Fundamental Research Corp.
Investment Analysis for Intelligent Investors

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Capital Direct I Income Trust – Maintains its Position in the Top 15 / Distributes 7.7% in 2018

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 - a fee of 5% of NAV in year 1, decreasing by 1% every year; no fee after year 5 / Class C & Class F - a fee of 2% within 6 months and no fee 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

FRC Rating	
Yield (2019)	7.25% - 7.75%
Rating	2-
Risk	3

*see back of report for rating definitions

Highlights

- Capital Direct I Income Trust's ("trust", "fund") portfolio size (gross mortgage receivables) hit a record high of $184 million at the end of 2018, up 9% YoY.

- Revenues grew 21% YoY in 2018 to $18.61 million. Net income grew 30% YoY to $13.32 million - highest ever since inception.

- The weakness in real estate sales, we believe, will impact mortgage originations this year, offset by the continued tight lending policies of banks.

- At the end of 2018, 48% of the mortgages were in British Columbia ("B.C."), 44% in Ontario ("ON"), 7% in Alberta ("AB"), and 1% in the Atlantic.

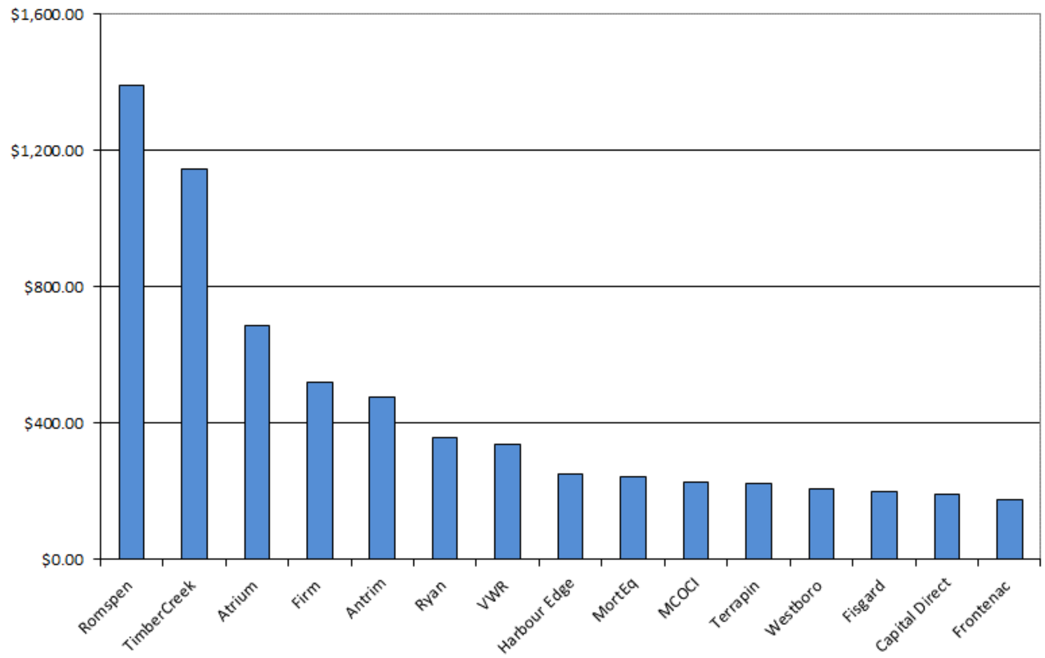
- We believe the trust's risk profile has increased slightly. The decrease in risk from higher first mortgages and lower duration was offset by a slight increase in Loan to Value (LTV), average mortgage size, and arrears.

- We estimate that the trust's investors received a dividend (weighted average of all unit types) of 7.7% p.a. in 2018, versus 7.9% in 2017. The higher yield in 2017 was because investors received 90% of the net income in 2017 versus 80% in 2018.

