of the Class A Non-Voting Shares will in any event vary from the NAV applicable to such Shares. The market price of the Class A Non-Voting Shares will be determined by, among other things, the relative demand for and supply of Class A Non-Voting Shares in the market, trading liquidity, the Corporation's investment performance, the Class A Non-Voting Shares' yield and investor perception of the Corporation's overall attractiveness as an investment as compared with other investment alternatives.

### **Qualification as a MIC**

Although the Corporation intends to qualify at all times as a MIC, no assurance can be provided in this regard. If for any reason the Corporation does not maintain its qualification as a MIC under the Tax Act, dividends paid by the Corporation on the Class A Non-Voting Shares will cease to be deductible by the Corporation in computing its income and will no longer be deemed to have been received by Class A Non-Voting Shareholders as bond interest or a capital gain, as the case may be. In such event, as long as the Class A Non-Voting Shares are listed on a designated stock exchange, or the Corporation otherwise qualifies as a public corporation for purposes of the Tax Act, the rules in the Tax Act regarding the taxation of public corporations and their shareholders apply, with the result that the combined corporate and shareholder tax may be significantly greater. In addition unless the Class A Non-Voting Shares are listed on a designated stock exchange, the Class A Non-Voting Shares may not constitute qualified investments for an RRSP, DPSP, RRIF, RDSP and RESP if the Corporation does not qualify as a MIC. See "**Item 6 - Income Tax Considerations**".

The Corporation intends to monitor major positions held in Class A Non-Voting Shares and Class B Non-Voting Shares in relation to their applicable outstanding balances to ensure that no one shareholder of the Corporation exceeds the 25% maximum ownership limit set by the Tax Act for the Corporation to maintain its qualification as a MIC. The terms of the Shares include certain provisions intended to prevent this condition from being violated. See "**Item 5 – Description of Securities Offered, 5.1.3 - Restrictions on Ownership**".

### **Reliance on the Manager**

Pursuant to the Management Services Agreement, the Manager will advise the Corporation in a manner consistent with the investment objective, the Asset Allocation Model and the investment restrictions of the Corporation and will be responsible for the management and direction of the affairs of the Corporation relating to the administration and evaluation of the existing and potential Mortgages of the Corporation. Although the employees of the Manager who will be primarily responsible for the performance of the respective obligations of each such entity owed to the Corporation have extensive experience, there is no certainty that such individuals will continue to be employees of the Manager in the future. In addition, the Management Services Agreement may be terminated in certain circumstances. There is no assurance that the Manager will continue to provide services to the Corporation.

In addition, there is no certainty that the persons who are currently officers and directors of the Manager will continue to act in such capacity. Shareholders will be required to rely on the good faith, expertise and judgment of the individuals comprising the management of the Manager from time to time. Shareholders do not have the right to direct or influence in any manner the business or affairs of the Manager.

### **The Corporation may be Unable to Fund Investments**

The Corporation may commit to making future Mortgage investments in anticipation of repayment of principal outstanding and/or the payment of interest under existing Mortgage investments. In the event that such repayments of principal or payments of interest are not made, the Corporation may be unable to advance some or all of the funds required to be advanced pursuant to the terms of its commitments and may be required to obtain interim financing and to fund such commitments or face liability in connection with its failure to make such advances.

The Corporation has different methods to manage liquidity and to ensure that commitments can be met. See **"Item 2 - Business of the Corporation, 2.3.1 – Investment Objectives of the Corporation - Funding Process"**.

One of the sources of liquidity has been the purchase from and sale to BCL of the Corporation's Mortgages. The Corporation has often been reliant on BCL as a vendor and purchaser of its Mortgages and as a source for liquidity, including at certain times of low cash flow, for payment of its dividends. This reliance means that if BCL was unwilling, or unable, to act as a purchaser or vendor of Mortgages then the Corporation would have to leave a substantially larger margin for error in its cash management practices, which would reduce profitability.

### **Borrowing and Leverage**

The Corporation currently borrows funds using its Mortgages as security in order to provide operating flexibility. The Corporation intends to maintain access to a revolving credit facility which is primarily utilized to fund Mortgage advances when cash is not otherwise available. The credit facility may be used by the Corporation for other purposes including for the payment of dividends and to fund Committed Mortgages or other Mortgage loans invested in from time to time in a manner consistent with the investment objective and investment strategies of the Corporation. While the credit facility will revolve over time, it is not the intent of the Corporation to utilize credit for purposes of leverage. The Tax Act also imposes restrictions on a MIC's use of borrowed funds which are listed under **"Item 6 - Income Tax Considerations, 6.2.2 – MIC Requirements"**, the Corporation and the Manager intend to ensure that these restrictions are complied with and that the Corporation remains a MIC under the Tax Act. In the event that the Corporation could not meet the obligations of such loans pertaining to the payment of interest or the repayment of principal, the Corporation could incur substantial costs in order to protect the investments of the Corporation while managing the repayment of such a loan facility and/or the Corporation could lose some or all of its assets as a result of lenders exercising their rights of foreclosure and sale.

The interest expense and banking fees incurred in respect of any credit facilities of the Corporation may exceed the incremental capital gains/losses and income generated by the incremental investments in Mortgages made with the credit facility. Accordingly, any event which adversely affects the value of Mortgages would be magnified to the extent that leverage is employed to purchase such Mortgages. In addition, the Corporation may not be able to renew any credit facility on acceptable terms or at all. There can be no assurance that the borrowing strategy employed by the Corporation will enhance returns.

### **Potential Liabilities Associated with the Purchase of Mortgages**

Although the Corporation completes due diligence reviews in respect of any Mortgage it intends to purchase, there may be liabilities and contingencies that the Corporation did not discover or failed to quantify in its due diligence conducted prior to consummation of any Mortgage acquisition and accordingly, the Corporation may not be indemnified for some or all of these liabilities and contingencies, which will negatively affect distributions to Shareholders.

### **Share Class Risk**

Certain matters require the approval of holders of Class A Non-Voting Shares and Class B Non-Voting Shares voting together as a class. To the extent Class B Non-Voting Shares are issued, the voting rights of Class A Non-Voting Shares on these matters (and *vice versa*) will be diluted.

### **Conflicts of Interest**

Except as set forth in this Offering Memorandum, there are no existing material conflicts of interest between the Corporation and any of its directors and officers. However, certain directors and officers of the Corporation are, and may continue to be, directors, officers or shareholders of other entities, including the Manager and BCL, whose operations may, from time to time, be in direct competition with those of the Corporation or with entities

which may, from time to time, provide financing to, or make equity investments in competitors of the Corporation. In accordance with the ABCA, such directors and officers will be required to disclose all conflicts of interest as such conflicts arise. If a conflict of interest arises at a meeting of the board of directors of the Corporation, any director in a conflict will disclose his interest and abstain from voting on such matter.

The Manager, its officers, directors, employees, or shareholders and their respective affiliates and associates are not limited or affected in their ability to carry on other business ventures for their own account, or for the account of others, and may be engaged in the development of, investment in, or management of businesses that may compete with the business of the Corporation. The Corporation has not entered into any non-competition agreements with any of the Manager or its directors, officers or employees. Similarly, the Manager does not have any non-competition agreements with its respective directors, officers and employees. Accordingly, any one or more of the Manager, and their respective directors, officers and employees may compete with or otherwise have a conflict of interest in carrying out its obligations to the Corporation.

For example, the Manager may manage or advise with respect to accounts or funds (including separate accounts and other funds and pooled investment vehicles) that have investment objectives similar to those of the Corporation and may engage in transactions in the same types of securities and instruments as the Corporation. Such transactions will, except as discussed below, be executed independently of transactions of the Corporation and thus at prices or rates that may be more or less favourable than those obtained by the Corporation.

The Corporation will rely upon the Manager to manage the business of the Corporation and to provide managerial skill. The directors and officers of the Manager may have a conflict of interest in allocating their time between the respective businesses and interests of the Manager and the Corporation, and other businesses or projects in which they may become involved.

The directors and officers of the Manager have agreed to devote as much time to the Corporation as is required for the effective management of the Corporation. The Manager and its affiliates, their respective directors and officers may, at any time, engage in promoting or managing other entities and their investments.

### **Restrictions on Ownership and Repurchase of Class A Non-Voting Shares**

No shareholder of the Corporation is permitted, together with related persons, at any time to hold directly or indirectly more than 25% of any class of the issued shares of the Corporation. The terms and conditions of the Class A Non-Voting Shares and Class B Non-Voting Shares provide that the portion of such Class A Non-Voting Shares or Class B Non-Voting Shares, as the case may be, held by a Shareholder, as applicable, together with related persons, that exceeds 24.9% of the issued shares of any class of Shares will be repurchased by the Corporation on the same terms as an annual redemption for the Class A Non-Voting Shares or Class B Non-Voting Shares, as applicable, completed on the applicable date. Such repurchases of Shares could be significant and could engender similar risks to those that arise in the context of significant redemptions of Shares. See "**Item 8 - Risk Factors – Significant Redemptions of Shares**".

### **Change in Legislation**

There can be no assurance that certain laws applicable to the Corporation, including Canadian federal and provincial tax laws, tax proposals, other governmental policies or regulations and governmental, administrative or judicial interpretation thereof, will not change in a manner that will adversely affect the Corporation, its business or fundamentally alter the tax consequences to Shareholders of acquiring, holding or disposing of Class A Non-Voting Shares.

Recently, on August 2, 2016, a new provincial law in British Columbia imposed a one-time tax on real estate purchased by foreign buyers, foreign-register corporations and Canadian corporations controlled fully or in part by foreign nationals or foreign corporations in metro Vancouver. The effect of this new law could slow down the real estate market in British Columbia and could adversely affect the Corporation's business in British Columbia.

Also recently, on October 3, 2016, the Canadian Finance Minister announced changes in Mortgage rules which includes an expansion of a Mortgage rate stress test to all insured Mortgages, new restrictions on when insurance would be provided for low-ratio Mortgages, new reporting rules for the primary residence capital gains exemption and consultants on lender risk sharing. These changes may slow down the real estate market on a country wide level and could adversely affect the Corporation's business.

### **Reliance on Assumptions**

The Corporation's investment objectives and strategy have been formulated based on the Manager's analysis and expectations regarding recent economic developments in Canada, and specifically Western Canada. Such analysis may be incorrect and such expectations may not be realized, in which case the Corporation may not generate sufficient funds to allow the Corporation to pay targeted distributions.

### **Environmental Matters**

The Corporation may in the future take possession, through enforcement proceedings, of properties that secured defaulted Mortgage loans to recover its investment in such Mortgage loans. Prior to taking possession of properties which secure a Mortgage investment, the Manager will assess the potential environmental liability associated with such investment and determine whether it is significant, having regard to the value of the property. If the Manager subsequently determines to take possession of the property, the Corporation could be subject to environmental liabilities in connection with such real property, which could exceed the value of the property. As part of the due diligence performed in respect of the Corporation's proposed Mortgage investments, the Manager may, although it has not obtained such audits in the past, obtain a Phase I Environmental Audit on the underlying real property provided as security for a Mortgage, when it has determined that a Phase I Environmental Audit is appropriate. However, there can be no assurance that any such Phase I Environmental Audit will reveal any or all existing or potential environmental liabilities necessary to effectively insulate the Corporation from potential liability for a materially adverse environmental condition at any Mortgaged property. If hazardous substances are discovered on a property of which the Corporation has taken possession, the Corporation may be required to remove such substances and clean up the property. The Corporation may also be liable to tenants and other users of neighbouring properties and may find it difficult or not possible to resell the property prior to or following such remediation.

## **ITEM 9 - REPORTING OBLIGATIONS**

### **9.1 Financial Disclosure**

The Corporation is required to file annual and interim financial statements pursuant to National Instrument 51-102 - Continuous Disclosure Obligations ("**NI 51-102**"). Financial statements must be accompanied by management's discussion and analysis ("**MD&A**"). The MD&A is a narrative explanation, through the eyes of management, of how a company performed during the period covered by the financial statements, and of the company's financial condition and future prospects. The MD&A supplements, but does not form part of, financial statements and is required to be filed at the same time as the financial statements.

### **9.2 Taxation Information**

On or before the 60<sup>th</sup> day subsequent to December 31 in each calendar year, the Corporation will provide to Subscribers who received distributions from the Corporation in the prior calendar year, such information regarding the Corporation required by Canadian tax law to be submitted to Subscribers for income tax purposes to enable Subscribers to complete their tax returns in respect of the prior calendar year.

## ITEM 10 - RESALE RESTRICTIONS AND REDEMPTION RIGHTS

### 10.1 General Resale Restrictions

These securities will be subject to a number of resale restrictions, including a restriction on trading. Until the restriction on trading expires, you will not be able to trade the Class A Non-Voting Shares unless you comply with an exemption from the prospectus and registration requirements under securities legislation.

Unless permitted under securities legislation, you cannot trade the Class A Non-Voting Shares before the date that is four months and a day after the date the Corporation becomes a reporting issuer in any province or territory of Canada. **A Subscriber is encouraged to seek independent advice from its legal advisors.**

In addition to the above, for Subscribers resident in Manitoba, unless permitted under securities legislation, you must not trade the Class A Non-Voting Shares without the prior written consent of the regulator in Manitoba unless the Corporation has filed a prospectus with the regulator in Manitoba with respect to the Class A Non-Voting Shares and the regulator in Manitoba has issued a receipt for that prospectus or the Shareholders has held the Class A Non-Voting Shares for at least 12 months. The regulator in Manitoba will consent to a trade of a Share by a Shareholder if the regulator is of the opinion that to do so is not prejudicial to the public interest.

## ITEM 11 - PURCHASERS' RIGHTS

A Subscriber to the Offering will have certain rights, some of which are described below. For information about its rights, a potential Subscriber should consult a lawyer. You can cancel your agreement to purchase the Class A Non-Voting Shares. To do so, you must send notice to the Corporation by midnight on the second Business Day after you sign the agreement to buy the Class A Non-Voting Shares.

### British Columbia

If there is a misrepresentation in this Offering Memorandum, you have the following statutory rights:

- (a) a right to sue for damages against the Corporation, every person who was a director of the Corporation at the date of the Offering Memorandum, and every other person who signed this Offering Memorandum; and
- (b) a right to apply for rescission to cancel your agreement to buy Class A Non-Voting Shares, in which case you have no right of action for damages against the Corporation.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the Class A Non-Voting Shares. If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to rescind the agreement within 180 days after you signed the agreement to purchase the Class A Non-Voting Shares. You must commence your action for damages within the earlier of:

- (a) 180 days after learning of the misrepresentation; or
- (b) 3 years after you signed the agreement to purchase the Class A Non-Voting Shares.

### Alberta

If there is a misrepresentation in this Offering Memorandum, you have the following statutory rights:

- (a) a right to sue for damages against the Corporation, every person who was a director of the Corporation at the date of the Offering Memorandum, and every other person who signed this Offering Memorandum; or

- (b) a right to apply for rescission to cancel your agreement to buy Class A Non-Voting Shares, in which case you have no right of action for damages against the Corporation or any other person mentioned in (a) above.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the Class A Non-Voting Shares. If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to rescind the agreement within 180 days after you signed the agreement to purchase the Class A Non-Voting Shares. You must commence your action for damages within the earlier of:

- (a) 180 days after learning of the misrepresentation; or
- (b) 3 years after you signed the agreement to purchase the Class A Non-Voting Shares.

### **Saskatchewan**

If there is a misrepresentation in this Offering Memorandum, you have the following statutory rights:

- (a) a right to sue for damages against:
  - (i) the Corporation;
  - (ii) a director of the Corporation, or promoter of the Corporation at the date of the Offering Memorandum;
  - (iii) every person or company whose consent has been filed respecting the Offering, but only with respect to reports, opinions or statements that have been made by them;
  - (iv) every person who, or company that, in addition to the persons or companies mentioned in clauses (i) and (ii), signed the Offering Memorandum; and
  - (v) every person who or company that sells Class A Non-Voting Shares on behalf of the Corporation under the Offering Memorandum; and
- (b) a right to apply for rescission to cancel your agreement to buy Class A Non-Voting Shares, in which case you have no right of action for damages against the Corporation.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the Class A Non-Voting Shares. If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after you signed the agreement to purchase the Class A Non-Voting Shares.

You must commence your action for damages within the earlier of:

- (a) 1one year after learning of the misrepresentation; or
- (b) six years after you signed the agreement to purchase the Class A Non-Voting Shares.

**Manitoba**

If there is a misrepresentation in this Offering Memorandum, you have the following statutory rights:

- (a) a right to sue for damages against the Corporation, every person who was a director of the Corporation at the date of the Offering Memorandum, and every other person who signed this Offering Memorandum; or
- (b) a right to apply for rescission to cancel your agreement to buy Class A Non-Voting Shares, in which case you have no right of action for damages against the Corporation or any other person mentioned in (a) above.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or the Corporation that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the Class A Non-Voting Shares. If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after you signed the agreement to purchase the Class A Non-Voting Shares. You must commence your action for damages within the earlier of:

- (a) 180 days after learning of the misrepresentation; or
- (b) 2 years after you signed the agreement to purchase the Class A Non-Voting Shares.

**Ontario**

If this Offering Memorandum contains a misrepresentation, without regard to whether you relied on the misrepresentation, you have the following rights under subsection 130.1 of the *Securities Act* (Ontario):

- (a) You have a right of action for damages against the Corporation and a selling security holder on whose behalf the distribution is made; or
- (b) You may elect to exercise a right of rescission against the Corporation or the person referred to in paragraph (a). If you exercise this right, you ceases to have a right of action for damages against the person or the Corporation.

However, there are various defences available to the persons or the Corporation that you have a right to sue. In particular, no person or company is liable under subsection 130.1(1) if he, she or it proves that you purchased the Class A Non-Voting Shares with knowledge of the misrepresentation. Furthermore, in an action for damages pursuant to subsection 130.1(1), the person or Corporation is not liable for all or any portion of the damages that he, she or it proves do not represent the depreciation in value of the Class A Non-Voting Shares as a result of the misrepresentation relied upon.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. No action shall be commenced to enforce a right created by subsection 130.1(1) if more than,

- (a) in the case of an action for rescission, 180 days after the date of the transaction that gave rise to the cause of action; or
- (b) in the case of any action, other than an action for rescission, the earlier of,
  - (i) 180 days after the plaintiff first had knowledge of the facts giving rise to the cause of action, or
  - (ii) three years after the date of the transaction that gave rise to the cause of action.

### **Newfoundland and Labrador**

In the event that this Offering Memorandum and any amendment thereto contains a misrepresentation, an investor to whom this Offering Memorandum was delivered and who purchases the Class A Non-Voting Shares offered under it will be considered to have relied on the misrepresentation, if it was a misrepresentation on the date of investment, and will have, subject as hereinafter provided, a right of action for rescission or damages against the Corporation, every Director of the Corporation at the date of the Offering Memorandum, and every person or company who signed the Offering Memorandum, provided that:

- (a) neither the Corporation, its Directors nor anyone signing this Offering Memorandum will be liable if the Corporation or such person or company proves that the Subscriber purchased the Class A Non-Voting Shares with knowledge of the misrepresentation;
- (b) no director or person or company signing this Offering Memorandum will be liable with respect to any part of the Offering Memorandum not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, opinion or statement of an expert, unless such person or company:
  - (i) did not conduct an investigation sufficient to provide reasonable grounds for a belief that there had been no misrepresentation, or
  - (ii) believed there had been a misrepresentation;
- (c) in an action for damages, neither the Corporation, its Directors nor anyone signing this Offering Memorandum will be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the Class A Non-Voting Shares as a result of the misrepresentation relied upon;
- (d) in no case shall the amount recoverable under the right of action described herein exceed the price at which Class A Non-Voting Shares were offered; and
- (e) the rights of action for rescission or damages are in addition to any other right or remedy available at law to the Subscriber.

