



Builders Capital Mortgage Corp.

Management's Discussion and Analysis
Quarter Ended September 30, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis (MD&A) has been prepared by Builders Capital Mortgage Corp. (Builders Capital or the company) as of November 29, 2024. It should be read in conjunction with the company's audited consolidated financial statements and accompanying notes for the year ended December 31, 2023, available on SEDAR at www.sedar.com and on our website at www.builderscapital.ca. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). All financial information is presented in Canadian dollars.

Notice Regarding Forward-Looking Information

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

Background and Overview

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

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

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

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

Investment Strategy

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

Investments in our portfolio are strategically concentrated on:

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

Investment Restrictions

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

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

Operations

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

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

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

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

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

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

In other cases, the intention is to continue financing the ongoing construction of projects for a borrower on a revolving basis. In these situations, each time a project is completed and sold, cash is received to pay down the loan balance, in some cases to zero. As the loan balance is reduced, new projects can be

added to the mortgage. At term-end, as builders will often have a number of projects under construction at varying stages of completion, the mortgages are typically renewed and the builder draws down on the renewed mortgage to continue to fund their projects. In these cases, there is a revolving aspect to the loan but, again, no cash is expressly due upon 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 the completion of projects and changing market values, this target ratio is sometimes exceeded.

Q3 2024 Summary

Performance Highlights

- We distributed \$0.20 per share to our Class A public shareholders, maintaining our consistent track record of meeting our distribution target every quarter since our inception over 10 years ago.
- Subsequent to the quarter-end, we distributed \$0.40 per share to our Class B shareholders based on Q3 2024 earnings. This provided an annualized 16% return on the original \$10.00 share issue price.
- We achieved our second-highest gross income to date of \$1,257,830, reflecting strong performance and continued business resilience.
- Earnings per share remained steady compared to Q2 2024 at \$0.26.
- Operating expenses (excluding interest and funds set aside for potential loan losses) were within expectations at 8.7% of revenues.
- Consistent with our strategic goals, we have continued to shift a greater portion of our loans to Alberta. During the quarter, the percentage of loans in Alberta increased from 54% to 64%. This trend is driven by continuing affordability constraints in British Columbia.
- We slightly missed our target weighted average loan-to-value ratio on our mortgage portfolio of 75% by 2%, consistent with the prior quarter. We are pleased to note that this ratio has remained stable at 77% and has not increased quarter over quarter.

Business Environment

- We continue to monitor economic factors in our lending jurisdictions with some concerns about eroding affordability. To this end we continue to position our book in markets where we see consistent turnover and enough economic activity to justify new construction.
- Our British Columbia markets continue to face falling sales activity though prices are not reflecting substantial adjustments at this time.
- In the Alberta market, housing prices continue to rise moderately with an ongoing shortage of supply of available units.
- The Alberta market continues to see strong sales activity; however, we are noticing an escalation in material and subtrade costs that is beginning to compromise profitability for our borrowers. We are closely monitoring this situation.

Financial Overview

	Quarter ended September 30, 2024 \$	Quarter ended September 30, 2023 \$	Quarter ended September 30, 2022 \$	Quarter ended September 30, 2021 \$
Revenues	1,257,830	1,201,781	938,523	780,972
Total comprehensive earnings	820,864	817,368	700,808	575,009
Net mortgages receivable, end of period	35,428,965	36,327,104	30,392,071	27,293,615
Total assets	37,054,105	37,189,078	32,117,611	29,778,385
Shareholders' equity	29,400,534	29,503,926	27,075,517	26,854,608
Basic and Diluted Earnings per share	0.26	0.26	0.24	0.20
Cash dividends declared	814,499	817,359	654,078	584,765
Cash dividends declared per Class A share	0.20	0.20	0.2016	0.2016
Cash dividends declared per Class B share	0.40	0.40	0.2742	0.1995