Capital Direct Holds its Position in the Top 15

We estimate that the total Assets Under Management ("AUM") at the end of 2018, of the 15 largest Mortgage Investment Entities ("MIEs"), was $6.64 billion. We estimate there are approximately 200 MICs in the country, with a total portfolio size of approximately $12 billion. **Capital Direct, with a portfolio of $184 million, is currently the 14th largest MIE in the country.**

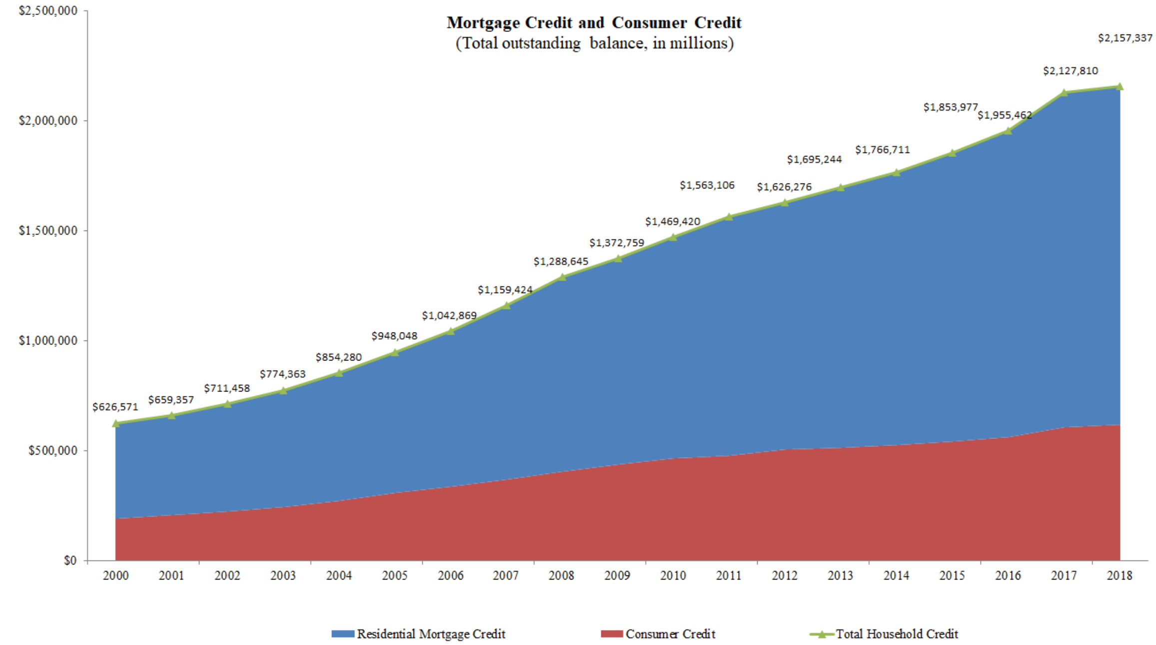
Top 15 Largest MIEs (in $, millions)



Source: FRC / Multiple Sources

Update on the Mortgage Industry

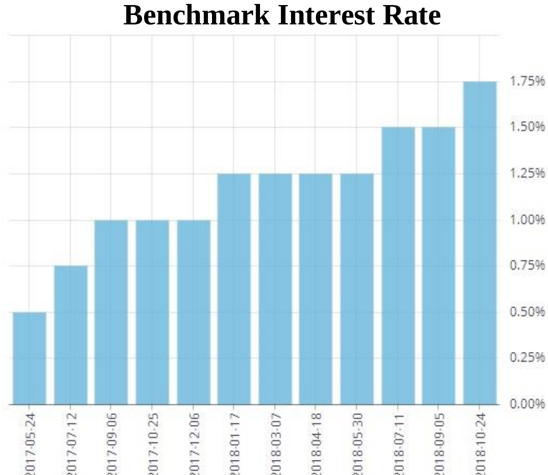
Total debt (mortgage and consumer credit) held by Canadians at the end of December 2018 was $2.16 trillion, up 1.4% YoY. **Total mortgage credit ($1.54 trillion) grew 1.1% YoY.** At the end of December, mortgage credit accounted for 71%, and consumer credit accounted for the remaining 29% of the total debt.



Data Source: Statistics Canada

The real estate market **experienced a dramatic slowdown in 2018,** primarily due to the tighter lending policies of the major banks (especially the stress test that was introduced in early 2018), and a rising interest rate environment, followed by a decline in real estate prices. In 2018, the Bank of Canada increased rates three times.

