

Builders Capital Mortgage Corp.
Condensed Consolidated Interim Financial Statements
For the Three Months ended June 30, 2022 and 2021

Notice of No Auditor Review of Interim Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited condensed consolidated interim financial statements as at, and for the three months ended, June 30, 2022 and 2021.

Builders Capital Mortgage Corp.

Condensed Consolidated Interim Statements of Financial Position

As at June 30, 2022 and December 31, 2021

	June 30, 2022 (unaudited)	December 31, 2021 (audited)
ASSETS		
Cash	\$ 1,865	\$ 352,263
Accounts receivable	-	3,720
Mortgages receivable (Note 3)	30,803,944	28,405,141
Prepaid expenses	6,023	5,105
Assets held for sale (Note 4)	1,243,197	1,752,075
Total Assets	\$ 32,055,029	\$ 30,518,304
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Line of credit (Note 5)	\$ 4,414,805	\$ 3,019,386
Accounts payable and accrued liabilities	56,293	44,726
Due to related party	176	4,940
Dividends payable (Note 7)	399,573	402,654
Deferred lender fees	152,770	158,819
Total Liabilities	\$ 5,023,617	\$ 3,630,525
Shareholders' Equity		
Share capital	\$ 26,768,236	\$ 26,712,456
Retained earnings	263,176	175,323
	\$ 27,031,412	\$ 26,887,779
Total Liabilities and Shareholders' Equity	\$ 32,055,029	\$ 30,518,304

Approved on behalf of the Board:

(Signed) "John E. Strangway"
Director

(Signed) "Sandy L. Loutitt"
Director

Builders Capital Mortgage Corp.
Condensed Consolidated Interim Statements of Comprehensive Income
For the three and six months ended June 30,
(Unaudited)

	3 months ended June 30, 2022		3 months ended June 30, 2021		6 months ended June 30, 2022		6 months ended June 30, 2021
Revenues							
Interest	\$ 810,482	\$	606,298	\$	1,553,978	\$	1,238,319
Lender Fees	104,447		85,550		205,468		157,678
Total revenues	914,929		691,848		1,759,446		1,395,997
Expenses							
General and administrative	30,118		26,626		57,182		49,264
Interest	57,212		4,600		95,234		7,594
Provision for mortgage losses (Note 3)	60,412		39,993		103,587		82,672
Management fees (Note 9)	72,612		72,553		144,006		144,310
Total expenses	220,354		143,772		400,009		283,840
Total comprehensive income	\$ 694,575	\$	548,076	\$	1,359,437	\$	1,112,157
Earnings per share (Note 6)							
Basic and diluted	\$.24	\$	.19	\$	.47	\$	.38

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

Builders Capital Mortgage Corp.
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
For the six months ended June 30,
(Unaudited)

	Share capital Number	Amount \$	Retained earnings \$	Total \$
Balance at December 31, 2020	2,910,229	26,712,456	104,102	26,816,558
Dividends declared (Note 7)	-	-	(1,064,351)	(1,064,351)
Total comprehensive income for the period	-	-	1,112,157	1,112,157
Balance at June 30, 2021	2,910,229	26,712,456	151,908	26,864,364
Balance at December 31, 2021	2,910,229	26,712,456	175,323	26,887,779
Class A Non-Voting Common shares issued for cash	5,578	55,780	-	55,780
Dividends declared (Note 7)	-	-	(1,271,584)	(1,271,584)
Total comprehensive income for the period	-	-	1,359,437	1,359,437
Balance at June 30, 2022	2,915,807	26,768,236	263,176	27,031,412

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

Builders Capital Mortgage Corp.
Condensed Consolidated Interim Statements of Cash Flows
For the six months ended June 30,
(unaudited)