No action shall be commenced to enforce a contractual right of action unless the Subscriber gives notice to the Corporation of the Subscriber's intention to exercise such right not more than 90 days subsequent to the date on which the Subscriber paid for the Class A Non-Voting Shares, and an action is commenced to enforce such right:

- (a) in the case of an action for rescission, not later than 180 days from the date the Subscriber purchased the Class A Non-Voting Shares; or
- (b) in the case of an action for damages, not later than 180 days after the person had knowledge of the facts giving rise to the cause of action or in any other case not later than three (3) years from the date the Subscriber purchased the Class A Non-Voting Shares.

### **New Brunswick**

If this Offering Memorandum or any information relating to the offering provided to the Subscriber of the securities thereto or any advertising or sales literature used in connection therewith contains a misrepresentation, every Subscriber of Class A Non-Voting Shares resident in New Brunswick purchasing Class A Non-Voting Shares pursuant to this Offering Memorandum shall be deemed to have relied on the representation, if it was a misrepresentation at the time of purchase, and will have a right of action, in addition to any other rights they may have at law, for damages against the Corporation. Alternatively, where the Subscriber purchased the Class A Non-Voting Shares from the Corporation, the Subscriber may elect to exercise a right of rescission against the Corporation, in which case the Subscriber shall have no right of action for damages against the Corporation.

In addition, if advertising or sales literature is relied upon by a Subscriber in connection with a purchase of Class A Non-Voting Shares, the Subscriber shall also have a right of action for damages or rescission against every promoter or Director of the Corporation.

In addition, where an individual makes a verbal statement to a prospective Subscriber that contains a misrepresentation relating to the Class A Non-Voting Shares and the verbal statement is made either before or contemporaneously with the purchase of the Class A Non-Voting Shares, the Subscriber has a right of action for damages against the individual who made the verbal statement. No such individual will be liable if:

- (a) that individual can establish that he or she cannot reasonably be expected to have known that his or her statement contained a misrepresentation; or
- (b) no individual is liable if, prior to the purchase of the securities by the Subscriber, that individual notified the Subscriber that the individual's statement contained a misrepresentation.

Neither the Corporation nor any promoter, person or company referred to above will be liable, whether for misrepresentations in the Offering Memorandum, any advertising or sales literature or in a verbal statement:

- (a) if the Corporation or such promoter, person or company proves that the Subscriber purchased the Class A Non-Voting Shares with knowledge of the misrepresentation;
- (b) in an action for damages, for all or any portion of the damages that the Corporation or such promoter, person or company proves do not represent the depreciation in value of the Class A Non-Voting Shares as a result of the misrepresentation relied on.

No person, other than the Corporation, is liable for misrepresentations in any advertising or sales literature if the person proves:

- (a) that the advertising or sales literature was disseminated without the person's knowledge or consent and that, on becoming aware of its dissemination, the person gave reasonable general notice that it was so disseminated,
- (b) that, after the dissemination of the advertising or sales literature and before the purchase of the securities by the Subscriber, on becoming aware of any misrepresentation in the advertising or sales literature the person withdrew the person's consent to it and gave reasonable general notice of the withdrawal and the reason for the withdrawal, or
- (c) that, with respect to a false statement purporting to be a statement made by an official person or contained in what purports to be a copy of, or an extract from, a public official document, it was a correct and fair representation of the statement or copy of, or extract from, the document, and the person had reasonable grounds to believe and did believe that the statement was true.

No person, other than the Corporation, is liable with respect to any part of the advertising or sales literature not purporting to be made on the authority of an expert and not purporting to be a copy of or, an extract from, a report, opinion or statement of an expert unless the person:

- (a) failed to conduct such reasonable investigation as to provide reasonable grounds for a belief that there had been no misrepresentation, or
- (b) believed there had been a misrepresentation.

Any person who at the time the advertising or sales literature was disseminated, sells securities on behalf of the Corporation with respect to which the advertising or sales literature was disseminated is not liable if that person can establish that the person cannot reasonably be expected to have had knowledge that the advertising or sales literature was disseminated or contained a misrepresentation.

In no case will the amount recoverable by a Subscriber exceed the price at which Class A Non-Voting Shares were sold to the Subscriber.

In New Brunswick, no action may be commenced to enforce such right of action unless the right is exercised:

- (a) in the case of an action for rescission, 180 days after the date the Subscriber purchased the Class A Non-Voting Shares; and
- (b) in the case of any action, other than an action for rescission, the earlier of (i) one (1) year after the Subscriber first had knowledge of the facts giving rise to the cause of action or (ii) six (6) years after the date the Subscriber purchased the Class A Non-Voting Shares.

### **Nova Scotia**

If this Offering Memorandum or any amendment thereto or any advertising or sales literature (as defined in the *Securities Act* (Nova Scotia)) used in connection therewith contains a misrepresentation, every Subscriber resident in Nova Scotia of Class A Non-Voting Shares in reliance on an exemption under the *Securities Act* (Nova Scotia), the regulations thereunder or a decision of the Nova Scotia Securities Commission pursuant to this Offering Memorandum shall be deemed to have relied on the representation, if it was a misrepresentation at the time of purchase, and has a right of action, in addition to any other rights they may have at law, for damages against the Corporation, every Director of the Corporation at the date of the Offering Memorandum, and every person who signed this Offering Memorandum, but may elect (while still the owner of any of the Class A Non-Voting Shares that they purchased) to exercise a right of rescission against the Corporation, in which case he or she shall have no right of action for damages, provided that:

- (a) neither the Corporation, its Directors nor anyone signing this Offering Memorandum will be liable if the Corporation or such person or company proves that the Subscriber purchased the Class A Non-Voting Shares with knowledge of the misrepresentation;
- (b) no Director or person or company signing this Offering Memorandum will be liable with respect to any part of the Offering Memorandum not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, opinion or statement of an expert, unless such person or company
  - (i) did not conduct an investigation sufficient to provide reasonable grounds for a belief that there had been no misrepresentation, or
  - (ii) believed there had been a misrepresentation;
- (c) in an action for damages, neither the Corporation, its Directors nor anyone signing this Offering Memorandum will be liable for all or any portion of the damages that it proves do not represent the depreciation in value of the Class A Non-Voting Shares as a result of the misrepresentation relied upon;
- (d) in no case shall the amount recoverable under the right of action described herein exceed the price at which the Class A Non-Voting Shares were sold to the Subscriber.

No action shall be commenced to enforce these rights more than 180 days after the date on which payment was made for the Class A Non-Voting Shares.

### **Prince Edward Island**

If this Offering Memorandum contains a misrepresentation when a Subscriber resident in Prince Edward Island buys Class A Non-Voting Shares, securities legislation in Prince Edward Island provides that every such Subscriber has, without regard to whether the Subscriber relied on the misrepresentation, a right of action for damages against the Corporation, every Director of the Corporation at the date of the Offering Memorandum,

and every person or company who signed this Offering Memorandum, but may elect (while still the owner of any of the Class A Non-Voting Shares that they purchased) to exercise a right of rescission against the Corporation in which case the Subscriber shall have no right of action for damages, provided that:

- (a) neither the Corporation, its Directors nor anyone signing this Offering Memorandum will be liable if the Corporation or such person or company proves that the Subscriber purchased the Class A Non-Voting Shares with knowledge of the misrepresentation;
- (b) in an action for damages, neither the Corporation, its Directors nor anyone signing this Offering Memorandum will be liable for all or any portion of such damages if the Corporation or such person or company proves that they do not represent the depreciation in value of the Class A Non-Voting Shares as a result of the misrepresentation relied on; and
- (c) the amount recoverable under this right of action must not exceed the price at which the Class A Non-Voting Shares purchased by the Subscriber were offered.

In Prince Edward Island, no action may be commenced to enforce such right of action described above unless the right is exercised:

- (a) in the case of action for rescission, no later than 180 days from the date the Subscriber purchased the Notes; or
- (b) in the case of any action, other than an action for rescission, not later than the earlier of: (i) 180 days from the day that the Subscriber first had knowledge of the facts giving rise to the cause of action, or (ii) three (3) years from the day the Subscriber purchased the Class A Non-Voting Shares.

### **Northwest Territories**

If an Offering Memorandum contains a misrepresentation, a Subscriber who purchases a security offered by the Offering Memorandum during the period of distribution has, without regard to whether the Subscriber relied on the misrepresentation, a right of action for damages against the Corporation, the selling holder of a Share on whose behalf the distribution is made, every Director of the Corporation at the date of the Offering Memorandum, and every person who signed the Offering Memorandum. If an Offering Memorandum contains a misrepresentation, a Subscriber who purchases a security offered by the Offering Memorandum during the period of distribution has a right of action for rescission against the Corporation or the selling security holder on whose behalf the distribution is made. If the Subscriber elects to exercise a right of action for rescission, the Subscriber shall have no right of action for damages.

A defendant is not liable if he or she proves that the Subscriber purchased the securities with knowledge of the misrepresentation. A person, other than the Corporation and selling security holder, is not liable if he or she proves that:

- (a) the Offering Memorandum was sent to the Subscriber without the person's knowledge or consent and that, on becoming aware of its being sent, the person had promptly given reasonable notice to the issuer that it had been sent without the knowledge and consent of the person;
- (b) the person, on becoming aware of the misrepresentation in the Offering Memorandum, had withdrawn their consent to the Offering Memorandum and given reasonable notice to the Corporation of the withdrawal and the reason for it;
- (c) with respect to any part of the Offering Memorandum purporting to be made on the authority of an expert or purporting to be a copy of, or an extract from, a report, statement or opinion of an expert, the person had no reasonable grounds to believe and did not believe that:

- (i) there had been a misrepresentation, or
- (ii) the relevant part of the Offering Memorandum:
  - (1) there had been a misrepresentation, or
  - (2) the relevant part of the offering memorandum did not fairly represent the report, statement or opinion of the expert, or was not a fair copy of, or an extract from, the report, statement or opinion of the expert.

A defendant, other than the Corporation and selling holder of a Share, is not liable with respect to any part of an Offering Memorandum not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, statement or opinion of an expert, unless the person:

- (a) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation; or
- (b) believed that there had been a misrepresentation.

A defendant is not liable with respect to a misrepresentation in forward-looking information if,

- (a) the offering memorandum containing the forward-looking information also contains, proximate to the forward-looking information,
  - (i) reasonable cautionary language identifying the forward-looking information as such forecast or projection in the forward-looking information; and
  - (ii) a statement of the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
  - (iii) reasonable cautionary language identifying the forward-looking information as such forecast or projection in the forward-looking information; and
  - (iv) a statement of the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
  - (v) the person had a reasonable basis for drawing the conclusions or making the forecasts or projections set out in the forward-looking information.

In an action for damages, the defendant is not liable for any damages that the defendant proves do not represent the depreciation in value of the Class A Non-Voting Shares resulting from the misrepresentation. The amount recoverable by a plaintiff must not exceed the price at which the Class A Non-Voting Shares purchased by the plaintiff were offered. The right of action for rescission or damages is in addition to and without derogation from any other right the Subscriber may have at law. If a misrepresentation is contained in a record incorporated by reference in, or deemed to be incorporated into, an Offering Memorandum, the misrepresentation is deemed to be contained in the Offering Memorandum.

### **Yukon Territory**

In addition to any other right or remedy available to you at law, if there is a misrepresentation in this Offering Memorandum, then you have a statutory right to sue in Yukon:

- (a) for the Corporation to cancel your agreement to buy these securities; or
- (b) for damages against the Corporation, every person who was a Director of the Corporation at

the date of this Offering Memorandum and any other person who signed this Offering Memorandum.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. If you choose to rescind your purchase, you cannot then sue for damages. In addition, in an action for damages, the defendant will not be liable for all or any portion of damages that it proves do not represent the depreciation in value of your securities as a result of the misrepresentation. Furthermore, the amount recoverable in an action for damages will not exceed the price at which the securities were offered. There are various defences available to the persons or companies that you have a right to sue. For example, they have a defence if you knew of the misrepresentation when you purchased the securities.

The defendant will not be liable for a misrepresentation in forward-looking information if the Corporation proves that:

- (a) this Offering Memorandum contains reasonable cautionary language identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
- (b) the Corporation has a reasonable basis for drawing the conclusion or making the forecasts and projections set out in the forward-looking information.

However, in Yukon, the above defence does not relieve a person of liability respecting forward-looking information in a financial statement required to be filed under Yukon securities laws.

If you intend to rely on the statutory right to sue described above, you must do so within strict time limitations.

In Yukon, you must commence your action to cancel the agreement within 180 days after the transaction or commence your action for damages within the earlier of: (i) 180 days after learning of the misrepresentation, or (ii) three years after the transaction.

### **Statutory Rights for Failure to Deliver the Offering Memorandum in Yukon**

If you reside in Yukon and you did not receive a copy of this Offering Memorandum before you signed your Subscription Agreement, you have a right to sue for damages, or if you still own your securities, you can choose to cancel your agreement instead of suing for damages.

### **Nunavut Territory**

In addition to any other right or remedy available to you at law, if there is a misrepresentation in this Offering Memorandum, you have a statutory right to sue in Nunavut:

- (a) the Corporation to cancel your agreement to buy these Class A Non-Voting Shares; or
- (b) for damages against the Corporation, any selling security holder on whose behalf the distribution is made, any Director of the Corporation (who was a Director at the date of this Offering Memorandum), and any person who signed this Offering Memorandum.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. If you choose to rescind your purchase, you cannot then sue for damages. In addition, in an action for damages, the defendant will not be liable for all or any portion of damages that it proves do not represent the depreciation in value of your securities as a result of the misrepresentation. Furthermore, the amount recoverable in an action for damages will not exceed the price at which the securities were offered. There are various defences available to the persons or companies that you have a right to sue. For example, they have a defence if they prove that you knew of the

misrepresentation when you purchased the securities.

The defendant will not be liable for a misrepresentation in forward-looking information if the Corporation proves that:

- (a) this Offering Memorandum contained, proximate to the forward-looking information, reasonable cautionary language identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
- (b) the Corporation has a reasonable basis for drawing the conclusion or making the forecasts and projections set out in the forward-looking information.

If you intend to rely on the statutory rights to sue described above, you must do so within strict time limitations.

In Nunavut, you must commence your action to cancel the agreement to purchase securities within 180 days after the transaction or commence your action for damages within the earlier of: (i) 180 days after learning of the misrepresentation, or (ii) three years after the transaction.

### **General**

**The securities laws of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Nova Scotia, New Brunswick, Prince Edward Island, Newfoundland and Labrador, Yukon, Nunavut and Northwest Territories are complex. Reference should be made to the full text of the provisions summarized above relating to rights of action.**

**Subscribers should consult their own legal advisers with respect to their rights and the remedies available to them. The rights discussed above are in addition to and without derogation from any other rights or remedies, which subscribers may have at law.**

**THE FOREGOING IS A SUMMARY ONLY AND SUBJECT TO INTERPRETATION. REFERENCE SHOULD BE MADE TO THE APPLICABLE SECURITIES LEGISLATION, THE REGULATIONS AND THE RULES THEREUNDER FOR THE COMPLETE TEXT OF THE PROVISIONS UNDER WHICH THE FOREGOING RIGHTS ARE CONFERRED. THE FOREGOING SUMMARY IS SUBJECT TO THE EXPRESS PROVISIONS THEREOF.**

**ITEM 12 - FINANCIAL STATEMENTS**

**Builders Capital Mortgage Corp.**  
**Condensed Consolidated Interim Financial Statements**  
*For the Three Months ended March 31, 2017 and 2016*

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

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In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited condensed consolidated interim financial statements as at, and for the three months ended, March 31, 2017.

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

*As at March 31, 2017 and December 31, 2016*  
*(Expressed in Canadian dollars)*

	2017		2016
<b>Assets</b>			
Cash	\$ 13,708	\$	399,699
Mortgages receivable (Note 4)	24,269,758		23,010,181
Prepaid expenses	6,896		55,110
Assets held for sale (Note 5)	213,400		213,400
<b>Total Assets</b>	<b>\$ 24,503,762</b>	<b>\$</b>	<b>23,678,390</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Line of credit (Note 6)	\$ 933,845	\$	-
Accounts payable and accrued liabilities	13,299		59,232
Due to related party (Note 12)	136,018		105,431
Dividends payable (Note 10)	276,278		282,300
Deferred lender fees	127,064		102,820
<b>Total Liabilities</b>	<b>\$ 1,486,504</b>	<b>\$</b>	<b>549,783</b>
<b>Shareholders' Equity</b>			
Share capital	\$ 21,947,401	\$	22,046,836
Retained earnings	1,069,857		1,081,771
	<b>\$ 23,017,258</b>	<b>\$</b>	<b>23,128,607</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 24,503,762</b>	<b>\$</b>	<b>23,678,390</b>

Approved on behalf of the Board:

(Signed) "John Strangway"  
 Director

(Signed) "Sandy L. Loutitt"  
 Director

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

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

*For the three months ended March 31,  
(Expressed in Canadian dollars)*

	2017	2016
<b>Revenues</b>		
Interest	\$ 740,102	\$ 820,999
Lender fees	61,663	77,302
<b>Total revenues</b>	<b>801,765</b>	<b>898,301</b>
<b>Expenses</b>		
General and administrative	21,658	21,836
Interest	15,679	26,352
Provision for mortgage losses (Note 4)	79,158	65,501
Management fees (Note 12)	58,558	58,401
<b>Total expenses</b>	<b>175,053</b>	<b>172,090</b>
<b>Total comprehensive income</b>	<b>\$ 626,712</b>	<b>\$ 726,211</b>
<b>Earnings per share (Note 7)</b>		
Basic and diluted	\$ .27	\$ .31

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

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

	Number	Share Capital		Retained Earnings	Total
		Amount			
		\$		\$	\$
Balance at December 31, 2015	2,342,571	21,855,197		547,885	22,403,082
Dividends declared <i>(Note 10)</i>	-	-		(269,886)	(269,886)
Total comprehensive income for the period	-	-		726,211	726,211
<b>Balance at March 31, 2016</b>	<b>2,342,571</b>	<b>21,855,197</b>		<b>1,004,210</b>	<b>22,859,407</b>
Balance at December 31, 2016	<b>2,374,971</b>	<b>22,046,836</b>		<b>1,081,771</b>	<b>23,128,607</b>
Offering costs	-	(99,435)		-	(99,435)
Dividends declared <i>(Note 10)</i>	-	-		(638,626)	(638,626)
Total comprehensive income for the period	-	-		626,712	626,712
<b>Balance at March 31, 2017</b>	<b>2,374,971</b>	<b>21,947,401</b>		<b>1,069,857</b>	<b>23,017,258</b>

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

**Builders Capital Mortgage Corp.**  
**Condensed Consolidated Interim Statement of Cash Flows**

*For the three months ended March 31,  
(Expressed in Canadian dollars)*

	2017	2016
<b>Cash flows related to the following activities:</b>		
<b>Operating activities</b>		
Cash receipts of interest and fees from borrowers	\$ 540,439	\$ 237,686
Cash receipt of principal payments from borrowers	5,066,070	4,028,861
Cash receipts on proceeds on sales of mortgages	-	1,109,478
Cash advanced to borrowers	(6,119,235)	(3,319,542)
Cash advanced to purchase mortgages	-	(1,414,389)
Cash paid for operating expenses other than interest	(47,349)	(212,297)
Cash paid for interest	(15,679)	(26,352)
<b>Total cash flows generated from (used in) operating activities</b>	<b>\$ (575,754)</b>	<b>\$ 403,445</b>
<b>Financing activities</b>		
Cash drawn on line of credit	\$ 933,845	\$ 313,602
Financing costs paid on common share offering	(99,435)	-
Dividends paid	(644,647)	(715,751)
<b>Total cash flows generated from (used in) financing activities</b>	<b>\$ 189,763</b>	<b>\$ (402,149)</b>
<b>Net increase (decrease) in cash</b>	<b>\$ (385,991)</b>	<b>\$ 1,296</b>
Cash, beginning of period	399,699	812
<b>Cash, end of period</b>	<b>\$ 13,708</b>	<b>\$ 2,108</b>

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

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

*For the three months ended March 31, 2017 and 2016  
 (Expressed in Canadian dollars)*

**1. Incorporation and operations**

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

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

**2. Basis of preparation**

**Statement of compliance**

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board "IASB". These condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2016. In particular, it should be noted that the Company's significant accounting policies as presented in Note 3 of the financial statements for the year ended December 31, 2016, have been consistently applied in the preparation of these condensed consolidated interim financial statements.

