



## **Builders Capital Mortgage Corp.**

Management's Discussion and Analysis  
Year Ended December 31, 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 April 22, 2025. It should be read in conjunction with the company's audited consolidated financial statements and accompanying notes for the year ended December 31, 2024, available on SEDAR at [www.sedar.com](http://www.sedar.com) and on our website at [www.builderscapital.ca](http://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 31<sup>st</sup> 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 and Nova Scotia.

## **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.

## Fiscal Year Summary

### Performance Highlights

- Consistent with our targeted distribution, we paid dividends of \$0.80 per share to our Class A public shareholders in 2024. This represents an 8% annual return on the original \$10.00 issue price for the eleventh consecutive year since inception.
- Subsequent to the year-end, we distributed \$0.40 per share to our Class B shareholders based on 2024 earnings. This provided an annualized 16% return on the original \$10.00 share issue price.
- Continued strong demand for construction financing, coupled with elevated interest rates led to record setting gross annual revenue of \$5.2 million in 2024, an increase of 10.9% over 2023
- The mortgage portfolio grew by **32% year-over-year**, increasing to **\$44.23 million** reflecting strong demand for construction financing and the successful launch of our Participating Bond offering. This strategic capital increase has also contributed to improved revenue and turnover.
- We continue to adopt a conservative lending approach, adjusting loan loss provisions in response to softening market conditions in British Columbia and increasing uncertainty due to factors such as trade tariffs and rising construction costs.
- The company's mortgage portfolio turnover rate remained strong at approximately 8.75 months, slightly exceeding the target of nine months, indicating efficient capital deployment.
- Consistent with our strategic goals, we have continued to shift a greater portion of our loans to Alberta. Throughout the year, the percentage of loans in Alberta increased from 45% to 68%. This trend is driven by continuing affordability constraints in British Columbia.
- We achieved an approximate weighted average loan-to-value ratio of 76.44% on our mortgage portfolio, slightly missing our 75% target level.

### **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.
- On top of maintaining a healthy weighted average loan-to-value ratio in our portfolio, we see opportunity in our market sector for growth to service an under appreciated market segment. Net in migration to Alberta is driving rents higher thereby stimulating demand for housing overall.

## Financial Overview

	Year ended December 31, 2024 \$	Year ended December 31, 2023 \$	Year ended December 31, 2022 \$
Revenues	5,189,132	4,675,142	3,758,973
Total comprehensive earnings	3,278,253	3,293,458	2,708,179
Net mortgages receivable, end of period	42,842,191	32,697,763	34,134,123
Total assets	43,344,254	33,354,459	35,720,048
Shareholders' equity	29,211,225	29,376,569	29,269,826
Basic and Diluted Earnings per share	1.04	1.04	0.92
Cash dividends declared	3,257,997	3,154,631	2,632,467
Cash dividends declared per Class A share	0.80	0.80	0.80
Cash dividends declared per Class B share	1.60	1.48	1.07

## Investment Portfolio

At December 31, 2024

Property Type	Mortgage Portfolio (No.)	Outstanding Balance (\$)	Total Committed Mortgage Principal (\$)	%
Single family – Detached	24	19,705,003	33,002,500	45%
Single family – Attached	26	24,522,489	40,640,088	55%
<b>Total:</b>	<b>50</b>	<b>44,227,492</b>	<b>73,642,588</b>	<b>100%</b>
<b>Geographic Location of Property</b>				
Calgary and Area	22	22,237,199	35,982,500	50%
Edmonton and Area	8	3,190,817	8,095,000	7%
Other Alberta	9	4,972,989	10,285,000	11%
British Columbia	11	13,826,487	19,280,088	32%
<b>Total:</b>	<b>50</b>	<b>44,227,492</b>	<b>73,642,588</b>	<b>100%</b>
<b>Interest Rate (excluding fees)</b>				
Less than 11%	2	905,036	990,000	2%
11%-11.99%	1	598,624	1,600,000	1%
12%-12.99%	47	42,723,832	71,052,588	97%
<b>Total:</b>	<b>50</b>	<b>44,227,492</b>	<b>73,642,588</b>	<b>100%</b>
<b>Original Funding Date *</b>				
Calendar 2024	35	21,860,419	41,967,500	49%
Calendar 2023	4	3,407,276	4,320,000	8%
Calendar 2022	5	9,412,200	12,930,000	21%
Calendar 2021 or earlier	6	9,547,597	14,425,088	22%
<b>Total:</b>	<b>50</b>	<b>44,227,492</b>	<b>73,642,588</b>	<b>100%</b>

\*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

Tariff and trade uncertainty have created a cautious, wait and see approach for financial decision-making at both the corporate and personal levels. Our builder clients report a drop in foot traffic and property showings. We anticipate this will translate into a softer resale market going forward – characterized by slower capital turnover and increased risk for delinquency. In response, we are being highly conservative in our current underwriting and attempting to reduce loan-to-value exposure on any new loan originations.

