Fundamental Research Corp.

Investment Analysis for Intelligent Investors

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Capital Direct I Income Trust – Distributes 7.9% in 2017

Sector/Industry: Real Estate Mortgages **www.incometrustone.com**

Offering Summary	
Issuer	Capital Direct I Income Trust
Securities Offered	Classes A, C, and F Trust Units
Unit Price	$10
Minimum Subscription	$5,000
Hurdle Rate	N/A
Distribution to Investors	80% of net income on a quarterly basis
Redemption	Class A - penalty of 5% of NAV in year 1, decreasing by 1% every year; no penalty after year 5 / Class C & Class F - penalty of 2% within 6 months and no penalty after that
Management Fee	2.0% p.a. of NAV on Classes A and C units / 1.0% p.a. of NAV on Class F units
Auditor	Johnsen Archer LLP

Highlights

- Capital Direct I Income Trust's ("trust", "fund") portfolio size (gross mortgage receivables) increased 15% YoY to $170 million by the end of 2017.
- Revenues grew by 39% YoY in 2017 to $15.34 million. Net Income grew by 40% YoY to $10.28 million.
- Despite an increase in portfolio size, we believe the trust has slightly lowered its portfolio's risk profile. The mix of first mortgages increased, while duration and loan-to-value dropped.
- At the end of 2017, 47% of the mortgages were in British Columbia ("B.C."), 45% in Ontario ("ON"), 8% in Alberta ("AB"), and 1% in the Atlantic.
- A rising interest rate environment and expected weakness in real estate transactions, we believe, will likely impact real estate prices. The offsetting aspect of this is that tighter lending policies of banks are driving more borrowers to private lenders.
- We estimate that the trust's investors' received a dividend (weighted average of all unit types) of 7.9% p.a. in 2017.

FRC Rating	
Est. Yield (2018)	7% - 8%
Rating	2
Risk	3

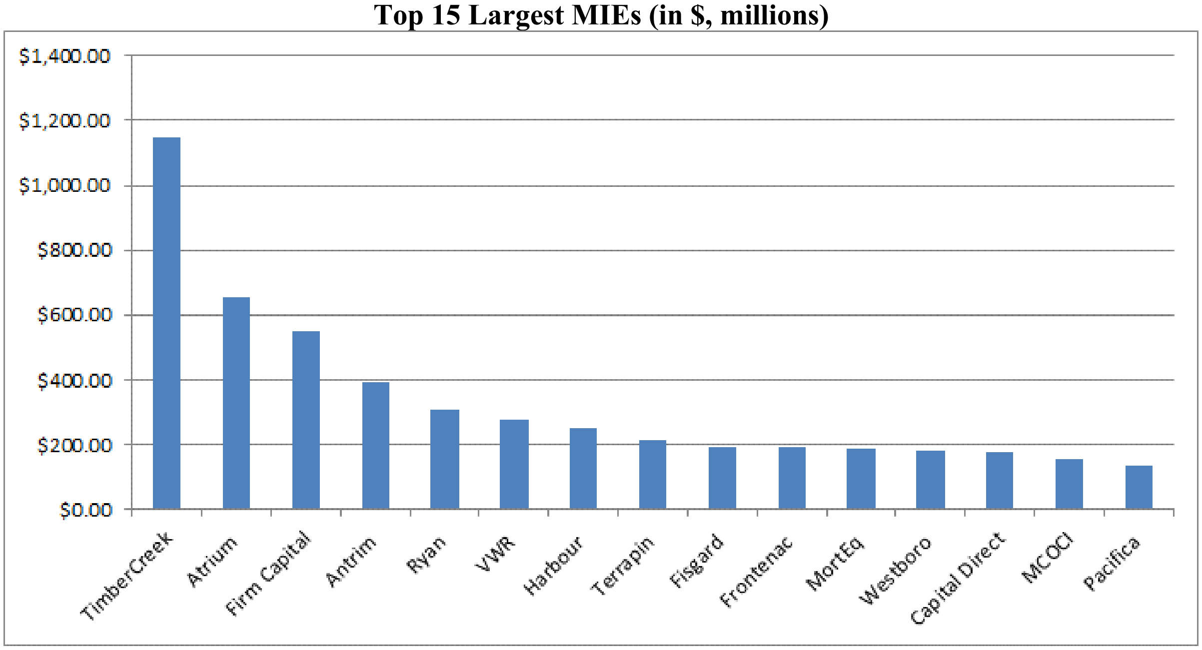
*see back of report for rating definitions

Overview

In a recent updated study conducted for the Canada Mortgage Housing Corporation ("CMHC"), we estimated that there are approximately 200 Mortgage Investment Corporations ("MIC") / Mortgage Investment Entities ("MIE") in the country. Based on the quality of data we were able to gather from publicly available information, company websites, management interviews and surveys, we shortlisted 89 entities. These 89 entities, we estimate, held a total of $8.75 billion in mortgages at the end of 2017. Since our database includes all of the large MICs / MIEs (over $100 million), we estimate that our study represents at least 75% of the total mortgages held by the MIC / MIE industry. This implies a total market size of approximately $11 - $12 billion.

In total, we estimate that the top 15 funds have a combined portfolio of $4.72 billion. We estimate that Capital Direct is the 13th largest.

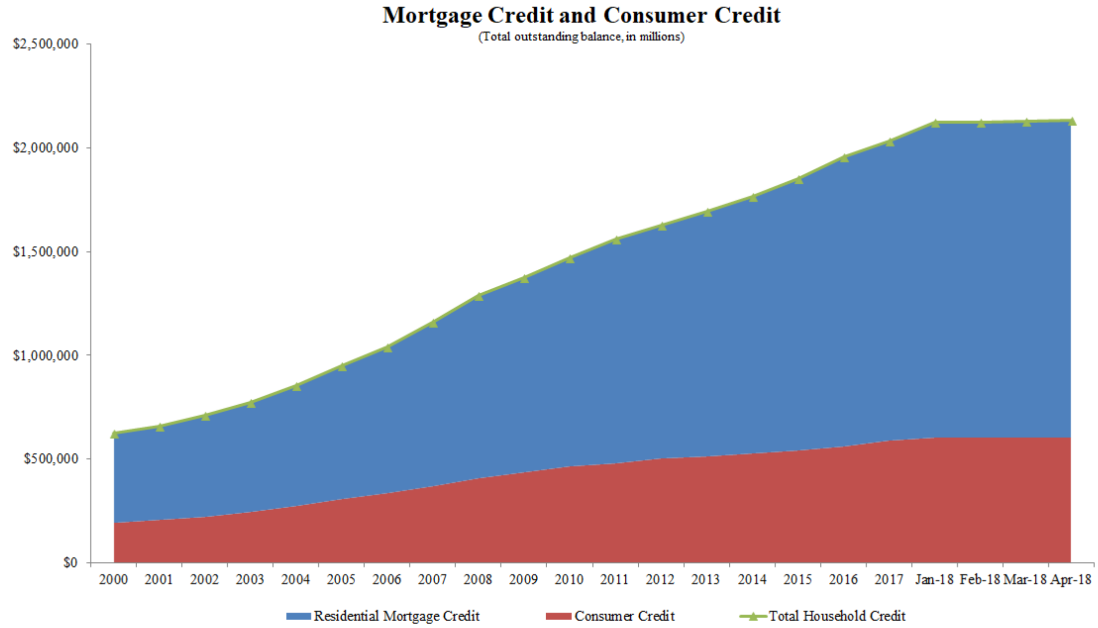
Top 15 Largest MIEs (in $, millions)



