
CAPITAL DIRECT I INCOME TRUST
Financial Statements
Year Ended December 31, 2016

CAPITAL DIRECT I INCOME TRUST
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Year Ended December 31, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Capital Direct I Income Trust

We have audited the accompanying financial statements of Capital Direct I Income Trust, which comprise the statement of financial position as at December 31, 2016 and the statements of comprehensive income, changes in net assets attributable to unitholders 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 International Financial Reporting Standards, 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.

Auditor's 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, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Johnsen Archer LLP

Vancouver, B.C.
February 22, 2017

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CAPITAL DIRECT I INCOME TRUST
Statement of Financial Position
December 31, 2016

	2016	2015
ASSETS		
Current assets		
Cash	\$ 1,982,407	\$ 194,106
Accounts receivable	5,226,932	1,736,095
Mortgage investments, current portion (Note 4)	48,072,740	30,595,682
	55,282,079	32,525,883
Mortgage investments, net of current portion (Note 4)	99,048,307	58,077,247
	\$154,330,386	\$ 90,603,130
LIABILITIES AND NET ASSETS		
Current liabilities		
Loan payable (Note 6)	\$ 44,018,502	\$ 35,619,549
Accounts payable and accrued liabilities	3,606,666	1,601,517
	47,625,168	37,221,066
Net assets attributable to unitholders (Note 9)	106,705,218	53,382,064
	\$154,330,386	\$ 90,603,130

ON BEHALF OF THE MANAGER

"Tim Wittig"



CAPITAL DIRECT I INCOME TRUST
Statement of Changes in Net Assets Attributable to Unitholders
Year Ended December 31, 2016

	Class A	Class C	Class F	2016	2015
Net assets attributable to unitholders at beginning of year	\$ 41,332,514	\$ -	\$ 12,049,550	\$ 53,382,064	\$ 28,490,883
Comprehensive income	4,364,127	556,961	2,418,341	7,339,429	3,691,507
	45,696,641	556,961	14,467,891	60,721,493	32,182,390
Distribution to unitholders	(3,612,800)	(461,075)	(2,002,001)	(6,075,876)	(3,215,496)
Distribution to the manager	(751,326)	(95,886)	(416,341)	(1,263,553)	(476,011)
Subscriptions	13,071,900	13,277,889	26,444,114	52,793,903	24,410,279
Reinvested distributions	2,306,920	358,542	1,074,076	3,739,538	1,900,488
Interchanges	(27,672)	-	27,672	-	-
Redemptions	(2,192,437)	(55,984)	(961,866)	(3,210,287)	(1,419,586)
Net assets attributable to unitholders at end of year	\$ 54,491,226	\$ 13,580,447	\$ 38,633,545	\$ 106,705,218	\$ 53,382,064

CAPITAL DIRECT I INCOME TRUST
Statement of Comprehensive Income
Year Ended December 31, 2016

	2016	2015
Revenue		
Interest income	\$ 9,857,086	\$ 6,155,599
Other income	1,185,920	661,990
	11,043,006	6,817,589
General and administrative expenses		
Bank charges	188,392	131,609
Interest on loan payable	1,163,928	1,051,910
Management fees	1,282,154	647,100
Professional fees	488,893	310,735
Provision for loan losses	477,919	916,110
Trustee and registrar fees	102,291	68,618
	3,703,577	3,126,082
Profit and comprehensive income for the year	\$ 7,339,429	\$ 3,691,507

CAPITAL DIRECT I INCOME TRUST
Statement of Cash Flows
Year Ended December 31, 2016

