



Builders Capital Mortgage Corp.

Management's Discussion and Analysis
Year Ended December 31, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis (MD&A) has been prepared by Builders Capital Mortgage Corp. (Builders Capital or the company) as of April 30, 2018. It should be read in conjunction with the company's audited consolidated financial statements and accompanying notes for the year ended December 31, 2017, available on SEDAR at www.sedar.com and on our website at www.builderscapital.ca. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). All financial information is presented in Canadian dollars.

Notice Regarding Forward-Looking Information

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

Background and Overview

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

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

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

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

Investment Strategy

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

Investments in our portfolio are strategically concentrated on:

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

Investment Restrictions

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

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

Operations

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

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

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

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

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

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

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

Payments of principal, interest and fees are generally only required on the sale or refinancing of the property forming the security for our loan. However, our loan terms stipulate that we can expect payments after substantial completion of a project. Further, all of our mortgages are demand loans, which can be called at our discretion.

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

At inception, we target a loan-to-value ratio not exceeding 75%. However, calculating a loan-to-value ratio requires estimates of value, which are subject to uncertainty. For various reasons, including accruing interest, delays in completion of projects and changing market values, this target ratio is sometimes exceeded. We generally consider any loan that exceeds an estimated 85% loan to value to be impaired, however this evaluation is carried out on a case-by-case basis.

Fiscal Year Summary

Performance Highlights

- Consistent with our targeted distribution, dividends paid to Class A public shareholders in 2017 totaled \$0.80 per share, or 8% of the original \$10.00 issue price.
- Annual mortgage revenue of \$3.4 million represented an annualized 13.3% of gross share capital calculated on the weighted average shares outstanding, compared to \$3.4 million, or 14.4% of gross share capital, in 2016.
- Management fees were more than offset by lender fees charged to borrowers.
- Operating expenses (excluding interest and funds set aside for potential loan losses) were within expectations at 11.2% of revenues.
- At year-end, our debt-to-equity ratio was a conservative 22.3%.
- Earnings exceeded the amount required to pay planned Class A Non-Voting Share dividends by a healthy 1.9 times.

Business Environment

- The lengthy downturn in the Alberta economy led to the province's housing market being oversupplied relative to demand in 2017, resulting both in downward pressure on home prices and in extended marketing times for sellers.
- Moving into 2018, real estate markets in Alberta are now beginning to recover and home sale prices are showing signs of stabilizing. Canada Mortgage and Housing Corporation ("CMHC") predicts that resale market conditions in Alberta will transition from buyers' market condition to more balanced conditions in 2018 and continue to strengthen with stronger economic and employment growth in 2019.
- Margins on new construction are expected to remain viable, benefitting from relatively low raw land and sub trade costs in the Alberta market.

- Based on Canada Mortgage and Housing Corporation forecasts for 2017/2018, we believe housing starts in our western Canadian markets will be more than adequate to support the growth and continued geographic diversification of our business.

Financial Overview

	Year ended December 31, 2017 \$	Year ended December 31, 2016 \$	Year ended December 31, 2015 \$
Revenues	3,364,860	3,397,522	3,775,940
Total comprehensive income	2,382,194	2,719,244	2,982,880
Total assets	31,418,419	23,678,390	24,256,975
Shareholders' equity	25,683,552	23,128,607	22,403,082
Basic and diluted earnings per share	0.94	1.15	1.23
Cash dividends declared	2,376,866	2,185,358	2,758,729
Cash dividends declared per Class A share	0.80	0.80	0.82
Cash dividends declared per Class B share	1.12	1.11	1.62