Source: FRC /
("Mortgage Investment Corporations – 2018 Update" Prepared for the CMHC)

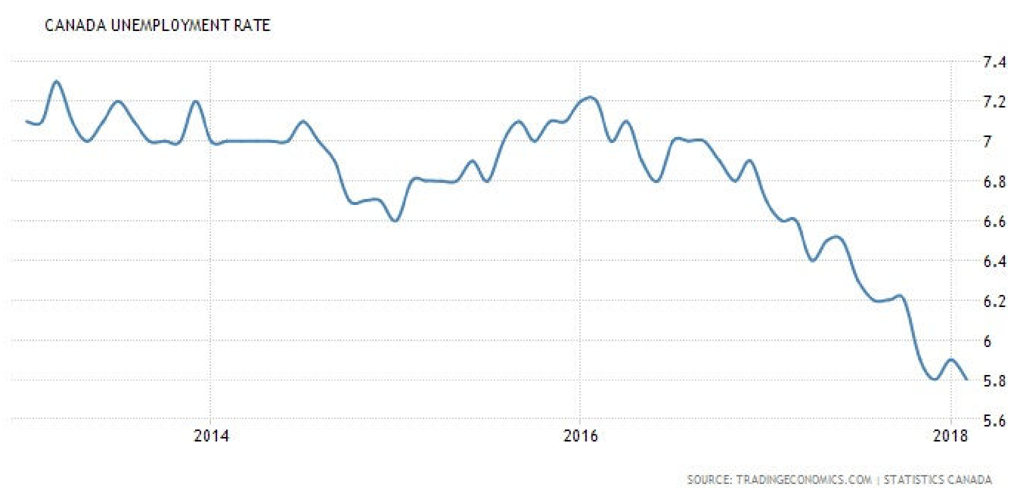
Update on the Mortgage Industry

At the end of April 2018, mortgage credit accounted for 72%, and consumer credit accounted for the remaining 28% of total household debt in Canada. Total residential mortgage credit in Canada (outstanding balance of the major private institutional lenders) increased from $0.43 trillion in 2000, to $1.53 trillion by the end of April 2018, reflecting a compounded annual growth rate ("CAGR") of 7.6%.



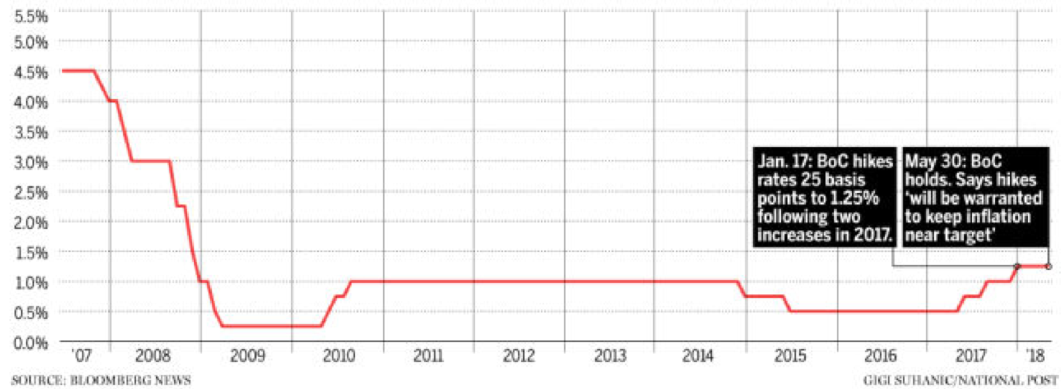
Data Source: Statistics Canada

The factors that have been contributing to increased lending in Canada are the strong growth in housing prices, decreasing unemployment rates (see chart below), a low interest rate environment, and the relatively low default rates. Also, the tighter lending policies set by banks and conventional lenders have been encouraging more and more private lenders to enter the market over the last decade.



After raising **the overnight lending rate three times** over the past 12 months (first in July 2017, second in September 2017 and the third in January 2018), the Bank of Canada decided to maintain the rate at 1.25% in their last policy meeting on May 30, 2018. However, the BoC gave clear hints that additional rate hikes could be coming in the near-future based on stronger than expected growth in Q1.

Canada - overnight lending rate

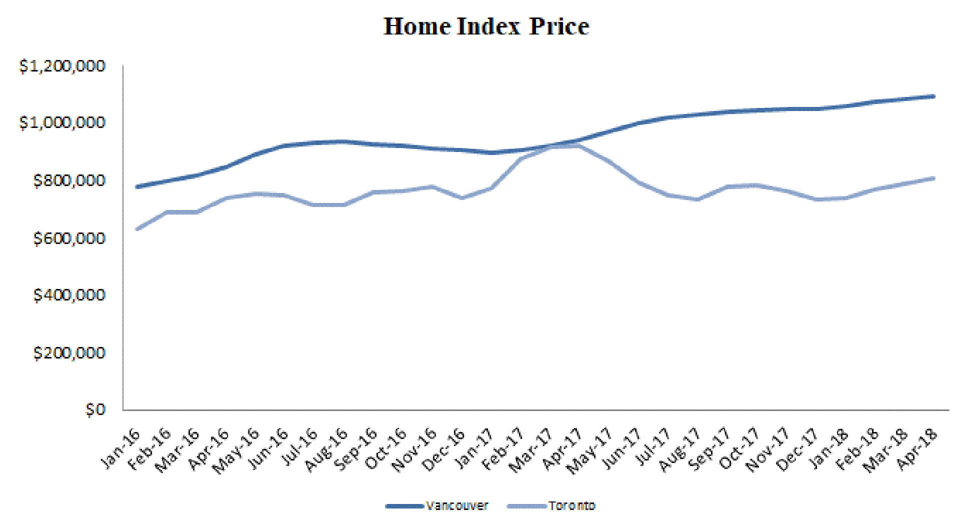


Source: Bank of Canada

Based on an expected increase in rates, we expect MIEs to continue to raise their lending rates this year.

Toronto and Vancouver Market Update

The following chart shows the average home prices in Vancouver and Toronto – Canada's two key housing markets.



Source: TREB and REBGV

As a result of the B.C. government's new measures, Vancouver's real estate sales dropped for the first time in February 2018, since July 2017. Sales dropped 30% YoY in March, 27% in April, and 35% in May 2018. Sales declined across all property types.

