

Builders Capital Mortgage Corp.
Condensed Consolidated Interim Financial Statements
For the Three and Nine Months ended September 30, 2017 and 2016

Notice of No Auditor Review of Interim Financial Statements

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, September 30, 2017.

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

As at
(Unaudited)

	September 30, 2017 (unaudited)	December 31, 2016 (audited)
Assets		
Cash	\$ 1,029	\$ 399,699
Mortgages receivable (Note 4)	26,413,392	23,010,181
Prepaid expenses	10,045	55,110
Assets held for sale (Note 5)	3,581,313	213,400
Total Assets	\$ 30,005,779	\$ 23,678,390
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Line of credit (Note 6)	\$ 4,095,763	\$ -
Accounts payable and accrued liabilities	124,222	59,232
Due to related party (Note 12)	96,410	105,431
Dividends payable (Note 10)	336,726	282,300
Deferred lender fees	55,702	102,820
Total Liabilities	\$ 4,708,823	\$ 549,783
Shareholders' Equity		
Share capital	\$ 24,197,805	\$ 22,046,836
Retained earnings	1,099,151	1,081,771
	\$ 25,296,956	\$ 23,128,607
Total Liabilities and Shareholders' Equity	\$ 30,005,779	\$ 23,678,390

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 and nine months ended September 30,
(Unaudited)

	3 months ended September 30, 2017	3 months ended September 30, 2016	9 months ended September 30, 2017	9 months ended September 30, 2016
Revenues				
Interest	\$ 787,556	\$ 744,995	\$ 2,322,120	\$ 2,361,650
Lender Fees	67,047	62,364	200,507	200,594
Total revenues	854,603	807,359	2,522,627	2,562,244
Expenses				
General and administrative	46,757	25,987	84,457	78,867
Interest	47,473	16,055	96,885	67,964
Provision for mortgage losses <i>(Note 4)</i>	103,183	59,600	306,898	188,753
Management fees <i>(Note 12)</i>	61,230	59,685	185,805	176,485
Total expenses	258,643	161,327	674,045	512,069
Total comprehensive income	\$ 595,960	\$ 646,032	\$ 1,848,582	\$ 2,050,175
Earnings per share <i>(Note 7)</i>				
Basic and diluted	\$.23	\$.28	\$.74	\$.87

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
For the nine months ended September 30,
(Unaudited)

	Number	Share Capital		Retained Earnings	Total
			Amount		
			\$	\$	\$
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	32,400		324,000	-	324,000
Offering costs	-		(54,641)	-	(54,641)
Dividends declared (Note 10)	-		-	(1,540,808)	(1,540,808)
Total comprehensive income for the period	-		-	2,050,175	2,050,175
Balance at September 30, 2016	2,374,971		22,124,556	1,057,252	23,181,808
Balance at December 31, 2016	2,374,971		22,046,836	1,081,771	23,128,607
Class A Non-Voting Common Shares issued for cash	269,975		2,699,750	-	2,699,750
Offering costs	-		(548,781)	-	(548,781)
Dividends declared (Note 10)	-		-	(1,831,202)	(1,831,202)
Total comprehensive income for the period	-		-	1,848,582	1,848,582
Balance at September 30, 2017	2,644,946		24,197,805	1,099,151	25,296,956

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 nine months ended September 30,
(Unaudited)

	2017	2016
Cash flows related to the following activities:		
Operating activities		
Cash receipts of interest and fees from borrowers	\$ 1,692,916	\$ 1,553,345
Cash receipt of principal payments from borrowers	9,746,966	16,202,788
Cash receipts on proceeds on sales of mortgages	5,749,151	2,995,945
Cash advanced to borrowers	(19,982,939)	(14,687,970)
Cash advanced to purchase mortgages	(736,633)	(5,564,865)
Cash advanced (received) for assets held for sale	(1,059,326)	1,566,847
Cash paid for operating expenses other than interest	(179,879)	(350,372)
Cash paid for interest	(98,885)	(67,964)
Total cash flows generated from (used in) operating activities	\$ (4,868,629)	\$ 1,647,754
Financing activities		
Cash drawn on line of credit	\$ 4,095,764	\$ 57,340
Proceeds from issuance of common shares	2,699,750	324,000
Financing costs paid on issuance of common shares	(548,780)	(54,641)
Dividends paid	(1,776,775)	(1,974,270)
Total cash flows generated from (used in) financing activities	\$ 4,469,959	\$ (1,647,571)
Net increase (decrease) in cash	\$ (398,670)	\$ 183
Cash, beginning of period	399,699	812
Cash, end of period	\$ 1,029	\$ 995

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 nine months ended September 30, 2017 and 2016

(Unaudited)

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

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 September 30, 2017 were approved by the Board of Directors on October 23, 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 nine months ended September 30, 2017 and 2016
(Unaudited)

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:

	September 30, 2017	December 31, 2016
Conventional first mortgages	\$ 21,879,389	\$ 19,478,717
Conventional non-first mortgages	4,759,698	3,875,833
	26,639,087	23,354,550
Allowance for mortgage losses	225,695	344,369
Total mortgages receivable	\$ 26,413,392	\$ 23,010,181

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, 5 mortgages totalling \$7,677,327 were first advanced in 2014 or earlier, 4 mortgages totalling \$5,221,784 were first advanced in 2015, 7 mortgages totalling \$6,918,119 were first advanced in 2016 and the balance of 7 mortgages totalling \$6,821,857 were first advanced in 2017.

