
CAPITAL DIRECT I INCOME TRUST
Financial Statements
Year Ended December 31, 2008



CAPITAL DIRECT I INCOME TRUST
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Year Ended December 31, 2008

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AUDITORS' REPORT

To the Unitholders of Capital Direct I Income Trust :

We have audited the statement of net assets of Capital Direct I Income Trust as at December 31, 2008 and the statements of changes in net assets, operations and cash flow for the year then ended. These financial statements are the responsibility of the Trust's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, B.C.
February 24, 2009

Johnsen Archer LLP
CHARTERED ACCOUNTANTS

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CAPITAL DIRECT I INCOME TRUST
Statement of Net Assets
December 31, 2008

	2008	2007
ASSETS		
Current assets		
Cash	\$ 698,744	\$ 75,327
Investments (Notes 2, 4, 6)	3,355,351	1,704,378
	\$ 4,054,095	\$ 1,779,705
LIABILITIES		
Current liabilities		
Accounts payable	\$ 92,199	\$ 86,241
Interest payable	5,962	-
Loan payable to related party (Note 5)	1,000,000	1,000,000
Deferred mortgage discount income	30,794	25,454
	1,128,955	1,111,695
UNITHOLDERS' EQUITY		
Net assets	2,925,140	668,010
	\$ 4,054,095	\$ 1,779,705

APPROVED ON BEHALF OF THE MANAGER

"RICHARD NICHOLS" *Director*

"DEREK TRIPP" *Director*



See notes to financial statements

CAPITAL DIRECT I INCOME TRUST
Statement of Changes in Net Assets
Year Ended December 31, 2008

	2008	2007 <i>(9 months)</i>
Net assets - beginning of year	\$ 668,010	\$ -
Net income from operations	231,023	21,201
	899,033	21,201
Distributions to unitholders	(192,478)	(16,961)
Distribution to the Manager	(38,545)	(4,240)
Capital transactions		
Subscriptions <i>(Notes 8, 9)</i>	2,214,540	668,010
Reinvested distributions	105,133	-
Redemptions	(62,543)	-
Net assets - end of year	\$ 2,925,140	\$ 668,010



See notes to financial statements

CAPITAL DIRECT I INCOME TRUST
Statement of Operations
Year Ended December 31, 2008

	2008	2007 <i>(9 months)</i>
INCOME		
Mortgage interest	\$ 279,733	\$ 49,080
Mortgage discount	57,788	10,238
Other income	32,125	2,908
	369,646	62,226
EXPENSES		
Audit fees	10,000	2,240
Bank charges	4,316	826
Interest on loan payable	70,983	27,739
Legal fees	8,532	-
Management fees	24,539	2,257
Trustee fees	11,612	-
Provision for loan losses	8,641	7,963
	138,623	41,025
Net income from operations	\$ 231,023	\$ 21,201



See notes to financial statements

CAPITAL DIRECT I INCOME TRUST
Statement of Cash Flow
Year Ended December 31, 2008

	2008	2007 (9 months) (Note 12)
Operating activities		
Net income from operations	\$ 231,023	\$ 21,201
Item not affecting cash:		
Loan loss provision	8,641	7,963
	239,664	29,164
Changes in non-cash working capital:		
Accounts payable	5,958	86,241
Interest payable	5,962	-
Deferred mortgage discount income	5,340	25,454
	17,260	111,695
Cash flow from operating activities	256,924	140,859
Investing activity		
Purchase of investments, net	(1,659,614)	(1,712,341)
Financing activities		
Advances from related parties	-	1,000,000
Distributions to unitholders, net of distributions reinvested	(87,345)	-
Distributions to the Manager	(38,545)	(4,240)
Cash received on subscriptions	2,214,540	651,049
Redemptions	(62,543)	-
Cash flow from financing activities	2,026,107	1,646,809
Net change in cash and cash equivalents during the year	623,417	75,327
Cash - beginning of year	75,327	-
Cash - end of year	\$ 698,744	\$ 75,327
CASH FLOW SUPPLEMENTARY INFORMATION		
Interest paid	\$ 65,021	\$ 27,739



See notes to financial statements

CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2008

1. ORGANIZATION OF THE TRUST

The 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. It is expected to generate fees and income from investments in a portfolio of mortgage loans with the intention of generating 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

Changes in accounting policies

Effective January 1, 2008, the Company adopted the following new recommendation of the Canadian Institute of Chartered Accountants ("CICA") Handbook accounting requirements:

(a) Accounting changes:

Section 1506, "Accounting Changes", stipulates that voluntary changes in accounting policy are made only if they result in the financial statements providing reliable and more relevant information. In addition, new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors.

(b) Going-concern:

Amended Section 1400, "General Standards of Financial Statement Presentation", requires management to make an assessment of a company's ability to continue as a going-concern. When financial statements are not prepared on a going-concern basis, that fact shall be disclosed together with the basis on which the financial statements are prepared and the reason why the Company is not considered a going-concern.

(c) Inventories:

Section 3031, "Inventories", prescribes the accounting treatment for inventories and provides guidance on the determination of costs and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. The new section requires inventory to be measured at the lower of cost and net realizable value. The cost of inventory includes the cost to purchase and other costs incurred in bringing the inventories to their present location. The new standard also requires additional disclosures regarding the accounting policies used in measuring the inventories, the carrying value of the inventories, amounts recognized as expense during the period, the write-down and the amount of any reversal of write-down recognized in the period.

(continues)



CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2008

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

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. Such estimates 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.