Vancouver Sales by Type	Sep-16	Sep-17	YoY	Oct-16	Oct-17	YoY	Nov-16	Nov-17	YoY	Dec-16	Dec-17	YoY
Detached	666	852	28%	652	940	44%	638	841	32%	541	617	14%
Apartments	1,218	1,451	19%	1,178	1,532	30%	1,200	1,508	26%	915	1,028	12%
Attached Property	369	518	40%	403	550	36%	376	446	19%	258	371	44%
Total	2,253	2,821	25%	2,233	3,022	35%	2,214	2,795	26%	1,714	2,016	18%

Vancouver Sales by Type	Jan-17	Jan-18	YoY	Feb-17	Feb-18	YoY	Mar-17	Mar-18	YoY	Apr-17	Apr-18	YoY	May-17	May-18	YoY
Detached	444	487	10%	745	621	-17%	1,150	722	-37%	1,211	807	-33%	1,548	926	-40%
Apartments	825	1,012	23%	1,275	1,185	-7%	1,841	1,349	-27%	1,722	1,308	-24%	2,025	1,431	-29%
Attached Property	254	319	26%	404	401	-1%	588	446	-24%	620	464	-25%	791	476	-40%
Total	1,523	1,818	19%	2,424	2,207	-9%	3,579	2,517	-30%	3,553	2,579	-27%	4,364	2,833	-35%

Source: Real Estate Board of Greater Vancouver

Despite the drop, the average price increased 0.2% MoM, and 13% YoY, in May 2018.

Metro Vancouver	YoY	Sep-16	Sep-17	YoY	Oct-16	Oct-17	YoY	Nov-16	Nov-17	YoY	Dec-16	Dec-17	YoY
Residential Sales	22%	2,253	2,821	25%	2,233	3,022	35%	2,214	2,795	26%	1,714	2,016	18%
New Listings	-1%	4,799	5,375	12%	3,981	4,539	14%	3,147	4,109	31%	1,312	1,891	44%
Active Listings	4%	9,354	9,466	1%	9,143	9,137	0%	8,385	9,137	9%	6,345	6,958	10%
Sales to Listings		24.09%	29.80%		24.42%	33.07%		26.40%	30.59%		27.01%	28.97%	
MLS Home Price Index	10%	$926,600	$1,037,300	12%	$919,300	$1,042,300	13%	$908,300	$1,046,900	15%	$906,500	$1,050,300	16%

Metro Vancouver	Jan-17	Jan-18	YoY	Feb-17	Feb-18	YoY	Mar-17	Mar-18	YoY	Apr-17	Apr-18	YoY	May-17	May-18	YoY
Residential Sales	1,523	1,818	19%	2,425	2,207	-9%	3,579	2,517	-30%	3,553	2,579	-27%	4,364	2,833	-35%
New Listings	4,140	3,796	-8%	3,666	4,223	15%	4,762	4,450	-7%	4,907	5,820	19%	6,044	6,375	5%
Active Listings	7,238	6,947	-4%	7,594	7,822	3%	7,586	8,380	10%	7,813	9,822	26%	8,186	11,292	38%
Sales to Listings	21.04%	26.17%		31.93%	28.22%		47.18%	30.04%		45.48%	26.26%		53.31%	25.09%	
MLS Home Price Index	$896,000	$1,056,500	18%	$906,700	$1,071,800	18.2%	$919,300	$1,084,000	17.9%	$941,100	$1,092,000	16%	$967,500	$1,094,000	13%

Source: Real Estate Board of Greater Vancouver

The sales to active ratio was 25% in May 2018, versus 53% in May 2017. We remain very cautious and expect the new measures to continue to impact sales in the near-term.

Toronto MLS sales continues to drop YoY, but the decline rate has been decreasing in recent months. Sales were down 23% YoY in January 2018, 35% YoY in February 2018, 40% in March 2018, 33% in April 2018, and 23% in May 2018. The following table shows that sales dropped across almost all property types.

Toronto Sales by Type	Sep-16	Sep-17	YoY	Oct-16	Oct-17	YoY	Nov-16	Nov-17	YoY	Dec-16	Dec-17	YoY
Detached	4,708	2780	-41%	4,499	3135	-30%	3,890	3131	-20%	2,259	1,938	-14%
Semi - Detached	920	639	-31%	917	694	-24%	798	741	-7%	457	486	6%
Att/Row/Townhouse	782	533	-32%	762	624	-18%	717	631	-12%	412	442	7%
Condo Townhouse	748	465	-38%	718	527	-27%	601	558	-7%	370	424	15%
Condo Apartment	2,580	1860	-28%	2,702	2025	-25%	2,409	2210	-8%	1,731	1,562	-10%
Link	142	87	-39%	138	89	-36%	117	86	-26%	83	55	-34%
Co-op Apt	3	7	133%	13	12	-8%	8	7	-13%	11	9	-18%
Det Condo	9	3	-67%	14	8	-43%	2	6	200%	4	7	75%
Co ownership Apt	10	5	-50%	5	4	-20%	5	4	-20%	11	7	-36%
Total	9,902	6,379	-36%	9,768	7,118	-27%	8,547	7,374	-14%	5,338	4,930	-8%

Toronto Sales by Type	Jan-17	Jan-18	YoY	Feb-17	Feb-18	YoY	Mar-17	Mar-18	YoY	Apr-17	Apr-18	YoY	May-17	May-18	YoY
Detached	2,261	1,659	-27%	3,721	2,169	-42%	5,887	3,120	-47%	5,715	3,451	-40%	4,757	3,344	-30%
Semi - Detached	423	364	-14%	651	454	-30%	1,002	686	-32%	1,025	714	-30%	930	647	-30%
Att/Row/Townhouse	421	356	-15%	619	483	-22%	937	622	-34%	914	745	-18%	802	701	-13%
Condo Townhouse	356	319	-10%	546	364	-33%	789	503	-36%	755	542	-28%	711	599	-16%
Condo Apartment	1,636	1,275	-22%	2,360	1,631	-31%	3,261	2,183	-33%	3,013	2,218	-26%	2,854	2,393	-16%
Link	81	38	-53%	99	64	-35%	170	90	-47%	173	107	-38%	113	127	12%
Co-op Apt	3	6	100%	7	4	-43%	11	11	0%	17	7	-59%	14	8	-43%
Det Condo	2	1	-50%	7	3	-57%	13	6	-54%	13	5	-62%	7	10	43%
Co ownership Apt	5	1	-80%	4	3	-25%	7	7	0%	5	3	-40%	8	5	-38%
Total	5,188	4,019	-23%	8,014	5,175	-35%	12,077	7,228	-40%	11,630	7,792	-33%	10,196	7,834	-23%