	2022	2021
Cash flows related to the following activities:		
Operating activities		
Cash receipts of interest and fees from borrowers	\$ 975,744	\$ 1,315,447
Cash receipt of principal payments from borrowers	14,121,704	14,934,501
Cash receipts on sale of assets held for sale, net of selling costs	1,828,592	842,253
Cash receipts on sale of mortgages	1,037,128	-
Cash advanced to borrowers	(17,744,268)	(17,742,868)
Cash advanced to purchase mortgages	(201,790)	-
Cash paid on assets held for sale	(219,911)	(271,696)
Cash paid for operating expenses other than interest	(228,897)	(141,994)
Cash paid for interest	(95,234)	(7,394)
Total cash flows generated from (used in) operating activities	\$ (526,932)	\$ (1,071,751)
Financing activities		
Cash advanced on line of credit	\$ 1,395,419	\$ 1,159,780
Proceeds from issuance of common shares, net of offering costs	55,780	-
Dividends paid (Note 7)	(1,274,665)	(1,068,546)
Total cash flows generated from financing activities	\$ 176,534	\$ 91,234
Net increase (decrease) in cash	\$ (350,398)	\$ (980,517)
Cash, beginning of period	352,263	982,098
Cash, end of period	\$ 1,865	\$ 1,581

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

Builders Capital Mortgage Corp.
Notes to the Condensed Consolidated Interim Financial Statements
For the three months ended June 30, 2022 and 2021
(unaudited)

1. Incorporation and operations

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

The Company became a reporting issuer on October 25, 2013 and the shares of the Company are publicly listed on the TSX Venture Exchange (the "Exchange") under the symbol "BCF". The address of the registered office is 206 – 1414 8th Street SW, Calgary, Alberta T2R 1J6.

2. Basis of preparation

A. Statement of compliance

The condensed consolidated interim financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and in effect at January 1, 2022.

The condensed consolidated interim financial statements of the Company for the three months ended June 30, 2022 were approved by the Board of Directors on August 24, 2022

B. Basis of consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its 99.99% interest in its subsidiary, Builders Capital Limited Partnership. All inter-company balances and transactions are eliminated upon consolidation. Total comprehensive income is attributed to the equity holders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. Subsidiaries are all entities (included structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control transferred to the Company. They are deconsolidated from the date that control ceases.

C. Basis of measurement

These condensed consolidated interim financial statements are prepared on the historical cost basis except for certain financial instruments which are measured at fair value as explained in the accounting policies.

D. Use of estimates and judgments

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:

i) Measurement of expected credit loss

The Company is required to make estimates and assumptions that relate to the expected credit losses. These judgements include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments which would require an increase or decrease in the allowance for credit losses. See Note 3.

ii) Classification of non-voting shares with redemption feature

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

Builders Capital Mortgage Corp.
Notes to the Condensed Consolidated Interim Financial Statements
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2. Basis of preparation (continued from previous page)

iii) Measurement of fair values

The Company's 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. The Company classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in the active market for identical assets or liabilities.

Level 2: Fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (derived from prices).

Level 3: Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The Company reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, the Company 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.

E. Functional and presentation currency

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

3. Mortgages receivable

Mortgages receivable consist of the following:

	June 30, 2022	December 31, 2021
Conventional first mortgages	\$ 28,725,400	\$ 26,060,223
Conventional non-first mortgages	2,363,630	2,607,736
	31,089,030	28,667,959
Allowance for expected credit losses	(285,086)	(262,818)
Total mortgages receivable	\$ 30,803,944	\$ 28,405,141

Mortgages receivable consist of conventional mortgages which are secured by a mortgage charge with aggregate loans to value ratios not exceeding 75% at their initiation. As at June 30, 2022, conventional first mortgages comprised 92% (December 31, 2021 – 91%) and conventional non-first mortgages comprised 8% (December 31, 2021 – 9%) of the total portfolio. Of the total balance of mortgages receivable, 4 mortgages totalling \$4,052,664 were first advanced in 2019 or earlier, 5 mortgages totalling \$5,895,613 were first advanced in 2020, 18 mortgages totalling \$18,078,887 were first advanced in 2021 and the balance of 4 mortgages totalling \$3,061,866 were first advanced in 2022.

All mortgages are located in Alberta, British Columbia or Nova Scotia and are for residential properties.

The mortgages comprising the portfolio carry interest at the weighted average rate of 10.62% (December 31, 2021 – 11.01%) per annum and mature between July 1, 2022 and June 30, 2023. The mortgages are initially entered into for a term of one year. At each maturity date, the mortgages are assessed for renewal and if collection of the mortgage is reasonably assured, the mortgages are renewed for an additional term of one year or less. If collection is not reasonably assured, the mortgage is not renewed and collection procedures are initiated. As at June 30, 2022, the Company had one mortgage receivable that had not been renewed (December 31, 2021 – one mortgage).