Investment Portfolio

At September 30, 2024

Property Type	Mortgage Portfolio (No.)	Outstanding Balance (\$)	Total Committed Mortgage Principal (\$)	%
Single family – Detached	19	19,367,877	29,267,500	53%
Single family – Attached	16	17,109,505	27,555,000	47%
Total:	35	36,477,382	56,822,500	100%
Geographic Location of Property				
Calgary and Area	15	19,245,850	28,407,500	53%
Edmonton and Area	6	2,080,785	5,595,000	6%
Other Alberta	4	1,749,057	4,950,000	5%
British Columbia	10	13,401,690	17,870,000	37%
Total:	35	36,477,382	56,822,500	100%
Interest Rate (excluding fees)				
Less than 11%	2	955,001	990,000	3%
11%-11.99%	1	424,988	1,600,000	1%
12%-12.99%	32	35,097,393	54,232,500	96%
Total:	35	36,477,382	56,822,500	100%
Original Funding Date *				
Calendar 2024	19	11,085,539	22,157,500	30%
Calendar 2023	4	3,218,078	4,245,000	9%
Calendar 2022	6	12,344,875	16,330,000	34%
Calendar 2021	3	2,380,502	5,990,000	7%
Calendar 2020 or earlier	3	7,448,388	8,100,000	20%
Total:	35	36,477,382	56,822,500	100%

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

Introduction

Despite rising construction costs, we continue to benefit from strong demand for our construction financing solutions. Both Alberta and British Columbia are expected to maintain robust housing demand, despite these cost pressures. In British Columbia, affordability challenges are driving a shift toward multi-family housing, while Alberta is projected to see continued demand for both single family and multi-family homes. Alberta is experiencing strong interest in entry-level and mid-market homes, fueled by an influx of migrants seeking more affordable housing. Alberta's relative affordability, especially compared to markets like B.C., continues to attract buyers from higher-cost regions.

This sustained demand is reflected in our financial performance. In the third quarter of 2024, our total revenues increased by 4.7%, while total comprehensive income grew by 0.5%. The slight variance is primarily due to management's strategic decision to increase provisions in response to softening market conditions in British Columbia, which has affected both home sales prices and the time required to sell properties in the region. This adjustment reflects our commitment to maintaining a conservative approach in anticipation of potential losses in the current year. Although these losses may not ultimately materialize, we believe it is prudent to adopt a conservative approach given the heightened market uncertainty. This approach is consistent with the actions taken in the previous quarter.

While the adjustment may impact our financial metrics in the short term, it highlights our dedication to prudent risk management and maintaining the strength of our balance sheet.

During the quarter, we achieved a weighted average loan-to-value (LTV) ratio of 77%, slightly above our conservative target of 75%. This loan-to-value ratio, despite its susceptibility to fluctuations in property values, remains a key metric of the stability of our portfolio and is a key predictor of how likely we are to experience a loss on any given loan if future real estate markets weaken. Given that our current LTV ratio exceeds our target threshold, this factor contributed to our decision to increase provisions.

As part of our ongoing risk management process, we continue to monitor and adjust our geographic distribution of loans. This includes strategically re-directing our underwriting away from the lower mainland in British Columbia as a proactive measure against what we perceive as a diminishing value proposition in the region. This approach has been consistently applied in previous quarters.

During the quarter, no new foreclosure proceedings were initiated. However, we note that two loans have moved to impaired status, both of which are located in British Columbia.

Operating Results for the Three and Nine Months Ended September 30, 2024

Market conditions remained relatively strong for our business in the first nine months of 2024, continuing the trend set in the previous year. Earnings per share for the third quarter and year-to-date were \$0.26 and \$0.78, respectively, in line with the earnings reported in the same periods last year. Our builder customers were generally able to sell their projects within a reasonable timeframe upon completion that, in turn, generated strong quarterly interest and lender fee revenues of \$1.26 million for Builders Capital.