Investment Portfolio

At December 31, 2017

Property Type	Mortgage Portfolio (No.)	Outstanding Balance (\$)	Total Committed Mortgage Principal (\$)	%	AAM Allocation*
Residential					
Single family – Detached	20	20,640,174	25,335,000	73%	100%
Single family – Attached	6	7,499,290	11,497,000	27%	100%
Total:	26	28,139,464	36,832,000	100%	N/A
Geographic Location of Property					
Calgary and Area	14	15,276,515	21,502,000	54%	100%
Edmonton and Area	1	1,537,432	3,000,000	5%	100%
Other Alberta	6	4,708,613	4,805,000	17%	100%
British Columbia	4	5,608,141	6,575,000	20%	50%
Saskatchewan	1	1,008,763	950,000	4%	25%
Total:	26	28,139,464	36,832,000	100%	N/A
Interest Rate (excluding fees)					
Less than 11%	10	15,916,363	19,845,000	57%	N/A
11%-11.99%	3	1,670,601	4,435,000	6%	N/A
12%-12.99%	12	7,162,990	7,652,000	25%	N/A
Greater than 12.99%	1	3,389,510	4,900,000	12%	N/A
Total:	26	28,139,464	36,832,000	100%	N/A
Original Funding Date **					
Calendar 2017	12	9,685,678	14,732,000	46%	N/A
Calendar 2016	6	7,051,569	8,710,000	23%	N/A
Calendar 2015	4	4,109,369	4,265,000	16%	N/A
Calendar 2014 or earlier	4	7,292,848	9,125,000	15%	N/A
Total:	26	28,139,464	36,832,000	100%	N/A

*Indicates the maximum percentage of the portfolio allowable under Builders Capital's Asset Allocation Model.

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

Operating Results for the Three and Twelve Months Ended December 31, 2017

Despite lingering economic challenges in our primary Southern Alberta marketplace and having a block of capital tied up in unproductive inventory assets, our mortgage portfolio increased by \$4.8 million or 20.4% in 2017, compared to 2016. The growth in our portfolio was supported by successful financing initiatives undertaken during the year, which included raising \$2.6 million of new capital, increasing the available limit on our line of credit by \$1 million, and securing a \$1.3 million loan against our property held for resale. These funds have been invested into profitable mortgages, which going forward, will help to mitigate the negative impact that unproductive inventory assets have on earnings. At the end of the fiscal year, we remain comfortable with the value of our portfolio and our provision for mortgage losses, and we are confident in our ability to prosper as market conditions gradually improve.

Cash advances and invoiced interest totaled \$4.9 million for the fourth quarter, up 14.4% from the \$4.3 million achieved in the same period last year, but still substantially lower than our most productive quarters. For the current fiscal year, cash advances and invoiced interest grew to \$27.4 million, up 27.2% from \$21.5 million in 2016. A quicker turnover of our capital is an indicator of performing loans and results in additional fee revenue for the Company.

The Q4 2017 and the annual 2017 advances were offset by \$2.8 million and \$14.3 million in mortgage repayments respectively. Based on an average of incoming and outgoing cash, we turned over 15.9% of our weighted average net invested capital during the quarter and 90.4% of our net capital in the year. The annual figure equates to one full cycling of net invested capital every 13 months. While this was below our targeted capital turnover rate, it reflects the impact of \$3.6 million of foreclosed properties in our portfolio that have not yet sold, as well as the extended marketing times that many of our clients are experiencing on their finished products. This turnover was still sufficient to ensure that lender fee revenue exceeded management fee expense in the year. As market conditions continue to improve, and as we liquidate our property inventory positions and reinvest the equity in profitable loans, we expect to continue moving closer to our targeted nine-month capital turnover rate.

In tandem with underwriting mortgages, we regularly engage in the purchase and sale of mortgages to help ensure full cash utilization and create liquidity as required. During the final quarter of 2017, we purchased \$0.6 million in mortgages and sold \$1.2 million. In the fiscal year, we respectively purchased and sold \$1.3 million and \$6.9 million in mortgages. All of the purchase and sale transactions were conducted with Builders Capital (2014) Ltd., a privately held corporation owned by certain directors of the company.

Our weighted average loan-to-value ratio remains slightly higher than we would like, reflecting the extended period of weakness in the Alberta real estate market, which has lowered selling prices and lengthened marketing times. When investing in mortgages, we target a loan-to-value ratio not exceeding 75%. At year-end, our weighted average ratio was approximately 78%, consistent with the 78% figure at the end of 2016. Loans which exceed our 85% threshold are deemed at risk of default and we closely watch these projects and generally earmark funds from our allowance for doubtful loans to be applied as necessary.