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3. Mortgages receivable (continued from previous page)

Principal repayments based on contractual maturity dates are as follows:

	June 30, 2022	December 31, 2021
Year 1	\$ 31,089,030	\$ 28,667,959
Year 2	-	-
	\$ 31,089,030	\$ 28,667,959

Allowance for expected credit losses:

The gross carrying amount of mortgages receivable and expected credit losses ('ECLs') by mortgage type and by stage in the ECL model are as follows:

Gross carrying amount by mortgage type, June 30, 2022:

	Stage 1	Stage 2	Stage 3	Total
Conventional first mortgages	\$ 28,253,485	\$ 471,915	\$ -	\$ 28,725,400
Conventional non-first mortgages	1,826,630	537,000	-	2,363,630
	\$ 30,080,115	\$1,008,915	\$ -	\$ 31,089,030

Gross carrying amount by mortgage type, December 31, 2021:

	Stage 1	Stage 2	Stage 3	Total
Conventional first mortgages	\$ 24,940,309	\$ 1,119,914	\$ -	\$ 26,060,223
Conventional non-first mortgages	2,020,736	587,000	-	2,607,736
	\$ 26,961,045	\$ 1,706,914	\$ -	\$ 28,667,959

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3. Mortgages receivable (continued from previous page)

The balances of, and the changes in, the allowance for ECLs as at, and during the periods ended, June 30, 2022 and June 30, 2021 were as follows:

ECLs by mortgage type and by Stage in the ECL model:

	Stage 1	Stage 2	Stage 3	Total
Balance, January 1, 2022	\$ 247,170	\$ 15,648	\$ -	\$ 262,818
Transfers to (from) Stage 1	(4,210)	-	-	(4,210)
Transfers to (from) Stage 2	-	4,210	-	4,210
Recovery	-	(6,691)	-	(6,691)
Mortgage advances	211,374	116	-	211,490
Mortgage repayments	(143,337)	(458)	-	(143,795)
Write-offs	(35,160)	(3,576)	-	(38,736)

Balance, June 30, 2022	\$ 275,837	\$ 9,249	\$ -	\$ 285,086
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	Stage 1	Stage 2	Stage 3	Total
Balance, January 1, 2021	\$ 152,041	\$ 144,507	\$ 5,013	\$ 301,561
Transfers to (from) Stage 1	4,058	-	-	4,058
Transfers to (from) Stage 2	-	(78,760)	-	(78,760)
Transfers to (from) Stage 3	-	-	74,702	74,702
Net re-measurement	17,625	(9,330)	44,878	53,173
Mortgage advances	158,025	220	1,548	159,793
Mortgage repayments	(125,258)	(26,637)	-	(151,895)
Write-offs	(4,688)	(30,000)	(47,502)	(82,190)

Balance, June 30, 2021	\$ 201,803	\$ -	\$ 78,639	\$ 280,442
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The Company makes estimates of ECLs based on past experience regarding losses, and an ongoing assessment of the market and of individual mortgages. Each mortgage is assessed quarterly for evidence of impairment, and additional allowances are recorded if deemed to be necessary. The allowance is maintained at a level that the Company considers adequate to absorb credit-related losses. The allowance for ECLs was \$285,086 as at June 30, 2022 (December 31, 2021 - \$262,818).

4. Assets held for sale

	June 30, 2022	December 31, 2021
Foreclosed property	\$ 1,243,197	\$ 1,752,075

During the six months ended June 30, 2022, one property (2021 – three properties) was obtained in a foreclosure action and three properties (2021 – two properties) were sold.

At June 30, 2022, the assets held for sale consisted of one vacant building lot in Cochrane, Alberta.

The write-downs required on the foreclosed properties during the six months ended June 30, 2022 totalled \$45,089 (2021 - \$60,000). This amount is recorded as part of the provision for mortgage losses in the condensed consolidated interim statement of comprehensive income in the period in which it was incurred. In total, properties held have been written down by \$45,089 to a carrying amount estimated to be their fair market value.