The condensed consolidated interim financial statements of the Company for the period ended March 31, 2017 were approved by the Board of Directors on May 29, 2017.

**Basis of measurement**

These condensed consolidated interim financial statements were prepared on a going concern basis, under the historical cost convention, except for financial instruments classified as fair value through profit or loss, which are measured at fair value.

**Use of estimates and judgments**

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates. Areas where judgements and estimates are significant to the consolidated financial statements are disclosed in note 3.

**Functional and presentation currency**

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

**3. Significant accounting estimates, assumptions 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:

**Specific allowance for mortgage losses**

The Company is required to make estimates and assumptions that relate to the specific allowance for mortgage losses. These estimates may include assumptions regarding local real estate market conditions, interest rates and the availability of credit, cost and terms of financing, the impact of present or future legislation or regulation, prior encumbrances and other factors affecting the mortgages and underlying security of the mortgages. These assumptions are limited by the availability of reliable comparable data, economic uncertainty and the uncertainty of predictions concerning future events. Illiquid credit markets and volatile equity markets have combined to increase the uncertainty inherent in such estimates and assumptions. Accordingly, by their nature, estimates of impairment are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated fair value could vary by a material amount.

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

*For the three months ended March 31, 2017 and 2016  
(Expressed in Canadian dollars)*

**3. Significant accounting estimates, assumptions and judgements** *(continued from previous page)*

**Collective allowance for mortgage losses**

The Company estimates collective allowance for mortgage losses based on an assessment of the recoverability of mortgages receivable. Allowances are applied to mortgages receivable where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analysed historical bad debts based on industry experience and current economic trends when making a judgment to evaluate the adequacy of the allowance for mortgage losses. Where the expectation is different from the original estimate, such difference will impact the carrying value of mortgages receivable.

Management judgments that may affect reported amounts of assets and liabilities, income and expenses include but are not necessarily limited to:

**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.

**4. Mortgages receivable**

Mortgages receivable consist of the following:

	March 31, 2017	December 31, 2016
Conventional first mortgages	\$ 20,899,437	\$ 19,478,717
Conventional non-first mortgages	3,793,848	3,875,833
	<b>24,693,285</b>	<b>23,354,550</b>
Allowance for mortgage losses	423,527	344,369
<b>Total mortgages receivable</b>	<b>\$ 24,269,758</b>	<b>\$ 23,010,181</b>

Mortgages receivable consist of conventional mortgages which are secured by a mortgage charge with aggregate loan to values not generally exceeding 75% at their initiation. Of the total balance of mortgages receivable, 7 mortgages totalling \$7,781,717 were first advanced in 2014 or earlier, 6 mortgages totalling \$6,812,070 were first advanced in 2015, 15 mortgages totalling \$8,591,378 were first advanced in 2016 and the balance of 3 mortgages totalling \$1,508,120 were first advanced in 2017.

At year-end, the mortgages receivable balance included \$2,081,329 (December 31, 2016 - \$1,995,794) in interest and fees receivable and \$22,611,956 (December 31, 2016 - \$21,358,756) in principal amounts.

All mortgages are located in Alberta, British Columbia, or Saskatchewan and are residential in nature.

The mortgages comprising the portfolio bear interest at the weighted average rate of 12.02% (December 31, 2016 – 12.01%) per annum and mature between April 1, 2017 and March 31, 2018. The mortgages are initially entered into for a term of one year. At each maturity date the mortgages are assessed for renewal and if collection of the mortgage is reasonably assured, the mortgages are renewed for an additional term of one year or less. If collection is not reasonably assured, the mortgage is not renewed and collection procedures are initiated. As at March 31, 2017, the Company had no mortgages receivable that had not been renewed (December 31, 2016 – nil). Additional information regarding mortgages which could be considered past due but not impaired is contained in note 14 below.

**Builders Capital Mortgage Corp.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
*For the three months ended March 31, 2017 and 2016*  
*(Expressed in Canadian dollars)*

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

Principal repayments based on contractual maturity dates are as follows:

	March 31, 2017	December 31, 2016
Year 1	\$ 23,499,900	\$ 23,351,707
Year 2	1,193,385	2,843
	<b>\$ 24,693,285</b>	<b>\$ 23,354,550</b>

The Company records a collective allowance for mortgage losses based on past experience regarding losses, and an ongoing assessment of the market. The mortgage portfolio is regularly reviewed by management for individual mortgages which could be considered to be impaired. To the extent such individual impairment exists, the amounts are compared to the collective allowance to ensure that the overall allowance is sufficient. If it's considered sufficient even given the total assessment of individual impairment, then no additional impairment is recorded. If it is considered insufficient, an additional allowance is recorded. As at March 31, 2017, the Company has a collective impairment provision of \$48,527 (December 31, 2016 - \$29,369).

As at March 31, 2017 the Company has recognized a specific impairment provision of \$375,000 (December 31, 2016 - \$315,000) which is related to three specific mortgages with balances totalling \$3,556,060. Each of these mortgages is a conventional first mortgage which may be collected through foreclosure proceedings. Two were originally due in December of 2015 and one is not due until July 1, 2017. In determining impairment, the primary consideration is the value of the security compared to the value of the outstanding mortgage. Consideration is also placed on an assessment of the current state of the market and of the borrower's efforts to sell the property. Two of the mortgages considered to be impaired at period-end both have loans to value which exceed 85% which, combined with other concerns regarding the borrowers has caused the Company to record an impairment loss in an amount calculated to reduce the net carrying value of the loans to their realizable value. The third has an estimated loan to value of 79%, but the borrower has other financial difficulties which may make ultimate collection more difficult. In all cases, construction is either complete or not started, and the properties have failed to sell at least in part due to downturns in the local real estate markets. Interest and fees continuing to accrue have made full collection of our loan balance on eventual sale unlikely.

Measuring loan to value ratios on construction mortgages requires judgement and is subject to a significant degree of uncertainty. The Company estimates that the weighted average loan-to-value of the overall mortgage portfolio at year-end is 79.4%.

The changes in the allowance for mortgage losses during the three months ended March 31, 2017 and December 31, 2016 were as follows:

	March 31, 2017	December 31, 2017
Balance, beginning of period	\$ 344,369	\$ 298,991
Provision for mortgage losses	79,158	65,501
Less: accounts written off	-	(20,123)
Balance, end of period	<b>\$ 423,527</b>	<b>\$ 344,369</b>

5. **Assets held for sale**

	March 31, 2017	December 31, 2016
Foreclosed property	<b>\$ 213,400</b>	<b>\$ 213,400</b>

At March 31, 2017, the assets held for sale consisted of one vacant building lot in Fort McMurray which is currently listed for sale.

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

*For the three months ended March 31, 2017 and 2016  
(Expressed in Canadian dollars)*

**6. Credit facility**

The Company has a due on demand operating credit facility with a limit of \$3,500,000 available. As at March 31, 2017 \$933,845 (December 31, 2016 - \$nil) was drawn. The purpose of the facility is to finance the day-to-day operations of the Company, specifically, financing the placement of mortgages. The loan bears interest while outstanding before and after maturity and default at a rate of 2.50% per annum above the bank's prime lending rate ("prime"). As at March 31, 2017, prime was 2.70% (December 31, 2016 - 2.70%). All interest is payable without demand on the dates specified by the bank and is calculated daily and compounded monthly. The demand facility is secured by all present and after acquired property in the Company.

The credit agreement contains certain financial covenants that must be maintained. These covenants include:

- (i) A cash flow coverage test under which the balance at the end of each month plus accrued interest may not exceed the total amount of outstanding principal balances of mortgages with maximum terms of 12 months or less. At March 31, 2017, the principal balances of such mortgages exceeded the credit facility balance by \$23,759,440 (December 31, 2016 - \$23,354,550).
- (ii) Maintaining a tangible net worth defined as the aggregate of share capital and retained earnings, less intangible assets, of not less than \$10,000,000. At March 31, 2017, this balance exceeded \$10,000,000 by \$13,017,258 (December 31, 2016 - \$13,128,607).

**7. Per share amounts****Basic and diluted earnings per share calculation**

	Three months ended March 31,	
	2017	2016
Numerator for basic earnings per share:		
Total comprehensive income	\$ 626,712	\$ 726,211
Denominator for basic earnings per share:		
Weighted average number of shares	2,358,860	2,342,571
<b>Basic and diluted earnings per share</b>	<b>\$ .27</b>	<b>\$ .31</b>

**10. Dividends**

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

For the period ended March 31, 2017, the Company declared dividends of \$638,626 (March 31, 2016 - \$627,263,) to its Class A and Class B Non-Voting Common Shareholders. As at March 31, 2017, \$276,278 (December 31, 2016 - \$282,300) is payable and outstanding. All dividends payable as at March 31, 2017 were paid prior to April 30, 2017.

**11. Income taxes**

The Company has non-capital tax loss carry forwards of \$180,909 as at March 31, 2017 and December 31, 2016. These tax losses can be applied against future taxable income and will, if not utilized, expire as follows:

2035	<b>\$ 180,909</b>
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**Builders Capital Mortgage Corp.**  
**Notes to the Condensed Consolidated Interim Financial Statements**

*For the three months ended March 31, 2017 and 2016  
(Expressed in Canadian dollars)*

**12. Related party transactions**

Due to related party is comprised of the following:

	March 31, 2017	December 31, 2016
Builders Capital Management Corp.	<b>\$ 136,018</b>	\$105,431

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 three months ended March 31, 2017, this amount was \$58,558 (2016 – \$58,401).

In addition to the management fee, lender fees are charged directly to borrowers both on mortgage originations and on mortgage renewals, with 28.6% of these fees being retained by the Company and the remaining 71.4% being paid to the Manager. The Company collects these fees from the borrower, both on its own behalf and on behalf of the Manager, by adding them to the principal amount of the mortgage, generally on the first advance to the borrower. The company then pays the Manager's share of the fees to the manager, regardless of whether or not any payments have been received on the mortgage. Such payments to the manager are generally paid within 30 days of having been charged to the borrower. Renewal fees are also charged to the borrower and paid to the manager during the term of the mortgage. During the three months, the fees paid to the Manager totaled \$214,468 (2016 - \$189,972).

The total directors' fees paid for the three months were \$6,000 (2016 - \$3,000). Directors' fees are set at \$1,000 annually together with \$500 for each meeting attended. The key management personnel are also directors of the Company and receive compensation from the Company's Manager.

During the three months ended March 31, 2017, the Company purchased mortgages with an aggregate value of \$nil (2016 - \$1,414,389) from, and sold mortgages with an aggregate value of \$nil (2016 - \$1,109,478) to, Builders Capital (2014) Ltd. There were also advances totaling \$1,088 (2016 - \$232,089), 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 three months ended March 31, 2017 and 2016. The Manager directs the affairs and manages the Company's business and administers or arranges for the administration of the Company's operations. The Company has no employment agreement with members of key management and the Company does not pay any cash compensation to any individuals serving as the Company's officers. Rather, those individuals are compensated by the Manager. In consideration for services provided to the Company by the Manager, it is paid a management fee, as discussed above.

**13. Capital disclosures**

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

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

The Company's objectives when managing capital are:

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

The Company is subject to externally imposed capital requirements. The credit facility contains certain financial covenants that must be maintained. As at March 31, 2017 and December 31, 2016, the Company was in compliance with all financial covenants.

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

*For the three months ended March 31, 2017 and 2016  
(Expressed in Canadian dollars)*

**14. Financial instruments**

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

**Fair value**

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

The carrying value of mortgages receivable, accounts payable and accrued liabilities and due to related party approximate their fair value because of the short-term nature of these instruments.

There were no transfers between levels 1, 2 and 3 inputs during the three months (2016 – none).

**Credit Risk**

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. 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.

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 are regularly assessed impairment and the Company records a specific allowance as required. Based on historical information about customer default rates the management considers that the Company's financial assets that are not impaired or past due are of good credit quality.

Mortgages which were funded prior to April 1, 2016 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. These loans are not considered to be impaired and no specific allowance has been taken for these mortgages as management considers collection to be reasonably assured due to the estimated value of the mortgage security held.

In all cases, the Company's mortgages receivable are secured by registered charges over real property which is considered to reduce the credit risk to approximate the amount of the allowance for doubtful loans.

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

	Q4 2015	Q2 2016	Q4 2016
Principal	\$ 283,481	\$ 1,349,529	\$ 2,011,330
Interest	82,458	276,579	207,725
<b>Total</b>	<b>\$ 365,939</b>	<b>\$ 1,626,108</b>	<b>\$ 2,219,055</b>

Cash is held at a major Canadian financial institution. The Company's maximum exposure to credit risk is represented by the carrying values of the cash and mortgages receivable which are considered to be their fair values.

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

*For the three months ended March 31, 2017 and 2016  
 (Expressed in Canadian dollars)*

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

**Market Risk**

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

i) Interest rate risk

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will vary as a result of changes in market interest rates. The Company manages its financial instruments with the objective of mitigating any potential interest rate risks. The interest rates on the Company's mortgages receivable are fixed for the term. Therefore, the Company is not exposed to significant cash flow interest rate risk. As at March 31, 2017, the Company's mortgages receivable are subject to fair value interest rate risk as a decrease in market interest rates will increase the fair value of the fixed rate financial asset. Any change in market interest rates will however have no impact on the Company's cash flows or comprehensive income for the year as mortgages receivable are carried at amortized cost.

ii) Foreign currency risk

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

**Liquidity risk**

Liquidity risk arises from the possibility of not having sufficient ability to obtain debt financing or equity capital to fund future growth or meet the Company's obligations as they arise. 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 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 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. Change in presentation of the Condensed Consolidated Interim Statement of cash flows**

During review of the consolidated financial statement of cash flows performed by the management of the Company, it was concluded that presentation of cash flows using the direct method would provide more relevant and useful information to enable users of the consolidated financial statements to evaluate the changes in net assets of the Company and to assess the Company's ability to generate cash. In addition, management of the Company concluded it was more appropriate to classify the cash advances and repayments on mortgages, including purchases and sales of mortgages, as operating activities rather than investing activities due to the fact that the funding and collection of mortgages is in the ordinary course of operations, and all of the mortgages are considered to be current assets. This change in presentation resulted in cash flows relating to mortgages funded and repaid no longer being presented as investing activities in the Condensed Consolidated Interim Statement of cash flows. Comparative figures have been reclassified to conform to the current year presentation.

**Builders Capital Mortgage Corp.**  
**Consolidated Financial Statements**  
*For the years ended December 31, 2016 and 2015*

## Independent Auditors' Report

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To the Shareholders of Builders Capital Mortgage Corp.:

We have audited the accompanying consolidated financial statements of Builders Capital Mortgage Corp., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained during our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Builders Capital Mortgage Corp. as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Calgary, Alberta  
May 1, 2017

*MNP* LLP  
Chartered Professional Accountants

**MNP**  
LLP

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

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

	2016	2015
<b>Assets</b>		
Cash	\$ 399,699	\$ 776
Mortgages receivable (Note 6)	23,010,181	23,589,190
Prepaid expenses	55,110	5,104
Assets held for sale (Note 7)	213,400	661,905
<b>Total Assets</b>	<b>\$ 23,678,390</b>	<b>\$ 24,256,975</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Line of credit (Note 8)	\$ -	\$ 908,267
Accounts payable and accrued liabilities	59,232	37,132
Due to related party (Note 14)	105,431	73,732
Dividends payable (Note 12)	282,300	715,761
Deferred lender fees	102,820	119,001
<b>Total Liabilities</b>	<b>\$ 549,783</b>	<b>\$ 1,853,893</b>
<b>Shareholders' Equity</b>		
Share capital (Note 9)	\$ 22,046,836	\$ 21,855,197
Retained earnings	1,081,771	547,885
	<b>\$ 23,128,607</b>	<b>\$ 22,403,082</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 23,678,390</b>	<b>\$ 24,256,975</b>

Approved on behalf of the Board:

(Signed) "Brent J. Walter"

Director

(Signed) "Sandy L. Loutitt"

Director

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

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

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

	2016	2015
<b>Revenues</b>		
Interest	\$ 3,129,479	\$ 3,429,775
Lender fees	268,043	346,165
<b>Total revenues</b>	<b>3,397,522</b>	<b>3,775,940</b>
<b>Expenses</b>		
General and administrative	100,915	78,867
Interest	89,371	127,743
Provision for mortgage losses (Note 6)	251,645	343,370
Management fees (Note 14)	236,347	243,080
<b>Total expenses</b>	<b>678,278</b>	<b>793,060</b>
<b>Total comprehensive income</b>	<b>\$ 2,719,244</b>	<b>\$ 2,982,880</b>
<b>Earnings per share (Note 11)</b>		
Basic and diluted	\$ 1.15	\$ 1.23

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

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

	Number	Share Capital		Retained Earnings	Total
			Amount		
			\$	\$	\$
Balance at December 31, 2014	2,434,071		22,776,222	241,011	23,017,233
Class A Non-Voting Common Shares issued for cash <i>(Note 9 (i))</i>	7,500		75,000	-	75,000
Offering costs <i>(Note 9 (i))</i>	-		(6,025)	-	(6,025)
Class A Non-Voting Common Shares redeemed for cash <i>(Note 9 (ii))</i>	(101,500)		(1,015,000)	82,723	(932,277)
Class B Non-Voting Common Shares issued for cash <i>(Note 9 (iv))</i>	2,500		25,000	-	25,000
Dividends declared <i>(Note 12)</i>	-		-	(2,758,729)	(2,758,729)
Total comprehensive income for the year	-		-	2,982,880	2,982,880
Balance at December 31, 2015	2,342,571		21,855,197	547,885	22,403,082
Class A Non-Voting Common Shares issued for cash <i>(Note 9 (iii))</i>	32,400		324,000	-	324,000
Offering costs <i>(Note 9)</i>	-		(132,361)	-	(132,361)
Dividends declared <i>(Note 12)</i>	-		-	(2,185,358)	(2,185,358)
Total comprehensive income for the year	-		-	2,719,244	2,719,244
<b>Balance at December 31, 2016</b>	<b>2,374,971</b>		<b>22,046,836</b>	<b>1,081,771</b>	<b>23,128,607</b>

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

**Builders Capital Mortgage Corp.**  
**Consolidated Statement of Cash Flows**

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

	2016	2015
<b>Cash flows related to the following activities:</b>		
<b>Operating activities</b>		
Cash receipts of interest and fees from borrowers	\$ 2,652,063	\$ 3,395,087
Cash receipt of principal payments from borrowers	19,880,527	28,065,004
Cash receipts on proceeds on sales of mortgages	4,030,060	8,643,865
Cash receipts on sale of assets held for sale (Note 7)	2,289,017	-
Cash advanced to borrowers	(18,119,734)	(27,233,265)
Cash advanced to purchase mortgages	(6,398,475)	(6,548,219)
Cash paid to prepare assets held for sale for sale	(176,248)	-
Cash paid for operating expenses	(422,840)	(500,710)
<b>Total cash flows generated from operating activities</b>	<b>\$ 3,734,370</b>	<b>\$ 5,821,762</b>
<b>Financing activities</b>		
Cash paid to reduce line of credit balance	\$ (908,267)	\$ (2,243,106)
Proceeds from issuance of common shares, net of offering costs (Note 9)	191,639	93,975
Redemption of common shares (Note 9)	-	(932,277)
Dividends paid	(2,618,819)	(2,739,612)
<b>Total cash flows (used in) generated from financing activities</b>	<b>\$ (3,335,447)</b>	<b>\$ (5,821,020)</b>
<b>Net increase (decrease) in cash</b>	<b>\$ 398,923</b>	<b>\$ 742</b>
Cash, beginning of year	776	34
<b>Cash, end of year</b>	<b>\$ 399,699</b>	<b>\$ 776</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, 2016 and 2015*  
*(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 ("Inception"). The principal business of the Company is to acquire, originate and maintain a portfolio consisting primarily of construction mortgages that are secured by development stage residential real property. The Company operates as a Canadian mortgage investment corporation ("MIC") as defined in the Income Tax Act. The Company is managed by Builders Capital Management Corp. (the "Manager").