Cash

The Trust considers all cash and highly liquid investments purchased with an initial maturity of one year or less to be cash and cash equivalents.

Investments

Investments consist primarily of residential mortgages and are valued at the fair value which approximates the outstanding principal less loan loss provision. The Manager, based on reasonable discretion, may determine a value which more accurately reflects the fair market value of the investment.

Income Recognition

Income from cash and investments are recognized on an accrual basis. Gains or losses on investments are recognized in the period when sold or when the Manager determines that a permanent impairment in value has occurred. Mortgage discount income is deferred and recognized over the term of the underlying mortgages.

Loss Reserve

On a monthly basis, the Manager reviews, estimates and accrues a loan loss provision based on the historical outcomes of mortgages originated by Capital Direct Lending Corp., the parent company of the Manager.

Future changes in significant accounting policies

Goodwill and intangible assets:

Section 3064, "Goodwill and Intangible Assets", establishes standards for the recognition, measurement, presentation and disclosure of intangible assets. Standards relating to goodwill are unchanged from those included in Section 3062. The new standard is effective for years beginning on or after January 1, 2009 replacing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs".



CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2008

3. FINANCIAL INSTRUMENTS

The Trust's financial instruments consist of cash, investments, accounts payable, interest payable and loan payable to a related party.

Credit Risk

It is the Manager's opinion that the Trust is exposed credit risks on all investments. The credit risk is minimized as all investments are collateralized, there is no geographical concentration of investments, and the Manager regularly reviews and monitors the fair value of each investment. Accordingly, it is the Manager's opinion that the Trust is not exposed to significant credit risk.

Fair Value

The Trust's carrying value of cash, accounts payable, interest payable and loan payable to a related party approximates their fair value due to the immediate or short term maturity of these instruments.

Liquidity Risk

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.



CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2008

4. INVESTMENTS

Investments consist primarily of residential mortgages acquired from Capital Direct Lending Corp. 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	Fair Value
0% to 4.99%	0	\$ -
5% to 9.99%	0	-
10% to 14.99%	1	87,577
15% to 19.99%	1	218,111
20% to 24.99%	2	156,297
25% to 29.99%	1	25,074
30% to 34.99%	2	76,701
35% to 39.99%	3	253,719
40% to 44.99%	1	14,472
45% to 49.99%	1	25,718
50% to 54.99%	2	161,241
55% to 59.99%	5	1,100,891
60% to 64.99%	3	226,772
65% to 69.99%	1	22,953
70% to 74.99%	5	525,152
75% to 79.99%	7	374,875
80% to 84.99%	1	102,402
85% to 89.99%	0	-
90% to 94.99%	0	-
95% to 99.99%	0	-
	36	3,371,955
Loan loss provision		(16,604)
		\$ 3,355,351

5. LOAN PAYABLE TO RELATED PARTY

The loan payable to Giroday Sawmills Ltd., a company controlled by a Director of the Manager, bears interest at the greater of 7% per annum or at the Royal Bank of Canada's prime rate of interest plus 1.5% per annum and matures on March 31, 2009. The loan is secured by a general security agreement on all present and future Trust property. Payments against the principal are not required, but may be made at any time without penalty at the discretion of the Trust.

Subsequent to year end, the Board of Directors and Giroday Sawmills Ltd. have agreed the Trust is to begin repayment of the loan in annual payments of \$200,000 per year beginning on March 31, 2009.



CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2008

6. RELATED PARTY TRANSACTIONS

The Trust purchased 100% of its mortgages from Capital Direct Lending Corp., the parent company of the Manager. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

7. TAXATION

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.

New legislation relating to the federal income taxation of a specified investment flow-through trust or partnership ("SIFT") received royal assent (the "SIFT Rules"). 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 will not be subject to the SIFT tax regime provided 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.

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 ending December 31, 2008, 231,967 units were issued for a total subscription price of \$2,214,540 and 6,254 units were redeemed for a total redemption price of \$62,543.

Units outstanding, beginning of period	66,801
Units issued on subscription	221,454
Units issued on reinvestment	10,513
Units redeemed	<u>(6,254)</u>
Units outstanding, end of period	<u>292,514</u>



CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
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9. 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.

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 ("Manager's 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 it is entitled to for the period from October to December 2008. 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 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 Unitholder's meetings, brokerage, legal and other fees and disbursements relating to the implementation of transactions for Trust investments, if any, will be paid by the Trust.



CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
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11. ANNUALIZED RATE OF RETURN

	Net asset value	Weighted average net assets per quarter	Net income to be allocated to unitholders
First quarter - March 31, 2008	900,101	818,381	28,241
Second quarter - June 30, 2008	1,251,113	1,107,770	36,832
Third quarter - September 30, 2008	2,411,853	1,876,177	58,470
Fourth quarter - December 31, 2008	2,925,140	2,730,473	68,936
Year ended December 31, 2008	2,925,140	1,633,200	192,478

	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, 2008	13.80%		1.73%	
Second quarter - June 30, 2008	13.30%		2.26%	
Third quarter - September 30, 2008	12.47%		3.58%	
Fourth quarter - December 31, 2008	10.10%		4.22%	
Year ended December 31, 2008	12.42%	13.01%	11.79%	12.32%



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12. COMPARATIVE FIGURES

Some of the prior year balances on the Statement of Cash Flow have been reclassified to conform to the current year's presentation. The loan loss provision, which is a non-cash item, has been reclassified from the purchase of investments, and Distributions to the Manager are now presented as a financing activity.