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5. Line of credit and loan payable

The Company has a loan agreement in place with Canadian Western Bank, which provides for two demand operating overdraft facilities; one of \$5,500,000 and one of \$1,000,000. The agreement also provides the Company with a demand loan in the amount of \$1,300,000. Both the \$5,500,000 demand operating overdraft and the demand loan carry a floating rate of interest at prime plus 2.25% per annum. The \$1,000,000 demand operating overdraft carries a floating rate of interest at prime plus 2.0% per annum. All are due on demand. As at June 30, 2022, \$4,414,805 (December 31, 2021 - \$3,019,386) remained outstanding on the \$5,500,000 demand operating overdraft, \$nil (December 31, 2021 - \$nil) remained outstanding on the \$1,000,000 demand operating overdraft and \$nil (December 31, 2021 - \$nil) on the demand loan. The Company incurred interest expense relating to the line of credit and loan payable totalling \$57,212 during the three-month period ended June 30, 2022 (2021 - \$4,600).

Under the terms of the loan agreement, the Company is subject to the following covenants:

- (i) The ratio of earnings before interest expense, taxes and depreciation/amortization ("EBITDA") to interest costs to be maintained at all times at 3.0:1 or better (tested annually);
- (ii) The ratio of EBITDA to twelve blended monthly payments, calculated on the assumptions that the full approved amount is drawn and a 25 year amortization, to be maintained at all times at 1.50:1 or better (tested annually);
- (iii) Tangible net worth to be maintained at not less than \$10,000,000 (tested quarterly);
- (iv) The ratio of debt to tangible net worth to be maintained at all times at 0.50:1 or less (tested quarterly); and,
- (v) The maximum amount of vacant land margined will not exceed 50% of all margined land (tested monthly).

The Company is in compliance with all its bank covenants as at June 30, 2022 and at December 31, 2021.

6. Earnings per share

Basic and diluted earnings per share calculation for the three months ended:

	June 30, 2022	June 30, 2021
Numerator for basic earnings per share:		
Total comprehensive income	\$ 694,575	\$ 548,076
Denominator for basic earnings per share:		
Weighted average number of shares outstanding	2,912,927	2,910,229
Basic and diluted earnings per share	\$ 0.24	\$ 0.19

7. Dividends

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

For the three months ended June 30, 2022, the Company declared dividends of \$647,134 (2021 - \$578,471) to its Class A and Class B Non-Voting Common Shareholders and Voting Common Shareholders. As at June 30, 2022, \$399,573 (December 31, 2021 - \$402,654) was payable and outstanding; this amount was paid on July 29, 2022.

8. Income taxes

The Company has non-capital tax loss carry forwards of \$2,115,945 as at June 30, 2022 and December 31, 2021. These tax losses can be applied against future taxable income and will, if not utilized, expire as follows:

2035	\$ 180,910
2037	439,088
2038	115,846
2039	714,318
2040	560,874
2041	104,909
	\$ 2,115,945

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(unaudited)

9. Related party transactions

The Company's Manager (a company controlled by some of the directors) receives a management fee, calculated at 1.0% per annum of the book value of the share capital of the Company, calculated daily, aggregated and paid monthly in arrears plus applicable taxes. For the three months ended June 30, 2022, this amount was \$72,612 (2021 – \$72,553).

In addition to the management fee, the Manager charges lender fees directly to borrowers both on mortgage originations and on mortgage 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 on behalf of the Manager by adding them to the principal amount of the mortgage, generally on the first advance to the borrower. The Company then pays the Manager's share of the fees to the Manager, regardless of whether or not any payments have been received on the mortgage. Such payments to the Manager are generally paid within 30 days of having been charged to the borrower. During the three months ended June 30, 2022, the lender fees paid to the Manager totalled \$303,937 (2021 - \$370,486).

During the three months, the Company purchased mortgages with an aggregate value of nil (2021 - nil) and sold mortgages with an aggregate value of \$583,068 (2021 - nil) from and to Builders Capital (2014) Ltd. Builders Capital (2014) Ltd. is related to the Company by virtue of common control and the transactions are considered to be in the normal course of business and have been recorded at fair value on initial recognition.

Key management compensation:

None of the Company's key management personnel received compensation from the Company for the three months ended June 30, 2022 and 2021. The Manager directs the affairs and manages the Company's business and administers or arranges for the administration of the Company's operations. The Company has no employment agreement with members of key management and the Company does not pay any cash compensation to any individuals serving as the Company's officers. Rather, those individuals are compensated by the Manager. In consideration for services provided to the Company by the Manager, it is paid a management fee, as discussed above.

The total directors' fees paid for the three months were \$6,000 (2021 - \$3,000). Directors' fees are set at \$1,000 annually together with \$500 for each meeting attended.