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

**2. Basis of preparation**

**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") in effect as of January 1, 2016.

The consolidated financial statements of the Company for the year ended December 31, 2016 were approved by the Board of Directors on May 1, 2017.

**Basis of measurement**

These consolidated financial statements were prepared on a going concern basis, under the historical cost convention, except for financial instruments classified as fair value through profit or loss, which are measured at fair value.

**Use of estimates and judgments**

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates. Areas where judgements and estimates are significant to the consolidated financial statements are disclosed in note 5.

**Functional and presentation currency**

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

**3. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

**Basis of consolidation**

These consolidated financial statement include the accounts of the Company and its 99.999% interest in its subsidiary, Builders Capital Limited Partnership. All inter-company balances and transactions are eliminated upon consolidation. Total comprehensive income are 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 deconsolidate from the date that control ceases. The amount of total comprehensive income attributed to non-controlling interests for the year ended December 31, 2016 is \$Nil.

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

*For the years ended December 31, 2016 and 2015*  
*(Expressed in Canadian dollars)*

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

**Non-derivative financial instruments**

The Company determines the classification of its non-derivative financial instruments at initial recognition. Non-derivative financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

i) **Financial instruments at fair value through profit or loss**

Financial assets or financial liabilities are classified as fair value through profit or loss ("FVTPL") when the financial asset or liability is either held for trading or it is designated as such by management on initial recognition. Financial assets or financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized immediately in the consolidated statement of comprehensive income. The net gain or loss recognized in the consolidated statement of comprehensive income incorporates any dividend or interest earned. The Company has classified cash as FVTPL.

ii) **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivable instruments comprise of mortgages receivable. Loans and receivables are initially recognized at the amount expected to be received less, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

iii) **Other financial liabilities**

Other financial liabilities are non-derivative liabilities recognized initially at fair value, net of transaction costs, and are subsequently stated at amortized cost each year. The Company has classified accounts payable and accrued liabilities and due to related party as other financial liabilities.

**Revenue recognition**

Interest income is accounted for using the effective interest method. 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 using the effective interest method. 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.

**Income taxes**

The Company is a 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, 2016 and 2015*  
*(Expressed in Canadian dollars)*

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

**Mortgages receivable**

Mortgages receivable are classified as loans and receivable financial instruments. Such receivables are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the mortgages receivable are measured at amortized cost using the effective interest method, less any impairment losses. The mortgages receivable are assessed on each reporting date to determine whether there is objective evidence of impairment. A financial asset is considered to be impaired only if evidence indicates that one or more events have occurred after its initial recognition that have had a negative effect on the estimated future cash flows of that asset.

The Company considers evidence of impairment for mortgages receivable at both a specific and collective level. All individually significant mortgages are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identifiable at an individual mortgage level. Mortgages that are not individually significant are collectively assessed for impairment by grouping together mortgages with similar risk characteristics.

In assessing collective impairment, the Company reviews historical trends of probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgments as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a specific mortgage receivable is calculated as the difference between its carrying amount including accrued interest and the present value of the estimated future cash flows discounted at the receivable's original effective interest rate. Losses are recognized in the consolidated statement of comprehensive income and reflected in an allowance account against the mortgages receivable. When a subsequent event causes the amount of an impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated statement of comprehensive income.

**Share capital**

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.

**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.

**Assets held for sale**

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

**Basic and diluted per share calculation**

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

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

*For the years ended December 31, 2016 and 2015  
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**4. Accounting standards adopted and recent accounting pronouncements**

**Accounting standards adopted in the current year**

The following amendments to standards were adopted in the current year:

- (i) IAS 1 Presentation of Financial Statements (Amendment) - In December 2014, the IASB issued amendments to IAS 1 Presentation of Financial Statements. The amendments are part of the IASB's Disclosure Initiative to address some of the concerns expressed about existing presentation and disclosure requirements and to ensure entities are able to use judgment when preparing their consolidated financial statements. These amendments are effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The adoption of the amendment did not have a significant impact on the consolidated financial statements.
- (ii) IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Amendment) - Amendments to IAS 16 and IAS 38, issued by IASB in May 2014, incorporated into the Handbook by the AcSB in July 2014, clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate. Amendments to IAS 38 specify that an amortization method based on revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. These amendments are effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The adoption of the amendment did not have a significant impact on the consolidated financial statements.

**Recent accounting pronouncements**

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

- (i) IFRS 9 Financial Instruments is a new standard on accounting for financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement. The International Accounting Standards Board ("IASB") has deferred the mandatory effective date for IFRS 9 to annual periods beginning on or after January 1, 2018. Earlier application is permitted. If an entity applies this IFRS in its consolidated financial statements for a period beginning before January 1, 2018, it shall disclose that fact and at the same time apply the consequential amendments to other IFRSs. An entity that did not already apply IFRS 9 as issued in 2009 must apply IFRS 9 as issued in 2010 in its entirety if electing early application. If an entity has already early applied IFRS 9 as issued in 2009, prior to the amendments issued in 2010, the entity may elect to continue to apply IFRS 9 as issued in 2009. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is recorded at amortized cost only if the entity is holding the instrument to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is recorded at fair value through profit or loss. IFRS 9 requires an expected-loss impairment model (replacing the current incurred loss impairment model) that will require more timely recognition of expected losses and requires accounting for expected credit losses when financial instruments are first recognized and to accelerate the recognition of full lifetime expected losses. The Company is currently assessing the impact of this new standard on its consolidated financial statements.
- (ii) IFRS 15 Revenue from Contracts with Customers - In May 2014, the IASB issued a new standard on the recognition of revenue from contracts with customers. IFRS 15 specifies how and when entities recognize revenue, as well as requires more detailed and relevant disclosures. IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue – Barter Transactions Involving Advertising Services. The Section provides a single, principles-based five-step model to be applied to all contracts with customers, with certain exceptions. The standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Company is currently assessing the impact of this new standard on its consolidated financial statements.
- (iii) IFRS 16 Leases - On January 13, 2016, the IASB issued the final version of IFRS 16 Leases. The new standard will replace IAS 17 Leases and is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that also apply IFRS 15 Revenue from Contracts with Customers. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases applying IAS 17. IFRS 16 does not require a lessee to recognize assets and liabilities for short-term leases (i.e. leases of 12 months or less) and leases of low-value assets. The Company is currently assessing the impact of this new standard on its consolidated financial statements.

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

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**5. Significant accounting estimates, assumptions 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:

**Specific allowance for mortgage losses**

The Company is required to make estimates and assumptions that relate to the specific allowance for mortgage losses. These estimates may include assumptions regarding local real estate market conditions, interest rates and the availability of credit, cost and terms of financing, the impact of present or future legislation or regulation, prior encumbrances and other factors affecting the mortgages and underlying security of the mortgages. These assumptions are limited by the availability of reliable comparable data, economic uncertainty and the uncertainty of predictions concerning future events. Illiquid credit markets and volatile equity markets have combined to increase the uncertainty inherent in such estimates and assumptions. Accordingly, by their nature, estimates of impairment are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated fair value could vary by a material amount.

**Collective allowance for mortgage losses**

The Company estimates collective allowance for mortgage losses based on an assessment of the recoverability of mortgages receivable. Allowances are applied to mortgages receivable where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analysed historical bad debts based on industry experience and current economic trends when making a judgment to evaluate the adequacy of the allowance for mortgage losses. Where the expectation is different from the original estimate, such difference will impact the carrying value of mortgages receivable.

Management judgments that may affect reported amounts of assets and liabilities, income and expenses include but are not necessarily limited to:

**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.

**6. Mortgages receivable**

Mortgages receivable consist of the following:

	2016	2015
Conventional first mortgages	\$ 19,478,717	\$ 15,909,834
Conventional non-first mortgages	3,875,833	8,277,333
	23,354,550	24,187,167
Allowance for mortgage losses	344,369	597,977
<b>Total mortgages receivable</b>	<b>\$ 23,010,181</b>	<b>\$ 23,589,190</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, 2016, conventional first mortgages comprised 83% (2015 – 66%) and conventional non-first mortgages comprised 17% (2015 – 35%) of the total portfolio. Of the total balance of mortgages receivable, 3 mortgages totalling \$1,721,059 were first advanced in 2013 or earlier, 5 mortgages totalling \$5,818,111 were first advanced in 2014, 7 mortgages totalling \$6,339,696 were first advanced in 2015 and the balance of 17 mortgages totalling \$9,475,684 were first advanced in 2016.

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

*For the years ended December 31, 2016 and 2015*  
*(Expressed in Canadian dollars)*

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

At year-end, the mortgages receivable balance included \$1,995,794 (2015 - \$1,652,326) in interest and fees receivable and \$21,358,756 (2015 - \$22,534,841) in principal amounts.

All mortgages are located in Alberta, British Columbia, or Saskatchewan and are residential in nature.

The mortgages comprising the portfolio bear interest at the weighted average rate of 12.01% (2015 – 13.05%) per annum and mature between January 1, 2017 and January 1, 2018. 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, 2016, the Company had no mortgages receivable that had not been renewed (2015 – nil). Additional information regarding mortgages which could be considered past due but not impaired is contained in note 16 below.

Principal repayments based on contractual maturity dates are as follows:

	2016	2015
Year 1	\$ 23,351,707	\$ 23,684,442
Year 2	2,843	502,725
	<b>\$ 23,354,550</b>	<b>\$ 24,187,167</b>

The Company records a collective allowance for mortgage losses based on past experience regarding losses, and an ongoing assessment of the market. The mortgage portfolio is regularly reviewed by management for individual mortgages which could be considered to be impaired. To the extent such individual impairment exists, the amounts are compared to the collective allowance to ensure that the overall allowance is sufficient. If it's considered sufficient even given the total assessment of individual impairment, then no additional impairment is recorded. If it is considered insufficient, an additional allowance is recorded. As at December 31, 2016, the Company has a collective impairment provision of \$29,369 (2015 - \$597,977).

As at December 31, 2016 the Company has recognized a specific impairment provision of \$315,000 (2015-\$nil) which is related to two specific mortgages with balances totalling \$1,787,708. Each of these mortgages is a conventional first mortgage which may be collected through foreclosure proceedings. Both mortgages were originally due in December of 2015. In determining impairment, the primary consideration is the value of the security compared to the value of the outstanding mortgage. Consideration is also placed on an assessment of the current state of the market and of the borrower's efforts to sell the property. The two mortgages considered to be impaired at year-end both have loans to value which exceed 85% which, combined with other concerns regarding the borrowers has caused the Company to record an impairment loss in an amount calculated to reduce the net carrying value of the loans to their realizable value. In both cases, the construction is complete, and the homes have failed to sell at least in part due to downturns in the local real estate markets. Interest and fees continuing to accrue have made full collection of our loan balance on eventual sale unlikely.

Measuring loan to value ratios on construction mortgages requires judgement and is subject to a significant degree of uncertainty. The Company estimates that the weighted average loan-to-value of the overall mortgage portfolio at year-end is 77.9%.

The changes in the allowance for mortgage losses during the years ended December 31, 2016 and 2015 were as follows:

	2016	2015
Balance, beginning of year	\$ 597,977	\$ 265,343
Provision for mortgage losses	251,645	343,370
Less: accounts written off	(505,253)	(10,736)
Balance, end of year	<b>\$ 344,369</b>	<b>\$ 597,977</b>

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

*For the years ended December 31, 2016 and 2015*  
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**7. Assets held for sale**

	2016	2015
Foreclosed property	\$ 213,400	\$ 661,905

During the year ended December 31, 2016 four properties (2015 – one property) were obtained in foreclosure actions on mortgages receivable. Three of these properties, together with one obtained in a foreclosure in the previous year, were disposed of during the year for proceeds totalling \$2,289,017. At December 31, 2016, the assets held for sale consisted of one vacant building lot in Fort McMurray which is currently listed for sale.

The write-down required on the related mortgages receivables prior to foreclosure totalled \$476,055 which was taken from the accumulated allowance for mortgage losses in the year.

**8. Credit facility**

The Company has a due on demand operating credit facility with a limit of \$3,500,000 available. As at December 31, 2016 \$Nil (2015 - \$908,267) was drawn. The purpose of the facility is to finance the day-to-day operations of the Company, specifically, financing the placement of mortgages. The loan bears interest while outstanding before and after maturity and default at a rate of 2.50% per annum above the bank's prime lending rate ("prime"). As at December 31, 2016, prime was 2.70% (2015 - 2.78%). All interest is payable without demand on the dates specified by the bank and is calculated daily and compounded monthly. The demand facility is secured by all present and after acquired property in the Company.

The credit agreement contains certain financial covenants that must be maintained. These covenants include:

- (i) A cash flow coverage test under which the balance at the end of each month plus accrued interest may not exceed the total amount of outstanding principal balances of mortgages with maximum terms of 12 months or less. At year-end, the principal balances of such mortgages exceeded the credit facility balance by \$23,010,181 (2015 - \$22,680,923).
- (ii) Maintaining a tangible net worth defined as the aggregate of share capital and retained earnings, less intangible assets, of not less than \$10,000,000. At December 31, 2016, this balance exceeded \$10,000,000 by \$13,126,607 (2015 - \$12,403,082).

**9. Share capital**

**Authorized shares**

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

The Class A Non-Voting Common Shares and Class B Non-Voting Common shares carry a redemption feature under which shareholders can request redemption of up to 15% of the outstanding shares in any given year. Class A Non-Voting Common Shares redeemed under this feature are redeemed for 95% of the Company's net asset value per share, while Class B Non-Voting Common Shares are redeemed for the net asset value per share. The objective to this feature is to provide additional liquidity for our shareholders. The Company's policy is to honour any redemption requests to the best of its ability. The redemption feature is available only once per year and has specific notice periods which allow the Company 60 days between receiving notice and making payment. The amount of possible redemptions is not determinable, but based on the number of Class A and B Non-Voting Common shares outstanding at year-end and the net asset value per share on that date, the maximum potential redemption would be \$3,366,472. The redemption feature is subject to certain restrictions which give Management the ability to effectively defer redemption indefinitely.

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

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9. Share capital (continued from previous page)

Issued and outstanding – Voting Common Shares

	Number of Shares	\$
As at December 31, 2016 and 2015	100	1,000

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

	Number of Shares	\$
As at December 31, 2014	1,461,895	13,071,969
Shares issued for cash (i)	7,500	75,000
Offering costs (i)	-	(6,025)
Shares redeemed (ii)	(101,500)	(1,015,000)
As at December 31, 2015	1,367,895	12,125,944
Shares issued for cash (iii)	32,400	324,000
Offering costs (iv)	-	(132,361)
As at December 31, 2016	1,400,295	12,317,583

- (i) On May 26, 2015, the Company closed a private placement totalling 7,500 class A Non-Voting Common Shares at a price of \$10.00 per share for gross proceeds of \$75,000. Included in offering costs are \$6,025 in fees paid in connection with the private placement.
- (ii) On October 31, 2015, the Company repurchased 101,500 Class A Non-Voting Common Shares at a discount for \$932,277. The discount on the repurchase was charged to retained earnings.
- (iii) On September 15, 2016, the Company closed a private placement totalling 32,400 Class A Non-Voting Common Shares at a price of \$10.00 per share for gross proceeds of \$324,000. Included in offering costs are \$16,200 in fees paid in connection with the private placement.
- (iv) During the year, offering costs totalling \$116,161 were incurred in the preparation of a prospectus with the intent of raising additional capital. These costs were incremental costs directly attributable to the equity transaction that otherwise would have been avoided. It is anticipated that the offering will close in the spring of 2017.

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

	Number of Shares	\$
As at December 31, 2014	972,076	9,703,253
Shares issued for cash (v)	2,500	25,000
As at December 31, 2016 and 2015	974,576	9,728,253

- (v) On May 26, 2015, the Company closed a private placement totalling 2,500 Class B Non-Voting Common Shares at a price of \$10.00 per share for gross proceeds of \$25,000.

10. Agent options

There were no agent options granted in 2016 and 2015. All previously outstanding options expired on December 12, 2016.

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

*For the years ended December 31, 2016 and 2015*  
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**11. Per share amounts**

**Basic and diluted earnings per share calculation**

	2016	2015
Numerator for basic earnings per share:		
Total comprehensive income	\$ 2,719,244	\$ 2,982,880
Denominator for basic earnings per share:		
Weighted average number of shares	2,358,860	2,422,857
<b>Basic and diluted earnings per share</b>	<b>\$ 1.15</b>	<b>\$ 1.23</b>

The agent options were anti-dilutive in nature.

**12. Dividends**

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

For the year ended December 31, 2016, the Company declared dividends of \$2,185,358 (2015 - \$2,758,729) to its Class A and Class B Non-Voting Common Shareholders and Voting Common Shareholders. As at December 31, 2016, \$282,299 (2015 - \$715,761) is payable and outstanding. All dividends payable as at December 31, 2016 were paid prior to January 31, 2017.

**13. Income taxes**

The Company has non-capital tax loss carry forwards of \$180,909 (2015 - \$310,613) as at December 31, 2016. These tax losses can be applied against future taxable income and will, if not utilized, expire as follows:

2035	<b>\$ 180,909</b>
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**14. Related party transactions**

Due to related party is comprised of the following:

	2016	2015
Builders Capital Management Corp.	\$ 105,430	\$73,732

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, 2016, this amount was \$236,347 (2015 - \$243,080).