Our portfolio includes properties that we foreclosed on in previous quarters, which have a combined value of \$3.5 million. One of the properties was sold subsequent to the year-end. We continue to

actively market the other properties and are optimistic about our ability to sell them in due course. However until these properties are sold, approximately 11% of our total assets will be allocated to investments with zero return. As our gross revenues tend to be approximately 13% of invested capital, this results in a revenue reduction of approximately \$117,000 per quarter. To mitigate this impact, and also to be consistent with a larger share capital base secured through recent share offerings, we have increased the limit on our line of credit to \$4.5 million and have invested additional funds from the line into revenue-producing mortgages. We have also borrowed an additional \$1.3 million from our bank against the inventory, and have invested these proceeds into profitable mortgages.

We note that the reduction in profitability related to the unproductive inventory has had no impact on dividends paid to owners of our Class A Non-Voting Shares. The 8% return paid on the Class A Shareholders' original \$10 share price is always declared and paid prior to any dividends being declared on the \$9.7 million Class B Non-Voting Shares. Our annual earnings would have had to drop an additional 46% before the Class A Non-voting share dividends would have been affected. While we are not satisfied with our annual results, we are pleased that the share structure created to safeguard the capital and dividends of the public Class A shareholders is functioning as designed.

Further reducing shareholder risk is our minimal use of leverage. Our debt-to-equity ratio at the end of the year was a modest 22.3%. Generally, the only debt that we employ is our line of credit, which is used primarily as a cash flow tool to facilitate making advances to borrowers. In the final quarter of the fiscal year, however, we did borrow an additional \$1.3 million in debt secured by our assets held for sale. This loan will be repaid as the inventory is sold. Keeping our debt to a minimum is a priority for us as it leaves us free from undue influence of creditors and allows us the flexibility to manage our loan portfolio to our best advantage in different types of market conditions.

At year-end, the total value of our mortgage portfolio before taking into account our \$269,00 allowance for mortgage losses, was \$28.1 million, which was \$4.8 million higher than at the end of 2016. This reflects the approximately \$2.1 million increase in our net share capital over the past 12 months, together with additional borrowing of \$2.3 million, which helped finance the increase in our mortgage portfolio. As at December 31, 2017, our loan portfolio was made up of 26 mortgages with an average outstanding balance of \$1.1 million.

Revenue

For the three months ended December 31, 2017, mortgage revenue increased slightly to \$842,000, from \$835,000 in the fourth quarter of 2016. For the year ended December 31, 2017, revenue was \$3.4 million, virtually unchanged from 2016.

At December 31, 2017, the weighted average interest rate on our mortgages was 11.31%, down from 12.01% at December 31, 2016. This change reflects our continuing focus on building a higher-quality, lower-risk mortgage portfolio.

Fourth quarter 2017 revenue consisted of \$776,000 in interest and \$65,000 in lender fees charged to borrowers, equating to annualized gross revenue of 12.5% of the weighted average gross share capital. This compares to 14.0% for Q4 2016. Full-year 2017 revenue comprised \$3.4 million in interest and \$266,000 in lender fees, representing annualized gross revenue of 13.3% of the weighted average gross share capital, compared to 14.4% in 2016.

Lender fees are tied to the negotiation of new mortgages, generally at 1% of the approved loan amount, and are charged for an annual term to borrowers when new loans are made or existing loans are renewed. Lender fees are maximized when turnover in the portfolio is highest. Lender fees in the fourth quarter were up by 3% over Q4 2016 and full-year lender fees were within 1% of the 2016 amounts. While fourth quarter lender fees were slightly below the management fee expense, on a full-year basis, lender fee revenue exceeded management fee expense by 5%. Based on our goal of increased turnover of our capital, we anticipate that lender fees will increase going forward.

Expenses

Excluding funds set aside to provide for loan losses and interest expense, fourth quarter operating expenses increased by \$25,000 to \$107,000 compared to Q4 2016. This represents 12.7% of revenue compared to 9.8% last year. The year-over-year increase in fourth quarter expenses reflects additional legal costs incurred in the arranging of additional financing, together with additional management fees paid as a result of the increase in share capital. For the 2017 year, operating expenses were 11.2% of revenues, compared to 9.9% in 2016. The company's operating expenses have exceeded our 10% or less of revenue target in 2017 due partially to one-time increases in legal fees and also to lower than targeted revenues. We will continue to closely monitor our operating expenses with a view to getting them back within our expectations.