10. Capital disclosures

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

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

The Company's objectives when managing capital are:

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

The Company is subject to externally imposed capital requirements. The credit facility contains certain financial covenants that must be maintained (see Note 5). As at June 30, 2022 and December 31, 2021, the Company was in compliance with all financial covenants.

Builders Capital Mortgage Corp.
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11. Financial instruments

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

A. Fair value hierarchy

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

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

There were no transfers between levels 1, 2 and 3 inputs during the three months (2021 – none).

B. 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 the company's 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 the Company's mortgages. The Company mitigates this risk by adhering to the investment and operating policies of the Company.

All mortgages to which the Company commits are individually evaluated by the Company's 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 the Company's 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, the Company's mortgages receivable are secured by registered charges over real property.

The Company utilizes 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 either increase or decrease.

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

Management has assessed the credit quality of the Company's assets at June 30, 2022 on the basis of internal risk ratings to the credit risk exposure categories. The table below provides the gross carrying amount of all financial assets classified as debt instruments in accordance with IFRS 9, for which a loss allowance is calculated, based on the Company's credit risk exposure rating scale.

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

Credit quality analysis, June 30, 2022

Mortgages receivable	Stage 1	Stage 2	Stage 3	Total
Standard risk	\$ 30,080,115	\$ 471,915	\$ -	\$ 30,552,030
High Risk	-	537,000	-	537,000
Impaired	-	-	-	-
Total	30,080,115	1,008,915	-	31,089,030
Less allowance	(275,837)	(9,249)	-	(285,086)
	\$ 29,804,278	\$ 999,666	\$ -	\$ 30,803,944

Credit quality analysis, December 31, 2021:

Mortgages receivable	Stage 1	Stage 2	Stage 3	Total
Standard risk	\$ 26,961,045	\$ 1,119,914	\$ -	\$ 28,080,959
High Risk	-	587,000	-	587,000
Impaired	-	-	-	-
Total	26,961,045	1,706,914	-	28,667,959
Less allowance	(247,170)	(15,648)	-	(262,818)
	\$ 26,713,875	\$1,691,266	\$ -	\$ 28,405,141

Although the Company writes mortgages for periods of one year or less, the mortgages are often renewed based either on the borrower's ongoing requirement for capital for additional projects, or because the project which was originally financed has not been completed and sold. In each case, prior to renewal, the Company assesses the mortgage for impairment.

The exposure to credit risk at June 30, 2021 relating to mortgages amounts to \$31,089,030 (December 31, 2021 - \$28,667,959). The Company has recourse, however, under these mortgages in the event of default by the borrower and would have a claim against the underlying collateral. Management believes the credit risk with respect to cash that is held at a Schedule 1 Canadian bank to be minimal.

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

C. Market risk

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

i) Interest rate risk

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will vary as a result of changes in market interest rates. The Company manages its financial instruments with the objective of mitigating any potential interest rate risks. The interest rates on the Company's mortgages receivable are fixed for the term. Therefore, the Company is not exposed to significant cash flow interest rate risk. As at June 30, 2022, the Company's 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 the Company's cash flows or comprehensive income for the year as mortgages receivable carry a fixed rate of interest.

The Company is exposed to interest rate risk on its line of credit and loan payable as they carry a variable rate of interest. The impact on total comprehensive income if interest rates had been 1% higher or lower for the three months ended June 30, 2022 would be approximately \$10,500.

ii) Foreign currency risk

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

D. Liquidity risk

Liquidity risk arises from the possibility of not having sufficient ability to obtain debt financing or equity capital to fund future growth or meet the Company's obligations as they arise and become due. Furthermore, liquidity risk also arises from the Company not being able to obtain financing on favorable terms.

The Company's main liquidity requirements will arise from mortgage acquisitions, manager fees and distributions to shareholders. All of the aforementioned liquidity requirements, except for mortgage acquisitions, are generally funded from cash flows earned on mortgage interest and fees. Mortgage acquisitions are generally funded through equity issuances. The Company's financial condition and results of operations would be adversely affected if it were unable to obtain additional funds through equity issuances or financing, or if it were unable to meet its other liquidity requirements from ongoing operating activities.

The Company's total liabilities as at June 30, 2022 totaling \$5,023,617 (December 31, 2021 - \$3,630,525) are all payable within one year.

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