	2016	2015
Operating activities		
Profit for the year	\$ 7,339,429	\$ 3,691,507
Item not affecting cash:		
Provision for loan losses	477,919	916,110
	7,817,348	4,607,617
Changes in non-cash working capital:		
Accounts receivable, net of subscriptions	84,293	(1,616,050)
Accounts payable and accrued liabilities, net of redemptions	516,919	(682,654)
	601,212	(2,298,704)
Cash flow from operating activities	8,418,560	2,308,913
Investing activity		
Purchase of mortgage investment, net	(58,926,037)	(35,248,640)
Financing activities		
Distributions to unitholders, net of distributions reinvested	(2,336,338)	(1,315,008)
Distribution to the manager	(1,263,553)	(476,011)
Cash received on subscriptions	49,218,773	24,410,279
Redemptions	(1,722,057)	(749,316)
Loan payable	8,398,953	10,707,714
Cash flow from financing activities	52,295,778	32,577,658
Increase (decrease) in cash	1,788,301	(362,069)
Cash - beginning of year	194,106	556,175
Cash - end of year	1,982,407	194,106
Supplementary information		
Interest received	\$ 9,637,016	\$ 6,022,579
Interest paid	\$ 1,163,928	\$ 1,051,910

CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2016

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, as amended from time to time, by Capital Direct Management Ltd. (the "Manager") as administrator of the Trust and Computershare Trust Company of Canada (the "Trustee"). The address of the Trust's principal place of business is #305 - 555 West 8th Avenue, Vancouver, B.C. V5Z 1C6.

The Trust is a non-reporting issuer under securities legislation and therefore is relying on Part 2.11 of National Instrument 81-106 for exemption from the requirements to file annual financial statements with the applicable regulatory authorities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These audited annual financial statements, including comparatives, are prepared in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board ("IASB").

These annual financial statements for the year ended December 31, 2016 were authorized for issuance by the Manager on February 22, 2017.

Significant accounting estimates and judgements

The preparation of financial statements in conformity with IFRS 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 valuation of accounts receivable and the provision for loan losses, and completeness of accrued liabilities. The estimated provision is 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.

(continues)

CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Recognition and measurement

The Trust recognizes financial assets and financial liabilities, including derivatives and embedded derivatives, on the balance sheet when the Trust becomes party to the contractual provisions of the financial instruments or non-financial derivative contract. The Trust classifies all financial assets and financial liabilities 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 profit or loss. Financial assets held to maturity, loans and receivables, and other financial liabilities other than those held for trading, are measured at fair value on initial recognition and subsequently 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 Trust's financial assets and liabilities are classified as follows:

	<u>Category</u>	<u>Measurement</u>
Assets:		
Cash	Loans and receivables	Amortized cost
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

Comprehensive income

Comprehensive income consists of profit 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 an 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, 2016 (2015: \$nil) and no opening or closing balances for accumulated other comprehensive income or loss.

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CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2016

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

Fair value measurement

The Trust measures financial instruments at fair value on initial recognition. Management estimates fair value in accordance with IFRS 13, Fair Value Measurement, as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a liability reflects the effect of non-performance risk, which includes the Trust's own credit risk and any other factors that might influence the likelihood the obligation may not be fulfilled. The fair value of a liability with a demand feature is not less than the amount that could be demanded, discounted from the first date demand could be required. Where fair value may not be determined based on comparable instruments trading in a public market, it is estimated based on observable inputs, to the extent they are available.

Redeemable units

The Trust's redeemable units entitle the holders to redeem their interest in the Trust for cash at \$10 per unit, amongst other contractual rights. These redeemable units involve contractual obligations on the part of the Trust and therefore meet the criteria for classification as financial liabilities. The Trust's obligation for net assets attributable to unitholders is measured at amortized cost, which is equal to the redemption amount as of the reporting date.

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.

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CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2016

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

Provision for loan losses

The Trust maintains an allowance 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 loan is considered to be impaired when payments are in arrears, all attempts at recovery with the mortgagee have failed and the Trust enters the foreclosure process to recover the loan balance. A specific provision is recorded to the extent the fair value of the collateral charged against the loan does not exceed the loan balance. Interest income continues to be accrued until the courts begin selling the property. Legal fees and other costs are also accrued to the loan balance to the extent they are expected to be recovered.