The fourth quarter provision for loan losses was \$137,000, an estimate based on an analysis of Builders Capital Management Corp, which manages the mortgage portfolio, as well as a current analysis of the construction finance marketplace. To date, we have accumulated a total of \$1.32 million to provide for loan losses, of which \$996,000 has been applied against specific foreclosed properties or discharged mortgages. We believe the remaining \$269,000 is sufficient to cover potential write-downs currently contained in the mortgage portfolio, and we will continue to set aside amounts that we consider prudent to cover future potential loan losses.

Management fees were \$67,000 for the fourth quarter and \$253,000 for the year, calculated on the total gross amount of Class A and Class B Non-Voting Shares outstanding.

Interest expense applies to our operating line of credit, which we use as a cash flow tool to fund mortgage draws. Interest expense also applies to the new loan drawn in the fourth quarter of 2017, which is secured by assets held for sale. A higher utilization rate for our capital will provide better returns in the form of additional interest income, but will also necessitate increased use of our line of credit for funding draws when our own funds are fully employed. As the real estate market in Alberta has begun to recover, we have been sourcing additional mortgage investments, and have drawn on our line of credit to fund these additional mortgage loans. Accordingly, at year-end, our line of credit balance stood at \$3.9 million, very close to our limit of \$4.5 million, and our funds were fully invested. Increased borrowing during the fourth quarter resulted in interest expense of \$64,000, up from \$21,000 in Q4 2016. On a full-year basis, interest expense increased to \$161,000, up 80.3% from \$89,000 in 2016.

Total Comprehensive Income

As expected, our strategy of charging slightly lower rates to borrowers in order to ensure a full mortgage book and secure higher-quality lending opportunities had a negative impact on our comprehensive income. Our results were also impacted by the increase in our annual provision for mortgage losses

necessitated by economic difficulties in our primary market. Due to the combined impact of these factors, fourth quarter comprehensive income decreased by 20.3% to \$533,000, or \$0.20 per share, from \$669,000, or \$0.28 per share, in Q4 2016.

For the full year, comprehensive income of \$2.4 million (\$0.94 per share) declined by 12.3% from \$2.7 million (\$1.15 per share) in 2016.

The decrease in comprehensive income did not affect dividends paid to our Class A Non-Voting shareholders in the year. Our share terms call for annual dividends of \$0.80 per Class A Non-Voting Share per year, or approximately \$0.20 per quarter, prior to any other dividends being paid. Earnings in the fourth quarter were \$0.20 per share overall, but were \$0.31 per Class A Non-Voting Share. These earnings exceeded the amount required to satisfy the 8% dividend committed to the Class A Non-Voting shareholders by 1.6 times. With Class B Non-Voting shareholders bearing a much greater proportion of the risk of income fluctuations, even if earnings had been only 65% of their actual figure, the company would still have been in a position to pay Class A shareholders their full, planned quarterly dividend. Given this margin, we anticipate that potential continued fluctuations in our comprehensive income will not affect the payment of our Class A Non-Voting Share dividends.

In order to maintain distributions on the Class B Non-Voting Shares, we have been actively working to raise capital from the sale of additional Class A Non-Voting Shares. Increasing the number of Class A Non-Voting Shares will change the ratio between our share classes. As the ratio of Class A to Class B shares rises, the Class B Non-Voting Share returns should also begin to rise.

Share Issuance Costs

On May 31, 2017, we closed a public offering for 219,975 Class A Non-Voting shares at \$10.00 per share for gross proceeds of \$2,199,750. The net proceeds of this offering were almost immediately required in general operations and were quickly invested in new mortgage loans.

On July 25, 2017, we closed a private placement for an additional 50,000 Class A Non-Voting shares at \$10.00 per share for gross proceeds of \$500,000, and on November 8, 2017, we closed a second private placement for an additional 52,000 Class A Non-Voting shares at \$10.00 per share for gross proceeds of \$520,000. The net proceeds of these offerings have also been invested in mortgage loans.