Benchmark Interest Rate

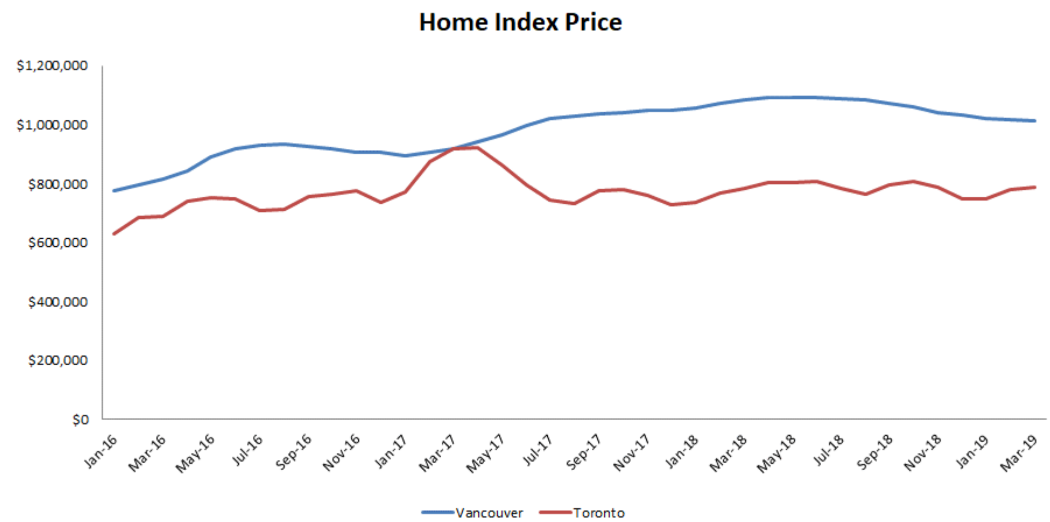


Source: Bank of Canada

We do not expect further rate hikes in 2019, and expect mortgage rates to decline over the year. The Federal Government recently introduced an **incentive (of up 5% of the home price as an interest free loan) for first-time homebuyers** with household income of up to $120,000 per year to purchase homes under $480k. Although this is encouraging, we do not believe this should have much of an impact on the overall market in Vancouver or Toronto, as the average price of a home is significantly higher in both cities. The CMHC estimates that only approximately 10% of the transactions in Vancouver are on units priced lower than $500k.

Toronto and Vancouver Market Update

The following chart shows average home prices in Vancouver and Toronto.



Source: TREB and REBGV

Vancouver's real estate sales have declined every month on a YoY basis since February 2018. Sales dropped by 31% in March 2019.

Vancouver Sales by Type	Oct-17	Oct-18	YoY	Nov-17	Nov-18	YoY	Dec-17	Dec-18	YoY
Detached	940	637	-32%	841	516	-39%	617	348	-44%
Apartments	1,532	985	-36%	1,508	810	-46%	1,028	535	-48%
Attached Property	550	344	-37%	446	282	-37%	371	189	-49%
Total	3,022	1,966	-35%	2,795	1,608	-42%	2,016	1,072	-47%

Vancouver Sales by Type	Jan-18	Jan-19	YoY	Feb-18	Feb-19	YoY	Mar-18	Mar-19	YoY
Detached	487	339	-30%	621	448	-28%	722	529	-27%
Apartments	1,012	559	-45%	1,185	759	-36%	1,349	873	-35%
Attached Property	319	205	-36%	401	277	-31%	446	325	-27%
Total	1,818	1,103	-39%	2,207	1,484	-33%	2,517	1,727	-31%

Source: Real Estate Board of Greater Vancouver

The average price was down 7% YoY in March 2019. Detached home prices have been dropping at a significantly faster rate.

Metro Vancouver	Oct-17	Oct-18	YoY	Nov-17	Nov-18	YoY	Dec-17	Dec-18	YoY
Residential Sales	3,022	1,966	-35%	2,795	1,608	-42%	2,016	1,072	-47%
New Listings	4,539	4,873	7%	4,109	3,461	-16%	1,891	1,407	-26%
Active Listings	9,137	12,984	42%	9,137	12,307	35%	6,958	10,275	48%
Sales to Listings	33.07%	15.14%		30.59%	13.07%		28.97%	10.43%	
MLS Home Price Index	$1,042,300	$1,062,100	2%	$1,046,900	$1,042,100	-0.46%	$1,050,300	$1,032,400	-2%

Metro Vancouver	Jan-18	Jan-19	YoY	Feb-18	Feb-19	YoY	Mar-18	Mar-19	YoY
Residential Sales	1,818	1,103	-39%	2,207	1,484	-33%	2,517	1,727	-31%
New Listings	3,796	4,848	28%	4,223	3,892	-8%	4,450	4,949	11%
Active Listings	6,947	10,808	56%	7,822	11,590	48%	8,380	12,774	52%
Sales to Listings	26.17%	10.21%		28.22%	12.80%		30.04%	13.52%	
MLS Home Price Index	$1,056,500	$1,019,600	-3%	$1,071,800	$1,016,600	-5.2%	$1,084,000	$1,011,200	-6.7%