The loan loss provision for the quarter of \$195,000 represents 15.5% of total revenue and remained higher than our target rate of 9% of revenues. As mentioned in our Q1 and Q2 MD&A, in anticipation of a potentially slowing market, we have increased our loan loss provisions to allocate adequate resources for potential future losses.

For the nine months ended September 30, 2024, cash advances and invoiced interest increased to \$31.8 million, from \$29.8 million in the same period in 2023, representing a 6.7% increase. Mortgage repayments for the nine-month period decreased slightly to \$22.9 million, compared to \$23.1 million in the same period in 2023. The increase in cash advanced and invoiced interest reflects an increase in demand for our lending services. During the quarter, our line of credit balance increased, driven by the increased demand as well as the slight decline in mortgage repayments. While the decrease in mortgage repayments is minor, it reflects the increased selling times for builders, particularly in British Columbia.

Our annualized turnover, calculated as the average of total advances and total repayments assuming they stayed consistent for 12 months, is 1.26 times our net invested capital. This equates to a full turnover of invested capital in approximately 9.66 months, which is in line with our previously set goal of achieving a 9 month turnover rate.

At September 30, 2024 our weighted average loan-to-value (LTV) ratio of approximately 77% remains slightly higher than we would like, reflecting the softening market in British Columbia, which has lowered selling prices and lengthened marketing times. When investing in mortgages, we target a loan-to-value ratio not exceeding 75%. Maintaining our weighted average loan-to-value ratio at this targeted level provides important stability as we continue to grow the company. We continue to monitor this metric closely.

Generally, the only debt that we employ is our line of credit, which is used primarily as a cash flow tool, but also to fund quality mortgage investments opportunities as they become available. In the third quarter our line of credit balance increased to \$6.9 million, a marginal increase from \$6.6 million in the same period last year. This increase reflects the increase in demand for our lending services. We will continue to fund mortgages from the line of credit provided that the rates achieved on these mortgages exceed our incremental borrowing costs. On August 26, 2024 the company amended its loan agreement in place with Canadian Western Bank. The loan agreement, which provided for a demand operating overdraft facility with a limit of \$7,500,000, was increased to \$12,000,000 contingent on confirmation of transfer of title from applicable land titles offices for mortgages being acquired as part of the Bond offering. Such transfer occurred on October 1st, 2024.

Earnings per share for the quarter remained consistent at \$0.26, compared with the corresponding period in 2023. This enabled us to comfortably maintain our \$0.20 quarterly distribution on the Class A shares and \$0.80 quarterly distribution on the Class B shares.

At the end of the quarter, the total value of our mortgage portfolio before accounting for the \$1,048,417 allowance for mortgage losses, stood at \$36.5 million. This represents a significant increase of 13.3% compared to \$32.2 million in the prior quarter and is consistent with the \$36.9 million reported at September 30, 2023. As at September 30, 2024, our loan portfolio was made up of 35 mortgages with an average outstanding balance of \$1.04 million. This compares to 27 mortgages averaging \$1.37 million as at September 30, 2023.

Revenue

For the three months ended September 30, 2024, we achieved revenues of \$1.26 million, an increase of 4.7% over the \$1.20 million achieved in the same period last year.

Our third quarter revenue was comprised of \$1.13 million in interest and \$133,000 in lender fees. Interest revenue increased 3.9% compared to the same period last year and increased turnover in the quarter led to a 11.8% increase in lender fees in the same period. Quarterly revenues represented 4.3% of quarter-end shareholders' equity and translates to an annualized gross revenue of 16.9% on equity, which is comparable to 16.3% of equity in Q3 2023.

For the nine months ended September 30, 2024, our revenues grew 5.4% to \$3.6 million from the \$3.4 million in the same period last year. Our strong Q3 and nine months revenue results reflect a combination of increased demand for our lending services, and greater utilization of our line of credit. While the primary intent of our credit facility is to smooth cash flow between advances and repayments, its usage also provides a small amount of forward leverage, contributing to overall increase in return.

