# CAPITAL DIRECT I INCOME TRUST

## Financial Statements

## Year Ended December 31, 2010

CHARTERED ACCOUNTANTS
JOHNSEN ARCHER LLP

# 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, 2010 and the statements of changes in net assets, operations and cash flows for the year then ended.

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.

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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of 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.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2010 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 22, 2011

CHARTERED ACCOUNTANTS

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CAPITAL DIRECT I INCOME TRUST

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Year Ended December 31, 2010



CHARTERED ACCOUNTANTS
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## CAPITAL DIRECT I INCOME TRUST
### Statement of Net Assets
### December 31, 2010

| | 2010 | 2009 |
|---|---|---|
| **ASSETS** | | |
| Cash | **$ 121,264** | $ 215,077 |
| Accounts receivable | **-** | 2,333 |
| Prepaid expenses | **7,500** | - |
| Mortgage investments, net of loss provision *(Notes 6, 7)* | **8,479,813** | 5,408,042 |
| | **$ 8,608,577** | $ 5,625,452 |
| **LIABILITIES** | | |
| Demand loan *(Note 8)* | **$ 1,162,682** | $ - |
| Accounts payable and accrued liabilities | **195,435** | 130,700 |
| Loan payable | **-** | 600,000 |
| | **1,358,117** | 730,700 |
| **UNITHOLDERS' EQUITY** | | |
| Net assets | **7,250,460** | 4,894,752 |
| | **$ 8,608,577** | $ 5,625,452 |

**APPROVED ON BEHALF OF THE MANAGER**

_______________________________ *Director*

JA CHARTERED ACCOUNTANTS JOHNSEN ARCHER LLP

See notes to financial statements

## CAPITAL DIRECT I INCOME TRUST
### Statement of Changes in Net Assets
### Year Ended December 31, 2010

| | 2010 | 2009 |
|---|---|---|
| **Net assets - beginning of year** | **$ 4,894,752** | $ 2,925,140 |
| Net income from operations | **552,615** | 376,799 |
| | **5,447,367** | 3,301,939 |
| Distributions to unitholders *(Note 10)* | **(497,354)** | (339,112) |
| Distribution to the Manager | **(55,261)** | (37,687) |
| Capital transactions | | |
| Subscriptions *(Note 11)* | **2,255,663** | 2,034,920 |
| Reinvested distributions | **232,843** | 151,708 |
| Redemptions | **(132,798)** | (217,016) |
| **Net assets - end of year** | **$ 7,250,460** | $ 4,894,752 |

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See notes to financial statements

# CAPITAL DIRECT I INCOME TRUST
## Statement of Operations
## Year Ended December 31, 2010

| | 2010 | 2009 |
|---|---|---|
| **Revenue** | | |
| Interest income | $ **702,948** | $ 501,656 |
| Other income | **72,312** | 36,100 |
| | **775,260** | 537,756 |
| **General and administrative expenses** | | |
| Audit fees | **40,000** | 22,000 |
| Bank charges | **8,048** | 1,975 |
| Interest on demand loan | **1,604** | - |
| Interest on loan payable | **29,459** | 51,773 |
| Legal fees | **18,681** | 5,892 |
| Management fees | **97,621** | 54,797 |
| Provision for loan losses | **15,380** | 14,152 |
| Trustee fees | **11,852** | 10,368 |
| | **222,645** | 160,957 |
| **Net income from operations** | $ **552,615** | $ 376,799 |