Share issue costs since inception total \$2.3 million, including professional fees for offering document preparation; offering, agent and brokerage fees and commissions; and other marketing and offering costs. In accordance with IFRS, these share issue costs are not treated as expenses in the consolidated financial statements, but instead are shown as a reduction in the value of the equity of the company. These costs are, however, deductible for tax purposes over a five-year amortization period.

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

Statement of Financial Position

At December 31, 2017, total assets increased to \$31.4 million (2016 – \$23.7 million), \$3.5 million of which, or 11%, was tied up in assets held for sale. The balance is primarily funded mortgages. The increase in total assets since December 31, 2016 was the result of an additional \$2.5 million in share capital and additional assets being funded with proceeds from the company's credit facilities.

Assets held for sale include a single building lot located in Fort McMurray, Alberta that was repossessed in 2016, two building lots in Richmond, British Columbia that were repossessed during Q2 2017 and one home in Calgary, Alberta which has been completed and staged for sale. The completed home was sold in February, 2018. All of the remaining properties are being actively marketed, and all are being carried at their estimated fair market values.

Liabilities at year-end totaled \$5.7 million (2016 – \$.5 million) and were comprised of, the balance on our line of credit; dividends relating to the fiscal quarter paid on January 31, 2018; our trade payables; the balance due to Builders Capital Management Corp.; and deferred lender fees and a loan payable which was first drawn in the fourth quarter of 2017.

The company was in compliance with all bank covenants relating to the line of credit and the loan payable and had no off-balance sheet arrangements during the year.

Quarterly Financial Information

	Quarter ended December 31 2017 \$	Quarter ended September 30 2017 \$	Quarter ended June 30 2017 \$	Quarter ended March 31 2017 \$	Quarter ended December 31 2016 \$	Quarter ended September 30 2016 \$	Quarter ended June 30 2016 \$	Quarter ended March 31 2016 \$
Revenues	842,234	854,603	866,259	801,765	835,278	807,359	856,584	898,301
Earnings and total comprehensive earnings	533,613	595,960	625,909	626,712	669,068	646,032	677,932	726,211
Total assets	31,418,419	30,005,779	29,102,705	24,503,762	23,678,390	24,610,504	26,613,516	24,485,930
Shareholders' equity	25,683,552	25,296,956	24,941,461	23,017,258	23,128,607	23,181,808	22,907,067	22,859,407
Basic and fully diluted earnings per share	0.20	0.23	0.26	0.27	0.28	0.28	0.29	0.31
Cash dividends declared	554,664	565,362	627,214	638,626	644,550	640,650	630,272	269,886
Cash dividends declared per Class A share	0.2016	0.2016	0.1995	0.1973	0.2016	0.2016	0.1995	0.1973
Cash dividends declared per Class B share	0.2521	0.2057	0.2346	0.3119	0.3717	0.3677	0.3677	0.3667

Distributions

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

On December 14, 2017, based on income for the fourth quarter of 2017, our Board of Directors declared a dividend of \$0.2016 per Class A Non-Voting Share to shareholders of record on December 31, 2017. This distribution was paid on January 31, 2018 and is recorded as payable in the accompanying financial statements. The dividend amount was calculated to provide an annualized 8% on the \$10.00 initial Class A Non-Voting Share price.

Subsequent to the year-end, on January 23, 2018, again based on income for the fourth quarter of 2017, the Board declared a dividend of \$0.2521 per share to Class B Non-Voting shareholders of record on that date. This distribution was also paid on January 31, 2017. This dividend is not recorded in these financial statements, but is noted in the last line of the table above as it was calculated based on Q4 earnings.

Liquidity and Capital Resources

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

In the fourth quarter, liquidity was good and cash inflows were sufficient to fund our committed cash outflows, despite delays to some of our projected mortgage pay-downs as a result of the slow Alberta real estate market.

During the three months, mortgages were funded in the amount of \$4.0 million, and \$2.8 million was received as repayments on loans. As our mortgages are predominantly short-term in nature, the continual repayment by borrowers of existing mortgage investments creates liquidity for ongoing mortgage investments and funding commitments.