Construction costs continue to rise with specific noted increases in sub-trade labor rates. At present, there is a lack of clarity regarding the extent to which the new tariff structure will impact unit costs for materials, primarily due to significant confusion surrounding which items are subject to tariffs and which are exempt. Under this trend of rising costs in certain areas, the inventory of available lots has increased which may translate into lower land costs going forward. The significant unknown at April 2025 is how the end consumer will react to the uncertainty. If reduced consumption leads to lower inflation, giving the Bank of Canada the option to reduce rates, we may see a counter trend in house demand. Alberta still maintains 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. We continue to monitor our markets carefully and are refocusing our loan portfolio on more affordable products in jurisdictions that continue to support development.

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.

At year end we had 3 loans, all located in British Columbia, that were in the enforcement process. Two of the loans resulted in a liquidation of the underlying security and a combined write off of \$59,315 subsequent to the year end and the final loan's property was turned over by the courts to Builders Capital GP. This property is a vacant lot in Kelowna, British Columbia which is currently marketed for sale with a listing price of \$139,900.

## Operating Results for the Three and Twelve Months Ended December 31, 2024

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 fourth quarter of 2024, our total revenues increased by 26.07%, while total comprehensive income declined by 0.3%. The primary reason the increase in revenues did not lead to a corresponding rise in total comprehensive income, is that profits generated during the period are paid out to shareholders and bondholders on a pro rata basis. Dividends paid to shareholders do not affect the Statement of Comprehensive Income, but the bond interest expense does. The bond interest expense in the quarter amounted to \$239,013. Additionally, management made a strategic decision to increase loan loss provisions throughout the year in response to softening market conditions in British Columbia. These conditions have affected both home sales prices and the time required to sell properties in the region. Furthermore, increasing the loan loss provisions help to mitigate uncertainty around the quantum and applicability of tariffs from the trade war with the USA and potential impact on construction costs and profit margins for our builder clients. This adjustment reflects our commitment to maintaining a conservative approach in anticipation of potential losses in the coming 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 quarters.

The loan loss provision in the quarter was \$249,115 (15.7% of revenues) compared to \$170,000 (13.5% of revenues) in the same period last year. For 2024, our provision for mortgage losses increased by 119.12% to \$749,115 (15.69% of revenues) compared to 2023 - \$341,868 (14.44% of revenues). Although the year-over-year increase appears significant, it reflects the 32% growth in our mortgage portfolio, the recovery of write-offs incurred in the year and our conservative approach for potential losses in the future.

For the three months ended December 31, 2024, cash advances and invoiced interest increased to \$15.7 million compared to \$9.1 million in 2023. This represented 36% of net investible capital (shareholders' equity and net bond capital) as we continued to turnover our mortgage portfolio at approximately 8.75 months, which is slightly less than our targeted rate of every nine months. Twelve-month cash advances and invoiced interest of \$47.6 million increased significantly compared to \$39.0 million in 2023, representing 132% of weighted average net investible capital for the year. The increase in cash advances and invoiced interest can be attributed to the increase in the mortgage portfolio and an increased usage of the borrowing facility with CWB.

Fourth quarter mortgage repayments of \$15.01 million were 27.7% higher than the \$11.76 million received in the same period in the year prior. The twelve-month repayments of \$37.91 million (\$34.83 million – 2023) created total turnover (calculated by averaging total loan repayments and total loan advances) of 139.12% of our net investible capital. This was slightly more than the 135% required to meet our goal of turning over our capital approximately every nine months.

The operating line of credit, which is used primarily as a cash flow tool, was utilized in 2024 with an average drawn balance of 5.1 million.

At the end of the year, the total value of our mortgage portfolio, before considering our \$1.38 million allowance for mortgage losses was \$44.23 million. This was a 21% increase compared to Q3 2024 and a significant 32% increase year-over-year. At December 31, 2023, our loan portfolio comprised 50 mortgages with an average outstanding balance of \$0.84 million compared to 28 mortgages averaging \$1.15 million as at December 31, 2023.

Earnings per share in 2024 of \$1.04 remained consistent with 2023. This enabled us to comfortably maintain our \$0.80 annual distribution on the Class A shares and to increase the annual distribution on the Class B shares from \$1.48 in 2023 to \$1.60 in 2024.

## **Revenue**

For the three months ended December 31, 2024, we achieved our highest quarterly revenue in history with total fourth quarter revenue growing 26.1% to \$1.59 million, from \$1.26 million in 2023. This included quarterly interest revenues of \$1.44 million up 25.0% as compared to \$1.16 million in 2023 and quarterly lender fee revenues of \$143,000, up 38.4% compared to 2023.

For the year ended December 31, 2024, total revenues grew 10.9% to a record \$5.19 million, from \$4.7 million in 2023, with interest of \$4.68 million increasing by 10.9% and fee revenue of \$513,000 up 11.0%.

