CAPITAL DIRECT I INCOME TRUST

Financial Statements

Year Ended December 31, 2011

CHARTERED ACCOUNTANTS
JOHNSEN ARCHER LLP

CAPITAL DIRECT I INCOME TRUST
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Year Ended December 31, 2011

CHARTERED ACCOUNTANTS
JOHNSEN ARCHER LLP

25 years of original thinking

INDEPENDENT AUDITORS' REPORT

To the Unitholders of Capital Direct I Income Trust

Report on the Financial Statements

We have audited the accompanying financial statements of Capital Direct I Income Trust, which comprise the statement of net assets as at December 31, 2011, and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Capital Direct I Income Trust as at December 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Johnsen Archer LLP

Vancouver, B.C.
February 24, 2012

CHARTERED ACCOUNTANTS

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CAPITAL DIRECT I INCOME TRUST

Statement of Net Assets

December 31, 2011

	2011	2010
ASSETS		
Cash	$ 288,331	$ 121,264
Accounts receivable	119,180	-
Prepaid expenses	-	7,500
Mortgage investments, net of loss provision *(Notes 4, 11)*	12,837,727	8,479,813
	$13,245,238	$ 8,608,577
LIABILITIES		
Loan payable *(Note 5)*	$ 2,183,086	$ 1,162,682
Accounts payable and accrued liabilities	352,925	195,435
	2,536,011	1,358,117
UNITHOLDERS' EQUITY		
Net assets	10,709,227	7,250,460
	$13,245,238	$ 8,608,577

CHARTERED ACCOUNTANTS
JOHNSEN ARCHER LLP

APPROVED ON BEHALF OF THE MANAGER

Director

CAPITAL DIRECT I INCOME TRUST
Statement of Changes in Net Assets
Year Ended December 31, 2011

	2011	2010
Net assets - beginning of year	**$ 7,250,460**	$ 4,894,752
Net income from operations	**795,149**	552,615
	8,045,609	5,447,367
Distributions to unitholders *(Note 7)*	**(715,634)**	(497,354)
Distribution to the Manager	**(79,515)**	(55,261)
Capital transactions		
Subscriptions *(Note 8)*	**3,138,270**	2,255,663
Reinvested distributions	**330,497**	232,843
Redemptions	**(10,000)**	(132,798)
Net assets - end of year	**$10,709,227**	$ 7,250,460

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CAPITAL DIRECT I INCOME TRUST
Statement of Operations
Year Ended December 31, 2011

	2011	2010
Revenue		
Interest income	$ 1,154,458	$ 702,948
Other income	72,792	72,312
	1,227,250	775,260
General and administrative expenses		
Audit fees	67,275	40,000
Bank charges	27,923	8,048
Interest on loan payable	84,727	31,063
Legal fees	64,287	18,681
Management fees	145,619	97,621
Provision for loan losses	29,976	15,380
Trustee fees	12,294	11,852
	432,101	222,645
Net income from operations	795,149	552,615
Other comprehensive income	-	-
Total comprehensive income	$ 795,149	$ 552,615

CHARTERED ACCOUNTANTS
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CAPITAL DIRECT I INCOME TRUST
Statement of Cash Flows
Year Ended December 31, 2011

	2011	2010
Operating activities		
Net income from operations	$ 795,149	$ 552,615
Item not affecting cash:		
Provision for loan losses	29,976	15,380
	825,125	567,995
Changes in non-cash working capital		
Accounts receivable	(119,180)	2,333
Accounts payable and accrued liabilities	157,490	64,735
Prepaid expenses	7,500	(7,500)
	45,810	59,568
Cash flow from operating activities	870,935	627,563
Investing activity		
Purchase of mortgage investments, net	(4,387,890)	(3,087,151)
Financing activities		
Repayment of loan payable	-	(600,000)
Distributions to unitholders, net of distributions reinvested	(385,137)	(264,511)
Distribution to the Manager	(79,515)	(55,261)
Cash received on subscriptions	3,138,270	2,255,663
Redemptions	(10,000)	(132,798)
Loan payable	1,020,404	1,162,682
Cash flow from financing activities	3,684,022	2,365,775
Increase (decrease) in cash	167,067	(93,813)
Cash - beginning of year	121,264	215,077
Cash - end of year	$ 288,331	$ 121,264
Cash flows supplementary information		
Interest paid	$ 84,727	$ 31,063
Interest received	$ 1,154,458	$ 702,948