Lender fees are tied to the negotiation of new mortgages, generally at 1% of the approved loan amount, and are charged to borrowers when new loans are made or existing loans are renewed. Lender fees are maximized when turnover in the portfolio is highest. Lender fees earned in the quarter exceeded management fees paid by a healthy margin of 68%, consistent with our goal of maintaining lender fee revenues at amounts exceeding management fee expense.

During the quarter, our weighted average interest rate stood at 12.75%, which is largely consistent with Q2 2023 (12.10%) and virtually unchanged from Q2 2024 (12.76%). Increased foot traffic for our builders is leading to moderate sales growth. However, they report that many clients are still facing challenges due to higher personal debt levels, which makes it more difficult for them to acquire the necessary financing to purchase new homes.

Expenses

Operating expenses, excluding funds set aside to provide for loan losses and interest expense, were \$109,000 in the third quarter, and \$324,000 in the first nine months of 2024. These results were both 3% less than operating expenses of \$112,000 and \$333,000, respectively in the same periods of 2023. The decrease is primarily attributed to legal fees incurred in the previous year to increase our line of credit that did not reoccur yet this year. As a percentage of revenues, our third quarter operating expenses remain tightly managed at 8.7%, as compared to 9.3% of revenues in the same period last year.

Our third quarter 2024 provision for mortgage losses was \$195,000, representing 15.5% of revenues, as compared to \$113,000 and 9.4% in Q3 2023. Year-to-date, the provision for mortgage losses of \$500,000 is 2.9 times the \$172,000 provision required in the first nine months of 2023 where provisions for mortgage losses had a significant decrease from the same period in 2022 and were lower than our historical experience.

Provisions for mortgage losses are determined based on our ongoing assessment of our mortgage portfolio and current market conditions. The increase to the provision is intended to help ensure that the carrying value of our mortgages receivable and our assets held for sale reflect true fair values, amid the weakness of the housing market in British Columbia. The year-to-date provision consists of costs

associated with the foreclosure write down to Net-Realizable-Value in the prior quarter, losses on specific loans which were written down in the period and increases in the provision due to our conservative approach in anticipation of potential losses in the current year.

In the third quarter, no new foreclosure proceedings were initiated. However, we note that two loans have moved to impaired status, both of which are located in British Columbia. An order for conduct of sale has been granted for the property linked to the loan previously referenced in the December 31, 2023, March 31 and June 30, 2024 MD&A, which was in a redemption period at that time. This property has been sold with an expected court approved closing in the first quarter of 2025. One of the newly impaired loans has received a consensual sales offer, which we plan to petition the courts to accept, with the closing anticipated in the first quarter of 2025. For the second property, we are seeking an order absolute, which will allow Builders Capital to control the sales and marketing efforts for this property.

Interest expense applies to our operating line of credit, which we use as a cash flow tool to fund mortgage draws. A higher utilization rate for our available 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. This strategic approach is used during periods when the interest spread between our bank's line of credit and interest charged to borrowers is favorable. Currently, we have opted to increase our utilization of the line of credit. This decision is aimed at taking advantage of increased interest spreads. At the end of the third quarter, our line of credit balance stood at \$6.9 million, as compared to \$3.3 million at December 31, 2023 and \$6.6 million at September 30, 2023.

Third quarter interest expense totaled \$133,000, down from \$159,000 in Q3 2023, while interest expense for the nine months decreased to \$310,000 from \$430,000. Although the decrease reflects the strategic efforts made in the first half of 2024 to minimize the utilization of our line of credit for funding draws, by the end of the quarter, we believed there were compelling funding opportunities to choose from and thus make additional draws on the line of credit.