The Trust also incorporates mortgage investment loss history as the basis for estimating probability of default in mortgage investments. The Trust groups all unimpaired loans according to similar credit risk characteristics, and evaluates the likelihood of an impairment loss on each group on an aggregate basis. The Trust records a loss provision allowance based on specific loans identified as impaired as well as the credit quality of each group of loans with such similar characteristics.

Income taxes

The Trust qualifies as a "Mutual Fund 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.

Because the Trust is contractually obligated to distribute all income, and such distributions are eligible for deduction against taxable income, the Trust does not recognize a deferred tax asset or liability for any temporary differences.

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CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2016

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

Standards issued but not yet effective

As at December 31, 2016, the following standard has been issued by the IASB but is not yet effective for these financial statements, and is relevant to the Trust as set out below.

IFRS 9: Financial instruments

IFRS 9, Financial instruments deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. A financial asset would be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value.

The standard is effective for annual periods beginning on or after January 1, 2018. The IASB's project to replace IAS 39 with IFRS 9 has been completed. The Trust is assessing the potential impact of the new standard but is unable to quantify the impact of IFRS 9 as at the date of issue of these financial statements.

IFRS 15: Revenue from contracts with customers

IFRS 15, Revenue from contracts with customers, is a new standard that outlines a single comprehensive framework for entities to use in accounting for revenue arising from contracts with customers. It supercedes current revenue recognition guidance including IAS 18, Revenue and IAS 11, Construction contracts and related Interpretations and is effective for annual reporting periods beginning on or after January 1, 2018.

The core principle of IFRS 15 is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Trust does not expect a significant impact on these financial statements upon adoption of IFRS 15.

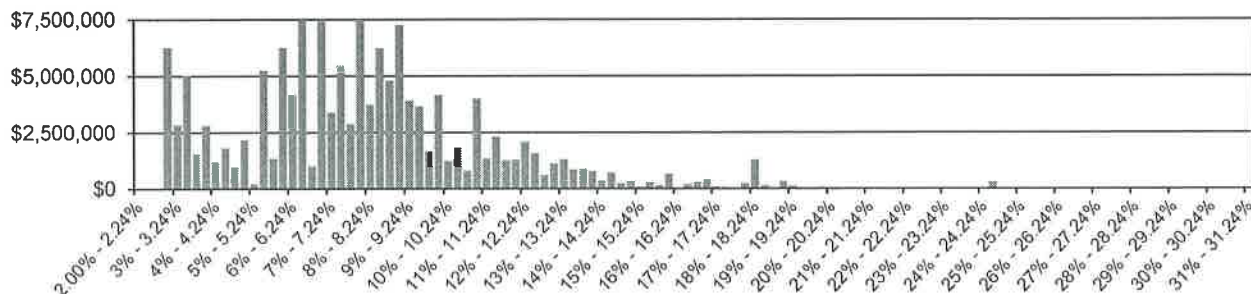
3. TAXATION

Under the specified investment flow-through trust or partnership ("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 deferred income tax in respect of the SIFT Rules.