Our mortgage portfolio turns over approximately annually. We expect that borrower repayments will remain at a reasonably consistent level throughout 2018 and plan to continue funding mortgages in amounts approximately equal to mortgage repayments received. It is likely that a number of our mortgages will be renewed as they come due, as discussed earlier under Operations.

Liquidity risk for the company arises primarily from the prospect of committing to a mortgage for which sufficient funds are not available to make draws as requested by the borrower. As noted in the table titled Investment Portfolio above, we have mortgage commitments to borrowers totaling \$36.8 million, which exceed the current amounts funded by \$8.7 million. We anticipate funding these commitments through the repayment of existing mortgages. Should mortgage repayments fall short of our commitments, we have a number of tools to manage liquidity and to ensure that commitments can be met. Included are our \$4.5 million line of credit, detailed cash flow planning procedures, and Builders Capital's well-established network of affiliates and mortgage industry contacts, through which mortgages can be sold or syndicated as required for cash flow purposes. In addition, our mortgage documents include language whereby a borrower cannot compel the company to advance funds. Our

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

Since inception, almost all of the sales and purchases of mortgages, which have both helped keep the mortgage book full and been a source of liquidity as required, have been to and from related parties, in particular Builders Capital (2014) Ltd. ("BCL"). BCL is a privately held corporation, of which Builders Capital directors Sandy Loutitt and John Strangway are also both directors. The company has often been reliant on BCL as a vendor and purchaser of mortgages and as a source for liquidity, including at certain times of low cash flow, for payment of dividends. This reliance means that if BCL was unwilling, or unable, to act as a purchaser or vendor of mortgages, the company would have to leave a substantially larger margin for error in our cash management practices, which would reduce profitability. The company expects to continue to be able to rely on BCL as a source of liquidity in the future. It is unlikely we could find another party that could provide liquidity as quickly or as efficiently.

We are prepared to increase our issued capital and regularly make solicitations for investments in Class A Common non-voting shares. Should such shares be issued, the proceeds will be used for general cash flow and for expansion of our mortgage portfolio. Builders Capital is financed, and will continue to be financed, primarily by the issuance of common shares. During 2017 we issued an additional 321,975 shares at a price of \$10.00 each. After offering costs of \$579,000 this contributed \$2.6 million to our capital base.

According to our share terms, Class A Non-voting shareholders have an annual right to redeem their shares on October 31 each year at 95% of Net Asset Value. Payment for the redemptions is to be made on November 30 each year. During 2017 we received a redemption request for 10,000 shares, which were redeemed on November 30, 2017 for \$90,795.

Related-Party Transactions

Our manager is a company controlled by Sandy Loutitt and John Strangway, both of whom are also directors of Builders Capital. The manager receives a management fee calculated as 1% per annum of the book value of the share capital of the company. Management fees amounted to \$67,000 for the quarter (Q4 2016 - \$60,000).

In addition to the management fee, the manager charges lender fees directly to borrowers both on loan originations and on loan renewals, with 28.6% of these fees being paid to the company and the remaining 71.4% going to the manager. The company collects these fees from the borrower, both on our own behalf and on behalf of the manager, by adding them to the principal amount of the mortgage, generally on the first advance to the borrower. The company then pays the manager's share of the fees to the manager, regardless of whether or not any payments have been received on the mortgage. Such payments to the manager are generally made within 30 days of having been charged to the borrower. Renewal fees are also charged to the borrower and paid to the manager during the term of the mortgage. During the quarter, the amount of these fees collected on behalf of the manager totaled \$289,000 (Q4 2016 - \$218,000).

In general, mortgages are purchased when the company has excess cash on hand, quality mortgages are available to purchase, and opportunities to immediately fund additional mortgages are not available.

The acquisition of mortgages helps us to minimize excess balances and maximize interest revenue. Mortgages are sold when, despite the line of credit being fully drawn, additional cash is required, or is forecast to be required, to fund mortgage draws and commitments. Often, mortgages purchased are subsequently sold back and vice versa. The purchase and sale of mortgages sometimes results in balances due to or from related parties being outstanding for short periods of time. These balances are unsecured and are non-interest bearing. During the quarter ended December 31, 2017, \$0.6 million in mortgages were purchased, and \$1.2 million were sold. During the fiscal year, \$1.3 million in mortgages were purchased and \$6.9 million were sold.