CHARTERED ACCOUNTANTS
JOHNSEN ARCHER LLP

1. ORGANIZATION OF THE TRUST

Capital Direct I Income Trust (the "Trust") is an open-ended investment trust established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated June 23, 2006 by Capital Direct Management Ltd. (the "Manager") and Computershare Trust Company of Canada (the "Trustee"). The Trust is a non-bank provider of residential real estate finance. The Trust generates fees and income from investments in a portfolio of mortgage loans in order to generate stable distributions to unitholders.

The Trust is not a reporting issuer under securities legislation and therefore is relying on Part 2.11 of National Instrument 81-106 for exemption from the requirement to file financial statements with the applicable securities regulatory authorities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. These estimates include the allowance for loan losses and valuation of accounts receivable. These are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

Recognition and measurement

Handbook Section 3855, "Financial Instruments - Recognition and Measurement", establishes standards for recognizing and measuring financial assets, financial liabilities, and non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives and embedded derivatives, be recognized on the balance sheet when the Trust becomes party to the contractual provisions of the financial instruments or non-financial derivative contract. It also requires that all financial assets and financial liabilities be classified as either a) Held for trading, b) Available for sale, c) Held to maturity, d) Loans and receivables or e) Other financial liabilities, depending on the Trust's stated intention and/or historical practice. Financial assets and liabilities held for trading are measured at fair value with gains and losses recognized in net income. Financial assets held to maturity, loan and receivables, and other financial liabilities other than those held for trading, are measured at amortized cost based on the effective interest method. Available for sale instruments are measured at fair value with gains and losses, net of tax, recognized in other comprehensive income. The standard requires retroactive treatment without restatement, with any required adjustment booked to retained earnings or accumulated other comprehensive earnings.

In accordance with the standard, the Trust's financial assets and liabilities are classified as follows:

	Category	Measurement
Assets:		
Cash	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Mortgage investments	Loans and receivables	Amortized cost
Liabilities:		
Loan payable	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

(continues)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Comprehensive income

Comprehensive income consists of net earnings and other comprehensive income ("OCI"). OCI comprises the change in fair value of the effective portion of the derivatives used as hedging items in a cash flow hedge and the change in fair value of any available for sale financial instruments. Amounts included in OCI are shown net of tax. Accumulated other comprehensive income is a new equity category comprised of the cumulative amounts of OCI.

The Trust had no "other comprehensive income or loss" transactions during the year ended December 31, 2011 (2010 - $nil) and no opening or closing balances for accumulated other comprehensive income or loss.

Credit risk and fair value of financial assets and financial liabilities

The Trust follows the recommendations of EIC-173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" from the CICA. Under the requirements of EIC-173, an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments.

Mortgage investments

Mortgage investments are measured at amortized cost using the effective interest method, net of an allowance for losses.

Interest income from mortgage investments is recorded on an accrual basis, except for mortgage investments that are considered to be impaired. A mortgage investment is classified as impaired when, in management's opinion, there is reasonable doubt as to the ultimate collectibility, either in whole or in part, of principal and interest. When a mortgage investment is classified as impaired, recognition of interest in accordance with the term of the original mortgage investment agreement ceases. Subsequent payments received on an impaired mortgage investment are recorded as a reduction in principal. Mortgage investments are generally returned to accrual status when the timely collection of both principal and interest is reasonably assured and all delinquent principal and interest payments are brought current.