For the fourth quarter, our gross revenue results represented 5.44% of shareholders' equity at quarter-end, equating to an annualized gross revenue of 21.57% of equity. This performance marks our highest sales-to-equity ratio in history. While this strong performance would typically translate into higher distributable income for shareholders, we recognize the importance of assessing net returns moving forward, particularly with the inclusion of bondholders in our capital structure. The impact of bond interest expense on net income necessitates a shift in focus towards reporting the net annualized return on shareholders' equity. With that in mind, we are pleased to report that our net annualized return on shareholders' equity is 11%. When considering our bondholders and net invested capital in the quarter, our annualized return on net invested capital is 8.94%, and our gross annualized return on net invested capital is 17.51%. These metrics offer a more accurate and comprehensive view of our financial performance, accounting for the effect of interest expenses on returns and providing clearer insight into shareholder and bondholder value.

Our strong Q4 and annual revenue results reflect a combination of fewer unproductive assets held for sale, full utilization of all our equity capital, extra capital injected from the bond offering, and higher turnover rates. The weighted average interest rate of 12.77% on our loans remained fairly stable in the fourth quarter, compared to 12.94% a year earlier and 12.74% three months prior at the end of September. As mortgages are renewed and new ones are issued, we expect this average to continue to exceed 12% in 2025.

Lender fees are tied to the negotiation of new mortgages, generally at 1% of the approved loan amount and are charged for an annual term to borrowers when new loans are made, or existing loans are renewed. Lender fees are maximized when turnover in the portfolio is highest. Lender fees earned in 2024

exceeded management fees paid by a healthy margin of 47%, consistent with our goal of maintaining lender fee revenues at amounts exceeding management fee expense.

### **Expenses**

Operating expenses, excluding funds set aside to provide for loan losses and interest expense, were \$147,000 in the fourth quarter, an increase of 27.0% from \$115,000 in the same period last year. For the twelve months ended December 31, 2024, operating expenses were \$471,000 as compared to \$449,000 in the twelve months of 2023, an increase of 4.9%. A higher management fee expense, primarily related to the injection of bond capital accounts for \$16,000 of this \$22,000 increase, while the remainder is the result of bank fees charged on increasing the limit on our line of credit and is offset by reduced director and other miscellaneous legal fees. As a percentage of revenues, our fourth quarter operating expenses remained tightly managed at 9.24%, as compared to 9.16% of revenues in the same period last year. Our goal is to keep operating expenses below 10% of revenues. This goal was achieved with annual operating expenses totaling 9.07% of revenues for 2024 compared to 9.60% of revenues in 2023.

Our fourth quarter 2024 provision for mortgage losses increased by 46.54% to \$249,115, from \$170,000 in 2023. Year-to-date, our provision of \$749,115 was 119% more than the provision required in the twelve months of 2023. The Q4 and full twelve months 2024 provisions represent 15.7% and 14.4% of revenues, respectively, both of which are lower than our historical average of 16.12% of revenues. At year end we had 3 loans, all located in British Columbia, that were in the enforcement process. Two of the loans resulted in a liquidation of the underlying security and a combined write off of \$59,315 subsequent to the year end and the final loan's property was turned over by the courts to Builders Capital GP. This property is a vacant lot in Kelowna, British Columbia which is currently marketed for sale with a listing price of \$139,900.

Our interest expense has decreased recently in relation to our borrowing facility with CWB as bank interest rates have decreased. Our fourth quarter line of credit interest expense was \$142,000 in 2024, as compared to \$161,000 in 2023, while annual interest expense decreased to \$452,000 from \$591,000.

We primarily utilize our line of credit as a cash flow tool allowing us to keep our own capital as fully employed as possible while still meeting the peak demands of our borrowers. In general, the summer construction season results in the highest demand for construction draws. At the end of the fourth quarter, our line of credit balance stood at \$5.9 million, as compared to \$3.3 million at December 31, 2023.

Starting in October 2024, we began incurring bond interest expense. Total bond interest expense for the quarter and year ended December 31, 2024 was \$239,000. This bond interest expense is directly related to the net distributable income for the quarter. Income is allocated to bondholders and shareholders on a prorated basis, based on the weighted average net invested capital during the quarter. Furthermore, bondholders will also participate in actual losses incurred in the mortgage portfolio on a prorated basis.

### **Total Comprehensive Income**

Total comprehensive income was \$811,000 in the fourth quarter, a slight decrease of 0.3% from \$814,000 in the same period of 2023. For the full-year period, comprehensive income remained stable at \$3.28 million (2023 – \$3.29 million) and earnings per share also remained stable at \$1.04 (2023 - \$1.04). Fourth

quarter earnings per share again remained consistent in 2024 compared to 2023 at \$0.26. The year-over-year increase is primarily driven by increased interest revenue and management fees due to an increased turnover in our loan portfolio and the injection of capital from our bond offering.

One 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 the earnings attributable to the capital that Class B shareholders have invested in the company go first to satisfy the Class A dividend. Earnings in the year were \$1.04 per share overall and \$1.45 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 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 as possible in quality mortgages while ensuring that sufficient cash is available to fund construction draw requests as they are received. At December 31, 2024, our net funded mortgages totaled \$44.2 million (December 31, 2023 – \$32.7 million), comprising 98.8% of our total assets of \$43.4 million (December 31, 2023 – \$33.4 million) and 147% of our shareholders' equity.