4. MORTGAGE INVESTMENTS

Interest Rate		# of Loans	Carrying Value	Interest Rate		# of Loans	Carrying Value				
2.75	-	2.99%	33	\$	6,258,699	13.00	-	13.24%	13	\$	1,308,724
3.00	-	3.24%	10	\$	2,831,827	13.25	-	13.49%	12	\$	854,320
3.25	-	3.49%	23	\$	5,038,790	13.50	-	13.74%	11	\$	913,981
3.50	-	3.74%	5	\$	1,587,130	13.75	-	13.99%	13	\$	779,038
3.75	-	3.99%	21	\$	2,792,912	14.00	-	14.24%	7	\$	369,617
4.00	-	4.24%	4	\$	1,227,092	14.25	-	14.49%	8	\$	708,767
4.25	-	4.49%	11	\$	1,819,502	14.50	-	14.74%	7	\$	235,785
4.50	-	4.74%	4	\$	979,410	14.75	-	14.99%	5	\$	352,172
4.75	-	4.99%	11	\$	2,169,881	15.00	-	15.24%	2	\$	86,774
5.00	-	5.24%	2	\$	202,294	15.25	-	15.49%	5	\$	290,573
5.25	-	5.49%	31	\$	5,245,908	15.50	-	15.74%	3	\$	155,517
5.50	-	5.74%	10	\$	1,347,897	15.75	-	15.99%	8	\$	640,747
5.75	-	5.99%	53	\$	6,266,820	16.00	-	16.24%	2	\$	43,964
6.00	-	6.24%	30	\$	4,163,674	16.25	-	16.49%	4	\$	174,780
6.25	-	6.49%	64	\$	8,900,414	16.50	-	16.74%	4	\$	301,497
6.50	-	6.74%	13	\$	1,010,791	16.75	-	16.99%	11	\$	417,144
6.75	-	6.99%	94	\$	9,656,902	17.00	-	17.24%	3	\$	91,996
7.00	-	7.24%	34	\$	3,395,864	17.25	-	17.49%	3	\$	70,282
7.25	-	7.49%	58	\$	5,443,067	17.50	-	17.74%	2	\$	52,551
7.50	-	7.74%	24	\$	2,879,584	17.75	-	17.99%	6	\$	239,541
7.75	-	7.99%	73	\$	9,464,479	18.00	-	18.24%	2	\$	1,293,441
8.00	-	8.24%	38	\$	3,731,409	18.25	-	18.49%	2	\$	141,569
8.25	-	8.49%	70	\$	6,226,343	18.50	-	18.74%	2	\$	55,151
8.50	-	8.74%	51	\$	4,801,245	18.75	-	18.99%	7	\$	316,987
8.75	-	8.99%	81	\$	7,266,449	19.00	-	19.24%	1	\$	110,855
9.00	-	9.24%	33	\$	3,908,521	19.25	-	19.49%	2	\$	46,004
9.25	-	9.49%	43	\$	3,656,272	19.75	-	19.99%	2	\$	64,140
9.50	-	9.74%	18	\$	1,669,437	20.25	-	20.49%	1	\$	12,136
9.75	-	9.99%	63	\$	4,150,393	20.50	-	20.74%	1	\$	47,666
10.00	-	10.24%	16	\$	1,236,062	21.25	-	21.49%	2	\$	42,777
10.25	-	10.49%	27	\$	1,839,027	21.50	-	21.74%	1	\$	30,415
10.50	-	10.74%	14	\$	816,857	21.75	-	21.99%	1	\$	21,999
10.75	-	10.99%	44	\$	3,995,326	23.25	-	23.49%	1	\$	10,865
11.00	-	11.24%	15	\$	1,347,288	24.25	-	24.49%	2	\$	290,885
11.25	-	11.49%	29	\$	2,297,239	24.75	-	24.99%	1	\$	29,321
11.50	-	11.74%	14	\$	1,264,985	25.75	-	25.99%	2	\$	27,320
11.75	-	11.99%	19	\$	1,299,587	30.50	-	30.74%	1	\$	7,917
12.00	-	12.24%	14	\$	2,071,733	30.75	-	30.99%	1	\$	15,701
12.25	-	12.49%	20	\$	1,575,415	31.00	-	31.24%	1	\$	29,277
12.50	-	12.74%	13	\$							