Source: Toronto Real Estate Board

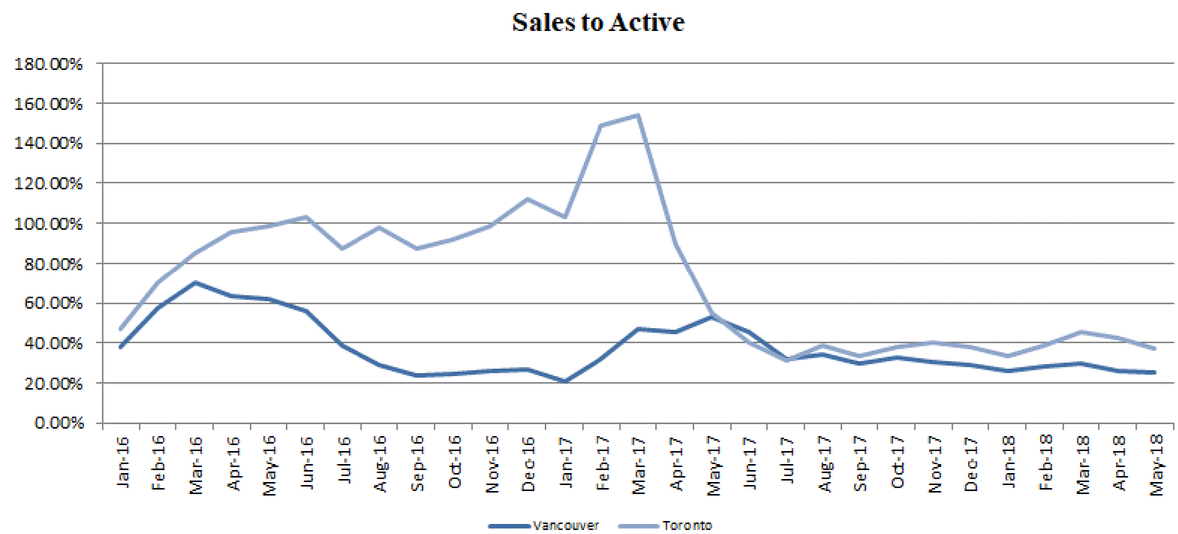
Despite the drop in sales, the average price was up 0.9% MoM in January 2018, 4.2% in February 2018, 2.2% in March 2018, 2.6% in April 2018, and 0.1% in May 2018.

Toronto	Sep-16	Sep-17	YoY	Oct-16	Oct-17	YoY	Nov-16	Nov-17	YoY	Dec-16	Dec-17	YoY
Residential Sales	9,830	6,379	-35%	9,715	7,118	-27%	8,503	7,374	-13%	5,305	4,930	-7%
New Listings	15,050	16,469	9%	13,331	14,903	12%	10,456	14,349	37%	4,166	6,330	52%
Active Listings	11,255	19,021	69%	10,563	18,859	79%	8,639	18,197	111%	4,746	12,926	172%
Sales to Listings	87.34%	33.54%		91.97%	37.74%		98.43%	40.52%		111.78%	38.14%	
MLS Home Price Index	$756,021	$775,546	3%	$762,691	$780,104	2%	$777,091	$761,757	-2%	$735,021	$730,124	-1%

Toronto	Jan-17	Jan-18	YoY	Feb-17	Feb-18	YoY	Mar-17	Mar-18	YoY	Apr-17	Apr-18	YoY	May-17	May-18	YoY
Residential Sales	5,188	4,019	-23%	8,014	5,175	-35%	11,954	7,228	-40%	11,630	7,792	-33%	10,196	7,834	-23%
New Listings	7,338	8,585	17%	9,834	10,520	7%	16,978	14,866	-12%	21,630	16,273	-25%	25,837	19,022	-26%
Active Listings	5,034	11,894	136%	5,400	13,362	147%	7,865	15,971	103%	12,926	18,206	41%	18,477	20,919	13%
Sales to Listings	103.06%	33.79%		148.41%	38.73%		151.99%	45.26%		89.97%	42.80%		55.18%	37.45%	
MLS Home Price Index	$770,745	$736,783	-4%	$875,983	$767,818	-12%	$915,126	$784,558	-14%	$920,791	$804,584	-13%	$863,910	$805,320	-7%

Source: Toronto Real Estate Board

The sales to active listings ratio was 37% in May 2018 versus 55% in May 2017.



Source: TREB and REBGV

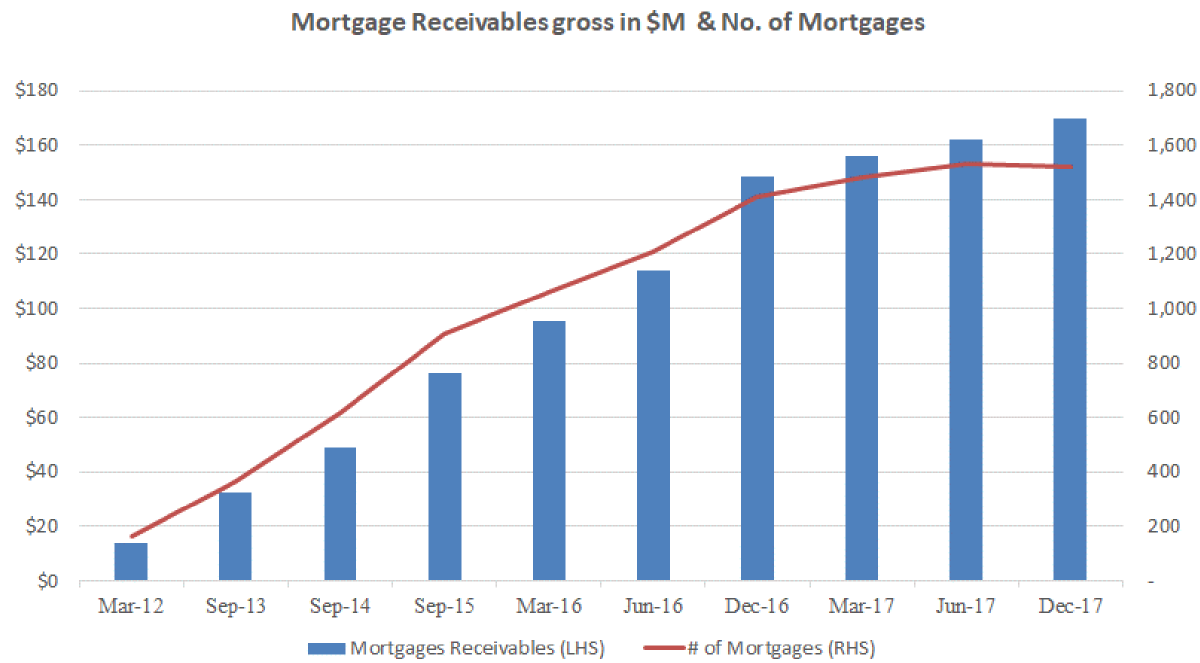
We have a cautious outlook on the Toronto residential real estate market. We believe that loan originations in Ontario could decrease in the near-term.

We note that the entire mortgage lending industry will be significantly impacted from a market downturn. In such a scenario, MIEs with low LTVs and lower duration will have an edge over others.

Capital Direct - Portfolio Update and Analysis

The following section reviews Capital Direct's 2017 results.

At the end of 2017, the trust had $170 million in mortgage receivables (gross) across 1,518 properties, up 15% YoY from $148 million across 1,412 properties at the end of 2016. The following chart shows the portfolio's growth since 2012.