Financial Instruments

As part of our operations, we carry 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. We classify 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, due to related party and loan payable approximate their fair value because of the short-term nature of these instruments.

There were no transfers between levels 1, 2 and 3 inputs during the 2017 year (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. We mitigate this risk by adhering to our investment and operating policies. Although we write 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, we assess the mortgage

for impairment. Mortgages are regularly assessed for impairment and we record a specific allowance as required. Based on historical information about customer default rates, 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, 2017 and which have been renewed due to delays in completing the construction or the sale of the underlying security rather than due to a revolving arrangement for ongoing construction having been made, and for which no specific allowance has been recognized, can be considered to be past due, but not impaired as management considers collection to be reasonably assured due 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.

Cash is held at a major Canadian financial institution. Our 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 at the reporting date.

Market Risk

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

i) **Interest Rate Risk**

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

We are exposed to interest rate risk on our line of credit and loan payable as they carry a variable rate of interest. The impact on total comprehensive income if interest rates had been 1% higher or lower for the year ended December 31, 2017 would be approximately \$51,503

ii) **Foreign Currency Risk**

We do 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 our obligations as they arise and become due. Furthermore, liquidity risk also arises if we are 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 we were unable to meet our other liquidity requirements from ongoing operating activities.

Our approach to managing liquidity is to ensure that we will have sufficient financial resources available to meet our liabilities as they become due. This includes monitoring of cash, line of credit, loan payable and accounts payables and accrued liabilities. We intend to mitigate our liquidity risk by not entering into property acquisitions unless we have secured or are confident that we can secure the appropriate capital (debt and/or equity) to fund the particular acquisition. Liquidity risk is also mitigated by the terms offered to investors, which state that all redemptions are at the discretion of management and are dependent on the circumstances, and to borrowers, which state that the company is never obligated to advance additional mortgages or funding.

Critical Accounting Estimates

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

We are 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

We estimate 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 us the ability to effectively defer redemption indefinitely. Accordingly, we have applied judgment in assessing whether the redemption feature would create a contractual obligation to repurchase or redeem shares for cash or another financial asset and have determined that it would not and that the shares should be classified as equity.

Accounting Standards Adopted and Recent Accounting Pronouncements

We adopted no new IFRSs and interpretations during 2017.

Recent Accounting Pronouncements

We have 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 our 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 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. We are currently assessing the impact of this new standard on our 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. We are currently assessing the impact of this new standard on our 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. We are currently assessing the impact of this new standard on our consolidated financial statements.

Responsibility of Management and the Board of Directors

Management is responsible for the information disclosed in this MD&A and has in place the appropriate information systems, procedures and controls to ensure that the information used internally by management and disclosed externally is materially complete and reliable. In addition, our Board of Directors and Audit Committee provide an oversight role with respect to our public and financial disclosures. Both have reviewed and approved this MD&A and the accompanying condensed consolidated financial statements for the quarter ended December 31, 2017.

Outstanding Share Data

The company's authorized share capital as at April 30, 2018, consists of 1,000 Voting Shares, of which 100 were outstanding at year-end; an unlimited number of Class A Non-Voting Shares, of which 1,712,270 were outstanding at quarter-end; and an unlimited number of Class B Non-Voting Shares, of which 974,576 were outstanding at quarter-end.

Market Outlook

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

With Alberta's recession finally behind us, the market outlook has improved and is largely favourable for all three of our key provincial markets.

Alberta's recovering economy is driving increasing employment levels, and with net population growth also beginning to accelerate, employment in the province is expected to exceed pre-recession levels in 2018. Canada Mortgage and Housing Corporation ("CMHC") predicts that Alberta's resale market will transition from buyers' market conditions to more balanced conditions in 2018. CMHC further forecasts that single-detached housing starts in Alberta for 2018, which we take as a good indicator of our potential market, will be between 13,000 and 18,200 units, with starts expected to remain at similar levels of between 13,100 and 18,500 units in 2019. Based on these projections, we anticipate overall

more profitable markets for Alberta home builders in 2018 than in either 2016 or 2017, and accordingly, a more profitable market for our mortgages.