In addition to the management fee, lender fees are charged directly to borrowers both on mortgage originations and on mortgage renewals, with 28.6% of these fees being retained by the Company and the remaining 71.4% being paid to the Manager. The Company collects these fees from the borrower, both on its own behalf and on behalf of the Manager, by adding them to the principal amount of the mortgage, generally on the first advance to the borrower. The company then pays the Manager's share of the fees to the manager, regardless of whether or not any payments have been received on the mortgage. Such payments to the manager are generally paid within 30 days of having been charged to the borrower. Renewal fees are also charged to the borrower and paid to the manager during the term of the mortgage. During the year, the fees paid to the Manager totaled \$624,650 (2015 - \$734,495).

The total directors' fees paid for the year were \$15,000 (2015 - \$20,500). Directors' fees are set at \$1,000 annually together with \$500 for each meeting attended. The key management personnel are also directors of the Company and receive compensation from the Company's Manager.

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

*For the years ended December 31, 2016 and 2015*  
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**14. Related party transactions** *(continued from previous page)*

During the year, the Company purchased mortgages with an aggregate value of \$6,398,475 (2015 - \$6,548,219) from, and sold mortgages with an aggregate value of \$4,030,060 (2015 - \$8,643,865) to, Builders Capital (2014) Ltd. There were also advances totaling \$1,141,811 (2015 - \$2,993,056), 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, 2016 and 2015. The Manager directs the affairs and manages the Company's business and administers or arranges for the administration of the Company's operations. The Company has no employment agreement with members of key management and the Company does not pay any cash compensation to any individuals serving as the Company's officers. Rather, those individuals are compensated by the Manager. In considerations for services provided to the Company by the Manager, it is paid a management fee, as discussed above.

**15. Capital disclosures**

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

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

The Company's objectives when managing capital are:

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

The Company is subject to externally imposed capital requirements. The credit facility contains certain financial covenants that must be maintained. As at December 31, 2016 and 2015, the Company was in compliance with all financial covenants.

**16. Financial instruments**

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

**Fair value**

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

The carrying value of mortgages receivable, accounts payable and accrued liabilities and due to related party 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 (2015 – none).

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

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*(Expressed in Canadian dollars)*

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

**Credit Risk**

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. 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.

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 are regularly assessed impairment and the Company records a specific allowance as required. Based on historical information about customer default rates the management considers that the Company's financial assets that are not impaired or past due are of good credit quality.

Mortgages which were funded prior to January 1, 2016 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. These loans are not considered to be impaired and no specific allowance has been taken for these mortgages as management considers collection to be reasonably assured due to the estimated value of the mortgage security held.

In all cases, the Company's mortgages receivable are secured by registered charges over real property which is considered to reduce the credit risk to approximate the amount of the allowance for doubtful loans.

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

	Q1 2015	Q4 2015	Q2 2016	Q4 2016
Principal	\$ 236,491	\$ 241,244	\$ 1,366,917	\$ 1,281,916
Interest	23,371	68,839	208,164	122,864
<b>Total</b>	<b>\$ 259,862</b>	<b>\$ 310,083</b>	<b>\$ 1,575,081</b>	<b>\$ 1,404,780</b>

Cash is held at a major Canadian financial institution. The Company's maximum exposure to credit risk is represented by the carrying values of the cash and mortgages receivable which are considered to be their fair values.

**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, 2016, the Company's mortgages receivable are subject to fair value interest rate risk as a decrease in market interest rates will increase the fair value of the fixed rate financial asset. Any change in market interest rates will however have no impact on the Company's cash flows or comprehensive income for the year as mortgages receivable are carried at amortized cost.

ii) Foreign currency risk

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

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

*For the years ended December 31, 2016 and 2015*  
*(Expressed in Canadian dollars)*

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

**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. 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 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 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.

**17. Change in presentation of the consolidated statement of cash flows**

During review of the consolidated financial statement of cash flows performed by the management of the Company, it was concluded that presentation of cash flows using the direct method would provide more relevant and useful information to enable users of the consolidated financial statements to evaluate the changes in net assets of the Company and to assess the Company's ability to generate cash. In addition, management of the Company concluded it was more appropriate to classify the cash advances and repayments on mortgages, including purchases and sales of mortgages, as operating activities rather than investing activities due to the fact that the funding and collection of mortgages is in the ordinary course of operations, and all of the mortgages are considered to be current assets. This change in presentation resulted in cash flows relating to mortgages funded and repaid no longer being presented as investing activities in the consolidated statement of cash flows. Comparative figures have been reclassified to conform to the current year presentation. As a result, Cash flows from investing activities decreased by \$7,313,045 in the comparative figures, and cash flows from operating activities increased an equivalent amount.

**Builders Capital Mortgage Corp.**  
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## MANAGEMENT'S RESPONSIBILITY

### To the Shareholders of Builders Capital Mortgage Corp. (the "Company"):

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors (the "Board") is composed primarily of directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the consolidated financial statements. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Board is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the Board to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Board and management to discuss their audit findings.

March 31, 2016



John Strangway  
Chief Financial Officer



Sandy L. Loutitt  
President

## INDEPENDENT AUDITORS' REPORT

### To the Shareholders of Builders Capital Mortgage Corp.:

We have audited the accompanying consolidated financial statements of Builders Capital Mortgage Corp., which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Consolidated Financial Statements*

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

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained during our audits is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Builders Capital Mortgage Corp. as at December 31, 2015 and 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

*MNP LLP*

Calgary, Alberta  
March 31, 2016  
Chartered Professional Accountants

Builders Capital Mortgage Corp.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31,

(Expressed in Canadian dollars)

	Note	2015 \$	2014 \$
<b>ASSETS</b>			
Cash		776	34
Mortgages receivable	6	23,589,190	27,191,043
Prepaid expenses		5,104	-
Assets held for sale	7	661,905	-
<b>TOTAL ASSETS</b>		<b>24,256,975</b>	<b>27,191,077</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
Line of credit	8	908,267	3,151,371
Accounts payable and accrued liabilities		37,132	49,653
Due to related party	14	73,732	107,849
Dividends payable	12	715,761	696,644
Deferred lender fees		119,001	168,327
<b>TOTAL LIABILITIES</b>		<b>1,853,893</b>	<b>4,173,844</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	9	21,855,197	22,776,222
Retained earnings		547,885	241,011
		22,403,082	23,017,233
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>24,256,975</b>	<b>27,191,077</b>

Approved on behalf of the Board:



Ivan M. Matishak  
Director



Sandy L. Loutitt  
Director

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

Builders Capital Mortgage Corp.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31,

(Expressed in Canadian dollars)

	Note	2015 \$	2014 \$
<b>REVENUES</b>			
Interest		3,429,775	3,315,300
Lender Fees		346,165	220,923
<b>Total revenues</b>		<b>3,775,940</b>	<b>3,536,223</b>
<b>EXPENSES</b>			
General and administrative		78,867	103,288
Interest		127,743	81,813
Provision for mortgage losses	6	343,370	265,343
Management fees	14	243,080	239,189
<b>Total expenses</b>		<b>793,060</b>	<b>689,633</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>2,982,880</b>	<b>2,846,590</b>
<b>EARNINGS PER SHARE</b>			
Basic and diluted	11	1.23	1.19

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

Builders Capital Mortgage Corp.

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in Canadian dollars)

	Note	Share Capital		Retained Earnings	Total
		Number	Amount		
			\$	\$	\$
<b>BALANCE AT DECEMBER 31, 2013</b>		2,351,571	21,965,406	25,556	21,990,962
Class A Non-Voting Common Shares issued for cash	9 (i)	82,500	825,000	-	825,000
Offering costs	9 (i)	-	(14,184)	-	(14,184)
Dividends declared	12	-	-	(2,631,135)	(2,631,135)
Total comprehensive income for the year		-	-	2,846,590	2,846,590
<b>BALANCE AT DECEMBER 31, 2014</b>		2,434,071	22,776,222	241,011	23,017,233
Class A Non-Voting Common Shares issued for cash	9 (ii)	7,500	75,000	-	75,000
Offering costs	9 (ii)	-	(6,025)	-	(6,025)
Class A Non-Voting Common Shares redeemed for cash	9 (iii)	(101,500)	(1,015,000)	82,723	(932,277)
Class B Non-Voting Common Shares issued for cash	9 (iv)	2,500	25,000	-	25,000
Dividends declared	12	-	-	(2,758,729)	(2,758,729)
Total comprehensive income for the year		-	-	2,982,880	2,982,880
<b>BALANCE AT DECEMBER 31, 2015</b>		2,342,571	21,855,197	547,885	22,403,082

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

Builders Capital Mortgage Corp.

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31,

(Expressed in Canadian dollars)

	Note	2015 \$	2014 \$
<b>CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:</b>			
<b>OPERATING ACTIVITIES</b>			
Total comprehensive income		2,982,880	2,846,590
Items not affecting cash:			
Provision for mortgage losses	6	343,370	265,343
Changes in non-cash operating items:			
Mortgages receivable		(4,716,467)	(4,611,771)
Prepaid expenses		(5,104)	
Amounts held in trust		-	160,500
Accounts payable and accrued liabilities		(12,521)	(152,851)
Due to related party		(34,117)	30,887
Deferred lender fees		(49,326)	168,327
<b>TOTAL CASH FLOWS USED IN OPERATING ACTIVITIES</b>		<b>(1,491,285)</b>	<b>(1,292,975)</b>
<b>INVESTING ACTIVITIES</b>			
Mortgages funded		(33,083,815)	(43,407,900)
Mortgages repaid		40,396,860	42,452,542
<b>TOTAL CASH FLOWS GENERATED FROM (USED IN) INVESTING ACTIVITIES</b>		<b>7,313,045</b>	<b>(955,358)</b>
<b>FINANCING ACTIVITIES</b>			
Amounts drawn (paid) on line of credit		(2,243,104)	3,151,371
Proceeds from issuance of common shares, net of offering costs	9	93,975	810,816
Redemption of common shares	9	(932,277)	-
Dividends paid	12	(2,739,612)	(1,970,769)
<b>TOTAL CASH FLOWS (USED IN) GENERATED FROM FINANCING ACTIVITIES</b>		<b>(5,821,018)</b>	<b>1,991,418</b>
<b>NET INCREASE (DECREASE) IN CASH</b>		<b>742</b>	<b>(256,915)</b>
Cash, beginning of year		34	256,949
<b>CASH, END OF YEAR</b>		<b>776</b>	<b>34</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2015 and 2014 (Expressed in Canadian dollars)

### 1. INCORPORATION AND OPERATIONS

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

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

### 2. BASIS OF PREPARATION

#### 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") in effect as of January 1, 2015.

The consolidated financial statements of the Company for the year ended December 31, 2015 were approved by the Board of Directors on March 31, 2016.

#### Basis of measurement

These consolidated financial statements were prepared on a going concern basis, under the historical cost convention, except for financial instruments classified as fair value through profit or loss, which are measured at fair value.

#### Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates. Areas where judgements and estimates are significant to the consolidated financial statements are disclosed in note 5.

#### Functional and presentation currency

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

#### Basis of consolidation

These consolidated financial statement include the accounts of the Company and its 99.999% 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. The amount of total comprehensive income attributed to non-controlling interests for the year ended December 31, 2015 is \$nil.

#### Non-derivative financial instruments

The Company determines the classification of its non-derivative financial instruments at initial recognition. Non-derivative financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

i) Financial instruments at fair value through profit or loss

Financial assets or financial liabilities are classified as fair value through profit or loss ("FVTPL") when the financial asset or liability is either held for trading or it is designated as such by management on initial recognition. Financial assets or financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized immediately in the consolidated statement of comprehensive income. The net gain or loss recognized in the consolidated statement of comprehensive income incorporates any dividend or interest earned. The Company has classified cash and line of credit as FVTPL.

ii) Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivable instruments comprise mortgages receivable. Loans and receivables are initially recognized at the amount expected to be received, less a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less a provision for impairment.

iii) Other financial liabilities

Other financial liabilities are non-derivative liabilities recognized initially at fair value, net of transaction costs, and are subsequently stated at amortized cost each year. The Company has classified accounts payable and accrued liabilities and due to related party as other financial liabilities.

**Revenue recognition**

Interest income is accounted for using the effective interest method. 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 using the effective interest method. 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.

**Income taxes**

The Company is a 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.

**Mortgages receivable**

Mortgages receivable are classified as loans and receivable financial instruments. Such receivables are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the mortgages receivable are measured at amortized cost using the effective interest method, less any impairment losses. The mortgages receivable are assessed on each reporting date to determine whether there is objective evidence of impairment. A financial asset is considered to be impaired only if evidence indicates that one or more events have occurred after its initial recognition that have had a negative effect on the estimated future cash flows of that asset.

The Company considers evidence of impairment for mortgages receivable at both a specific and collective level. All individually significant mortgages are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identifiable at an individual mortgage level. Mortgages that are not individually significant are collectively assessed for impairment by grouping together mortgages with similar risk characteristics.

In assessing collective impairment, the Company reviews historical trends of probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgments as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a specific mortgage receivable is calculated as the difference between its carrying amount, including accrued interest, and the present value of the estimated future cash flows discounted at the receivable's original effective interest rate. Losses are recognized in the consolidated statement of comprehensive income and reflected in an allowance account against the mortgages receivable. When a subsequent event causes the amount of an impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated statement of comprehensive income.

**Share capital**

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.

#### 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.

#### Assets held for sale

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

#### Basic and diluted per share calculation

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

## 4. ACCOUNTING STANDARDS ADOPTED AND RECENT ACCOUNTING PRONOUNCEMENTS

#### Accounting standards adopted in the current year

The following amendments to standards were adopted in the current year:

- i) IFRS 2 Share-Based Payment (Amendment) – The amendments clarify the definition of "vesting conditions" and "market conditions", and separately define a "performance condition" and a "service condition". A performance condition requires the counterparty to complete a specified period of service and to meet a specified performance target during the service period. A service condition solely requires the counterparty to complete a specified period of service. The amendments had no impact on the Company's consolidated financial statements.
- ii) IFRS 3 Business Combinations (Amendment) – The amendments clarify the accounting for contingent consideration in a business combination. At each reporting year, an entity measures contingent consideration classified as an asset or a financial liability at fair value, with changes in fair value recognized in profit or loss. The amendments had no impact on the Company's consolidated financial statements.
- iii) IFRS 8 Operating Segments (Amendment) – The amendments require an entity to disclose the judgments made by management in applying the aggregation criteria for reportable segments. The amendments had no impact on the Company's consolidated financial statements.
- iv) IAS 24 Related Party Disclosures (Amendment) – The amendments clarify that a management entity, or any member of a group of which it is a part, that provides key management services to a reporting entity, or its parent, is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. This replaces the more detailed disclosure by category required for other key management personnel compensation. The amendments resulted in additional disclosure in the Company's consolidated financial statements.

#### Recent accounting pronouncements

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

- (i) IFRS 9 Financial Instruments (New and Amendment) – The International Accounting Standards Board ("IASB") has deferred the mandatory effective date for IFRS 9 to annual periods beginning on or after January 1, 2018. Earlier application is permitted. If an entity applies this IFRS in its consolidated financial statements for a period beginning before January 1, 2018, it shall disclose that fact and at the same time apply the consequential amendments to other IFRSs. An entity that did not already apply IFRS 9 as issued in 2009 must apply IFRS 9 as issued in 2010 in its entirety if electing early application. If an entity has already early applied IFRS 9 as issued in 2009, prior to the amendments issued in 2010, the entity may elect to continue to apply IFRS 9 as issued in 2009. The Company is currently assessing the impact of this new standard on its consolidated financial statements.
- (ii) IFRS 15 Revenue from Contracts with Customers – In May 2014, the IASB issued a new standard on the recognition of revenue from contracts with customers. IFRS 15 specifies how and when entities recognize revenue, as well as requires more detailed and relevant disclosures. IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue – Barter Transactions Involving Advertising Services. The Section provides a single, principles-based five-step model to be applied to all contracts with customers, with certain exceptions. The standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Company is currently assessing the impact of this new standard on its consolidated financial statements.

Builders Capital Mortgage Corp. Financial Statements  
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- (iii) IAS 1 Presentation of Financial Statements (Amendment) – In December 2014, the IASB issued amendments to IAS 1 Presentation of Financial Statements. The amendments are part of the IASB's Disclosure Initiative to address some of the concerns expressed about existing presentation and disclosure requirements and to ensure entities are able to use judgment when preparing their consolidated financial statements. These amendments are effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The Company is currently assessing the impact of this new standard on its consolidated financial statements.
- (iv) IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Amendment) – Amendments to IAS 16 and IAS 38, issued by IASB in May 2014, incorporated into the Handbook by the AcSB in July 2014, clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate. Amendments to IAS 38 specify that an amortization method based on revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The Company is currently assessing the impact of these amendments on its consolidated financial statements.
- (v) IFRS 16 Leases – On January 13, 2016, the IASB issued the final version of IFRS 16 Leases. The new standard will replace IAS 17 Leases and is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that also apply IFRS 15 Revenue from Contracts with Customers. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases applying IAS 17. IFRS 16 does not require a lessee to recognize assets and liabilities for short-term leases (i.e. leases of 12 months or less) and leases of low-value assets. The Company is currently assessing the impact of this new standard on its consolidated financial statements.

## 5. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS 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:

### Specific allowance for mortgage losses

The Company is required to make estimates and assumptions that relate to the specific allowance for mortgage losses. These estimates may include assumptions regarding local real estate market conditions, interest rates and the availability of credit, cost and terms of financing, the impact of present or future legislation or regulation, prior encumbrances and other factors affecting the mortgages and underlying security of the mortgages. These assumptions are limited by the availability of reliable comparable data, economic uncertainty and the uncertainty of predictions concerning future events. Illiquid credit markets and volatile equity markets have combined to increase the uncertainty inherent in such estimates and assumptions. Accordingly, by their nature, estimates of impairment are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated fair value could vary a material amount.

### Collective allowance for mortgage losses

The Company estimates collective allowance for mortgage losses based on an assessment of the recoverability of mortgages receivable. Allowances are applied to mortgages receivable where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analysed historical bad debts based on industry experience and current economic trends when making a judgment to evaluate the adequacy of the allowance for mortgage losses. Where the expectation is different from the original estimate, such difference will impact the carrying value of mortgages receivable.

Builders Capital Mortgage Corp. Financial Statements  
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## 6. MORTGAGES RECEIVABLE

Mortgages receivable consist of the following:

	2015	2014
	\$	\$
Conventional first mortgages	15,909,834	22,839,477
Conventional non-first mortgages	8,277,333	4,616,909
	24,187,167	27,456,386
Allowance for mortgage losses	597,977	265,343
Total mortgages receivable	23,589,190	27,191,043

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, 2015, conventional first mortgages comprised 66% (2014 – 83%) and conventional non-first mortgages comprised 34% (2014 – 17%) of the total portfolio.

All mortgages are located in Alberta, British Columbia, or Saskatchewan and are residential in nature.

The mortgages comprising the portfolio bear interest at the weighted average rate of 13.05% (2014 – 13.15%) per annum and mature between January 1, 2016 and January 1, 2017.

Principal repayments based on contractual maturity dates are as follows:

	2015	2014
	\$	\$
2016	23,684,442	27,453,535
2017	502,725	2,851
	24,187,167	27,456,386

Allowance for mortgage losses details:

	2015	2014
	\$	\$
Balance, beginning of year	265,343	-
Provision for mortgage losses	343,370	265,343
Less: accounts written off	(10,736)	-
Balance, end of year	597,977	265,343

There was \$597,977 (2014 – \$265,343) collective allowance for mortgage losses as at December 31, 2015. There was no specific allowance for mortgage losses for the years ended December 31, 2015 and 2014.