MLS Home Price Index	Oct-17	Oct-18	YoY	Nov-17	Nov-18	YoY	Dec-17	Dec-18	YoY
Detached	$ 1,609,600	$ 1,524,000	-5%	$ 1,608,000	$ 1,500,100	-7%	1,605,800	1,479,000	-8%
Apartments	$ 642,000	$ 683,500	6%	$ 648,200	$ 667,800	3%	655,400	664,100	1%
Attached Property	$ 802,400	$ 829,200	3%	$ 805,200	$ 818,500	2%	803,700	809,700	1%
MLS Home Price Index	Jan-18	Jan-19	YoY	Feb-18	Feb-19	YoY	Mar-18	Mar-19	YoY
Detached	$ 1,601,500	$ 1,453,400	-9%	$ 1,602,000	$ 1,443,100	-10%	$ 1,608,500	$ 1,437,100	-11%
Apartments	$ 665,400	$ 658,600	-1%	$ 682,800	$ 660,300	-3%	$ 693,500	$ 656,900	-5%
Attached Property	$ 803,700	$ 800,600	0%	$ 819,200	$ 789,300	-4%	$ 835,300	$ 783,600	-6%

Source: Real Estate Board of Greater Vancouver

The sales to active ratio was 14% in March 2019, versus 30% in March 2018.

Toronto MLS sales were down 1% YoY in March 2019.

Toronto Sales by Type	Oct-17	Oct-18	YoY	Nov-17	Nov-18	YoY	Dec-17	Dec-18	YoY
Detached	3135	3328	6%	3131	2665	-15%	1,938	1,590	-18%
Semi - Detached	694	774	12%	741	621	-16%	486	342	-30%
Att/Row/Townhouse	624	648	4%	631	513	-19%	442	313	-29%
Condo Townhouse	527	506	-4%	558	474	-15%	424	304	-28%
Condo Apartment	2025	2127	5%	2210	1891	-14%	1,562	1,185	-24%
Link	89	86	-3%	86	72	-16%	55	39	-29%
Co-op Apt	12	13	8%	7	9	29%	9	4	-56%
Det Condo	8	4	-50%	6	3	-50%	7	1	-86%
Co ownership Apt	4	6	50%	4	3	-25%	7	3	-57%
Total	7,118	7,492	5%	7,374	6,251	-15%	4,930	3,781	-23%
Toronto Sales by Type	Jan-18	Jan-19	YoY	Feb-18	Feb-19	YoY	Mar-18	Mar-19	YoY
Detached	1,659	1,703	3%	2,169	2,171	0%	3,120	3,230	4%
Semi - Detached	364	339	-7%	454	456	0%	686	671	-2%
Att/Row/Townhouse	356	382	7%	483	453	-6%	622	702	13%
Condo Townhouse	319	303	-5%	364	340	-7%	503	551	10%
Condo Apartment	1,275	1,238	-3%	1,631	1,536	-6%	2,183	1,965	-10%
Link	38	37	-3%	64	55	-14%	90	47	-48%
Co-op Apt	6	3	-50%	4	4	0%	11	5	-55%
Det Condo	1	2	100%	3	4	33%	6	12	100%
Co ownership Apt	1	2	100%	3	6	100%	7	4	-43%
Total	4,019	4,009	-0.2%	5,175	5,025	-3%	7,228	7,187	-1%

Source: Toronto Real Estate Board

The average price was up 0.5% YoY in March 2019.