CHARTERED ACCOUNTANTS
JOHNSEN ARCHER LLP

See notes to financial statements

## CAPITAL DIRECT I INCOME TRUST
### Statement of Cash Flows
### Year Ended December 31, 2010

| | 2010 | 2009 |
|---|---|---|
| **Operating activities** | | |
| Net income from operations | **$ 552,615** | $ 376,799 |
| Item not affecting cash: | | |
| Provision for loan losses | **15,380** | 14,152 |
| | **567,995** | 390,951 |
| Changes in non-cash working capital: | | |
| Accounts receivable | **2,333** | (2,333) |
| Accounts payable and accrued liabilities | **64,735** | 38,501 |
| Prepaid expenses | **(7,500)** | - |
| Interest payable | **-** | (5,962) |
| | **59,568** | 30,206 |
| Cash flow from operating activities | **627,563** | 421,157 |
| **Investing activity** | | |
| Purchase of mortgage investments, net | **(3,087,151)** | (2,097,637) |
| **Financing activities** | | |
| Repayment of loan payable | **(600,000)** | (400,000) |
| Distributions to unitholders, net of distributions reinvested | **(264,511)** | (187,404) |
| Distributions to the Manager | **(55,261)** | (37,687) |
| Cash received on subscriptions | **2,255,663** | 2,034,920 |
| Redemptions | **(132,798)** | (217,016) |
| Demand loan | **1,162,682** | - |
| Cash flow from financing activities | **2,365,775** | 1,192,813 |
| **Decrease in cash** | **(93,813)** | (483,667) |
| Cash - beginning of year | **215,077** | 698,744 |
| **Cash - end of year** | **$ 121,264** | $ 215,077 |
| **Cash flows supplementary information** | | |
| Interest paid | **$ 31,063** | $ 57,735 |
| Interest received | **$ 702,948** | $ 501,656 |

CHARTERED ACCOUNTANTS
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See notes to financial statements

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. CHANGES IN ACCOUNTING POLICIES

The Accounting Standards Board of the Canadian Institute of Chartered Accountants ("CICA") recently issued an amendment to CICA Handbook Section 3862, "Financial Instruments - Disclosures". The Trust adopted this amendment for the fiscal 2010 financial statements in line with the requirement of the standard. The amendments to the existing standard require classification of the Trust's financial instruments into three levels based on the inputs used to value the financial instruments. Level 1 securities are based on quoted prices in active markets for identical securities. Level 2 securities are based on significant observable market inputs, such as quoted prices from similar securities and quoted prices in inactive markets. Level 3 securities are based on significant unobservable inputs that reflect the Trust's determination of assumptions that market participants might reasonably use in valuing the securities. Refer to Note 4 (b) for the relevant disclosure.

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. These estimates include 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.

*(continues)*

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

Financial instruments

Disclosure and presentation

Section 3862 of the CICA Handbook, "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 4 to the financial statements.

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: | | |
| Demand loan | Other financial liabilities | Amortized cost |
| Accounts payable and accrued liabilities | Other financial liabilities | Amortized cost |
| Loan payable | Other financial liabilities | Amortized cost |

Comprehensive income

*(continues)*

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

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, 2010 (2009 - $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 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. 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.

| | 2010 | | | 2009 |
|---|---|---|---|---|
| | Carrying Value | Fair Value | **Difference** | Difference |
| Assets | | | | |
| Held for trading: | | | | |
| Cash | $ 121,264 | $ 121,264 | $ - | $ - |
| Loans and receivables: | | | | |
| Mortgage investments | 8,479,813 | 8,479,813 | - | - |
| | | | - | - |
| Liabilities | | | | |
| Other financial liabilities: | | | | |
| Demand loan | 1,162,682 | 1,162,682 | - | - |
| Accounts payable | 195,435 | 195,435 | - | - |
| | | | - | - |
| 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)*

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4. FINANCIAL INSTRUMENTS *(continued)*

| | Fair value measurements classifications | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets: | | | | |
| Cash | - | 121,264 | | 121,264 |
| Mortgage investments | - | - | 8,479,813 | 8,479,813 |
| Financial liabilities: | | | | |
| Line of credit | - | 1,162,682 | - | 1,162,682 |
| Accounts payable | - | 195,435 | - | 195,435 |

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 0.5% 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.

*(continues)*

4. 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% (2009 - 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.

5. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

In September 2010, 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, 2013.

The Trust has elected to defer the adoption of IFRS to December 31, 2013. The Trust will issue its first financial statements in accordance with IFRS commencing the year ended December 31, 2013, with comparative information.

