CAPITAL DIRECT I INCOME TRUST

Financial Statements

Year Ended December 31, 2009

CHARTERED ACCOUNTANTS
JOHNSEN ARCHER LLP

CAPITAL DIRECT I INCOME TRUST
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Year Ended December 31, 2009

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25 years of original thinking

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, 2009 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, 2009 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

Surrey, B.C.
March 1, 2010

CHARTERED ACCOUNTANTS

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CAPITAL DIRECT I INCOME TRUST
Statement of Net Assets
December 31, 2009

	2009	2008 *(Note 16)*
ASSETS		
Cash	**$ 215,077**	$ 698,744
Accounts receivable	**2,333**	-
Mortgage investments *(Notes 6, 8)*	**5,408,042**	3,324,557
	$ 5,625,452	$ 4,023,301
LIABILITIES		
Accounts payable	**$ 130,700**	$ 92,199
Loan payable *(Note 7)*	**600,000**	1,000,000
Interest payable	**-**	5,962
	730,700	1,098,161
UNITHOLDERS' EQUITY		
Net assets	**4,894,752**	2,925,140
	$ 5,625,452	$ 4,023,301

Commitments *(Note 15)*

APPROVED ON BEHALF OF THE MANAGER

"RICHARD NICHOLS" *Director*

"DEREK TRIPP" *Director*

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See notes to financial statements

CAPITAL DIRECT I INCOME TRUST

Statement of Changes in Net Assets

Year Ended December 31, 2009

	2009	2008
Net assets - beginning of year	**$ 2,925,140**	$ 668,010
Net income from operations	**376,799**	231,023
	3,301,939	899,033
Distributions to unitholders *(Note 11)*	**(339,112)**	(192,478)
Distribution to the Manager	**(37,687)**	(38,545)
Capital transactions		
Subscriptions *(Note 10)*	**2,034,920**	2,214,540
Reinvested distributions	**151,708**	105,133
Redemptions	**(217,016)**	(62,543)
Net assets - end of year	**$ 4,894,752**	$ 2,925,140

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See notes to financial statements

CAPITAL DIRECT I INCOME TRUST
Statement of Operations
Year Ended December 31, 2009

		2009		2008
INCOME				
Mortgage income	**$**	**501,656**	$	337,521
Other income		**36,100**		32,125
		537,756		369,646
EXPENSES				
Audit fees		**22,000**		10,000
Bank charges		**1,975**		4,316
Interest on loan payable		**51,773**		70,983
Legal fees		**5,892**		8,532
Management fees		**54,797**		24,539
Trustee fees		**10,368**		11,612
Provision for loan losses		**14,152**		8,641
		160,957		138,623
Net income from operations	**$**	**376,799**	$	231,023

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See notes to financial statements

CAPITAL DIRECT I INCOME TRUST

Statement of Cash Flow

Year Ended December 31, 2009

	2009	2008 (Note 16)
Operating activities		
Net income from operations	$ 376,799	$ 231,023
Item not affecting cash:		
Provision for loan losses	14,152	8,641
	390,951	239,664
Changes in non-cash working capital:		
Accounts receivable	(2,333)	-
Accounts payable	38,501	5,968
Interest payable	(5,962)	5,962
	30,206	11,930
Cash flow from operating activities	421,157	251,594
Investing activity		
Purchase of mortgage investments, net	(2,097,637)	(1,654,274)
Financing activities		
Repayment of loan payable	(400,000)	-
Distributions to unitholders, net of distributions reinvested	(187,404)	(87,345)
Distributions to the Manager	(37,687)	(38,545)
Cash received on subscriptions	2,034,920	2,214,540
Redemptions	(217,016)	(62,543)
Cash flow from financing activities	1,192,813	2,026,107
Increase (decrease) in cash	(483,667)	623,427
Cash - beginning of year	698,744	75,317
Cash - end of year	$ 215,077	$ 698,744
CASH FLOW SUPPLEMENTARY INFORMATION		
Interest paid	$ 57,735	$ 65,021

CHARTERED ACCOUNTANTS
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See notes to financial statements

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. 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. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2009, the Trust adopted the following recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook accounting requirements:

(a) Financial instruments - disclosure and presentation

Section 3862, "Financial Instruments - Disclosures" places additional emphasis on disclosures regarding the risk associated with both recognized and unrecognized financial instruments and how these risks are managed. Handbook Section 3863, "Financial Instruments - Presentation" establishes standards for presentation of financial instruments and non-financial derivatives and provides additional guidance for classification of financial instruments between liabilities and equity from the perspective of the issuer. These disclosures are included in Note 5 to the financial statements.

(b) Financial instruments - recognition and measurement

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. The adoption of these sections had no material impact on the financial statements, except for additional disclosures.

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2. CHANGES IN ACCOUNTING POLICIES *(continued)*

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
Investments	Loans and receivables	Amortized cost
Liabilities:		
Accounts payable	Other financial liabilities	Amortized cost
Interest payable	Other financial liabilities	Amortized cost
Loan payable	Other financial liabilities	Amortized cost

(c) 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 of loss" transactions during the year ended December 31, 2009 and no opening or closing balances for accumulated other comprehensive income or loss.