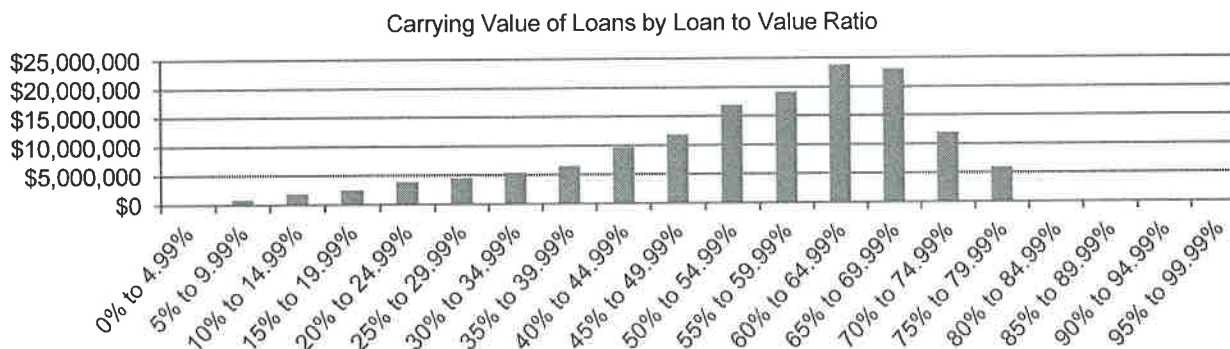
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CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2016

4. MORTGAGE INVESTMENTS (continued)

Mortgage investments consist of residential mortgages acquired from Capital Direct Lending Corp., the parent company of the Manager, and Capital Direct Atlantic Inc., a subsidiary of Capital Direct Lending Corp. The Trust has insured no mortgages under the National Housing Act (Canada). Loan to value ratios on the mortgages vary as noted below. The weighted average loan to value ratio for the year was 54% (2015: 55%).

Loan to Value Ratio	Number of Loans	Carrying Value
0.00 - 4.99%	6	\$ 138,784
5.00 - 9.99%	23	880,401
10.00 - 14.99%	30	1,852,681
15.00 - 19.99%	36	2,507,307
20.00 - 24.99%	38	3,866,531
25.00 - 29.99%	40	4,476,059
30.00 - 34.99%	50	5,428,514
35.00 - 39.99%	56	6,515,754
40.00 - 44.99%	86	9,671,555
45.00 - 49.99%	102	11,816,905
50.00 - 54.99%	132	16,898,043
55.00 - 59.99%	151	19,172,783
60.00 - 64.99%	202	23,772,231
65.00 - 69.99%	225	23,087,028
70.00 - 74.99%	138	11,949,281
75.00 - 79.99%	95	5,981,472
80.00 - 84.99%	1	49,784
85.00 - 89.99%	1	173,025
90.00 - 94.99%	0	-
95.00 - 99.99%	0	-
	1,412	\$ 148,238,138
Loan loss provision		(536,762)
Deferred mortgage discount income		(580,329)
		\$ 147,121,047



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CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2016

4. MORTGAGE INVESTMENTS (continued)

Changes in the loan provision during the year were as follows:

	2016	2015
Opening balance	\$ 713,591	\$ 309,192
Provision for the year	477,919	916,110
Loans written off	(654,748)	(511,711)
Ending balance	\$ 536,762	\$ 713,591

The mortgages typically have an original maturity ranging from 12 to 24 months and rank in position of collateral from first to third. Mortgages mature as follows:

	2016	2015
12 months or less	\$ 48,072,740	\$ 30,595,682
13 to 24 months	99,048,307	58,047,956
Over 24 months	-	29,291
Total	\$147,121,047	\$ 88,672,929

5. FINANCIAL INSTRUMENTS

a) Fair value of financial assets and liabilities

The following table details carrying values and fair values of financial assets and financial liabilities by financial instrument classification. 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 for disclosure purposes was as summarized below.