The remaining 1.2% of our total assets, or \$491,000, remains in 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 year-end we were holding one such property, consisting of a vacant building lot in Cochrane, Alberta, on which we foreclosed in Q1 2022. While we anticipated a sale to the interested purchaser in Q3 2024, 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.

Current liabilities at year-end, excluding our line of credit and bond liabilities, totaled \$707,000 (December 31, 2023 – \$678,000), the largest component of which was dividends relating to the fiscal quarter paid on January 31, 2025. The remaining 36.5% of our liabilities consist of our trade payables and deferred lender fees. Throughout the quarter we were in compliance with all bank covenants relating to the line of credit and bond, and we had no off-balance sheet arrangements.

Our line of credit balance stood at \$5.96 million on December 31, 2024 (December 31, 2023 - \$3.30 million). 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.

Non-current liabilities for bonds was \$7.22 million on December 31, 2024. The bonds have a maturity date of October 1, 2029, with the principle repayable at maturity unless the company opts to redeem early under the terms of the bond issue. Bonds redeemed early at the option of the holder are subject to a 5% holdback, held as a surety bond covering mortgage defaults for 2 years or the original maturity date, whichever is shorter. The redemption feature is subject to certain restrictions which give Management the ability to effectively defer redemption to maturity. As of April 22, 2025 no bond redemption requests have been received.

Bonds interest payable stood at \$241,000 on December 31, 2024 (December 31, 2023 - \$nil) and was paid out or reinvested on February 28, 2025.

Shareholders' Equity consists of net share capital and retained earnings. In 2024 there were no new issuances of Class A Non-Voting Shares or Class B Non-Voting Shares. In the fourth quarter, based on redemption requests received in September of 2024, we redeemed 20,000 Class B Non-Voting shares for \$185,600. The redemption amount paid was less than the original share issue price, resulting in a balance of \$14,400 being added to retained earnings.

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 December 31, 2024 \$	Quarter ended September 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 \$
Revenues	1,588,013	1,257,830	1,163,935	1,179,354	1,259,606	1,201,781	1,128,856	1,084,900	1,061,004
Total comprehensive earnings	810,790	820,864	830,165	816,315	813,450	817,368	833,340	829,315	647,964
Total assets	43,344,254	37,054,105	32,901,479	31,436,269	33,354,459	37,189,078	36,746,415	36,010,916	35,720,048
Assets held for sale	491,147	1,610,991	1,560,329	1,512,086	651,288	651,288	649,768	765,695	1,187,064
Shareholders' equity	29,211,225	29,400,534	29,394,171	29,378,505	29,376,569	29,503,926	29,503,919	29,482,917	29,269,826
Earnings per share	0.26	0.26	0.266	0.26	0.26	0.26	0.26	0.26	0.22
Cash dividends declared	814,499	814,499	814,499	814,499	814,499	817,358	812,339	710,434	706,804
Cash dividends declared per Class A share	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.1972	0.2016
Cash dividends declared per Class B share	0.40	0.40	0.40	0.40	0.40	0.40	0.3945	0.2898	0.2773

## 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 December 19, 2024, based on income for the fourth quarter of 2024, our Board of Directors declared a dividend of \$0.20 per Class A Non-Voting Share to shareholders of record on December 31, 2024. This distribution was paid on January 31, 2025 and is recorded as payable in the accompanying consolidated financial statements. The dividend amount was calculated to provide an annualized 8% return on the \$10.00 initial Class A Non-Voting Share price.

After the quarter-end on January 28, 2025, again based on income for the fourth 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 January 31, 2025. This dividend is not recorded in these consolidated financial statements as it was declared after the year-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 every nine months. 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 several 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 \$73.6 million, which exceed the current amounts funded by \$29.4 million. We anticipate funding these commitments through the repayment of existing mortgages and further anticipated capital injections from bond sales. 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 \$12.0 million line of credit of which \$6.1 million is undrawn, 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 director 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 are prepared to increase our issued capital and regularly make solicitations for investments in Class A Common non-voting shares. Should such shares be issued, the proceeds will be used for general cash flow and for expansion of our mortgage portfolio. Builders Capital is financed, and will continue to be financed, primarily by the issuance of common shares.

According to our share terms, Class A Non-voting shareholders have an annual right to redeem their shares on October 31st each year at 95% of Net Asset Value. Payment for the redemptions is to be made on November 30th each year. We received no such requests for redemption in 2024 (2023 - two requests totaling to 14,300 shares redeemed)

### **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 and bond capital of the company. Management fees amounted to \$97,000 for the quarter (Q4 2023 - \$79,000) and \$331,000 for the year (2023 - \$315,000).