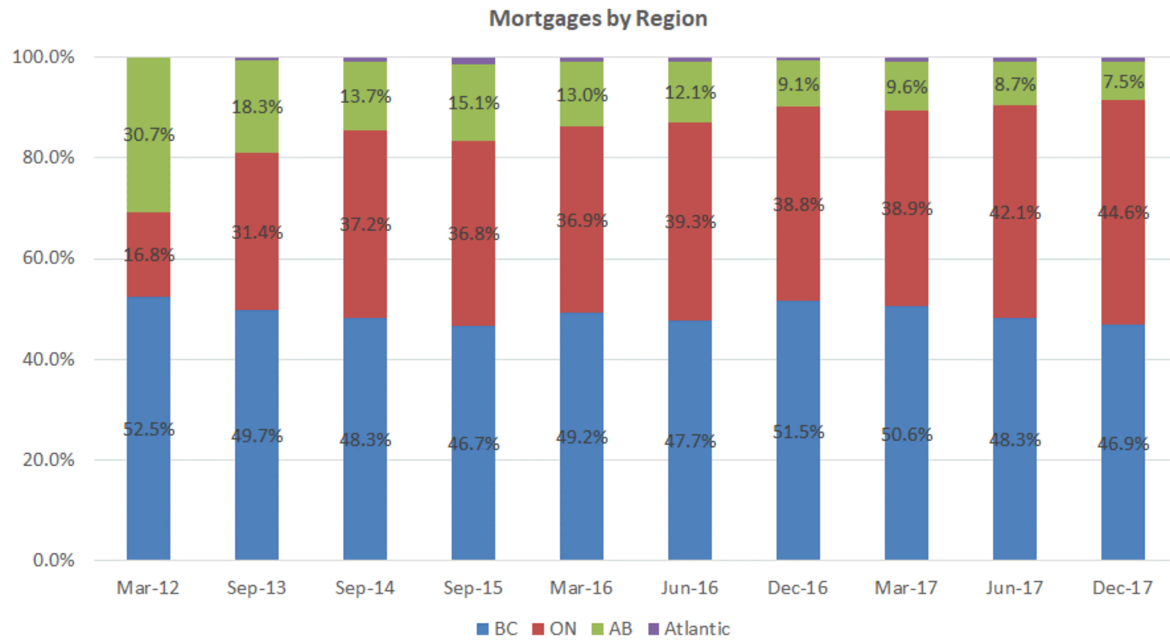
Source: FRC / Raw Data Source: Trust

Despite an increase in portfolio size, we believe the trust has slightly lowered its portfolio's risk profile. The following chart summarizes the change in risk levels based on YoY changes in key parameters.

Parameter	Risk Profile
Total Portfolio Size	↑
Average Mortgage	↑
Diversification	–
Duration	↓
Priority	↓
LTV	↓
Defaults / Arrears	↑
Property Type	–

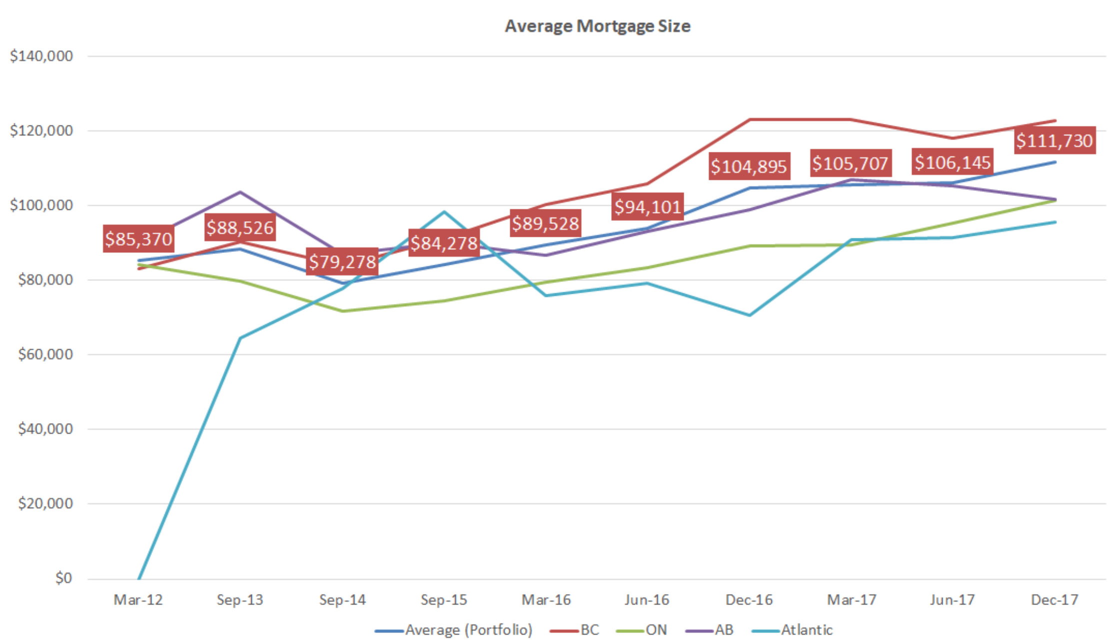
Source: FRC

Mortgages by Region: The fund continued to increase its exposure to ON, while reducing its exposure to AB. At the end of 2017, 47% of the mortgages were in B.C., 45% in ON, 8% in AB, and 1% in the Atlantic. The chart below shows the distribution of mortgages by region.



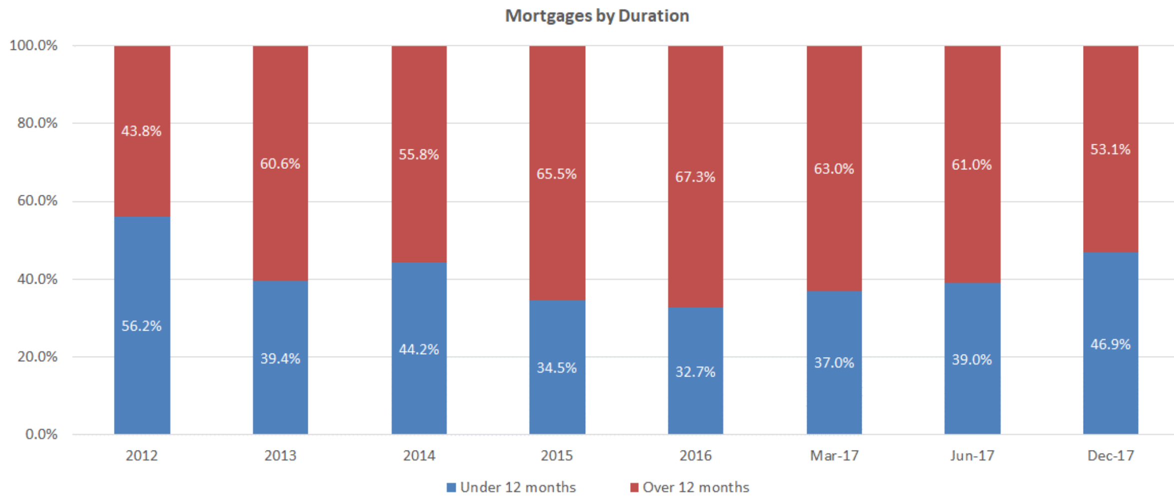
Source: FRC / Raw Data Source: Trust

Mortgages by Size: The average mortgage size at the end of 2017 increased 6.5% YoY to $112k. B.C. had the highest average ($123k).