Mortgage discount income is deferred and recognized over the term of the underlying mortgage. Other fees are recognized as the services are performed.

Provision for loan losses

The Trust maintains specific and general allowances for losses in its mortgage investment portfolio. The provision for loan losses is increased by a provision for mortgage investment impairment charged to income and reduced by write-offs during the year.

A specific allowance is established on an individual mortgage investment to reduce the carrying value of the mortgage investment's estimated net realizable amount. The Trust also maintains a general allowance that incorporates mortgage investment loss history as the basis for estimating probability of default in mortgage investments.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income taxes

The Trust qualifies as a "Unit Trust" within the meaning of the Income Tax Act (Canada) (the "Act"). The Trust is subject to applicable federal and provincial taxes on its net income for tax purposes for the year, including taxable capital gains, except to the extent such amounts are distributed to unitholders. Losses incurred by the Trust cannot be allocated to unitholders, but may be deducted by the Trust in future years in accordance with the Act.

3. FINANCIAL INSTRUMENTS

(a) Fair value of financial assets and liabilities

The following table details carrying value and fair values of financial assets and financial liabilities by financial instrument classification. The fair value of financial assets and liabilities with fixed interest rates have been determined using discounted cash flow techniques based on interest rates being offered for similar types of assets and liabilities with similar terms and risks as at the balance sheet date. Fair value of other financial assets and liabilities are assumed to approximate their carrying value, principally due to their short term nature.

These fair values, presented for information only, reflect conditions that existed only at the balance sheet date.

	2011			2010
	Carrying Value	Fair Value	Difference	Difference
Assets				
Held for trading				
Cash	$ 288,331	288,331	$ -	$ -
Loans and receivables:				
Mortgage investments	12,837,727	12,837,727	-	-
			-	-
Liabilities				
Other financial liabilities:				
Loan payable	2,183,086	2,183,086	-	-
Accounts payable	352,925	352,925	-	-
			-	-
Net difference			-	-

(b) Fair value hierarchy

The Trust uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. The use of quoted market prices (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3) in the valuation of financial instruments was as follows:

(continues)

3. **FINANCIAL INSTRUMENTS *(continued)***

	Fair value measurements classifications			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash	-	288,331		288,331
Mortgage investments	-	-	12,837,727	12,837,727
Financial liabilities:				
Loan payable	-	2,183,086	-	2,183,086
Accounts payable	-	352,925	-	352,925

There were no transfers between the levels during the period

(c) Risk management

Risk management involves the identification, ongoing assessment, managing and monitoring of material risks that could adversely affect the Trust. The Trust is exposed to credit risk, liquidity risk, market risk and interest rate risk.

Credit Risk

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Trust. It is the Manager's opinion that the Trust is exposed to credit risks on all mortgage investments. The credit risk is mitigated as all mortgage investments are collateralized, there is no significant geographical concentration of mortgage investments, and the Manager regularly reviews and monitors the fair value of the collateral. The loss provision for the mortgage investments is established based on a provision for identified specific mortgage investments and a general provision applied to the portfolio as a whole. The Manager has assessed that there are no specifically identified mortgage investments exposed to credit risks. The Manager has provided a general loan loss provision based on 0.6% (2010 - 0.5%) of mortgage investments.

Liquidity Risk

Liquidity risk is the risk of the Trust being unable to honour all cash outflow obligations as they come due. The Trust's investments are subject to liquidity risk due to the fact that the investments are collateralized by real estate. As a result, the Trust may not be able to realize the full fair value of the investments in the event that these financial assets need to be sold quickly. The Manager manages liquidity by investing in mortgage investments that are suitable for the Trust, monitoring the performance of the Trust's mortgage portfolio, and assessing the loan to collateral value.