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CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2016

5. FINANCIAL INSTRUMENTS (continued)

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

	2016			2015	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Difference</u>	<u>Fair Value Hierarchy</u>	<u>Difference</u>
Assets					
Loans and receivables:					
Cash	\$ 1,982,407	\$ 1,982,407	\$ -	Level 1	\$ -
Accounts receivable	5,226,932	5,226,932	-	Level 3	-
Mortgage investments	147,121,047	147,121,047	-	Level 2	177,467
			-		\$ 177,467
Liabilities					
Other financial liabilities:					
Loan payable	44,018,502	44,018,502	-	Level 2	-
Accounts payable and accrued liabilities	4,747,320	4,747,320	-	Level 3	-
			-		-
Net difference			-		\$ 177,467

The fair value of mortgage investments has been determined using discounted cash flow techniques based on interest rates being offered for similar types of assets with similar terms and risks as at the balance sheet date. The fair values of other financial assets and financial liabilities are assumed to approximate their carrying values, principally due to their short term or demand nature.

b) 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 risks, liquidity risk, market risk and interest rate risk. There were no significant changes in risk from those disclosed in the Trust's annual financial statements.

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CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2016

5. FINANCIAL INSTRUMENTS (continued)

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 loans with similar credit characteristics. The Manager has assessed that there are no specifically identified mortgage investments exposed to credit risks. The Manager has provided a loan loss provision based on approximately 0.36% (2015: 0.80%) of mortgage investments.

Management regularly reviews the mortgage listing for balances in arrears and follows up with clients as needed regarding payment. For individual accounts in arrears where discussion with the client has not succeeded, foreclosure proceedings commence. Balances receivable include accrued interest income and legal and other costs related to attempts at collection. The loans are collateralized by real property and losses are recognized to the extent that recovery of the balance through sale of the underlying property is not reasonably assured. As at December 31, 2016 management had identified loans totaling 2% (2015: 3%) of the portfolio in arrears over 120 days. Of these, \$2.3 million (2015: \$2.8 million) of loans have entered some form of legal proceedings in attempt to recover the balance. Based on the most recent property appraisals management has not identified any specific loans for which a loss provision should be made (2015: \$nil).

Liquidity Risk

Liquidity risk refers to the Trust's ability to meet its own financial obligations such as funding mortgage commitments, operational expenses, trust distributions, and unitholder redemptions. In this regard the Manager monitors cash regularly to ensure the Trust can meet its obligations, however the Manager does have the right to postpone redemptions if it feels that the Trust's financial position will become impaired.

Market Risk

Market risk includes both interest rate risk and foreign currency risk. The interest rate risk relates to the Trust's ability to adjust to the changing interest rates on their loan payable (Note 6). To offset this risk the Trust generally lends its funds with rates adjustable within one or two years, which allows the Trust to adjust rates on renewals annually. There is no foreign exchange risk as the trust is limited to investing in mortgages situated in Canada.

It is estimated that a general 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. It is estimated that an increase of 0.5% in the prime lending rate would result in an increase in interest expense on the loan payable of approximately \$139,000 (2015: \$147,000).

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6. LOAN PAYABLE

The Trust has an operating line of credit with Canadian Western Bank to a maximum of \$50,000,000 (2015: \$40,000,000), subject to margin requirements on eligible mortgage investments, which bears interest at a rate of 0.75% per annum above the bank's prime lending rate. For the year ended, December 31, 2016, the bank's average prime lending rate was 2.70% per annum (2015: 2.79%). The line of credit is secured by a general security agreement including a fixed first charge over the real and personal property of the Trust, Capital Direct Lending Corp., and Capital Direct Management Ltd., a general assignment of mortgages agreement, and a general assignment of insurance.

The line of credit is subject to certain financial covenants as outlined in Note 11. As at December 31, 2016, the Trust was in compliance with these covenants.

The maximum and minimum amounts borrowed during the year were \$45,267,747 (2015: \$35,619,642) and \$28,118,126 (2015: \$24,911,835) respectively.

7. RELATED PARTY TRANSACTIONS

During the year, the Trust purchased 99.6% (2015: 99.2%) of its mortgages with a face value totaling \$117,853,991 (2015: \$71,308,835) from Capital Direct Lending Corp. and 0.4% (2015: 0.8%) of its mortgages totalling \$439,800 (2015: \$562,800) from Capital Direct Atlantic Inc.