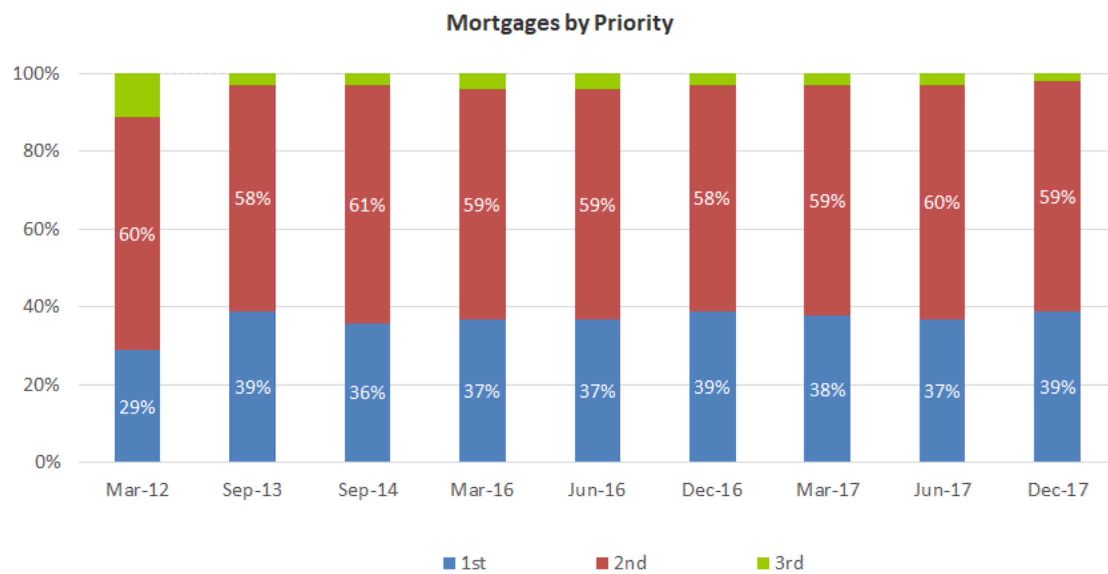
Source: FRC / Raw Data Source: Trust

Mortgages by Duration: At the end of 2017, approximately 47% of the portfolio had terms of 12 months or less, versus 39% at the end of 2016. We consider this to be a good sign as a higher percentage of short-term loans implies lower risk.



Source: FRC / Raw Data Source: Trust

Mortgages by Priority: First mortgages accounted for 39% at the end of 2017 (versus 37% at the end of Q1). Second mortgages were at 59% and third mortgages were at 2%.

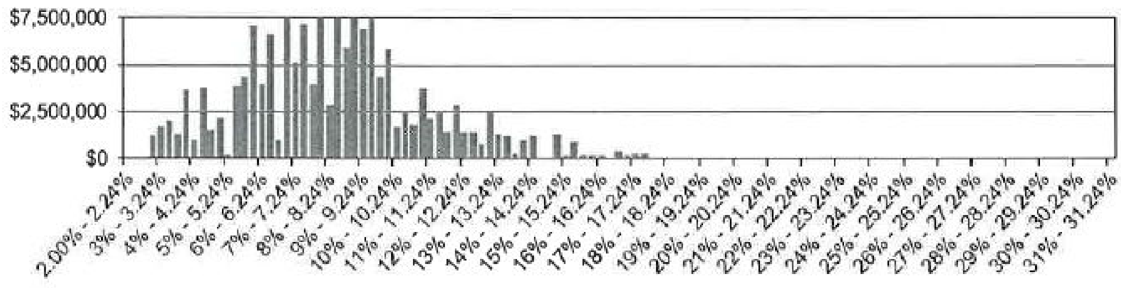


Source: FRC / Raw Data Source: Trust

Lending Rate: The following chart shows the interest rates charged to borrowers. The average rate in 2017 was 8.34% p.a. versus 7.99% p.a. in 2016. The following chart shows the distribution of rates by mortgages.

FRC Fundamental Research Corp.

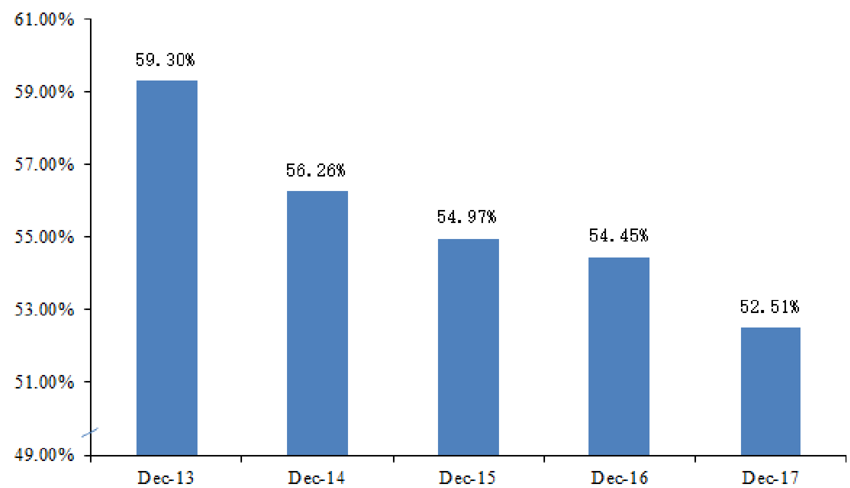
Lending Rate



Source: Trust

Loan to Value (LTV): The portfolio's LTV continued to drop, and was 52.5% at the end of 2017, versus 54.5% at the end of 2016.

Loan to Value (LTV)



Source: FRC / Raw Data Source: Trust

Financials

At the end of 2017, the fund had 12.88 million units outstanding, up 21% YoY from 10.67 million units at the end of 2016.

Units Outstanding	31-Dec-16	31-Dec-17	% of Total
Class A	5,449,122	5,854,890	45.5%
Class C	1,358,045	1,728,136	13.4%
Class F	3,863,354	5,294,149	41.1%
Total	**10,670,521**	**12,877,175**	**100.0%**

Data Source: Trust

- Class A (since inception) - offered to investors directly

- Class F (introduced in 2014) - offered to funds managed by portfolio managers and other fee-based investment advisors.

- Class C (introduced in 2016) - offered to investors who purchase units through Dealers (IIROC and Exempt Market Dealers).

Management's share ownership, at the end of December 2017, was 0.43% of the total outstanding.

	Dec-15	% of Total	Dec-16	% of Total	Dec-17	% of Total
Richard F.M. Nichols	9,132	0.17%	9,655	0.09%	10,006	0.08%
Derek R. Tripp	14,042	0.26%	14,847	0.14%	15,386	0.12%
Tim Wittig	8,503	0.16%	17,373	0.16%	18,002	0.14%
David Rally	5,192	0.10%	10,645	0.10%	11,032	0.09%
Total	**36,869**	**0.69%**	**52,520**	**0.49%**	**54,426**	**0.43%**

Data Source: Trust

Revenues grew by 39% YoY in 2017 to $15.34 million. Net Income grew by 40% YoY to $10.28 million.