Market Risk

Market risk is the risk of a loss resulting from changes in interest rates, foreign exchange rates, and market prices and volatilities that arise from the Trust's investment activities. The Trust's principal risk arises from interest rate risk as the Trust does not undertake foreign exchange or trading activities.

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3. FINANCIAL INSTRUMENTS *(continued)*

Interest Rate Risk

Interest rate risk is the risk that a movement in the interest rates could impact net interest income and the economic value of assets, liabilities and unitholders' equity. The Trust is exposed to interest rate risk on the mortgage investments and the loan payable.

For mortgage investments, the Trust manages interest rate risk by holding mortgage investments that are substantially based on a fixed interest rate. It is estimated that a general 0.5% (2010 - 0.5%) increase or decrease in market interest rates would have no impact on the mortgage investment income, due to the fixed nature of the interest rates being earned on the mortgage investments.

4. MORTGAGE INVESTMENTS

Mortgage investments consist of residential mortgages acquired from Capital Direct Lending Corp., the parent company of the Manager. The mortgages have a maturity ranging from 12 to 24 months and range in position of collateral from first to third. Loan to value on the mortgages vary as noted below:

Loan to Value	Number of Loans	
0% to 4.99%	0	$ -
5% to 9.99%	0	-
10% to 14.99%	2	92,166
15% to 19.99%	3	121,456
20% to 24.99%	3	410,334
25% to 29.99%	3	138,885
30% to 34.99%	9	667,258
35% to 39.99%	6	332,890
40% to 44.99%	8	469,659
45% to 49.99%	12	1,085,580
50% to 54.99%	7	680,788
55% to 59.99%	15	1,462,230
60% to 64.99%	16	2,279,817
65% to 69.99%	21	2,166,848
70% to 74.99%	26	1,749,811
75% to 79.99%	23	1,285,373
80% to 84.99%	0	-
85% to 89.99%	0	-
90% to 94.99%	0	-
95% to 99.99%	0	-
	154	12,943,095
General loan loss provision		(76,112)
Deferred mortgage discount income		(29,256)
		$ 12,837,727

As of December 31, 2011, it is in the Manager's opinion that there are no specifically identified impaired mortgage investments.

CHARTERED ACCOUNTANTS
JOHNSEN ARCHER LLP

5. LOAN PAYABLE

The Trust has an operating line of credit with Canadian Western Bank to a maximum of $5,000,000 which bears interest at the greater of 4.00% per annum and a rate of 1.25% per annum above the bank's prime lending rate. As of December 31, 2011, the bank's prime lending rate is 3.00% per annum. The line of credit is secured by a general security agreement, a general assignment of mortgages agreement, a general assignment of insurance and limited liability guarantees in an amount of $335,000 executed by each of the directors.

The line of credit is subject to certain financial covenants as outlined in Note 12. As at December 31, 2011, the Trust was in compliance with these covenants

6. TAXATION

Legislation relating to the federal income taxation of a specified investment flow-through trust or partnership ("SIFT") received royal assent (the "SIFT Rules") in 2009. Under the SIFT Rules, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions paid by a SIFT as returns of capital will not be subject to the tax.

The Trust is not subject to the SIFT tax regime since units of the Trust are not listed on a stock exchange or other public market. Accordingly, the Trust has not recorded a provision for income taxes or future income tax assets or liabilities in respect of the SIFT Rules.

7. DISTRIBUTIONS TO UNITHOLDERS

The Trust distributes 80% of the net income from operations to the Unitholders on a quarterly basis. The quarterly distributions are paid in arrears on the 15th day of the month following the first three calendar quarters and on March 31 following the fourth calendar quarter to which the distribution relates. Distributions by the Trust are paid in cash unless the Unitholder elects to receive distributions in the form of units.

The Board of Directors of the Manager have unanimously agreed to waive 50% of the net income it is entitled to for the period from January to December 2011, thereby increasing the distribution to the unitholders to 90% of the net income from operations.