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, 2013. 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, 2013 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*

The Trust is evaluating whether under IFRS its Trust units would be presented as liabilities. If this is the case, it may be necessary to reclassify the Trust units from equity to liabilities. Similarly, there is no equivalent standard under IFRS to EIC 151 under Canadian GAAP dealing with the exchangeable units, so the exchangeable units may also mean that any distributions to unitholders, which would currently be treated as equity transactions, would need to be shown as expenses in the statement of operations under IFRS.

*(continues)*

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

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.

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 liabiltiies 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.

## 6. 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 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% | 0 | | - |
| 10% to 14.99% | 3 | | 101,636 |
| 15% to 19.99% | 2 | | 289,151 |
| 20% to 24.99% | 2 | | 56,873 |
| 25% to 29.99% | 2 | | 115,595 |
| 30% to 34.99% | 5 | | 422,184 |
| 35% to 39.99% | 3 | | 290,927 |
| 40% to 44.99% | 6 | | 311,190 |
| 45% to 49.99% | 9 | | 886,870 |
| 50% to 54.99% | 6 | | 653,052 |
| 55% to 59.99% | 8 | | 999,593 |
| 60% to 64.99% | 11 | | 1,777,388 |
| 65% to 69.99% | 16 | | 1,396,089 |
| 70% to 74.99% | 9 | | 540,942 |
| 75% to 79.99% | 12 | | 706,349 |
| 80% to 84.99% | 0 | | - |
| 85% to 89.99% | 0 | | - |
| 90% to 94.99% | 0 | | - |
| 95% to 99.99% | 0 | | - |
| | 94 | | 8,547,839 |
| General loan loss provision | | | -46,136 |
| Deferred mortgage discount income | | | -21,890 |
| | | $ | 8,479,813 |

As of December 31, 2010, it is in the Manager's opinion that there are no specifically identified impaired mortgage investments.

## 7. RELATED PARTY TRANSACTIONS

The Trust purchased 100% of its mortgages from Capital Direct Lending Corp. 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.

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8. DEMAND LOAN

The Trust has an operating line of credit with Canadian Western Bank to a maximum of $3,000,000 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, 2010, 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.

9. 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 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. 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 2010, thereby increasing the distribution to the unitholder to 90% of the net income from operations.

## 11. 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, 2010, 248,850 units (2009: 218,663 units) were issued for a total subscription price of $2,255,663 (2009: $2,034,920) and 13,280 units (2009: 21,702 units) were redeemed for a total redemption price of $132,798 (2009: $217,016).

| | **2010** | 2009 |
|---|---|---|
| Units outstanding, beginning of period | 489,475 | 292,514 |
| Units issued on subscription | 225,566 | 203,492 |
| Units issued on reinvestment | 23,284 | 15,171 |
| Units redeemed | -13,280 | -21,702 |
| Units outstanding, end of period | 725,046 | 489,475 |

## 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 2010. 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, 2010 | 5,668,234 | 5,400,153 | 114,005 |
| Second quarter - June 30, 2010 | 6,186,660 | 6,006,650 | 133,116 |
| Third quarter - September 30, 2010 | 6,677,041 | 6,478,781 | 132,760 |
| Fourth quarter - December 31, 2010 | 7,250,460 | 7,060,783 | 117,473 |
| Year ended December 31, 2010 | 7,250,460 | 6,236,592 | 497,354 |

| | 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, 2010 | 8.44% | | 1.83% | |
| Second quarter - June 30, 2010 | 8.86% | | 2.13% | |
| Third quarter - September 30, 2010 | 8.20% | | 2.13% | |
| Fourth quarter - December 31, 2010 | 6.65% | | 1.88% | |
| Year ended December 31, 2010 | 8.04% | 8.28% | 7.97% | 8.21% |

14. CAPITAL MANAGEMENT

The Trust defines capital as demand loan 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 11.

The Trust's demand loan (Note 8) 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 $6,000,000 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, 2010, the Trust was in compliance with the above covenants.