Total Comprehensive Income

Total comprehensive income remained fairly consistent at \$821,000 in the third quarter, a slight increase of 0.4% from the \$817,000 earned in the same quarter of 2023. Year-to-date total comprehensive income of \$2.47 million is modestly less than the \$2.48 million earned in the same period in the prior year, a negligible decrease. The stability of our income in the first nine months of the year, compared to the previous year reflects a consistent performance amid a stabilizing interest rate environment and turnover rates trending back in line with our target rate of 9 months.

Third quarter earnings per share (EPS) of \$0.26 remain consistent with the EPS recorded in Q3 2023. Similarly, year-to-date, EPS of \$0.78 remained consistent with the EPS reported in the same period of the previous year. The ability to uphold profits at a consistent level while also implementing precautionary measures against potential future losses underscores the success of our strategies for strengthening and diversifying our mortgage portfolio and complements our sustained ability to generate revenues, even amidst elevated interest rates charged to borrowers.

One very important aspect of our publicly traded Class A Non-Voting Shares is the dividend priority over the Class B Non-Voting Shares that they are afforded. 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. This means that all of the earnings attributable to the capital that Class B shareholders have invested in the company goes firstly to satisfy the Class A dividend. Earnings in the current quarter were \$0.26 per share overall but work out to \$0.37 per Class A Non-Voting Share. These earnings exceeded the amount required to satisfy the dividend committed to the Class A Non-Voting shareholders by 1.8 times. Class B shareholders bear a much greater proportion of the risk of income fluctuations than do Class A shareholders, which makes our \$.80 Class A annual distribution compare extremely favorably to other similar investments on a risk-adjusted basis.

With Class B Non-Voting shareholders bearing a much greater proportion of the risk of income fluctuations, even if earnings had been only 55% of their actual figure the company would still have been able to pay Class A shareholders their full planned annual dividends. Given this margin, we anticipate that any potential continued fluctuations in our comprehensive income will not affect the payment of our Class A Non-Voting Share dividends.

Statement of Financial Position

Our goal is to always keep our capital as fully invested in quality mortgages as possible while ensuring that sufficient cash is available to fund construction draw requests as they are received. Our mortgage portfolio continued to grow during the period, with net funded mortgages of \$35.4 million (December 31, 2023 – \$32.7 million) comprising 95.6% of our total assets of \$37.0 million (December 31, 2023 – \$33.4 million) and 121% of our shareholders' equity. This also represents a 2.5% increase from our net funded mortgage balance of \$36.3 million balance at September 30, 2023 and reflects the following three factors: increased utilization of our credit facility offset by \$959,000 being shifted from productive mortgages into unproductive inventory and increases to the loan loss provision.

The remaining 4.4% of our total assets, amounting to \$1.6 million, is currently allocated to property held for sale. Assets held for sale are typically properties which we have obtained in foreclosure actions. In most cases, these properties are unfinished at the time, and we typically expend resources to complete them and prepare them for sale. At the end of 2023, we were holding one such property, consisting of a vacant building lot in Cochrane, Alberta, which we foreclosed on in early 2022. At September 30, 2024, this property was still held. While we anticipated a sale to the interested purchaser in Q3, this did not materialize as the purchasing client could not satisfy the terms of the sales agreement. In October, non-refundable deposits from the uncompleted sale were received, reducing its carrying value. We will rekindle our marketing efforts including listing the property on the MLS to market to other prospective buyers. In addition to the Cochrane lot, we hold a residential property in Strathcona, AB which was obtained in foreclosure action in quarter one of 2024. The management company mobilized resources to remedy the construction deficiencies which were completed in Q4. We have recently accepted a conditional offer and expect this property sale to close in the final quarter of 2024.

Liabilities at quarter-end, excluding our line of credit, totaled \$692,000 (December 31, 2023 – \$678,000), the largest component of which was dividends relating to the fiscal quarter paid on October 31, 2024. The remaining 26% of our liabilities consist of our trade payables, amounts due to related parties, and

deferred lender fees. Throughout the quarter we were in compliance with all bank covenants relating to the line of credit, and we had no off-balance sheet arrangements.