8. UNITHOLDERS' EQUITY

Pursuant to the Declaration of Trust, the Trust is authorized to issue an unlimited number of retractable, redeemable and transferable trust units, each of which represents an equal, undivided interest in any distributions made by the Trust and in the net assets of the Trust in the event of termination or windup. Each Unitholder is entitled to one vote for each whole unit held.

Units are permitted to be retracted on June 30 or December 31 in any year by giving written notice to the Manager. The retraction proceeds payable for each unit is determined by a formula based on a percentage of net asset value per unit and the length of time since the unit was acquired.

For the year ended December 31, 2011, 346,877 units (2010: 248,850 units) were issued for a total subscription price of $3,138,270 (2010: $2,255,663) and 1,000 units (2010: 13,280 units) were redeemed for a total redemption price of $10,000 (2010: $132,798).

	2011	2010
Units outstanding, beginning of period	725,046	489,475
Units issued on subscription	313,827	225,566
Units issued on reinvestment	33,050	23,284
Units redeemed	(1,000)	(13,280)
Units outstanding, end of period	1,070,923	725,046

9. MANAGEMENT FEES AND EXPENSES

Management fees and distributions

Pursuant to the management agreement between the Trust and the Manager, the Manager is to provide management, administration and investment advisory services to the Trust. For these services, the Manager will be entitled to receive a monthly fee calculated and payable monthly in arrears based on an annual rate of 2% of the net asset value.

In addition, 20% of the net income from operations will be paid to the Manager on a quarterly basis.

The Board of Directors of the Manager have unanimously agreed to waive 50% of the net income and waive 5% of the Manager's fee it is entitled to for the period from January to December 2011. This amount is to be distributed to the unitholders and it will be re-invested through a dividend re-investment plan.

Expenses

All organizational expenses and sales commissions or fees paid to registered dealers in connection with the offering and sale of units are paid by the Manager.

All expenses or outlays relating to the Trust from inception including, but not limited to, the Manager's Fee, the Trustee's Fee, offering expenses (other than organizational expenses and sales commissions on fees paid to registered dealers in connection with the offer and sale of units), taxes payable by the Trust, expenses related to Unitholders' meetings, brokerage, legal and other fees and disbursements relating to the implementation of transactions for Trust investments, if any, are paid by the Trust.

10. ANNUALIZED RATE OF RETURN

	Net asset value	Weighted average net assets per quarter	Net income to be allocated to unitholders
First quarter - March 31, 2011	8,170,133	7,820,123	156,411
Second quarter - June 30, 2011	8,616,101	8,527,118	175,531
Third quarter - September 30, 2011	10,025,000	9,246,110	197,694
Fourth quarter - December 31, 2011	10,709,227	10,459,884	185,998
Year ended December 31, 2011	10,709,227	9,013,309	715,634

	Average annualized rate of return compounded quarterly	Effective annual rate of return	Weighted average return weighted by net assets outstanding	Effective weighted average annual rate of return
First quarter - March 31, 2011	8.00%		1.74%	
Second quarter - June 30, 2011	8.23%		1.95%	
Third quarter - September 30, 2011	8.55%		2.19%	
Fourth quarter - December 31, 2011	7.11%		2.06%	
Year ended December 31, 2011	7.97%	8.22%	7.94%	8.18%

11. RELATED PARTY TRANSACTIONS

During the year, the Trust purchased 100% (2010 - 100%) of its mortgages totaling $11,270,609 (2010 - $8,596,813) from Capital Direct Lending Corp. the parent Company of the Manager.

The Trust paid $145,619 (2010 - $97,621) of management fees to Capital Direct Management Ltd., the Manager.

These transactions were conducted in the normal course of business for consideration agreed to by the related parties.

12. CAPITAL MANAGEMENT

The Trust defines capital as loan payable and unitholders' equity. The Manager's objective when managing capital is to make prudent investments in mortgages so that it can continue to provide stable returns for its Unitholders. The Trust achieves its investment objectives by monitoring the Trust's mortgage investment portfolio. Information on the Unitholders' equity is described in Note 8.