Income Statement	2013	2014	2015	2016	2017
Revenues					
Interest Income	$2,561,432	$3,948,088	$6,155,599	$9,857,086	$13,802,934
Other Income	$173,377	$303,728	$661,990	$1,185,920	$1,537,565
	$2,734,809	**$4,251,816**	**$6,817,589**	**$11,043,006**	**$15,340,499**
Expenses					
Audit Fees	$55,000	$75,250	$94,134	$98,204	$89,317
Bank Charges	$59,395	$94,370	$131,609	$188,392	$378,936
Interest on Loan Payable	$350,013	$689,472	$1,051,910	$1,163,928	$1,510,707
Legal Fees	$109,644	$174,877	$216,601	$390,689	$89,317
Management Fees	$321,564	$461,707	$647,100	$1,282,154	$1,894,574
Loan Loss Provision	$242,195	$488,142	$916,110	$477,919	$971,133
Trustee Fees	$60,781	$70,494	$68,618	$102,291	$126,887
	$1,198,592	**$2,054,312**	**$3,126,082**	**$3,703,577**	**$5,060,870**
Net Income	**$1,536,217**	**$2,197,504**	**$3,691,507**	**$7,339,429**	**$10,279,629**
Net Asset Value	$10.00	$10.00	$10.00	$10.00	$10.00
Units Outstanding	2,041,233	2,778,432	5,338,206	10,670,521	12,877,175
Distributions					
Investors	1,382,595	1,977,754	3,215,496	6,075,876	9,251,666
Management	153,622	219,750	476,011	1,263,553	1,027,963
Investors' Share	90.0%	90.0%	87.1%	82.8%	90.0%

YE – December 31st

Although the Offering Memorandum states that 80% of the net income will be paid to the unit holders on a quarterly basis (20% to the manager), the fund has been paying out 90% of net income to investors since Q4-2016. The management fee is 2% of NAV for Classes A and C units, and 1% of NAV for Class F units. Note that there is no guarantee the fund will continue to pay out 90%, as management has the right to revert back to the 80:20 payout at any time.

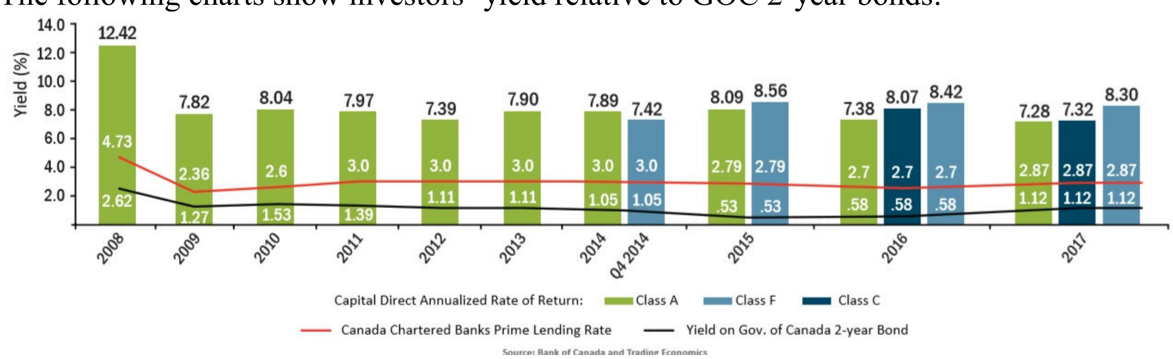
Interest + Other income as a percentage of mortgage receivables was 9.81% p.a. in 2017, versus 9.37% in 2016. The dividend yield (dividends as a percentage of invested capital) was 7.86% p.a. in 2017, versus 7.59% in 2016.

% of Mortgage Receivable	2013	2014	2015	2016	2017
Interest Income	9.16%	8.80%	8.65%	8.36%	8.83%
Other Income	0.62%	0.68%	0.93%	1.01%	0.98%
Interest Income + Others	**9.78%**	**9.47%**	**9.58%**	**9.37%**	**9.81%**
Less:					
Management Fee	-1.15%	-1.03%	-0.91%	-1.09%	-1.21%
G&A Expenses	-1.02%	-0.92%	-0.72%	-0.66%	-0.44%
Loan Loss Provision	-0.87%	-1.09%	-1.29%	-0.41%	-0.62%
Interest	-1.25%	-1.54%	-1.48%	-0.99%	-0.97%
Net	5.49%	4.90%	5.19%	6.23%	6.57%
Investors' Returns (% of Invested Capital)	**7.94%**	**8.21%**	**7.92%**	**7.59%**	**7.86%**

Note that the above figures may be slightly different from the figures reported by Capital Direct due to the difference in the method of calculation. We used the average of the opening balance, and year-end balance of the mortgages outstanding, and invested capital, to arrive at the above figures.

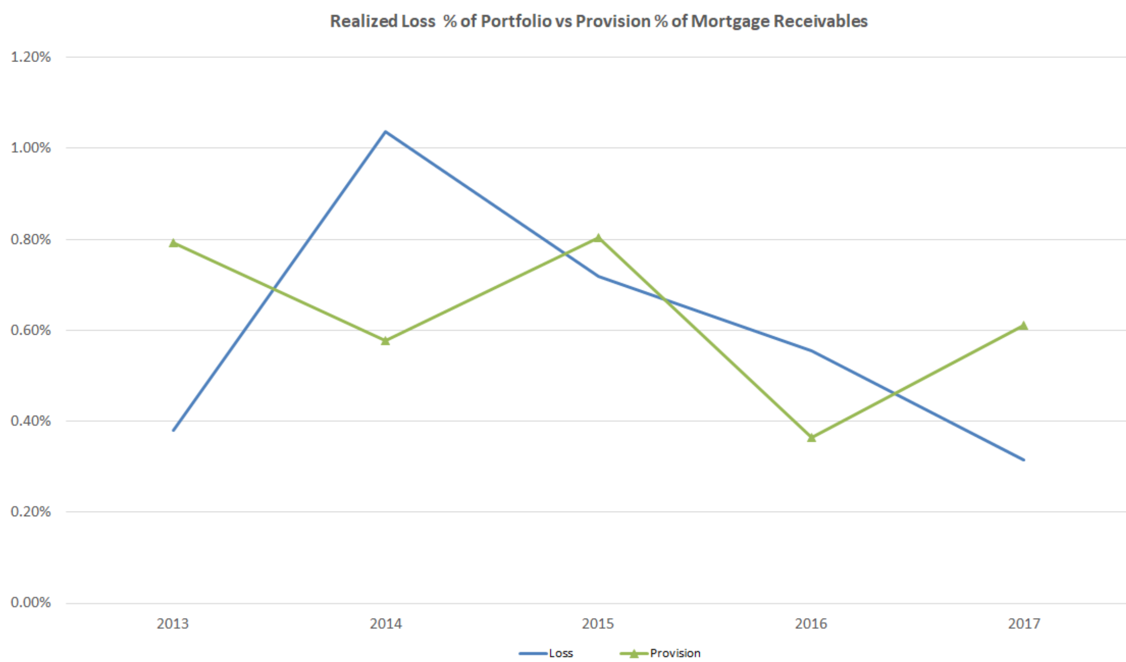
Source: FRC / Raw Data Source: Trust

The following charts show investors' yield relative to GOC 2-year bonds:



Source: Trust

The chart below shows the realized losses and the loan loss provision as a percentage of mortgage receivables since 2013.