## 7. ASSETS HELD FOR SALE

	2015	2014
	\$	\$
Foreclosed property	661,905	-

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## 8. CREDIT FACILITY

In July 2014, the due on demand operating credit facility limit was extended to \$3,500,000 from \$2,500,000. As at December 31, 2015, \$908,267 (2014 – \$3,151,371) was drawn. The purpose of the facility is to finance the day-to-day operations of the Company, specifically financing the placement of mortgages. The loan bears interest while outstanding before and after maturity and default at a rate of 2.50% per annum above the bank's prime lending rate ("prime"). As at December 31, 2015, prime was 2.78% (2014 – 3.0%). All interest is payable without demand on the dates specified by the bank and is calculated daily and compounded monthly. The demand facility is secured by all present and after acquired property in the Company. The credit agreement contains certain financial covenants that must be maintained. These covenants include a cash flow coverage test and maintaining a tangible net worth of not less than \$10,000,000. As at December 31, 2015 and 2014, the Company was in compliance with all financial covenants.

## 9. 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

### Issued and outstanding – Voting Common Shares

	Number of Shares	\$
As at December 31, 2015 and 2014	100	1,000

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

	Number of Shares	\$
As at December 31, 2013	1,379,395	12,261,153
Shares issued for cash (i)	82,500	825,000
Offering costs (i)	-	(14,184)
As at December 31, 2014	1,461,895	13,071,969
Shares issued for cash (ii)	7,500	75,000
Offering costs (ii)	-	(6,025)
Shares redeemed (iii)	(101,500)	(1,015,000)
As at December 31, 2015	1,367,895	12,125,944

- i) In July 2014, the Company closed a private placement totalling 82,500 Class A Non-Voting Common Shares at a price of \$10.00 per share for gross proceeds of \$825,000. Included in offering costs are \$14,184 in fees paid in connection with the private placement.
- ii) On May 26, 2015, the Company closed a private placement totalling 7,500 class A Non-Voting Common Shares at a price of \$10.00 per share for gross proceeds of \$75,000. Included in offering costs are \$6,025 in fees paid in connection with the private placement.
- iii) On October 31, 2015, the Company repurchased 101,500 Class A Non-Voting Common Shares at a discount for \$932,277. The discount on the repurchase was charged to retained earnings.

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

	Number of Shares	\$
As at December 31, 2013 and 2014	972,026	9,703,253
Shares issued for cash (iv)	2,500	25,000
As at December 31, 2015	974,576	9,728,253

- iv) On May 26, 2015, the Company closed a private placement totalling 2,500 Class B Non-Voting Common Shares at a price of \$10.00 per share for gross proceeds of \$25,000.

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## 10. AGENT OPTIONS

There were no Agent options granted in 2015 and 2014. The fair value of the agent options outstanding is \$43,027.

At December 31, 2015, agent options outstanding and exercisable were as follows:

Grant date	Number of options outstanding and exercisable	Exercise price (\$)	Expiry date	Remaining contractual life (years)
December 12, 2013	82,764	10.00	December 12, 2016	0.95

## 11. PER SHARE AMOUNTS

### Basic and diluted earnings per share calculation

	2015	2014
	\$	\$
Numerator for basic earnings per share:		
Total comprehensive income	2,982,880	2,846,590
Denominator for basic earnings per share:		
Weighted average number of shares	2,422,857	2,392,482
Basic and diluted earnings per share	1.23	1.19

The agent options were anti-dilutive in nature.

## 12. DIVIDENDS

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

For the year ended December 31, 2015, the Company declared dividends of \$2,758,729 (2014 – \$2,631,135) to its Class A and Class B Non-Voting Common Shareholders and Voting Common Shareholders. As at December 31, 2015, \$715,761 (2014 – \$696,644) was payable and outstanding. All dividends payable as at December 31, 2015 were paid on January 31, 2016.

## 13. INCOME TAXES

The Company has non capital tax loss carry forwards of \$310,613 (2014 – \$48,294) as at December 31, 2015. These tax losses can be applied against future taxable income and will, if not utilized, expire as follows:

	\$
2033	48,294
2035	262,319

## 14. RELATED PARTY TRANSACTIONS

Due to related party is comprised of the following:

	2015	2014
	\$	\$
Builders Capital Management Corp.	73,732	107,849

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, 2015, this amount was \$243,080 (2014 – \$239,189).

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The total directors' fees paid for the year were \$20,500 (2014 – \$17,500). Directors' fees are set at \$1,000 annually together with \$500 for each meeting attended. The key management personnel are also directors of the Company and receive compensation from the Company's Manager.

During the year, the Company purchased mortgages with an aggregate value of \$6,548,219 (2014 – \$2,946,465) from, and sold mortgages with an aggregate value of \$8,643,865 (2014 – \$4,663,249) to, Builders Capital (2014) Ltd. There were also advances totaling \$2,993,056 (2014 – \$715,929), which were made and repaid during the year between the two companies.

During the year, the Company purchased mortgages with an aggregate value of \$nil (2014 – \$1,923,674) from, and sold mortgages with an aggregate value of \$nil (2014 – \$3,440,576) to, Builders Capital Inc. There were also advances totaling \$nil (2014 – \$249,133), which were made and repaid during the year between the two companies.

Both Builders Capital (2014) Ltd and Builders Capital Inc. are 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, 2015 and 2014. The Manager directs the affairs and manages the Company's business and administers or arranges for the administration of the Company's operations. The Company has no employment agreement with members of key management and the Company does not pay any cash compensation to any individuals serving as the Company's officers. Rather, those individuals are compensated by the Manager. In considerations for services provided to the Company by the Manager, it is paid a management fee, as discussed above.

## 15. CAPITAL DISCLOSURES

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

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

The Company's objectives when managing capital are:

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

The Company is subject to externally imposed capital requirements. The credit facility contains certain financial covenants that must be maintained. As at December 31, 2015 and 2014, the Company was in compliance with all financial covenants.

## 16. FINANCIAL INSTRUMENTS

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

#### Fair value

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

The carrying value of mortgages receivable, accounts payable and accrued liabilities and due to related party 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 (2014 – none).

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#### **Credit Risk**

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. 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. Cash is held at a major Canadian financial institution. The Company's maximum exposure to credit risk is represented by the fair values of the cash and mortgages receivable.

#### **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, 2015, the Company's mortgages receivable were subject to fair value interest rate risk as a decrease in market interest rates would increase the fair value of the fixed rate financial asset. Any change in market interest rates will however have no impact on the Company's cash flows or comprehensive income for the year as mortgages receivable are carried at amortized cost.

##### **ii) Foreign currency risk**

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

#### **Liquidity risk**

Liquidity risk arises from the possibility of not having sufficient ability to obtain debt financing or equity capital to fund future growth or meet the Company's obligations as they arise. 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 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 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.

**ITEM 13 - DATE AND CERTIFICATE**

Dated: July 14, 2017

**This Offering Memorandum does not contain a misrepresentation.**

*"Sandy Loutitt"*

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Sandy Loutitt  
Director and President

*"John Strangway"*

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John Strangway  
Director and Chief Financial Officer

*"Brent Walter"*

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Brent Walter  
Director

*"John Drummond"*

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John Drummond  
Director

**BUILDERS CAPITAL MORTGAGE CORP.**

**SUBSCRIPTION AGREEMENT**

**INSTRUCTIONS TO PURCHASER**

1. All purchasers must complete all the information in the boxes on page 1 and sign where indicated.
2. If you are purchasing the security as principal and you:
  - (a) are resident in British Columbia or Newfoundland and Labrador, complete two copies (one copy to be retained by you) of the Risk Acknowledgement Form (Form 45-106F4) included as **Exhibit 1**; or
  - (b) are resident in Manitoba, Northwest Territories, Nunavut, Prince Edward Island or Yukon and are subscribing for not more than \$10,000 of securities, complete the Risk Acknowledgement Form included as **Exhibit 1**;
  - (c) are resident in Manitoba, Northwest Territories, Nunavut, Prince Edward Island or Yukon and are subscribing for more than \$10,000 of securities, complete (i) the Risk Acknowledgement Form (Form 45-106F4) included as **Exhibit 1** and (ii) the Eligible Investor Representation Letter included as **Exhibit 2**;
  - (d) are resident in Alberta, New Brunswick, Nova Scotia, Ontario or Saskatchewan complete (i) the Risk Acknowledgement Form (Form 45-106F4) included as **Exhibit 1**; (ii) the Classification of Investors Form included as **Schedule 1 of Exhibit 1**; and (iii) the Investment Limits for Investors Form included as **Schedule 2 of Exhibit 1**;
3. If you are not an individual and you either (i) hold or will hold, on a diluted or undiluted basis, more than 5% of the Corporation's issued and outstanding common shares upon completion of this Offering; (ii) are an "Insider" of the Corporation prior to closing of this Offering or will be an "Insider" (as defined herein) upon completion of this Offering or (iii) are a member of a "Pro Group" (as defined herein), you must complete the Corporate Placee Registration Form in the form attached as **Exhibit 3** unless you have previously filed this form with the TSX Venture Exchange and it remains accurate.

**SUBSCRIPTION FOR CLASS A NON VOTING COMMON SHARES**

**TO: Builders Capital Mortgage Corp. (the "Corporation")**

The undersigned (hereinafter referred to as the "**Subscriber**") hereby irrevocably subscribes for and agrees to purchase from the Corporation, Class A Non-Voting Common Shares of the Corporation (each a "**Common Share**" and collectively, the "**Common Shares**") in the number set forth below for the aggregate subscription price ("**Aggregate Subscription Price**") representing a subscription price of \$10.00 per Common Share. The Subscriber agrees to be bound by the terms and conditions set forth in "**Terms and Conditions of Subscription for Class A Non-Voting Common Shares of Builders Capital Mortgage Corp.**" attached hereto and forming a part hereof (the "**Subscription Agreement**"). **In addition to this face page, the Subscriber must complete all applicable exhibits attached hereto.**

\_\_\_\_\_  
(Name of Subscriber - please print)

By: \_\_\_\_\_  
(Authorized Signature)

\_\_\_\_\_  
(Official Capacity or Title – please print)

\_\_\_\_\_  
(Please print name of individual whose signature appears above if different than the name of the subscriber printed above.)

\_\_\_\_\_  
(Subscriber's Address, including postal code)

\_\_\_\_\_  
(Subscriber's Address, including postal code)

\_\_\_\_\_  
(Telephone Number) (Email Address)

\_\_\_\_\_  
(Date of Signature)

**Number of Common Shares:**

\_\_\_\_\_

**Aggregate Subscription Price:**

\_\_\_\_\_

**The Subscriber owns, directly or indirectly, the following number of Common Shares (excluding the securities subscribed for hereunder):**

\_\_\_\_\_

**The Subscriber is  or is not  an Insider (as defined herein) of the Corporation [Please check the applicable box]**

**The Subscriber is  or is not  a Registrant (as defined herein) [Please check the applicable box]**

**Register the Common Shares as set forth below:**

\_\_\_\_\_  
(Name)

\_\_\_\_\_  
(Account reference, if applicable)

\_\_\_\_\_  
(Address)

\_\_\_\_\_

**Deliver Confirmation of Purchase of Common Shares as set forth below:**

\_\_\_\_\_  
(Name)

\_\_\_\_\_  
(Account reference, if applicable)

\_\_\_\_\_  
(Contact Name)

\_\_\_\_\_  
(Address)

**The undersigned acknowledges and agrees that the Common Shares to be issued hereunder will be subject to restrictions on trading for a minimum of 4 months following the issuance thereof, and that the certificate(s) representing such securities, or the book entry registration in respect of the Common Shares, will be legended accordingly. Until such time as the applicable "restricted period" has expired, the undersigned will not be able to resell the Common Shares except in accordance with limited exemptions under applicable securities legislations and regulatory policies.**

**ACCEPTANCE:** The Corporation hereby accepts the subscription as set forth above on the terms and conditions contained in this Subscription Agreement and the Corporation represents and warrants to the Subscriber that the representations and warranties made by the Corporation are true and correct in all material respects as of the Closing Date (as defined herein).

\_\_\_\_\_, 20\_\_\_\_

**Builders Capital Mortgage Corp.**

By: \_\_\_\_\_

Subscription No: \_\_\_\_\_

*This is the first page of an agreement comprised of 9 pages (not including Exhibits 1 - 3)*

**TERMS AND CONDITIONS OF SUBSCRIPTION FOR  
CLASS A NON-VOTING COMMON SHARES OF BUILDERS CAPITAL MORTGAGE CORP.**

**General**

4. The Subscriber acknowledges (on its own behalf and, if applicable, on behalf of each person on whose behalf the Subscriber is contracting) that this subscription is subject to rejection or allotment by the Corporation in whole or in part. The Corporation will be deemed to have accepted this subscription upon its delivery of the certificates representing the Common Shares or, alternatively, the recording of the Subscriber's name in the book entry system maintained by the Corporation's transfer agent.
5. The Subscriber acknowledges and agrees that any funds invested are available to the Corporation upon receipt and need not be refunded to the Subscriber. The Subscriber is the only participant in this offering of Common Shares.
6. The Corporation may in its discretion pay a finder's fee in connection with this subscription of Common Shares.
7. In the event that the Corporation, in its sole discretion, rejects this Subscription, the subscription proceeds will be promptly returned to the Subscriber, without interest or deduction.
8. ProVenture Law LLP acts solely for the Corporation and does not act for the Subscriber, or in any way provides legal advice to the Subscriber respecting the purchase of common Shares. The Subscriber is responsible for obtaining such legal advice as it considers appropriate in connection with the execution, delivery and performance by it of this Subscription Agreement. Any and all funds that are provided to ProVenture Law LLP and placed in trust with ProVenture Law LLP will be releasable to the Corporation upon closing of the purchase of the Common Shares. ProVenture Law LLP will ensure that, to the best of its ability and prior to the release of funds to the Corporation, the Subscriber has been issued a certificate representing the number of Common Shares that the Subscriber has subscribed for and that the Common Shares are legally and validly issued by the Corporation. After the closing and the transfer of the funds to the Corporation, the Corporation will have complete and unfettered discretion in its use of the funds and ProVenture Law LLP will have no further control over, or responsibility in respect of, the funds.
9. In respect to this subscription for Common Shares, the Subscriber hereby acknowledges having received the Offering Memorandum dated July 14, 2017, prior to executing this Subscription Agreement, for the purpose of evaluating an investment in the Common Shares and that in so evaluating an investment in the Common Shares the Subscriber has relied on the Offering Memorandum and has not relied on any other information or representation other than as stated herein and therein.

**Representations, Warranties and Covenants by Subscriber**

10. The Subscriber (on its own behalf and, if applicable, on behalf of each person on whose behalf the Subscriber is contracting) represents, warrants and covenants to the Corporation and its counsel as at the date hereof and as at the Closing Date (and acknowledges that the Corporation and its counsel are relying thereon) that:
  - (a) the Subscriber has been independently advised as to restrictions with respect to trading in the Common Shares imposed by applicable securities legislation, confirms that no representation has been made to it by or on behalf of the Corporation with respect thereto, acknowledges that it is aware of the characteristics of the Common Shares, the risks relating to an investment therein and of the fact that it may not be able to resell the Common Shares (including in the United States) except in accordance with limited exemptions under applicable securities legislation and regulatory policy until expiry of the applicable hold period and compliance with the other requirements of applicable law; and it agrees that any certificates representing the Common Shares may bear a legend indicating that the resale of such securities is restricted; and
  - (b) the Subscriber is aware that: (i) the Corporation is a reporting issuer only under the securities legislation of the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario; and (ii) if no further statutory exemption may be relied upon and no discretionary order is obtained, the Subscriber will be required to hold the Common Shares acquired hereunder for a minimum of 4

months or such longer period as may be required by securities legislation applicable to the Subscriber or stock exchange requirements applicable to the Corporation; and

- (c) the Subscriber has not received a prospectus of the Corporation nor has it received or been provided with, nor has it requested, nor does it have any need to receive, any other document describing the business and affairs of the Corporation in order to assist it in making an investment decision in respect of the Common Shares; and
- (d) the Subscriber has not become aware of any advertisement in printed media of general and regular paid circulation (or other printed public media), radio, television or telecommunications or other form of advertisement (including electronic display) with respect to the distribution of the Common Shares; and
- (e) the Subscriber acknowledges that:
  - (i) no securities commission or similar regulatory authority has reviewed or passed on the merits of the Common Shares; and
  - (ii) there is no government or other insurance covering the Common Shares; and
  - (iii) there are risks associated with the purchase of the Common Shares; and
  - (iv) the Corporation has advised the Subscriber that (i) the Corporation is relying on an exemption from the requirements to provide the Subscriber with a prospectus and, as a consequence of acquiring securities pursuant to such an exemption: (a) certain protections, rights and remedies provided by the *Securities Act* (Alberta) and other applicable securities laws, including statutory rights of rescission or damages, will not be available to the Subscriber, (b) the Subscriber may not receive information that would otherwise be required to be provided to it under securities legislation, and (c) the Corporation is relieved from certain obligations that would otherwise apply under securities legislation; and (ii) the Common Shares are being offered for sale only on a "private placement" basis and, accordingly, the sale and delivery of the Common Shares is conditional upon either (a) the availability of an exemption from the requirements described in (i) above or (b) the issuance of such orders, consents or approvals as may be required to permit such sale without such an exemption; and
  - (v) the certificates representing the Common Shares, or the book entry registration in respect of the Common Shares, will be endorsed by a legend stating that the Common Shares will be subject to restrictions on resale in accordance with applicable securities legislation and it is the Subscriber's responsibility to find out what those restrictions are and to comply with them before selling the Common Shares; and
  - (vi) subject to the provisions of the *Business Corporations Act* (Alberta), the Common Shares are not entitled to vote; and
- (f) the Subscriber is aware that the Common Shares have not been and will not be registered under the U.S. Securities Act or the securities laws of any state and that these securities may not be offered or sold in the United States without registration under the U.S. Securities Act or compliance with requirements of an exemption from registration and the applicable laws of all applicable states and acknowledges that the Corporation has no present intention of filing a registration statement under the U.S. Securities Act in respect of the Common Shares; and
- (g) the Subscriber warrants that:
  - (i) the Common Shares have not been offered to the Subscriber (or any person on whose behalf the Subscriber is contracting) in the United States, and any person making the order to purchase the Common Shares and executing and delivering this Subscription Agreement was not in the United States when the order was placed and this Subscription Agreement was executed and delivered, unless such person is a dealer or other professional fiduciary organized, incorporated, or (if an individual) resident in the United States signing on behalf

of a discretionary account or similar account (other than an estate or trust) held for the benefit or account of a Disclosed Beneficial Purchaser which is not in the United States or a U.S. Person (as defined below); and