Our line of credit balance stood at \$6.9 million (December 31, 2023 - \$3.3 million) up from \$6.6 million a year prior. Use of the line of credit is an indication that our equity is fully invested and that we have sufficient quality mortgage investment opportunities available.

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

Total share issue costs since inception now stand at \$2.4 million, including professional fees for offering document preparation; offering, agent and brokerage fees and commissions; and other marketing and offering costs. In accordance with IFRS, these share issue costs are accounted for as a reduction in the value of the equity of the company. These costs are, however, deductible for tax purposes over a five-year amortization period. Our intent is to restrict shareholder distributions to less than 100% of net income in order to utilize the tax deductibility of these payments. This distribution policy will, over time, have the result of retaining income equal to the offering costs within Builders Capital, which will increase the Net Asset Value of the company while ensuring that no corporate taxes are paid. Because of the two-tier share structure, and the priority on distributions that the Class A Non-Voting Shares hold over the Class B Non-Voting Shares, we expect the restriction in distributions to come primarily from the portion of income otherwise available for distribution to the Class B Non-Voting shareholders.

Quarterly Financial Information

	Quarter ended Sept 30, 2024 \$	Quarter ended June 30, 2024 \$	Quarter ended March 31, 2024 \$	Quarter ended December 31, 2023 \$	Quarter ended September 30, 2023 \$	Quarter ended June 30, 2023 \$	Quarter ended March 31, 2023 \$	Quarter ended December 31, 2022 \$	Quarter ended September 30, 2022 \$
Revenues	1,257,830	1,163,935	1,179,354	1,259,606	1,201,781	1,128,856	1,084,900	1,061,004	938,523
Total comprehensive earnings	820,864	830,165	816,315	813,450	817,368	833,340	829,315	647,964	700,808
Total assets	37,054,105	32,901,479	31,436,269	33,354,459	37,189,078	36,746,415	36,010,916	35,720,048	32,117,611
Assets held for sale	1,610,991	1,560,329	1,512,086	651,288	651,288	649,768	765,695	1,187,064	1,175,338
Shareholders' equity	29,400,534	29,394,171	29,378,505	29,376,569	29,503,926	29,503,919	29,482,917	29,269,826	27,075,517
Earnings per share	0.26	0.26	0.26	0.26	0.26	0.26	0.26	0.22	0.24
Cash dividends declared	814,499	814,499	814,499	814,499	817,358	812,339	710,434	706,804	654,078
Cash dividends declared per Class A share	0.20	0.20	0.20	0.20	0.20	0.20	0.1972	0.2016	0.2016
Cash dividends declared per Class B share	0.40	0.40	0.40	0.40	0.40	0.3945	0.2898	0.2773	0.2742

Distributions

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

On September 10, 2024, based on income for the third quarter of 2024, our Board of Directors declared a dividend of \$0.20 per Class A Non-Voting Share to shareholders of record on September 30, 2024. This distribution was paid on October 31, 2024 and is recorded as payable in the accompanying condensed consolidated interim financial statements.

Subsequent to the quarter-end, on October 28, 2024, again based on income for the third quarter of 2024, the Board declared a dividend of \$0.40 per share to Class B Non-Voting shareholders of record on that date. This distribution was also paid on October 31, 2024. This dividend is not recorded in these condensed consolidated interim financial statements as it was declared after the quarter-end.

Liquidity and Capital Resources

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

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

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

Liquidity risk for the company arises primarily from the prospect of committing to a mortgage for which sufficient funds are not available to make draws as requested by the borrower. As noted in the Investment Portfolio table above, we have mortgage commitments to borrowers totaling \$56.8 million, which exceed the current amounts funded by \$20.3 million. We anticipate funding these commitments through the repayment of existing mortgages. Should mortgage repayments fall short of our commitments, we have a number of tools to manage liquidity and to ensure that commitments can be met. These tools include our \$7.5 million in available credit which was increased to \$12 million on October 1st, 2024, detailed cash flow planning procedures, and Builders Capital's well-established network of affiliates and mortgage industry contacts, through which mortgages can be sold or syndicated as required for cash flow purposes. In addition, our mortgage documents include language whereby a borrower cannot compel the company to advance funds. Our primary goal is to minimize unused cash balances, while ensuring that borrower needs and other commitments can always be met.