These transactions were conducted in the normal course of business and are recorded at the exchange amount being the consideration agreed to by the related parties.

8. DISTRIBUTIONS TO UNITHOLDERS

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

The Manager has waived 50% of the net income to which it was entitled during the fourth quarter of the year ended December 31, 2016, thereby increasing the distributions to the unitholders to 82.8% of profit for the year.

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9. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

Pursuant to the Declaration of Trust, the Trust is authorized to issue an unlimited number of retractable, redeemable and transferable 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.

Class A, Class C and Class F units share pro rata in distributions from the Trust. All classes of units are permitted to be retracted on June 30 or December 31 in any year by giving written notice to the Manager. Class C and Class F units may be retracted after 180 days with no penalty. Class A units bear a retraction fee which diminishes over 5 years from 5% to zero.

The Trust's current offering authorizes Class A, Class C and Class F redeemable units totalling 37,500,000 units for a combined maximum of \$375,000,000. Class A, Class C and Class F units are issued and redeemed as listed below.

Prior to December 31, 2016, 215,850 (2015: 67,027) units were called for redemption. The redemption price of \$2,158,500 (2015: \$670,270) is accrued in accounts payable. 516,864 (2015: 159,351) redeemable units were issued for subscription prior to December 31, 2016 for which proceeds are receivable from brokers as at year end. The subscription price of \$5,168,640 (2015: \$1,593,510) is accrued in accounts receivable.

	Class A	Class C	Class F	Total
Units outstanding, beginning of period	4,133,251	-	1,204,955	5,338,206
Units issued on subscription	1,307,191	1,327,789	2,644,411	5,279,391
Units issued on reinvestment	230,692	35,854	107,408	373,954
Units interchanged	(2,767)	-	2,767	-
Units redeemed	(219,245)	(5,598)	(96,187)	(321,030)
Units outstanding, end of period	5,449,122	1,358,045	3,863,354	10,670,521
Net assets attributable to unitholders:	\$ 54,491,226	\$ 13,580,447	\$ 38,633,545	\$ 106,705,218
Net asset value per unit	\$ 10	\$ 10	\$ 10	\$ 10

During the year, 2,767 units were interchanged between Class A and Class F. The overall units outstanding and net assets of the Trust were not affected.

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10. 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 (the "Manager's Fee") calculated and payable monthly in arrears based on an annual rate of 2% of the Class A net asset value plus 2% of the Class C net asset value plus 1% of the Class F net asset value. The total management fee for the year was \$1,282,154 (2015: \$647,100).

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

The Board of Directors of the Manager unanimously agreed to waive 50% of the distribution to which it was entitled for the fourth quarter of the year ended December 31, 2016. The amount waived was distributed to the unitholders. The total distribution paid to the Manager for the year was \$1,263,553 (2015: \$476,011).

Of the above amounts, \$601,720 (2015: \$302,732) remains in accounts payable and accrued liabilities.

Expenses

All organizational expenses and sales commissions or fees paid to registered dealers in connection with the offering will be 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.

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11. CAPITAL MANAGEMENT

The Trust defines capital as loan payable and net assets attributable to unitholders. 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 net assets attributable to unitholders is described in Note 9.

The Trust's loan payable (Note 6) is subject to the following covenants as calculated in accordance with the credit facility agreement. In the event of a violation of the covenants, no redeemable trust units may be redeemed or repurchased.

1. To maintain a Cash Flow Coverage Ratio of not less than 2:1 in each quarter.
2. To maintain a Tangible Net Worth of not less than \$50,000,000 in each quarter.
3. To maintain a Debt to Tangible Net Worth Ratio not greater than 1:1 in each quarter.

As at December 31, 2016, the Trust was in compliance with the above covenants.