(d) Credit risk and fair value of financial assets and financial liabilities

On January 20, 2009, the CICA issued EIC-173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". 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. The adoption of EIC-173 had no material impact on the financial statements.

(e) Capital disclosures

Section 1535, "Capital Disclosures" requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the entity's objectives, policies and processes for managing capital. This disclosure is provided in Note 14 to the financial statements.

3. 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. Such estimates are primarily the allowance for loan losses and 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.

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 collectability, 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 writeoffs 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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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

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.

4. FUTURE CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board has confirmed that accounting standards in Canada are to converge with IFRS. Publicly accountable entities will begin reporting, with comparative data, under IFRS for the interim and financial statements relating to fiscal years beginning on or after January 1, 2011. While IFRS is based on a conceptual framework similar to Canadian GAAP, there are significant differences with respect to recognition, measurement and disclosures, which the Trust is assessing. The financial impact of the transition to IFRS cannot be reasonably estimated at this time.

5. 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.

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5. FINANCIAL INSTRUMENTS *(continued)*

	2009			2008
	Carrying Value	Fair Value	**Difference**	Difference
Assets				
Held for trading:				
Cash	$ 215,077	$ 215,077	$ -	$ -
Loans and receivables:				
Accounts receivable	2,333	2,333	-	-
Mortgage investments	5,408,042	5,408,042	-	-
			-	-
Liabilities				
Other financial liabilities:				
Accounts payable	137,864	137,864	-	-
Interest payable	-	-	-	-
Loan payable	600,000	600,000	-	-
			-	-
Net difference			-	-

(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 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 0.5% of mortgage investments.

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5. FINANCIAL INSTRUMENTS *(continued)*

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.

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% 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.

For the loan payable, based on the factors for determining the interest rate described in Note 7, if the prime rate is greater than 5.5%, the Trust would be exposed to a risk of the interest rate exceeding 7% per annum. As of December 31, 2009, prime rate was 2.25%. Accordingly, it is the Manager's opinion that the Trust is not exposed to significant interest rate risk.

6. MORTGAGE INVESTMENTS

Mortgage investments consist 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 second. 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%	1		21,741
10% to 14.99%	1		26,597
15% to 19.99%	2		289,583
20% to 24.99%	2		83,239
25% to 29.99%	3		421,688
30% to 34.99%	4		408,562
35% to 39.99%	3		255,185
40% to 44.99%	3		205,754
45% to 49.99%	4		528,047
50% to 54.99%	4		322,047
55% to 59.99%	5		810,530
60% to 64.99%	2		334,153
65% to 69.99%	7		799,605
70% to 74.99%	5		557,343
75% to 79.99%	6		305,505
80% to 84.99%	1		101,012
85% to 89.99%	0		-
90% to 94.99%	0		-
95% to 99.99%	0		-
	53		5,470,591
General loan loss provision			(30,756)
Deferred mortgage discount income			(31,793)
		$	5,408,042

As of December 31, 2009, it is in the Manager's opinion that there are no specifically identified impaired mortgage investments.

7. LOAN PAYABLE

The loan payable to Giroday Sawmills Ltd., a company controlled by a former 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 1, 2012. The loan is secured by a general security agreement on all present and future Trust property. Annual payments of $200,000 against the principal are due on March 1 of each year until the loan is fully repaid.

8. 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.

9. TAXATION

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.

10. 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, 2009, 218,663 units (2008: 231,967 units) were issued for a total subscription price of $2,034,920 (2008: $2,214,540) and 21,702 units (2008: 6,254 units) were redeemed for a total redemption price of $217,020 (2008: $62,543).

	2009	2008
Units outstanding, beginning of period	292,514	66,801
Units issued on subscription	203,492	221,454
Units issued on reinvestment	15,171	10,513
Units redeemed	(21,702)	(6,254)
Units outstanding, end of period	489,475	292,514

11. DISTRIBUTIONS TO UNITHOLDERS

The Trust distributes 90% 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.

12. 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 50% of the Manager's fee it is entitled to for the period from January to December 2009. 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 Unitholder's meetings, brokerage, legal and other fees and disbursements relating to the implementation of transactions for Trust investments, if any, are paid by the Trust.

13. ANNUALIZED RATE OF RETURN

	Net asset value	Weighted average net assets per quarter	Net income to be allocated to unitholders
First quarter - March 31, 2009	3,748,327	3,736,650	75,735
Second quarter - June 30, 2009	4,386,171	4,274,461	90,820
Third quarter - September 30, 2009	4,647,380	4,570,204	91,979
Fourth quarter - December 31, 2009	4,894,752	4,878,074	80,578
Year ended December 31, 2009	4,894,752	4,364,847	339,112

	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, 2009	8.11%		1.74%	
Second quarter - June 30, 2009	8.50%		2.08%	
Third quarter - September 30, 2009	8.05%		2.11%	
Fourth quarter - December 31, 2009	6.61%		1.85%	
Year ended December 31, 2009	7.82%	8.05%	7.78%	8.01%

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14. 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 10. The Trust is not subject to any externally imposed capital requirements.

15. COMMITMENTS

As of December 31, 2009, the Trust has a commitment to fund a further $103,949 relating to a mortgage investment subject to the borrower completing certain requirements.

16. COMPARATIVE FIGURES

Some of the prior year balances have been reclassified to conform to the current year's presentation.