In British Columbia, the economy is expected to continue to grow through 2018 and 2019, supported by a low dollar, high consumer spending and a strong housing sector. However construction of single-detached homes is expected to move closer to historical norms through this same period, following two years of elevated levels of activity. CMHC predicts single-detached housing starts of between 11,000 and 11,600 units in 2018 and between 10,600 and 11,100 units in 2019. These levels are sufficient to ensure that BC continues to be a strong growth market for us in the near term.

In Saskatchewan, CMHC forecasts that economic expansion in 2017 and 2018 will drive an upward trend in home construction. Single-detached housing starts for 2018 are forecast to range from 2,400 to 3,400 units, increasing to between 2,400 and 3,600 units in 2019.

Overall, we believe that the projected levels of housing starts in our key markets are more than adequate to support the growth of our business in the near term. We also expect that margins on new construction will remain viable, particularly in Alberta, where building costs have generally decreased and selling prices are expected to gradually strengthen.

While our market outlook is improving, we caution that the extended downturn in Alberta has taken its toll on builders. Over the past 18 months, we have foreclosed on nine properties and sold six of them. It remains entirely possible that we will need to take additional steps to collect on some of our mortgage assets over the coming months. That said, we are optimistic that the foreclosures have weeded out the most significant vulnerabilities in the portfolio. Similarly, we believe that the necessary safeguards are in place to assure our ability to maintain the Class A Non-Voting Share dividend at 8% per annum.

These safeguards include maintaining a prudent debt-to-equity ratio. Our mortgage lending is generally restricted to 75% of what we believe to be the fair market value of a property at any given time, meaning that we plan to have 25% of the value of the project in owners' equity ahead of us. We take a general allowance for doubtful accounts each quarter before paying dividends, allowing us to build a cushion of funds to further protect investors. Should we deem it necessary, as was the case this quarter, we can increase this allowance to ensure that our provision for loan losses remains sufficient.

In addition, by investing only in short-term mortgages, we maintain the liquidity necessary to preserve capital. In the event that we believe a market has become too risky, we will work on converting our investments to cash, and will forego returns in order to protect the capital with which we've been entrusted.

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

Going forward, we are confident of our ability to keep our capital fully utilized and to continue to grow our business. Given the size of the marketplace, our current relatively small market share, and the opportunities that exist to expand our geographic footprint, we are well positioned to continue sourcing high-quality lending opportunities. We also have a continuing opportunity to purchase additional mortgages that meet our lending criteria from affiliates. While purchased mortgages do not generally provide a source of lender fee revenue, they do assist in keeping our capital employed.

Risk and Uncertainties

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

A robust new home construction market greatly reduces both of these risks, as it provides a strong marketplace into which builders can sell their completed projects, it maintains or increases the value of the security for our loans, and it provides an ongoing source of new projects and borrowers. A downturn in the market that substantially decreases security values could have a significant negative effect on our business. We cannot predict the performance of the housing market in the future with certainty.

In order to mitigate these risks, we restrict our loan amounts to a target of up to 75% of what we consider the fair market value of the security to be. The 25% equity component is a requirement for our borrowers and we believe it provides us with a sufficient margin for error in the event of a drop in property values. The short-term nature of our loans also gives us the flexibility to convert our entire portfolio of mortgages to cash within a 12-month period, if economic conditions warrant. We also maintain sufficient construction expertise to allow us to economically complete any project on which we have loaned funds.

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

Other risks and uncertainties exist for our business that are typical for business in general and for lenders in particular. These include changes in interest rates, potential environmental issues associated with the mortgage security, borrower solvency, any significant changes in competition, changes in tax legislation and other factors as described under Forward-Looking Information. The company has also recently been named in a lawsuit brought by a potential purchaser of a property under construction on which we held a mortgage. We foreclosed on the property in 2017 and, as a result, the potential purchaser's interest was foreclosed off the title. Their claim is for \$50,000. Based on advice from legal counsel, management considers this claim to have no merit and the possibility of having to pay anything under this litigation remote. Accordingly, no provision for this claim has been recorded in the financial

statements. Should any payment be required in the future, amounts to settle the liability would be considered a loan loss and be drawn from our accumulated allowance for such losses.

Additional Information

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