- (ii) the current structure of this transaction and all transactions and activities contemplated hereunder is not a scheme to avoid the registration requirements of the U.S. Securities Act; and
  - (iii) the Subscriber is not a U.S. Person (as defined in Regulation S under the U.S. Securities Act, which definition includes, but is not limited to, an individual resident in the United States, an estate or trust of which any executor or administrator or trustee, respectively, is a U.S. Person and any partnership or corporation organized or incorporated under the laws of the United States) and is not purchasing the Common Shares on behalf of, or for the account or benefit of, a person in the United States or a U.S. Person; and
- (h) the Subscriber undertakes and agrees that it will not offer or sell the Common Shares in the United States unless such securities are registered under the U.S. Securities Act and the securities laws of all applicable states of the United States or an exemption from such registration requirements is available, and further that it will not resell the Common Shares, except in accordance with the provisions of applicable securities legislation, regulations, rules, policies and orders and stock exchange rules; and
- (i) the Subscriber has not purchased the Common Shares as a result of (i) any form of "directed selling efforts" in the United States, as such term is defined in Regulation S under the U.S. Securities Act or (ii) any form of "general solicitation" in the United States, as such term is defined in Regulation D under the U.S. Securities Act; and
- (j) if a corporation, partnership, unincorporated association or other entity, the Subscriber has the legal capacity to enter into and be bound by this Subscription Agreement and further certifies that all necessary approvals of directors, shareholders or otherwise have been given and obtained; and
- (k) if the Subscriber is not an individual, it pre-existed this Offering and has a bona fide business purpose other than the investment of the Common Shares and was not created, formed or established solely or primarily to acquire securities, or to permit purchases of securities without a prospectus, in reliance on an exemption from the prospectus requirements of applicable securities legislation; and
- (l) if an individual, the Subscriber is of the full age of majority and is legally competent to execute this Subscription Agreement and take all action pursuant hereto; and
- (m) this Subscription Agreement has been duly and validly authorized, executed and delivered by and constitutes a legal, valid, and binding obligation of the Subscriber; and
- (n) the Subscriber has such knowledge in financial and business affairs as to be capable of evaluating the merits and risks of its investment and it is able to bear the economic risk of loss of its entire investment; and
- (o) neither the Corporation nor any of its directors, officers, employees or representatives has made any representations (oral or written) to the Subscriber:
- (i) that any person will resell or repurchase the Common Shares; or
  - (ii) that any person will refund the purchase price of the Common Shares; or
  - (iii) regarding the future price or value of the Common Shares; or
  - (iv) except as set forth herein, with respect to restrictions on the resale of any Common Shares acquired pursuant to this Subscription Agreement; and

- (p) the Subscriber has relied solely upon publicly available information relating to the Corporation and this Subscription Agreement and not upon any verbal or written representation as to fact or otherwise made by or on behalf of the Corporation and acknowledges that the Corporation's counsel is acting as counsel to the Corporation and not as counsel to the Subscriber (or any person on whose behalf it is contracting); and
- (q) if required by applicable securities legislation, regulations, rules, policies or orders or by any securities commission, stock exchange or other regulatory authority, the Subscriber will execute, deliver, file and otherwise assist the Corporation in filing such reports, undertakings and other documents with respect to the issue of the Common Shares; and
- (r) none of the funds the Subscriber is using to purchase the Common Shares are, to the knowledge of the Subscriber, proceeds obtained or derived, directly or indirectly, as a result of illegal activities; and
- (s) the entering into of this Subscription Agreement and the transactions contemplated hereby will not result in a violation of any of the terms or provisions of any law applicable to the Subscriber, or if the Subscriber is not a natural person, any of the Subscriber's constating documents, or any agreement to which the Subscriber is a party or by which it is bound; and
- (t) the Subscriber has been encouraged to and should obtain independent legal, income tax and investment advice with respect to its subscription for these Common Shares and accordingly, has been independently advised as to the meanings of all terms contained herein relevant to the Subscriber for purposes of giving representations, warranties and covenants under this Subscription Agreement; and
- (u) the Subscriber acknowledges that the Corporation may complete additional financings in the future in order to develop the business of the Corporation and to fund its ongoing development; that there is no assurance that such financings will be available and, if available, on reasonable terms; any such future financings may have a dilutive effect on current securityholders, including the Subscriber; that if such future financings are not available, the Corporation may be unable to fund its ongoing development.

### **Representations and Warranties by the Corporation**

11. The Corporation hereby represents and warrants to the Subscriber (on its own behalf and, if applicable, on behalf of each person on whose behalf the Subscriber is contracting) and acknowledges that the Subscriber is relying thereon that:
  - (a) the Corporation is validly subsisting under the laws of the Province of Alberta and is qualified to carry on business in the Province of Alberta and in each other jurisdiction, if any, in respect of which the carrying on of its business make such qualification necessary; and
  - (b) the Corporation has complied or will comply with all applicable corporate and securities laws applicable to it in connection with the offer, sale and issuance of the Common Shares to be purchased hereunder; and
  - (c) the Corporation is not in material default of any applicable securities legislation or regulation; and
  - (d) the Common Shares to be issued hereunder will, when issued, be issued as fully paid and non-assessable Common Shares in the capital of the Corporation and will, in due course, be listed and posted for trading on the Exchange, or on such other public stock exchange as the Common Shares may be listed from time to time; and
  - (e) the execution, delivery and performance of this Subscription Agreement by the Corporation, and the issue of the Common Shares, does not and will not constitute a breach of or default under the constating documents of the Corporation, or any law, regulation, order or ruling applicable to the Corporation, or any agreement to which the Corporation is a party or by which it is bound; and

- (f) the Corporation has full corporate power and authority to enter into this Subscription Agreement and to perform its obligations set out herein, and this Subscription Agreement has been and will, on the Closing Date (as defined herein), be duly authorized, executed and delivered by the Corporation, and upon acceptance by the Corporation, this Subscription Agreement will, on the Closing Date, be legal, valid and binding obligation of the Corporation enforceable against the Corporation in accordance with its respective terms subject to the general qualifications that:
- (i) enforceability may be limited by bankruptcy, insolvency, moratorium, reorganization or other laws affecting creditors' rights generally;
  - (ii) equitable remedies, including the remedies of specific performance and injunctive relief, are available only in the discretion of the applicable court;
  - (iii) the enforceability of any provision exculpating a party from liability or duty otherwise owed by it may be limited under applicable law;
  - (iv) the enforceability of provisions which purport to sever any provision which is prohibited or unenforceable under applicable law without affecting the enforceability or validity of the remainder of such document would be determined only in the discretion of the court;
  - (v) enforceability may be limited by the equitable or statutory powers of the courts in Canada having jurisdiction to stay proceedings before them and to stay the execution of judgments; and
  - (vi) rights to indemnity and contribution hereunder may be limited under applicable law; and
- (g) there are no actions, suits, proceedings or inquiries, including, to the best of the Corporation's knowledge, information and belief, pending or threatened against or affecting the Corporation at law or in equity or before or by any federal, provincial, municipal or other governmental department, commission, board, bureau, agency or instrumentality which in any way materially adversely affects, or may in any way materially adversely affect, the assets, business, operations or condition (financial or otherwise) of the Corporation or any of its properties or assets or which affects or may affect the distribution of the Common Shares and the Corporation is not aware of any existing ground on which such action, suit, proceeding or inquiry might be commenced with any reasonable likelihood of success; and
- (h) the Corporation is conducting and has conducted its business in substantial compliance in all material respects with all applicable laws, rules and regulations and, in particular, all applicable licensing and environmental legislation, regulations or by-laws or other lawful requirement of any governmental or regulatory bodies applicable to the Corporation of each jurisdiction in which the Corporation carries on business and holds all licences, registrations and qualifications in all jurisdictions in which the Corporation carries on business which are necessary or desirable to carry on the business of the Corporation, as now conducted and as presently proposed to be conducted, and all such licenses, registrations or qualifications are valid and existing and in good standing and none of such licenses, registrations or qualifications contains any burdensome term, provision, condition or limitation which has or is likely to have any material adverse effect on the business of the Corporation, as now conducted or as proposed to be conducted; and
- (i) the Corporation's "core documents" and "documents", as those terms are defined in Part 17.01 of the *Alberta Securities Act*, do not contain a misrepresentation and there is no material fact or material change related to the Corporation which has not been generally disclosed.

## Closing

12. The Subscriber agrees to deliver to the Corporation not later than 5:00 p.m. (Calgary time) on the day that is two business days before the Closing Date (or two business days before the Closing Date of which the Subscriber receives notice):
- (a) this duly completed and executed Subscription Agreement; and

- (b) if the Subscriber is resident in British Columbia or Newfoundland and Labrador, a fully executed and completed Risk Acknowledgement Form in the form attached hereto as **Exhibit 1**; or
  - (c) if the Subscriber is resident in Manitoba, Northwest Territories, Nunavut, Prince Edward Island or Yukon and is subscribing for not more than \$10,000 of securities, a fully executed and completed the Risk Acknowledgement Form in the form attached hereto as **Exhibit 1**; or
  - (d) if the Subscriber is resident in Manitoba, Northwest Territories, Nunavut, Prince Edward Island or Yukon and is subscribing for more than \$10,000 of securities, a fully executed and completed (i) Risk Acknowledgement Form in the form attached hereto as **Exhibit 1** and (ii) Eligible Investor Representation Letter in the form attached hereto as **Exhibit 2**; or
  - (e) if the Subscriber is resident in Alberta, New Brunswick, Nova Scotia, Ontario or Saskatchewan a fully executed and completed (i) Risk Acknowledgement Form in the form attached hereto as **Exhibit 1**; (ii) Classification of Investors Under the Offering Memorandum Exemption Form in the form attached hereto as **Exhibit 3**; and (iii) Investment Limits for Investors Under the Offering Memorandum Exemption Form in the form attached hereto as **Exhibit 4**; and
  - (f) in the case of a Subscriber which is not an individual, holds or will hold, on an undiluted or diluted basis, more than 5% of the Corporation's issued and outstanding common shares upon completion of this Offering or which is or will be an "Insider" of the Corporation or is a member of a "Pro Group", the Corporate Placee Registration Form in the form attached as **Exhibit 5**, unless the Subscriber has previously filed such form with the Exchange and it continues to remain accurate; and
  - (g) a certified cheque or bank draft payable to "**ProVenture Law LLP.**", for the Aggregate Subscription Price or payment of the same amount in such other manner as is acceptable to the Corporation and any other documents required by applicable securities legislation, regulation, rules, policies, instruments, and orders which the Corporation may request.
13. The sale of the Common Shares pursuant to this Subscription Agreement will be completed at the offices of ProVenture Law LLP, the Corporation's counsel, or such other place as the Corporation may determine in Calgary, Alberta on such date as the Corporation may determine (the "**Closing Date**"). The Corporation shall deliver the certificates representing the Common Shares to Subscribers within a reasonable period of time following the Closing Date.
14. The Corporation shall be entitled to rely on delivery of a facsimile or electronic copy of executed subscriptions, and acceptance by the Corporation of such facsimile or electronic subscriptions shall be legally effective to create a valid and binding agreement between the Subscriber and the Corporation in accordance with the terms hereof. This Subscription Agreement may be executed in counterparts, each of which shall be deemed to be an original and all of which shall constitute one and the same document. If less than a complete copy of this Subscription Agreement is delivered to the Corporation at the Closing Date, the Corporation shall be entitled to assume that the Subscriber accepts and agrees with all terms and conditions of this Subscription Agreement on the pages not delivered at the Closing Date unaltered. The Subscriber hereby irrevocably appoints any director or officer of the Corporation as the Subscriber's agent and power of attorney for the purposes of (i) agreeing to such minor amendments to this Subscription Agreement; and (ii) executing and delivering all such agreements, certificates, instruments and other documents; as may in the opinion of such person be necessary or desirable in order to complete the sale of Common Shares hereunder as substantially contemplated herein.

### General

15. The Subscriber agrees that the representations, warranties and covenants of the Subscriber herein will be true and correct both as of the execution of this Subscription Agreement and as of the Closing Date and will survive the completion of the issuance of the Common Shares. The representations, warranties and covenants of the Subscriber herein are made with the intent that they be relied upon by the Corporation in determining the eligibility of a purchaser of Common Shares and the Subscriber agrees to indemnify the Corporation and its affiliates, shareholders, directors, officers, partners, employees, advisors and agents, against all losses, claims, costs, expenses and damages or liabilities which any of them may suffer or incur which are caused or arise from a breach thereof. The Subscriber undertakes to immediately notify the Corporation at Suite

405, 1210 - 8th Street SW, Calgary, Alberta, T2R 1L3, Attention: President, of any change in any statement or other information relating to the Subscriber set forth herein which takes place prior to the Closing Date.

16. The Subscriber (on its own behalf and, if applicable, on behalf of any Disclosed Beneficial Purchaser) acknowledges that this Subscription Agreement and the Exhibits hereto require the Subscriber to provide certain personal information to the Corporation and its legal counsel. Such information is being collected by the Corporation and its legal counsel for the purposes of completing the Offering, which includes, without limitation, determining the Subscriber's (on its own behalf and, if applicable, on behalf of any Disclosed Beneficial Purchaser) eligibility to purchase the Common Shares under applicable securities legislation, preparing and registering certificates representing Common Shares to be issued to the Subscriber and completing filings required by any stock exchange, securities commissions, securities regulatory authorities or taxation authorities. Certain securities commissions have been granted the authority to indirectly collect this personal information pursuant to securities legislation and this personal information is also being collected for the purpose of administration and enforcement of securities legislation. In Ontario, the Administrative Assistant to the Director of Corporate Finance, Suite 1903, Box 55, 20 Queen Street West, Toronto, Ontario, M5H 3S8, Telephone: (416) 593-8086, Facsimile: (416) 593-8252 is the public official who can answer questions about the indirect collection of personal information. The Subscriber's personal information (or that of any Disclosed Beneficial Purchaser, as applicable) may be disclosed by the Corporation to: (a) stock exchanges, securities commissions or securities regulatory authorities, (b) the Corporation's registrar and transfer agent, (c) taxation authorities and (d) any of the other parties involved in the Offering, including legal counsel. The personal information may be included in record books in connection with the Offering. By executing this Subscription Agreement, the Subscriber is deemed to be consenting to the foregoing collection, use and disclosure of the Subscriber's personal information. The Subscriber (on its own behalf and, if applicable, on behalf of any Disclosed Beneficial Purchaser) also consents to the filing of copies or originals of any of the Subscriber's documents provided in connection herewith as may be required to be filed with any stock exchange or securities regulatory authority in connection with the transactions contemplated hereby.
17. The Subscriber (on its own behalf and, if applicable, on behalf of any Disclosed Beneficial Purchaser) represents and warrants that the funds representing the Aggregate Subscription Price which will be advanced by the Subscriber to the Corporation hereunder will not represent proceeds of crime for the purposes of the *Proceeds of Crime (Money Laundering) Act* (Canada) (the "**PCMLA**") and the Subscriber (on its own behalf and, if applicable, on behalf of any Disclosed Beneficial Purchaser) acknowledges that the Corporation may in the future be required by law to disclose the Subscriber's name and other information relating to this Subscription Agreement and the Subscriber's subscription hereunder, on a confidential basis, pursuant to the PCMLA. To the best of its knowledge (a) none of the subscription funds to be provided by the Subscriber (i) have been or will be derived from or relate to any activity that is deemed criminal under the law of Canada, the United States of America, or any other jurisdiction, or (ii) are being tendered on behalf of a person or entity who has not been identified to the Subscriber, and (b) it shall promptly notify the Corporation if the Subscriber discovers that any of such representations ceases to be true and to provide the Corporation with appropriate information in connection therewith.
18. The Subscriber acknowledges and agrees that all costs incurred by the Subscriber (including any fees and disbursements of any special counsel retained by the Subscriber) relating to the sale of the Common Shares to the Subscriber shall be borne by the Subscriber.
19. The contract arising out of this Subscription Agreement and all documents relating thereto shall be governed by and construed in accordance with the laws of the Province of Alberta and the federal laws of Canada applicable therein. The parties irrevocably attorn to the exclusive jurisdiction of the courts of the Province of Alberta.
20. Time shall be of the essence hereof.
21. This Subscription Agreement represents the entire agreement of the parties hereto relating to the subject matter hereof and there are no representations, covenants or other agreements relating to the subject matter hereof except as stated or referred to herein.
22. The terms and provisions of this Subscription Agreement shall be binding upon and enure to the benefit of the Subscriber and the Corporation and their respective heirs, executors, administrators, successors and assigns; provided that, except for the assignment by a Subscriber who is acting as nominee or agent to the

beneficial owner, this Subscription Agreement shall not be assignable by any party without prior written consent of the other parties.

23. Except as otherwise provided for herein, the Subscriber, on its own behalf and, if applicable, on behalf of others for whom it is contracting hereunder, agrees that this subscription is made for valuable consideration and may not be withdrawn, cancelled, terminated or revoked by the Subscriber, on its own behalf and, if applicable, on behalf of others for whom it is contracting hereunder.
24. Neither this Subscription Agreement nor any provision hereof shall be modified, changed, discharged or terminated except by an instrument in writing signed by the party against whom any waiver, change, discharge or termination is sought.
25. The invalidity, illegality or unenforceability of any provision of this Subscription Agreement shall not affect the validity, legality or enforceability of any other provision hereof.
26. The Subscriber acknowledges and agrees that acceptance of this Subscription Agreement will be conditional upon, among other things, the sale of Common Shares to the Subscriber being exempt from any prospectus and offering memorandum requirements of all applicable securities laws. The Corporation will be deemed to have accepted this Subscription Agreement upon the delivery at the closing of the certificates representing the Common Shares to or upon the direction of the Subscriber in accordance with the provisions hereof.
27. The headings used in this Subscription Agreement have been inserted for convenience of reference only and shall not affect the meaning or interpretation of this Subscription Agreement or any provision hereof.
28. The covenants, representations and warranties contained herein shall survive the closing of the transactions contemplated hereby.
29. Unless otherwise stated, in this Subscription Agreement (including attachments), references to "\$" or "Cdn. \$" are to Canadian dollars.
30. The exhibits, schedules and appendices attached hereto are incorporated into and form part of this Subscription Agreement.
31. Whether or not explicitly stated in the Subscription Agreement, any acknowledgment, representation, warranty, undertaking, covenant or agreement made by the Subscriber in this Subscription Agreement, including the exhibits hereto, will be treated as if, and be deemed to have been, also made by the beneficial purchaser, if any, for whom the Subscriber is contracting.

**EXHIBIT 1**

**RISK ACKNOWLEDGMENT FORM**

**FORM 45-106F4**

**TO BE COMPLETED BY ALL INVESTORS**

Risk Acknowledgement

- I acknowledge that this is a risky investment.
- I am investing entirely at my own risk.
- No securities regulatory authority or regulator has evaluated or endorsed the merits of these securities or the disclosure in the offering memorandum.
- The securities are redeemable, but I may only be able to redeem them in limited circumstances.
- I will not be able to sell these securities for 4 months.
- I could lose all the money I invest.

I am investing \$ \_\_\_\_\_ [total consideration] in total; this includes any amount I am obliged to pay in future. Builders Capital Mortgage Corp. will pay \$ \_\_\_\_\_

[amount of fee or commission ] of this to \_\_\_\_\_ [name of person selling the securities] as a fee or commission.

**I acknowledge that this is a risky investment and that I could lose all the money I invest.**

\_\_\_\_\_  
Date

\_\_\_\_\_  
Signature of Purchaser

\_\_\_\_\_  
Print name of Purchaser

**Sign 2 copies of this document. Keep one copy for your records.**

**WARNING**

## **You have 2 business days to cancel your purchase.**

To do so, send a notice to Builders Capital Mortgage Corp. stating that you want to cancel your purchase. You must send the notice before midnight on the 2<sup>nd</sup> business day after you sign the agreement to purchase the securities. You can send the notice by fax or email or deliver it in person to Builders Capital Mortgage Corp. at its business address. Keep a copy of the notice for your records.