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 fourth quarter of 2024, fees collected on behalf of the manager totaled \$411,000 (Q4 2023 - \$282,000). For the year ended December 31, 2024, fees collected were \$1.20 million compared to \$1.128 million 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 fourth quarter of 2024, no mortgages were sold and no mortgages were purchased. During the 2024 year, nine mortgages were sold totaling \$6.85 million and three mortgages were purchased totaling \$1.97 million. In 2023, eight mortgages were sold totaling \$5.24 million and one mortgage purchased for \$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 monetary policy decisions are becoming increasingly complex. On one hand, counter-tariffs are likely to contribute to elevated inflation, necessitating higher interest rates. On the other hand, slowing economic growth and weakening employment conditions may prompt calls for rate reductions. These opposing pressures heighten the risk of a stagflationary environment.

Regional disparities will continue under this environment, and based on our assessment, we anticipate that Alberta will continue to outperform British Columbia in terms of housing affordability. Market sentiment remains positive in Alberta, while continuing to weaken in the more expensive markets of British Columbia, though regions outside the Lower Mainland remain stable. Continued in-migration to Alberta from other provinces contributed to a tight rental vacancy rate of 2.1%, stimulating an increase in applications for rental unit construction. It should be noted that Alberta continues to have a high unemployment rate of 6.7%, which should provide spare capacity in human capital thereby reducing the potential for wage-driven inflation in the near term.

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 year fully invested, with demand for mortgages exceeding the cash available to fund them. We see the launch of our Participating Bond offering as a strategic opportunity for market share growth. The first tranche of bond sales successfully closed in October 2024, followed by the successful closure of second tranche January 2025.

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 allow 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 76.44%, 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 of our revenues. These financial instruments expose us to risks which are managed as follows:

### **Credit Risk**

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

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

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

We utilize an internal risk rating system to categorize each mortgage in the portfolio on the basis of the perceived risk of a potential credit loss. The risk assessment of each mortgage assigned at the underwriting stage is subsequently revised based on changes in market conditions and on factors specific to the mortgage and the borrower. One of the main factors in considering whether the credit

risk of a mortgage has increased significantly is the estimated loan-to-value ratio. Loan-to-value ratios can change due to declining property values, as well as other factors such as the inability of the borrower to continue to inject equity into the project. Mortgages are considered to be impaired when the expectation is that full collection of principal and interest is no longer likely.

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

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, manager fees and distributions to share and bond holders. 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 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.

#### **Classification of bonds as liabilities under IAS 32**

Under IFRS, IAS 32 and IAS 37 provide guidance as to whether the bonds issued should be classified as a financial liability or equity instrument notwithstanding a financial liability is defined as a present obligation of the company arising from past events, the settlement of which is expected to result in an outflow from the company of resources embodying economic benefits. In order for the bonds to be classified as an equity instrument they must be either considered to have the characteristics of a puttable instrument with such instrument subordinate to all other classes of financial instrument or include a contractual obligation for the company to deliver to another entity a pro rata share of its net assets only on liquidation. Additionally, for an instrument to be classified as an equity instrument, in addition to the instrument having all the above features, the issuer must have no other financial instrument or contract that has total cash flows based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the company (excluding any effects of such instrument or contract.) The bonds do not meet all the necessary criteria to be classified as puttable instruments or equity; therefore, it is appropriate to classify them as long-term liabilities as repayments are expected to occur in more than 1 year.

## **Responsibility of Management and the Board of Directors**

Management is responsible for the information disclosed in this MD&A and has in place the appropriate information systems, procedures and controls to ensure that the information used internally by management and disclosed externally is materially complete and reliable. In addition, our Board of Directors and Audit Committee provide an oversight role with respect to our public and financial disclosures. Both have reviewed and approved this MD&A and the accompanying condensed consolidated interim financial statements for the year ended December 31, 2024.

## **Outstanding Share Data**

The company's authorized share capital as at April XX, 2025 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. Second, 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.

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.

There is a risk that rising interest rates on secured bond offerings could lead to bond redemption requests exceeding the repayments received from clients on their mortgage payouts. This may put liquidity at risk if the company is required to meet all redemption requests. While it is the intention of Management to honor redemption requests, the company reserves the right to limit redemptions if it believes that fulfilling all such requests is not in the best interest of the company.

Other risks and uncertainties exist for our business that are typical for business in general and for lenders in particular including the following:

### **Changes in Land Values**

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

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

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

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

The portfolio is primarily invested in construction and development mortgages. Given the concentration of the company's exposure to the construction mortgage lending sector, the company will be more susceptible to adverse economic or regulatory occurrences affecting real property than an investment fund that holds a diversified portfolio of mortgages and that is not concentrated in a single sector. A lack of diversification may result in the company being exposed to economic downturns or other events that have an adverse and disproportionate effect on particular types of security, industry or geography. Investments in mortgages are relatively illiquid. Such illiquidity will tend to limit the company's ability to vary its portfolio promptly in response to changing economic or investment conditions.