Since inception, almost all of our sales and purchases of mortgages have been to and from related parties, in particular Builders Capital (2014) Ltd. ("BCL"). BCL is a privately held corporation, of which Builders Capital directors Sandy Loutitt is a director. The company has often been reliant on BCL as a

vendor and purchaser of mortgages and as a source for liquidity, including at certain times of low cash flow, for payment of dividends. This reliance means that if BCL was unwilling, or unable, to act as a purchaser or vendor of mortgages, the company would have to leave a larger margin for error in our cash management practices, which could reduce profitability.

We successfully closed the first tranche of our participating bond offering in October, with additional tranches expected to close in January 2025. These bonds are expected to expand our book of business and mitigate risk exposure for existing shareholders.

According to our share terms, Class A Non-voting shareholders and Class B Non-voting shareholders have an annual right to redeem their shares on October 31st each year at 95% and 100% of Net Asset Value, respectively. Payment for the redemptions is to be made on November 30th each year. In 2024, we received no requests from Class A Non-voting shareholders for redemption and one request from a Class B Non-Voting shareholder for redemption of 20,000 shares.

Related-Party Transactions

Our manager is a company controlled by Sandy Loutitt, who is also a director 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 \$79,000 for the quarter (Q3 2023 - \$79,000).

In addition to the management fee, the manager charges lender fees directly to borrowers both on loan originations and on loan renewals, with 28.6% of these fees being paid to the company and the remaining 71.4% going to the manager. The company collects these fees from the borrower, both on our own behalf and on behalf of the manager, by adding them to the principal amount of the mortgage, generally on the first advance to the borrower. The company then pays the manager's share of the fees to the manager, regardless of whether any payments have been received on the mortgage. Such payments to the manager are generally made within 30 days of having been charged to the borrower. Renewal fees are also charged to the borrower and paid to the manager during the term of the mortgage. During the third quarter of 2024, fees collected on behalf of the manager totaled \$298,000 (Q3 2023 - \$449,000). For the nine months ended September 30, 2023, fees collected were \$793,000 as compared to \$848,000 in the prior year.

The company engages in the purchase and sale of mortgages, primarily as a cash management tool. In general, mortgages are purchased when the company has excess cash on hand, quality mortgages are available to purchase, and opportunities to immediately fund additional mortgages are not available. The acquisition of mortgages helps us minimize excess cash balances and maximize interest revenue. Mortgages are sold when, despite the line of credit being fully drawn, additional cash is required, or is forecast to be required, to fund mortgage draws and commitments. Often, mortgages purchased are subsequently sold back and vice versa. The purchase and sale of mortgages sometimes results in balances due to or from related parties being outstanding for short periods of time. These balances are unsecured and non-interest bearing. During the quarter, five mortgages (2023 - portions of 2 mortgages) with an aggregate value of \$3.5 million were sold (2023 - \$733,000) and no mortgages were purchased (2023-nil). For the nine months ended September 30, 2024, mortgages sold totaled \$6.9 million (2023 - \$4.5 million) and mortgages purchased were \$1.97 million (2023 - \$100,000).

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.