The Trust's loan payable (Note 5) is subject to the following covenants as calculated in accordance with the credit facility agreement:

1. To maintain a Cash Flow Coverage Ratio of not less than 1.50:1 in each quarter.
2. To maintain a Tangible Net Worth of not less than $8,000,000 in each quarter.
3. To maintain a Debt to Tangible Net Worth Ratio not greater than 0.50:1 in each quarter.

As at December 31, 2011, the Trust was in compliance with the above covenants.

13. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

In December 2011, the Canadian Accounting Standards Board ("AcSB") amended their mandatory requirement for all Canadian publicly accountable enterprises to prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), permitting investment companies to defer the adoption of IFRS to fiscal years beginning on or after January 1, 2014. The mandatory IFRS adoption date has been deferred to coincide with a new consolidation standard for investment companies that the IASB is planning to publish.

The Trust has elected to defer the adoption of IFRS to December 31, 2014. The Trust will issue its first financial statements in accordance with IFRS commencing the year ended December 31, 2014, with comparative information.

(continues)

13. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

The Trust has developed a changeover plan to convert its financial statements to IFRS. The Trust's IFRS project is progressing according to plan. Several IFRS standards are in the process of being amended by the IASB. Amendments to existing standards are expected to continue until the transition date of January 1, 2014. The Trust monitors the IASB's activities on an ongoing basis, giving considerations to any proposed changes, where applicable, in its assessment of differences between IFRS and Canadian generally accepted accounting principles ("GAAP"). However, since all potential changes to IFRS that will be effective at January 1, 2014 are not yet known, any conclusions drawn at this point in time must be considered preliminary.

Certain relevant accounting differences between Canadian GAAP and IFRS and the possible impacts on the financial statements of the Trust has been described below:

Financial instruments - presentation

IAS 32 defines a financial instrument as a contract that gives rise to a financial asset of one equity and a financial liability or equity instrument of another equity. The Trust's trust units, which are currently categorized under Canadian GAAP as equity, may be considered a liability under IFRS.

Potential Impact

Based on an initial assessment of the financial instruments criteria, the Trust has determined that the Trust units would still be classified as equity under IFRS.

Impairment of assets

IAS 36 uses a one-step approach for testing and measuring asset impairments, with asset carrying values being compared to the higher of value in use and fair value less costs to sell. Value in use is defined as being equal to the present value of future cash flows expected to be derived from the asset. In the absence of an active market, fair value less costs to sell may also be determined using discounted cash flows. The use of discounted cash flows under IFRS to test and measure asset impairment differs from Canadian GAAP where undiscounted future cash flows are used to compare against the asset's carrying value to determine if impairment exists. This may result in more frequent write-downs in the carrying value of assets under IFRS since asset carrying values that were previously supported under Canadian GAAP based on undiscounted cash flows may not be supported on a discounted cash flow basis under IFRS. However, under IAS 36, previous impairment losses may be reversed where circumstances change such that the impairment has reduced. This also differs from Canadian GAAP, which prohibits the reversal of previously recognized impairment losses.

Potential Impact

The Trust is currently analyzing its operations in order to determine the cash generating units to be used for the purpose of impairment testing.

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13. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

Provisions and Contingent Liabilities

IAS 37 requires a provision to be recognized when: (i) there is a present obligation as a result of a past transaction or event; (ii) it is possible that an outflow of resources will be required to settle the obligation; and (iii) a reliable estimate can be made of the obligation. The threshold for recognition of a provision under Canadian GAAP is higher than under IFRS. It is possible, therefore, that some contingent liabilities which would not been recognized under Canadian GAAP may meet the criteria for recognition as a provision under IFRS.

Potential Impact

No significant impact is expected.

14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.