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

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

Construction Mortgages generally require more active and ongoing management oversight than that required for non- construction Mortgages that are secured by fully developed properties. Properties that are not fully developed are also generally less liquid than fully developed properties. Accordingly, construction Mortgages generally involve a higher degree of risk for a MIC lender than non-construction Mortgages.

### **Subordinated Mortgages**

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

### **Reliance on Borrowers**

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

### **Competition**

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

### **Availability of Investments**

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

There can be no assurance that the yields on the mortgages comprising the Initial mortgage portfolio will be representative of yields that can be obtained on future investments in mortgages made by the company.

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

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

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

### **Foreclosure and Related Costs**

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

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

### **Litigation Risks**

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

### **Reliance on the Manager**

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

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

### **Environmental Matters**

The company may in the future take possession, through enforcement proceedings, of properties that secured defaulted mortgage loans to recover its investment in such mortgage loans. Prior to taking possession of properties which secure a mortgage investment, the manager will assess the potential environmental liability associated with such investment and determine whether it is significant, having regard to the value of the property. If the manager subsequently determines to take possession of the property, the company could be subject to environmental liabilities in connection with such real property, which could exceed the value of the property. As part of the due diligence performed in respect of the company's proposed mortgage investments, the manager may obtain a Phase I Environmental Audit on the underlying real property provided as security for a mortgage, when it has determined that a Phase I Environmental Audit is appropriate. However, there can be no assurance that any such Phase I Environmental Audit will reveal any or all existing or potential environmental liabilities necessary to effectively insulate the company from potential liability for a materially adverse environmental condition

at any mortgaged property. If hazardous substances are discovered on a property of which the company has taken possession, the company may be required to remove such substances and clean up the property. The Company may also be liable to tenants and other users of neighboring properties and may find it difficult or not possible to resell the property prior to or following such remediation.

## **Corporate Governance**

### **Board of Directors**

The Board is responsible for oversight of the company's business and affairs. The Board discharges its responsibilities directly and through the Audit Committee. The Audit Committee operates under a mandate that will be reviewed, and if necessary, updated annually. In fulfilling its responsibilities, the Board delegates day-to-day authority to the manager, while reserving the right to review decisions of the manager and exercise final judgment on any matter. To date, the Board has not adopted a formal mandate, although the company's investment policies require that mortgages must meet certain criteria, including the Asset Allocation Model. The manager will review with the Board on a periodic basis its strategic plan for the company and deliver to the Board ongoing reports on the status of the company's business and operations. In addition, in accordance with applicable legal requirements, all matters of a material nature will be presented to the Board for approval.

The following table sets forth the name, municipality of residence, position as it relates to the Corporation, and principal occupation of each of the directors of the company.

<b>Name and Municipality of Principal Residence</b>	<b>Office Held</b>	<b>Date appointed as Director or Officer<sup>(3)</sup></b>	<b>Principal Occupation</b>
Sandy L. Loutitt <sup>(4)</sup> Calgary, Alberta	Director, President and CEO of the Company  Director and CEO of the Manager	March 28, 2013  January 27, 2011	President, CEO and director of the Company since 2013; Director and CEO of the Manager since January 2011.
Brent J. Walter <sup>(2)</sup> Panama	Director of the Corporation	March 28, 2013	Independent Business Consultant.
David E.T. Pinkman <sup>(1)(2)</sup> Calgary, Alberta	Director of the Corporation	March 28, 2013	Director of Leeward Capital Corp., an Alberta reporting issuer, since 2023; CEO and director of Asia Green Biotechnology Corp, (“ASIA”), a CSE listed company since 2018.
John A. Drummond <sup>(1)(2)</sup> Calgary, Alberta	Director of the Corporation	March 28, 2013	President of Drummond Financial Services Ltd. since January 2006.
Victor P. Harwardt <sup>(1)(2)</sup> Vancouver, British Columbia	Director of the Corporation	March 11, 2014	Independent Business Consultant.

Notes:

- (1) Member of the Audit Committee. Mr. John Drummond is the Chair.
- (2) Independent director of the board of directors of the Corporation.
- (3) Each person elected as a director of the Corporation or the Manager, as applicable, will hold office until the close of the next annual meeting of the shareholders or until his successor is duly elected or appointed or his office is earlier vacated in accordance with the ABCA and the articles and by-laws of the Corporation or Manager as applicable.
- (4) Chair of the Board of Directors.

## Biographies

The following are biographies of the directors of the company.

*Sandy L. Loutitt* – Mr. Sandy Loutitt is the president and chief executive officer of the Company and the Manager. He is a licensed mortgage broker and has been actively involved in construction financing for over 20 years. Mr. Loutitt is an active member of the Alberta Mortgage Brokers Association. He was also the president, chief executive officer and director of Red Rock Energy Inc. (TSX-V) from 2005 to 2017. He received a Bachelor of Arts degree in Economics from the University of British Columbia in 1996. His previous experience includes ownership and operation of a design/build construction company for 15 years. Mr. Loutitt is 56 years old.