The Bank of Canada rate decreases have improved affordability and led to a slight increase in mortgage applications. However, change has been largely symbolic and has not significantly created additional opportunity for prospective new home sales. Overall market sentiment is positive in Alberta, while it is weakening in British Columbia. Strong performance by major oil producers in Alberta is driving higher-paying employment which has stimulated demand for multi-unit land. This, in turn, has led to a price increase that is eroding some of the previous advantages Alberta held over other jurisdictions. Continued in-migration to Alberta from other provinces has helped keep the rental vacancy rate tight, stimulating an increase in applications for rental unit construction. It should be noted that Alberta, as of October 2024, had the third highest unemployment rate in the country by province. We continue to observe a lack of competitive products in the construction financing market, which enables us to be more conservative in our own lending while still maintaining or growing our market share. We ended the quarter fully invested, with demand for mortgages exceeding the cash available to fund them. We see the launch of our new Participating Bond offering as a strategic opportunity for market share growth. The first tranche of bond sales successfully closed in October 2024.

We believe that despite short-term fluctuations in home prices and sales levels, demand for housing will remain strong in the medium to long term. As a result, new home construction is expected to remain at levels which will continue to provide us sufficient opportunity to maintain a full lending book.

We continue to write more loans in Alberta than in British Columbia, as we perceive the near-term opportunities in Alberta being lower risk compared to those available in British Columbia. The more robust fundamentals of Alberta continue to deliver quality lending opportunities which allows us to keep our lending book full and invested in marketable projects. We will continue to closely monitor the markets we serve and will focus our resources on capitalizing on opportunities offered by regional differences.

Minimizing unproductive assets is a key driver of our profitability and we will continue to focus on keeping future foreclosures to a minimum. Given the historic escalation in prices that occurred across much of the country in recent years, we are also ensuring that we build in a somewhat larger margin-for-error when assessing the finished value of homes under construction. Even though our LTV ratio remained stable compared to the prior quarter at 77%, slightly above our conservative target of 75%, we continue to believe there is sufficient equity in the majority of loans in our portfolio to minimize the risk of loan losses. Nevertheless, due to this higher LTV ratio, we once again increased our provision in the quarter. Even if foreclosure activity were to increase, we are confident the necessary safeguards are in place to maintain the Class A Non-Voting Share dividend at approximately \$0.80 per annum.

These safeguards include maintaining a prudent debt-to-equity ratio, generally restricting our lending to 75% of what we believe to be the fair market value of a property at any given time and taking adequate allowances for expected credit losses which enable us to build a cushion of funds to further protect investors. In addition, by investing only in short-term mortgages, we maintain the liquidity necessary to preserve capital. In the event that we believe a market's risk level has become too high, we will work on

converting our investments to cash and will forego returns in order to protect the capital with which we have been entrusted.

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

Financial Instruments

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

Credit Risk

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

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

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

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

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

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

Market Risk

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

i) Interest Rate Risk

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

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

ii) Foreign Currency Risk

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

Liquidity Risk

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

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

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

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

Capital Management

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

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

Our objectives when managing capital are:

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

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

Use of Estimates and Judgements

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the condensed consolidated interim financial statements and reported amounts of revenues and expenses during the reporting year. Estimates, assumptions and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes can differ from these estimates. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the condensed consolidated interim financial statements are:

Measurement of fair values

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

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

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

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

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

Measurement of expected credit loss

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

Classification of non-voting shares with redemption feature

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

Responsibility of Management and the Board of Directors

Management is responsible for the information disclosed in this MD&A and has in place the appropriate information systems, procedures and controls to ensure that the information used internally by management and disclosed externally is materially complete and reliable. In addition, our Board of Directors and Audit Committee provide an oversight role with respect to our public and financial disclosures. Both have reviewed and approved this MD&A and the accompanying condensed consolidated interim financial statements for the quarter ended September 30, 2024.

Outstanding Share Data

The company's authorized share capital as at November 29, 2024 consists of 1,000 Voting Shares, of which 100 were outstanding at period-end; an unlimited number of Class A Non-Voting Shares, of which 2,246,824 are outstanding; and an unlimited number of Class B Non-Voting Shares, of which 892,836 are outstanding.

Risk and Uncertainties

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

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

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

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

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

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

Additional Information

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