Source: FRC / Raw Data Source: Trust

In 2017, the trust reported approximately $0.49 million in realized losses, or 0.32% of the total portfolio versus $0.65 million (0.56% of the portfolio) in 2016.

	2013	2014	2015	2016	2017
Actual Losses	106,052	465,260	511,711	654,748	494,257
Actual Losses (% of mortgage receivable)	0.38%	1.04%	0.72%	0.56%	0.32%
Distributions	$1,382,595	$1,977,754	$3,215,496	$6,075,876	$9,251,666
Reinvested	$690,083	$1,118,084	$1,900,488	$3,739,538	$5,554,651
Reinvested (as a % of Distributions)	50%	57%	59%	62%	60%
Redemptions	$636,516	$1,661,741	$1,419,586	$3,210,287	$7,408,860
Redemption (% of invested capital)	4%	7%	3%	4%	6%
Loan loss provision (year/quarter ended)	$286,310	$309,192	$713,591	$536,762	$1,013,638
Provision % of Receivable	0.79%	0.58%	0.80%	0.36%	0.61%

Source: FRC / Raw Data Source: Trust

At the end of 2017, the trust had a loan loss provision of $1.01 million, or 0.66% of the

portfolio (0.36% at the end of 2016). We estimate that comparable MIEs typically assign 0.8% - 1.0% of their portfolios to loan loss provisions. The increase in provision was because of an increase in the number of mortgages in arrears. At the end of 2017, $11.24 million mortgages were in arrears (60+ days), or 6.79% of the total. This compares to $5.93 million, or 4.03% of the total at the end of 2016.

Arrears	2016	2017
30 - 56 days	$6,181,123	$7,913,825
60 - 89 days	$1,367,825	$2,355,663
90 - 119 days	$1,034,026	$2,188,174
120+ days	$3,526,766	$6,697,462
Total	**$12,109,740**	**$19,155,124**

Arrears as a % of Mortg Receivable	2016	2017
30 - 56 days	4.20%	4.78%
60 - 89 days	0.93%	1.42%
90 - 119 days	0.70%	1.32%
120+ days	2.40%	4.04%
Total	**8.23%**	**11.57%**

Data Source: Trust

We estimate that the arrears is higher than comparable MIEs. Our discussions with management indicated that the increase was in large part due to the transition from use of cheques by borrowers for mortgage payments to Electronic Funds Transfer (EFT). In the event of insufficent funds, the trust had to receive approval from borrowers to withdraw back payments from their accounts. This caused delays and resulted in such loans being categorized as mortgages in arrears. Management indicated to us that, with revised processes now in place to facilitate more efficient payments, they expect a positive impact on arrears this year. We encourage investors to closely monitor arrears information as it becomes available.

The following table shows a summary of the company's balance sheet.

Balance Sheet	2013	2014	2015	2016	2017
Assets					
Cash	$569,309	$556,175	$194,106	$1,982,407	$4,004,562
Accounts Receivable		$120,045	$1,736,095	$5,226,932	$3,223,329
Prepaid Expense					
Assets held for sale					$88,282
Mortgage Investments (net)	$36,139,391	$53,633,836	$88,672,929	$147,121,047	$165,613,676
	$36,708,700	**$54,310,056**	**$90,603,130**	**$154,330,386**	**$172,929,849**
Liabilities					
Loan Payable	$15,631,451	$24,911,835	$35,619,549	$44,018,502	$38,915,187
Accounts Payable & Accured Liabilities	$664,922	$1,613,901	$1,601,517	$3,606,666	$5,242,910
	$16,296,373	$26,525,736	$37,221,066	$47,625,168	$44,158,097
Net Asset	$20,412,327	$27,784,320	$53,382,064	$106,705,218	$128,771,752
SE + Liabilities	**$36,708,700**	**$54,310,056**	**$90,603,130**	**$154,330,386**	**$172,929,849**
Debt to Capital	43%	47%	40%	29%	23%
Debt as a % of Mortgage Outstanding	43%	46%	40%	30%	23%
Interest Coverage Ratio	5.4	4.2	4.5	7.3	7.8

Source: FRC / Raw Data Source: Trust

The cash position at the end of 2017 was $4 million. Timely cash deployment is critical in this business. However, the fund's cash position can vary from time to time as loans are paid out and new loans are funded.

Line of credit – At the end of 2017, $39 million was withdrawn, reflecting debt to capital of 23%. The trust's line of credit (prime + 0.75%) with Canadian Western Bank is $50 million. We estimate that comparable MIEs typically use debt levels ranging between 20% and 40%. **The interest coverage ratio continues to be strong and was 7.8x in 2017.**

Risk

Investors are exposed to the following risks:

- Loans are short term and need to be sourced and replaced quickly.
- Timely deployment of capital is crucial.
- A drop in housing prices will result in higher LTVs, and higher default risk, as the value of collateral decreases.
- Unit holders' principal is not guaranteed, as the NAV per unit could decrease from current levels (as a result of loan losses). Unit holders are also not guaranteed minimum distributions.
- No hurdle rate.
- The net income distribution between investors and the manager has been 90%:10% in the past few years; however, there is no guarantee that this trend will continue going forward.
- The fund has the ability to use leverage, which would increase the exposure of the fund to negative events.
- The fund invests in second and third mortgages (historically 60% to 65% of the portfolio) which carry higher risk.
- Annual redemptions may be limited to 10% of the total invested capital, and may not be

paid in cash.

Rating

We are maintaining our overall rating at 2, but raising our risk rating from 2 to 3. The higher risk rating is reflective of our cautious outlook on key real estate markets, as well as the increase in the trust's arrears in 2017.

FRC Rating	
Est. Yield (2018)	7% - 8%
Rating	2
Risk	3

Fundamental Research Corp. Rating Scale:

Rating – 1: Excellent Return to Risk Ratio
Rating – 2: Very Good Return to Risk Ratio
Rating – 3: Good Return to Risk Ratio
Rating – 4: Average Return to Risk Ratio
Rating – 5: Weak Return to Risk Ratio
Rating – 6: Very Weak Return to Risk Ratio
Rating – 7: Poor Return to Risk Ratio
A "+" indicates the rating is in the top third of the category, A "-" indicates the lower third and no "+" or "-" indicates the middle third of the category.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk)
2 (Below Average Risk)
3 (Average Risk)
4 (Speculative)
5 (Highly Speculative)

FRC Distribution of Ratings			
Rating - 1	0%	Risk - 1	0%
Rating - 2	29%	Risk - 2	6%
Rating - 3	46%	Risk - 3	40%
Rating - 4	9%	Risk - 4	34%
Rating - 5	4%	Risk - 5	9%
Rating - 6	1%	Suspended	11%
Rating - 7	0%		
Suspended	10%		

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