*Brent J. Walter* – Mr. Brent Walter is an independent business consultant since 2017. Prior thereto, he was a partner with the firm ProVenture Law LLP in Calgary, Alberta, and practiced primarily in the areas of securities and corporate/commercial law. Mr. Walter has previously served as a director, officer committee member (audit, compensation) of a number of public and private corporations, including Anglo Potash Ltd. (TSX-V) and Red Rock (TSX-V). Mr. Walter received a J.D. degree from the University of Saskatchewan in 1990. Mr. Brent Walter is a member of the Law Societies of Alberta (inactive) and Saskatchewan (inactive). Mr. Walter is 59 years old.

*John A. Drummond* – Mr. John Drummond is the President of Drummond Financial Services Ltd., a private company engaged in mortgage lending for selected market areas. Mr. Drummond was called to the Bar of Alberta in 1977 and retired as Counsel from Gowlings WLG in 2005. His primary area of practice was Creditors' Rights and he served as Chair of the Foreclosure Subsection of the Canadian Bar Association in Calgary for many years. He is a graduate of McGill University and the University of Windsor. Enjoying the benefit of academic study in Legal Accounting and serving as Vice President Finance and Fundraising for the Constituency Association an Alberta cabinet minister, Mr. Drummond is Chair of the Audit Committee of the Company and serves on the Board of Directors. Additionally, Mr. Drummond is active in the business community with a large portfolio of investments focused on real estate and mortgages. Mr. Drummond is 73 years old.

*David E.T. Pinkman* – Mr. Pinkman is a director of Leeward Capital Corp., an Alberta reporting issuer, since February 2023, a director and the CEO of Asia Green Biotechnology Corp., a CSE listed company, since 2018. Prior thereto, he was CFO of International Softrock Oil Company Ltd. (TSX-V) from 2012 to 2019 and Vice President and Corporate Secretary of Red Rock Energy Inc. (TSX-V) from 2005 to 2017 and served as Interim CFO of Red Rock Energy Inc. from March 2016 to July 2016. From 1991 to 2000, Mr. Pinkman was also a partner practicing primarily in the fields of corporate and securities law with the firm of Pinkman, McArdle Barristers and Solicitors. He received a Bachelor of Arts degree from the University of Calgary in 1980, an LL.B. degree from the University of British Columbia in 1984, and became a member of the Law Society of Alberta in 1985. Mr. Pinkman is 67 years old.

*Victor P. Harwardt* – Mr. Harwardt has been an independent business consultant since 2024. Prior thereto, he was Associate Counsel, Business Law Group at Harper Grey LLP from 2019 to 2024 and Partner at Salley Bowes Harwardt LC from 1995 to 2019. He also served as a director and/or officer of various public companies during his legal career. Mr. Harwardt received an LL.B degree from the University of British Columbia in 1982 and became a member of the Law Society of British Columbia in 1984. Mr. Harwardt is 68 years old.

## **Corporate Strategy**

The manager is responsible for directing the affairs of the company's long-term strategy, and the role of the Board is to review, question, validate and propose changes to that strategy, in order to arrive at an approved strategy to be implemented. The Board will review the company's long-term strategy on an ongoing basis.

## **Composition of the Board**

The Board is comprised of five directors. The Board is of the view that its current size permits a diversity of experience and knowledge and is the appropriate size to foster and promote effective participation, decision making and oversight.

The Board is comprised of a majority of independent directors. It has not established fixed term limits for directors as it is of the view that such a policy would have the effect of forcing directors to resign from the Board who have developed, over a period of service, increased insight into the company's business and who, therefore, can be expected to provide an increasing contribution to the Board.

## **Director Independence**

Of the five members of the Board, four are independent under NI 58-101, being Brent J. Walter, David E. T. Pinkman, John Drummond and Victor Harwardt. For the purposes of NI 58-101, a director is independent if he has no direct or indirect material relationship with the company. A "material relationship" is defined as a relationship which could, in the view of the Board, be reasonably expected to interfere with the exercise of such member's independent judgment, and certain relationships are deemed to be material. Consequently, a majority of the members of the Board are independent.

The Board has determined that Sandy L. Loutitt, Chair of the Board of Directors, is not independent by virtue of his position as President and Chief Executive Officer of the company and director and Chief Executive Officer of the manager and his ownership of securities of the manager.

The Board has established procedures to enable it to function independently of management and to facilitate open and candid discussion among the independent directors. The Board intends to hold in camera director meetings without management following every scheduled Board meeting as well as following special Board meetings as deemed necessary.

## **Orientation and Continuing Education**

New directors will be given the opportunity to meet with senior management and other directors to familiarize themselves with the company's business and activities and their responsibilities as directors. Directors will be provided with the company's recent regulatory filings, such as the company's annual information form and proxy material, the reporting requirements of the directors, information with respect to the Audit Committee and its written charter and certain policies and procedures of the Board.

On a continuing basis, management will provide periodic presentations to the Board to ensure that the company's directors are fully informed with respect to the company's business, and directors are free to contact the Chief Executive Officer and the Chief Financial Officer at any time to discuss any aspect of the company's business.