12. COMPARATIVE FIGURES

During the year the Trust determined that subscriptions made in December, but for which payment was received in January, should be recorded at the balance sheet date with an equal accrual for subscription proceeds receivable. Likewise, reinvestment of December 31 distributions should be recorded at the balance sheet date with an equal offset to distributions payable. The comparative figures have been reclassified to conform with the current year's presentation, as follows:

	As previously recorded:	Reclassified:
Net assets attributable to unitholders, January 1, 2015	\$ 27,784,320	\$ 28,490,883
Net assets attributable to unitholders, December 31, 2015	\$ 51,202,014	\$ 53,382,064
Accounts receivable, December 31, 2015	\$ 142,589	\$ 1,736,095
Accounts payable and accrued liabilities, December 31, 2015	\$ 2,188,061	\$ 1,601,517

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13. ANNUALIZED RATE OF RETURN

Class A Redeemable Units			
	Net asset value	Weighted average net assets per quarter	Net income to be allocated to holders of redeemable units
First quarter - March 31, 2016	44,902,736	42,931,015	862,402
Second quarter - June 30, 2016	49,623,542	48,482,533	902,520
Third quarter - September 30, 2016	51,842,101	51,314,949	899,687
Fourth quarter - December 31, 2016	54,491,226	53,878,424	948,191
Year ended December 31, 2016	54,491,226	49,151,730	3,612,800

	Average annualized rate of return calculated quarterly	Compounded annual rate of return	Weighted average return weighted by net assets outstanding	Effective weighted average annual rate of return
First quarter - March 31, 2016	8.04 %		1.75 %	
Second quarter - June 30, 2016	7.45 %		1.84 %	
Third quarter - September 30, 2016	7.01 %		1.83 %	
Fourth quarter - December 31, 2016	7.04 %		1.93 %	
Year ended December 31, 2016	7.38 %	7.59 %	7.35 %	7.56 %

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13. ANNUALIZED RATE OF RETURN (continued)

Class C Redeemable Units

	Net asset value	Weighted average net assets per quarter	Net income to be allocated to holders of redeemable units
First quarter - March 31, 2016	1,910,762	660,711	16,324
Second quarter - June 30, 2016	5,836,213	4,570,890	90,889
Third quarter - September 30, 2016	9,140,495	8,117,425	146,979
Fourth quarter - December 31, 2016	13,580,447	11,495,451	206,883
Year ended December 31, 2016	13,580,447	6,211,119	461,075

	Average annualized rate of return calculated quarterly	Compounded annual rate of return	Weighted average return weighted by net assets outstanding	Effective weighted average annual rate of return
First quarter - March 31, 2016	9.88 %		0.26 %	
Second quarter - June 30, 2016	7.95 %		1.46 %	
Third quarter - September 30, 2016	7.24 %		2.37 %	
Fourth quarter - December 31, 2016	7.20 %		3.33 %	
Year ended December 31, 2016	8.07 %	8.32 %	7.42 %	7.63 %

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13. ANNUALIZED RATE OF RETURN (continued)

Class F Redeemable Units

	Net asset value	Weighted average net assets per quarter	Net income to be allocated to unitholders
First quarter - March 31, 2016	13,493,320	12,713,100	286,293
Second quarter - June 30, 2016	23,432,663	20,991,333	447,980
Third quarter - September 30, 2016	30,158,210	29,008,714	584,103
Fourth quarter - December 31, 2016	38,633,545	33,905,791	683,625
Year ended December 31, 2016	38,633,545	24,154,735	2,002,001

	Average annualized rate of return calculated quarterly	Compounded annual rate of return	Weighted average return weighted by net assets outstanding	Effective weighted average annual rate of return
First quarter - March 31, 2016	9.01 %		1.19 %	
Second quarter - June 30, 2016	8.54 %		1.85 %	
Third quarter - September 30, 2016	8.05 %		2.42 %	
Fourth quarter - December 31, 2016	8.06 %		2.83 %	
Year ended December 31, 2016	8.42 %	8.69 %	8.29 %	8.55 %