At quarter-end, the mortgages receivable balance included \$2,245,037 (December 31, 2016 - \$1,995,794) in interest and fees receivable and \$24,394,050 (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 11.35% (December 31, 2016 – 12.01%) per annum and mature between October 1, 2017 and September 30, 2018. The mortgages are initially entered into for a term of one year or less. 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 September 30, 2017, the Company held two 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 nine months ended September 30, 2017 and 2016
(Unaudited)

4. Mortgages receivable (continued from previous page)

Principal repayments based on contractual maturity dates are as follows:

	September 30, 2017	December 31, 2016
Year 1	\$ 26,639,087	\$ 23,351,707
Year 2	-	2,843
	\$ 26,639,087	\$ 23,354,550

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 September 30, 2017, the Company has a collective impairment provision of \$98,695 (December 31, 2016 - \$29,369).

As at September 30, 2017 the Company has recognized a specific impairment provision of \$127,000 (December 31, 2016 - \$315,000) which is related to two specific mortgages with balances totalling \$2,717,050. Each of these mortgages is a conventional first mortgage which may be collected through foreclosure proceedings. One was originally due in December of 2015 and one was originally due in May of 2016. 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 mortgages considered to be impaired at period-end 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 all cases, construction is either complete or nearing completion, 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 quarter-end is 75.6%.

The changes in the allowance for mortgage losses during the nine months ended September 30, 2017 and December 31, 2016 were as follows:

	September 30, 2017	December 31, 2016
Balance, beginning of period	\$ 344,369	\$ 532,981
Provision for mortgage losses	306,898	186,143
Less: amounts written off	(425,572)	(374,755)
Balance, end of period	\$ 225,695	\$ 344,369

5. Assets held for sale

	September 30, 2017	December 31, 2016
Foreclosed property	\$ 3,581,313	\$ 213,400

At September 30, 2017, the assets held for sale consisted of two vacant building lots in Richmond, British Columbia, one vacant building lot in Fort McMurray, Alberta, and one completed home in Calgary, Alberta which are currently listed for sale.

Builders Capital Mortgage Corp.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended September 30, 2017 and 2016
(Unaudited)

6. Credit facility

The Company has a due on demand operating credit facility with a limit of \$4,500,000 available. As at September 30, 2017 \$4,095,763 (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 September 30, 2017, prime was 3.20% (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 September 30, 2017, the principal balances of such mortgages exceeded the credit facility balance by \$22,543,324 (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 September 30, 2017, this balance exceeded \$10,000,000 by \$15,296,956 (December 31, 2016 - \$13,128,607).

7. Per share amounts

Basic and diluted earnings per share calculation

	Three months ended September 30,	
	2017	2016
Numerator for basic earnings per share:		
Total comprehensive income	\$ 595,960	\$ 646,032
Denominator for basic earnings per share:		
Weighted average number of shares	2,630,716	2,345,993
Basic and diluted earnings per share	\$.23	\$.28

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 nine months ended September 30, 2017, the Company declared dividends of \$1,468,854 (September 30, 2016 - \$1,540,809) to its Class A and Class B Non-Voting Common Shareholders. As at September 30, 2017, \$336,726 (December 31, 2016 - \$282,300) is payable and outstanding. All dividends payable as at September 30, 2017 were paid on October 31, 2017.

11. Income taxes

The Company has non-capital tax loss carry forwards of \$180,909 as at September 30, 2017 and December 31, 2016. These tax losses can be applied against future taxable income and will, if not utilized, expire as follows:

2035	\$ 180,909
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Builders Capital Mortgage Corp.
Notes to the Condensed Consolidated Interim Financial Statements
For the nine months ended September 30, 2017 and 2016
(Unaudited)

12. Related party transactions

Due to related party is comprised of the following:

	September 30, 2017	December 31, 2016
Builders Capital Management Corp.	\$ 96,410	\$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 September 30, 2017, this amount was \$61,230 (2016 – \$59,685).

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 nine months, the fees collected on behalf of, and paid to, the Manager totaled \$382,936 (2016 - \$487,286).

The total directors' fees paid for the nine months were \$12,000 (2016 - \$12,000). 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 nine months ended September 30, 2017, the Company purchased mortgages with an aggregate value of \$736,633 (2016 - \$5,564,866) from, and sold mortgages with an aggregate value of \$5,749,151 (2016 - \$2,995,945) to, Builders Capital (2014) Ltd. There were also advances totaling \$226,068 (2016 - \$3,708), which were made and repaid during the period 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 nine months ended September 30, 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 September 30, 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 nine months ended September 30, 2017 and 2016
(Unaudited)

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 period (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 for 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 October 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	Q4 2016	Q2 2017	Q3 2017
Principal	\$ 519,523	\$ 1,410,837	\$ 1,114,887	\$ 886,713
Interest	112,428	186,447	154,619	93,006
Total	\$ 631,951	\$ 1,597,284	\$ 1,269,506	\$ 979,719

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 nine months ended September 30, 2017 and 2016
(Unaudited)

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 September 30, 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.