The Issuer: **Builders Capital Mortgage Corp.**  
Address: Suite 405, 1210 – 8 Street S.W., Calgary, Alberta T2R 1L3  
Phone: (403) 685-9888  
Fax: (403) 225-9470  
Email: info@builderscapital.ca

## **You are buying Exempt Market Securities**

They are called *exempt market securities* because two parts of securities law do not apply to them. If an issuer wants to sell *exempt market securities* to you:

- the issuer does not have to give you a prospectus (a document that describes the investment in detail and gives you some legal protections), and
- the securities do not have to be sold by an investment dealer registered with a securities regulatory authority or regulator.

There are restrictions on your ability to resell *exempt market securities*. *Exempt market securities* are more risky than other securities.

**You will receive an offering memorandum** Read the offering memorandum carefully because it has important information about the issuer and its securities. Keep the offering memorandum because you have rights based on it. Talk to a lawyer for details about these rights.

For more information on the exempt market, call your local securities regulatory authority or regulator.

If you live in British Columbia, contact the British Columbia Securities Commission at (604) 899-6500, (outside the local area, call toll-free 1-800-373-6393), or visit its website at [www.bcsc.bc.ca](http://www.bcsc.bc.ca).

If you live in Alberta, contact the Alberta Securities Commission, in Calgary at (403) 297-6454 and in Edmonton at (780) 427-5201, or visit its website at [www.albertasecurities.com](http://www.albertasecurities.com).

If you live in Saskatchewan, contact the Financial Services Commission at (306) 787-5645, or visit its website at [www.sfsc.gov.sk.ca](http://www.sfsc.gov.sk.ca).

If you live in Manitoba, contact the Manitoba Securities Commission at (204) 945-2548, or visit its website at [www.msc.gov.mb.ca](http://www.msc.gov.mb.ca).

If you live in the Northwest Territories, contact the Office of the Superintendent of Securities, Department of Justice at (867) 920-3318, or visit its website at [www.justice.gov.nt.ca/SecuritiesRegistry](http://www.justice.gov.nt.ca/SecuritiesRegistry).

If you live in Nunavut, contact the Office of the Superintendent of Securities, Department of Justice at (867) 975-6590, or visit its website at [www.justice.gov.nu.ca/i18n/english/legreg/sr\\_index.shtm](http://www.justice.gov.nu.ca/i18n/english/legreg/sr_index.shtm).

If you live in the Yukon, contact the Superintendent of Securities, Community Services at (867) 667-5225, or visit its website at [www.community.gov.yk.ca/corp/secureinvest.html](http://www.community.gov.yk.ca/corp/secureinvest.html).

If you live in Ontario, contact the Ontario Securities Commission at (416) 593-3682, or visit its website at [www.osc.gov.on.ca](http://www.osc.gov.on.ca)

If you live in New Brunswick, contact the New Brunswick Securities Commission at (506) 658-3060 or visit its website at [www.nbsc-cvmb.ca](http://www.nbsc-cvmb.ca).

If you live in Newfoundland and Labrador, contact the Securities Commission of Newfoundland & Labrador at (709) 729-4189 or visit its website at [www.gs.gov.nl.ca/cca/scon](http://www.gs.gov.nl.ca/cca/scon).

If you live in Nova Scotia contact the Nova Scotia Securities Commission at (902) 424-7768 or visit its website at [www.gov.ns.ca/nssc](http://www.gov.ns.ca/nssc).

If you live in Prince Edward Island, contact the Prince Edward Island Securities Office at (902) 368-4569 or visit its website [www.gov.pe.ca/securities](http://www.gov.pe.ca/securities).

**Instruction: The purchaser must sign 2 copies of this form. The purchaser and the issuer must each receive a signed copy.**

**Schedule 1**  
**Classification of Investors Under the Offering memorandum Exemption**

**Instructions:** This schedule must be completed together with the Risk Acknowledgement Form and Schedule 2 by individuals purchasing securities under the exemption (the offering memorandum exemption) in subsection 2.9(2.1) of National Instrument 45-106 *Prospectus Exemptions* (NI 45-106) in Alberta, New Brunswick, Nova Scotia, Ontario, Québec and Saskatchewan.

<b>How you qualify to buy securities under the offering memorandum exemption</b>
Initial the statement under A, B, C or D containing the criteria that applies to you. (You may initial more than one statement.) If you initial a statement under B or C, you are not required to complete A.

<b>A. You are an eligible investor because:</b>		Your initials
<b>Eligible Investor</b>	Your net income before taxes was more than \$75,000 in each of the 2 most recent calendar years, and you expect it to be more than \$75,000 in this calendar year. (You can find your net income before taxes on your personal income tax return.)	
	Your net income before taxes combined with your spouse's was more than \$125,000 in each of the 2 most recent calendar years, and you expect your combined net income to be more than \$125,000 in this calendar year. (You can find your net income before taxes on your personal income tax return.)	
	Either alone or with your spouse, you have net assets worth more than \$400,000. (Your net assets are your total assets, including real estate, minus your total debt including any mortgage on your property.)	

<b>B. You are an eligible investor, as a person described in section 2.3 [<i>Accredited investor</i>] of NI 45-106 or, as applicable in Ontario, subsection 7.3(3) of the <i>Securities Act</i> (Ontario), because:</b>		Your initials
<b>Accredited</b>	Your net income before taxes was more than \$200,000 in each of the 2 most recent calendar years, and you expect it to be more than \$200,000 in this calendar year. (You can find your net income before taxes on your personal income tax return.)	

	Your net income before taxes combined with your spouse's was more than \$300,000 in each of the 2 most recent calendar years, and you expect your combined net income before taxes to be more than \$300,000 in the current calendar year.	
	Either alone or with your spouse, you own more than \$1 million in cash and securities, after subtracting any debt related to the cash and securities.	
	Either alone or with your spouse, you have net assets worth more than \$5 million. (Your net assets are your total assets (including real estate) minus your total debt.)	

<b>C. You are an eligible investor, as a person described in section 2.5 [Family, friends and business associates] of NI 45-106, because:</b>	<b>Your initials</b>
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<b>Family, Friends and Business Associates</b>	<p>You are:</p> <p>1) <i>[check all applicable boxes]</i></p> <p><input type="checkbox"/> a director of the issuer or an affiliate of the issuer</p> <p><input type="checkbox"/> an executive officer of the issuer or an affiliate of the issuer</p> <p><input type="checkbox"/> a control person of the issuer or an affiliate of the issuer</p> <p><input type="checkbox"/> a founder of the issuer</p> <p>OR</p> <p>2) <i>[check all applicable boxes]</i></p> <p><input type="checkbox"/> a person of which a majority of the voting securities are beneficially owned by, or a majority of the directors are, (i) individuals listed in (1) above and/or (ii) family members, close personal friends or close business associates of individuals listed in (1) above</p> <p><input type="checkbox"/> a trust or estate of which all of the beneficiaries or a majority of the trustees or executors are (i) individuals listed in (1) above and/or (ii) family members, close personal friends or close business associates of individuals listed in (1) above</p>	
	<p>You are a family member of _____</p> <p><i>[Instruction: Insert the name of the person who is your relative either directly or through his or her spouse], who holds the following position at the issuer or an affiliate of the issuer: _____.</i></p> <p>You are the _____ of that person or that person's spouse. <i>[Instruction: To qualify for this investment, you must be (a) the spouse of the person listed above or (b) the parent, grandparent, brother, sister, child or grandchild of that person or that person's spouse.]</i></p>	

	<p>You are a close personal friend of _____  <i>[Instruction: Insert the name of your close personal friend]</i>, who holds the following position at the issuer or an affiliate of the issuer:</p> <p>_____.</p> <p>You have known that person for _____years.</p>	
	<p>You are a close business associate of _____  <i>[Instruction: Insert the name of your close business associate]</i>, who holds the following position at the issuer or an affiliate of the issuer:</p> <p>_____.</p> <p>You have known that person for _____years.</p>	

<b>D. You are not an eligible investor.</b>		<b>Your initials</b>
<b>Not an Eligible Investor</b>	You acknowledge that you are not an eligible investor.	

**Schedule 2**  
***Investment Limits for Investors Under the Offering Memorandum Exemption***

**Instructions:** This schedule must be completed together with the Risk Acknowledgement Form and Schedule 1 by individuals purchasing securities under the exemption (the offering memorandum exemption) in subsection 2.9(2.1) of National Instrument 45-106 *Prospectus Exemptions* (NI 45-106) in Alberta, New Brunswick, Nova Scotia, Ontario, Québec and Saskatchewan.

<b>SECTION 1 TO BE COMPLETED BY THE PURCHASER</b>
<b>1. Investment limits you are subject to when purchasing securities under the offering memorandum exemption</b>
You may be subject to annual investment limits that apply to all securities acquired under the offering memorandum exemption in a 12 month period, depending on the criteria under which you qualify as identified in Schedule 1. Initial the statement that applies to you.

A. You are an eligible investor.		Your initials
<b>Eligible Investor</b>	<p>As an eligible investor that is an individual, you cannot invest more than <b>\$30,000</b> in all offering memorandum exemption investments made in the previous 12 months, unless you have received advice from a portfolio manager, investment dealer or exempt market dealer, as identified in section 2 of this schedule, that your investment is suitable.</p> <p>Initial one of the following statements:</p>	
	<p>You confirm that, after taking into account your investment of \$ _____ today in this issuer, you have not exceeded your investment limit of \$30,000 in all offering memorandum exemption investments made in the previous 12 months.</p>	
	<p>You confirm that you received advice from a portfolio manager, investment dealer or exempt market dealer, as identified in section 2 of this schedule that the following investment is suitable.</p> <p>You confirm that, after taking into account your investment of \$ _____ today in this issuer, you have not exceeded your investment limit in all offering memorandum exemption investments made in the previous 12 months of \$100,000.</p>	

<b>B. You are an eligible investor, as a person described in section 2.3 [<i>Accredited investor</i>] of NI 45-106 or, as applicable in Ontario, subsection 7.3(3) of the <i>Securities Act</i> (Ontario).</b>		<b>Your initials</b>
<b>Accredited Investor</b>	You acknowledge that, by qualifying as an eligible investor as a person described in section 2.3 [ <i>Accredited investor</i> ], you are not subject to investment limits.	

<b>C. You are an eligible investor, as a person described in section 2.5 [<i>Family, friends and business associates</i>] of NI 45-106.</b>		<b>Your initials</b>
<b>Family, Friends and Business Associates</b>	You acknowledge that, by qualifying as an eligible investor as a person described in section 2.5 [ <i>Family, friends and business associates</i> ], you are not subject to investment limits.	

<b>D. You are not an eligible investor.</b>		<b>Your initials</b>
<b>Not an Eligible</b>	<p>You acknowledge that you cannot invest more than <b>\$10,000</b> in all offering memorandum exemption investments made in the previous 12 months.</p> <p>You confirm that, after taking into account your investment of \$ _____ today in this issuer, you have not exceeded your investment limit of \$10,000 in all offering memorandum exemption investments made in the previous 12 months.</p>	

<b>SECTION 2 TO BE COMPLETED BY THE REGISTRANT</b>	
<b>2. Registrant information</b>	
[Instruction: this section must only be completed if an investor has received advice from a portfolio manager, investment dealer or exempt market dealer concerning his or her investment.]	
First and last name of registrant (please print):	
Registered as: [Instruction: indicate whether registered as a dealing representative or advising representative]	
Telephone:	Email:
Name of firm: [Instruction: indicate whether registered as an exempt market dealer, investment dealer or portfolio manager.]	
Date:	

**EXHIBIT 2**

**REPRESENTATION LETTER – NATIONAL INSTRUMENT 45-106 ELIGIBLE INVESTOR**

The undersigned (the "Subscriber") hereby confirms and certifies to Builders Capital Mortgage Corp. that the Subscriber is purchasing the Units as principal, that the Subscriber is resident in the jurisdiction set out on the execution page hereof, and that the Subscriber is: **[check appropriate boxes]**

- an "Eligible Investor", being a person or company whose **[circle one or more]**
  - (i) net assets, alone or with a spouse, exceed CDN \$400,000,
  - (ii) net income before taxes exceeded CDN \$75,000 in each of the two most recent years and who reasonably expects to exceed that income level in the current year, or
  - (iii) net income before taxes combined with that of a spouse exceeded CDN \$125,000 in each of the two most recent years and who reasonably expects to exceed that income level in the current year,
- a person or company of which a majority of the voting securities are beneficially owned by Eligible Investors or a majority of the Directors are Eligible Investors,
- a general partnership in which all of the partners are Eligible Investors,
- a limited partnership in which the majority of the general partners are Eligible Investors,
- a trust or estate in which all of the beneficiaries or a majority of the trustees or executors are Eligible Investors,
- an accredited investor (as defined in National Instrument 45-106),
- a person who is a family member, close personal friend or close business associate as described in Section 2.5 of National Instrument 45-106; or
- person or company that has obtained advice regarding the suitability of the investment and if the person or company is in a jurisdiction of Canada that advice has been obtained from an eligibility adviser (as defined in National Instrument 45-106).

EXECUTED by the Subscriber this \_\_\_\_ day of \_\_\_\_\_, 20 \_\_\_\_

**If a Corporation, Partnership or other entity:**

**If an individual:**

\_\_\_\_\_  
Signature of Authorized Signatory

Signature

\_\_\_\_\_  
Name and Position of Signatory

Print Name

\_\_\_\_\_  
Name of Purchasing Entity

Jurisdiction of Residence

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Jurisdiction of Residence



## FORM 4C CORPORATE PLACEE REGISTRATION FORM

This Form will remain on file with the Exchange and must be completed if required under section 4(b) of Part II of Form 4B. The corporation, trust, portfolio manager or other entity (the "Placee") need only file it on one time basis, and it will be referenced for all subsequent Private Placements in which it participates. If any of the information provided in this Form changes, the Placee must notify the Exchange prior to participating in further placements with Exchange listed Issuers. If as a result of the Private Placement, the Placee becomes an Insider of the Issuer, Insiders of the Placee are reminded that they must file a Personal Information Form (2A) or, if applicable, Declarations, with the Exchange.

1. Placee Information:
  - (a) Name: \_\_\_\_\_
  - (b) Complete Address: \_\_\_\_\_
  - (c) Jurisdiction of Incorporation or Creation: \_\_\_\_\_
  
2.
  - (a) Is the Placee purchasing securities as a portfolio manager: (Yes/No)? \_\_\_\_\_
  - (b) Is the Placee carrying on business as a portfolio manager outside of Canada: (Yes/No)? \_\_\_\_\_
  
3. If the answer to 2(b) above was "Yes", the undersigned certifies that:
  - (a) it is purchasing securities of an Issuer on behalf of managed accounts for which it is making the investment decision to purchase the securities and has full discretion to purchase or sell securities for such accounts without requiring the client's express consent to a transaction;
  - (b) it carries on the business of managing the investment portfolios of clients through discretionary authority granted by those clients (a "portfolio manager" business)

in \_\_\_\_\_ [jurisdiction], and it is permitted by law to carry on a portfolio manager business in that jurisdiction;

- (c) it was not created solely or primarily for the purpose of purchasing securities of the Issuer;
- (d) the total asset value of the investment portfolios it manages on behalf of clients is not less than \$20,000,000; and
- (e) it has no reasonable grounds to believe, that any of the directors, senior officers and other insiders of the Issuer, and the persons that carry on investor relations activities for the Issuer has a beneficial interest in any of the managed accounts for which it is purchasing.

4. If the answer to 2(a). above was “No”, please provide the names and addresses of Control Persons of the Placee:

<b>Name *</b>	<b>City</b>	<b>Province or State</b>	<b>Country</b>

\* If the Control Person is not an individual, provide the name of the individual that makes the investment decisions on behalf of the Control Person.

5. Acknowledgement - Personal Information and Securities Laws

- (a) "Personal Information" means any information about an identifiable individual, and includes information contained in sections 1, 2 and 4, as applicable, of this Form.

The undersigned hereby acknowledges and agrees that it has obtained the express written consent of each individual to:

- (i) the disclosure of Personal Information by the undersigned to the Exchange (as defined in Appendix 6B) pursuant to this Form; and
- (ii) the collection, use and disclosure of Personal Information by the Exchange for the purposes described in Appendix 6B or as otherwise identified by the Exchange, from time to time.
- (b) The undersigned acknowledges that it is bound by the provisions of applicable Securities Law, including provisions concerning the filing of insider reports and reports of acquisitions.

Dated and certified (if applicable), acknowledged and agreed, at \_\_\_\_\_  
\_\_\_\_\_ on \_\_\_\_\_

\_\_\_\_\_  
(Name of Purchaser - please print)

\_\_\_\_\_  
(Authorized Signature)

\_\_\_\_\_  
(Official Capacity - please print)

\_\_\_\_\_  
(Please print name of individual whose signature  
appears above)

**THIS IS NOT A PUBLIC DOCUMENT**

## GLOSSARY

The following are definitions of certain terms used throughout this document.

"**Aggregate Pro Group**" means all Persons who are members of any Pro Group whether or not the Member is involved in a contractual relationship with the Issuer to provide financing sponsorship and other advisory services.

"**Company**" unless specifically indicated otherwise, means a corporation, incorporated association or organization, body corporate, partnership, trust, association or other entity other than an individual;

"**Exchange**" or "**TSXV**" means the TSX Venture Exchange Inc.;

"**Insider**" if used in relation to an Issuer, means:

- (a) a director or senior officer of the Issuer;
- (b) a director or senior officer of a Company that is an Insider or subsidiary of the Issuer;
- (c) a Person that beneficially owns or controls, directly or indirectly, voting shares carrying more than 10% of the voting rights attached to all outstanding voting shares of the Issuer; or
- (d) the Issuer itself if it holds any of its own securities;

"**Issuer**" means a Company and its subsidiaries which have any of its securities listed for trading on the Exchange and, as the context requires, any applicant Company seeking a listing of its securities on the Exchange;

"**Person**" means a Company or an individual;

"**Member**" means a Person who has executed the Members' Agreement, as amended from time to time, and is accepted as and becomes a member of the Exchange under the Exchange requirements;

"**Members' Agreement**" means the members' agreement among the Exchange and each Person who, from time to time, is accepted as and becomes a member of the Exchange under the Exchange requirements;

"**Pro Group**":

- (e) Subject to subparagraphs (b), (c) and (d) "Pro Group" shall include, either individually or as a group:
  - (i) the Member;
  - (ii) employees of the Member;
  - (iii) partners, officers and directors of the Member;
  - (iv) Affiliates of the Member; and
  - (v) Associates of any parties referred to in subparagraphs (i) through (iv).
- (f) The Exchange may, in its discretion, include a Person or party in the Pro Group for the purposes of a particular calculation where the Exchange determines that the Person is not acting at arm's length to the Member;
- (g) The Exchange may, in its discretion, exclude a Person from the Pro Group for the purposes of a particular calculation where the Exchange determines that the Person is acting at arm's length of the Member;
- (h) The Member may deem a Person who would otherwise be included in the Pro Group pursuant to subparagraph (a) to be excluded from the Pro Group where the Member determines that:

- (i) the Person is an affiliate or associate of the Member is acting at arm's length of the Member;
- (ii) the associate or affiliate has a separate corporate and reporting structure;
- (iii) there are sufficient controls on information flowing between the Member and the associate or affiliate; and
- (iv) the Member maintains a list of such excluded Persons.