### **Nomination of Directors**

The Board does not currently have a nominating committee. The manager and members of the Board may recommend suitable individuals for nomination as directors. To ensure objectivity in the nomination process, the independent directors will review and approve any director nominations proposed by the manager.

The Board and the manager are responsible for determining the appropriate criteria for selecting and assessing potential directors and selects candidates for nomination to the Board accordingly. At such time as it is determined that a new director is desirable, the Board and the manager will engage in various activities to ensure an effective process for selecting candidates for nomination, including developing criteria for the selection of a new director, developing and maintaining a director skills matrix (identifying the desired competencies, independence, expertise, skills, background and personal qualities that are being sought in potential candidates), identifying and recommending individuals qualified and suitable to become directors, the Chair of the Board and/or the Chief Executive Officer will meet with potential new candidates prior to nomination to discuss the time commitments and performance expectations of the position and formal approval will be sought and obtained from the Board in respect of candidates for nomination.

### **Compensation**

The Board does not currently have a compensation committee. As a result of the company's arrangements with the manager, the company does not employ any individuals (and has no employment contracts with any individuals), and thus the Board has determined that there is no requirement for a separate compensation committee. The compensation of the manager is determined based on the provisions of the Management Services Agreement, which can only be amended with the approval of a majority of the Board.

The Board, as a whole, is responsible for implementing a process for reviewing the adequacy and form of compensation of directors of the company and ensuring that compensation realistically reflects the responsibilities and risk involved in being a director of the company. The Board requires that remuneration be at a level that will attract and motivate competent members. Compensation is also based on the compensation of directors of similarly situated issuers. In order to ensure an objective process for determining compensation, the Board, through the manager, reviews compensation paid to directors of various mortgage investment corporations and publicly traded companies.

### **Assessments**

The Board is responsible for implementing a process for assessing the effectiveness of the Board as a whole, the Audit Committee, and the contribution of individual directors. In carrying out its responsibilities, the Board is required to periodically review the mandate of the Audit Committee and will make an assessment of the effectiveness of the directors. The Board has determined that the number of directors of the company is appropriate for the Board to function at this time and that the Board is properly constituted to reflect the investment of all Shareholders in the Corporation. On an ongoing basis, the Board will review the size and composition of the Board.

## **Audit Committee**

### **Audit Committee Mandate**

The Audit Committee is responsible for overseeing, among other matters, the work of the company's external auditors, the integrity of the company's financial statements and financial reporting process, the qualifications and independence of the external auditors of the company and the company's compliance with legal and regulatory requirements. The Audit Committee reviews and recommends to the Board for approval, the company's annual and interim financial statements and related management's discussion and analysis, earnings press releases, selected disclosure documents, including information pertaining to the Audit Committee contained in the company's annual information form and any other financial statements required by regulatory authorities, before they are released to the public or filed with the appropriate regulators. The Audit Committee shall review and consider the adequacy of its mandate as it deems appropriate and recommend changes to the Board. The performance of the Audit Committee shall be evaluated with reference to this mandate on an annual basis.

In accordance with NI 52-110, the Audit Committee establishes and monitors procedures for the receipt and treatment of complaints received by the company regarding accounting, internal accounting controls or audit matters and the anonymous submission by employees of concerns regarding questionable accounting, auditing or financial matters and review periodically with management these procedures and any significant complaints received on such issues or on any other business practices.

### **Composition of the Audit Committee**

The Audit Committee is comprised of John Drummond (Chair) David E.T. Pinkman, and Victor Harwardt. Each member of the Audit Committee is independent and is financially literate in that each has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the company's financial statements.

See the biographies of Messrs. Pinkman, Drummond and Harwardt under "Corporate Governance – Biographies" for a description of their education and experience that is relevant to the performance of their responsibilities as Audit Committee members.

At no time since the establishment of the company has the Audit Committee relied on the exemptions in Sections 2.4 or Part 8 of National Instrument 52-110 – Audit Committees. At no time since the establishment of the company has a recommendation of the Audit Committee to nominate or compensate an external auditor not been adopted by the Board. The Audit Committee has not yet adopted specific policies and procedures for the engagement of non-audit services.

### **Pre-approval Policies and Procedures**

The Audit Committee will pre-approve all non-audit services to be provided to the company by the external auditors of the company.

### External Audit Service Fees (by Category)

The following table summarizes the fees paid to the company's external auditors for the fiscal years ended December 31, 2024 and December 31, 2023.

CATEGORY	2024 (CAD)	2023 (CAD)
Audit Fees	\$46,064	\$41,931
Tax Fees	3,371	3,090
<b>Total:</b>	<b>\$49,434</b>	<b>\$45,021</b>

**Tax Fees:** These fees represent the amounts paid to the company's external auditors for tax compliance services, which primarily include the preparation and filing of the company's corporate income tax returns.

### Additional Information

Additional information about Builders Capital is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on our website at [www.builderscapital.com](http://www.builderscapital.com).