Toronto	Oct-17	Oct-18	YoY	Nov-17	Nov-17	YoY	Dec-17	Dec-18	YoY
Residential Sales	7,118	7,492	5%	7,374	6,251	-15%	4,930	3,781	-23%
New Listings	14,903	14,431	-3%	14,349	10,534	-27%	6,330	4,308	-32%
Active Listings	18,859	18,926	0%	18,197	16,420	-10%	12,926	11,431	-12%
Sales to Listings	37.74%	39.59%		40.52%	38.07%		38.14%	33.08%	
MLS Home Price Index	$780,104	$807,340	3%	$761,757	$788,345	3%	$730,124	$750,180	3%

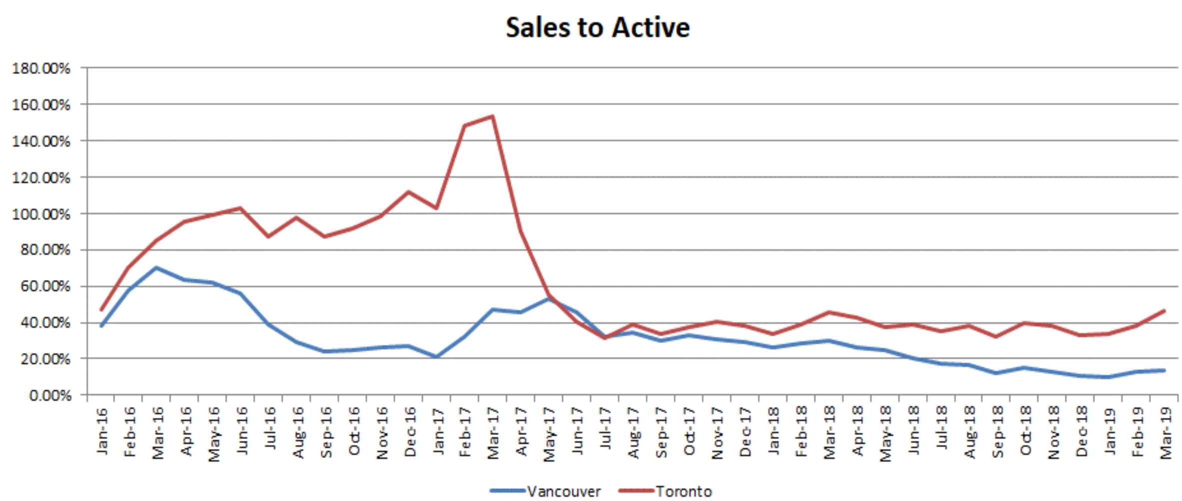
Toronto	Jan-18	Jan-19	YoY	Feb-18	Feb-19	YoY	Mar-18	Mar-19	YoY
Residential Sales	4,019	4,009	0%	5,175	5,025	-3%	7,228	7,188	-1%
New Listings	8,585	9,456	10%	10,520	9,828	-7%	14,866	13,996	-6%
Active Listings	11,894	11,962	1%	13,362	13,284	-1%	15,971	15,576	-2%
Sales to Listings	33.79%	33.51%		38.73%	37.83%		45.26%	46.15%	
MLS Home Price Index	$736,783	$748,328	2%	$767,818	$780,397	2%	$784,558	$788,335	0.5%

MLS Home Price Index	Oct-17	Oct-18	YoY	Nov-17	Nov-18	YoY	Dec-17	Dec-18	YoY
Detached	$ 1,008,207	$ 1,019,416	1%	$ 996,527	$ 1,008,768	1%	$ 989,870	$ 945,580	-4%
Semi - Detached	$ 764,293	$ 816,657	7%	$ 730,668	$ 791,760	8%	$ 730,726	$ 755,707	3%
Att/Row/Townhouse	$ 692,241	$ 719,002	4%	$ 698,436	$ 711,851	2%	$ 662,596	$ 679,164	3%
Condo Townhouse	$ 555,226	$ 574,808	4%	$ 547,709	$ 577,683	5%	$ 519,961	$ 567,290	9%
Condo Apartment	$ 523,041	$ 562,523	8%	$ 516,965	$ 556,723	8%	$ 503,968	$ 554,497	10%

MLS Home Price Index	Jan-18	Jan-19	YoY	Feb-18	Feb-19	YoY	Mar-18	Mar-19	YoY
Detached	$970,823	$941,488	-3%	$1,000,736	$980,914	-2%	$1,005,779	$984,782	-2%
Semi - Detached	$715,784	$742,723	4%	$756,894	$832,569	10%	$782,831	$789,462	1%
Att/Row/Townhouse	$697,792	$699,154	0%	$684,427	$684,043	0%	$690,438	$705,938	2%
Condo Townhouse	$519,936	$567,748	9%	$578,002	$571,273	-1%	$574,404	$571,169	-1%
Condo Apartment	$507,492	$548,176	8%	$529,782	$562,161	6%	$551,003	$560,020	2%
Link	$682,079	$658,284	-3%	$720,476	$659,024	-9%	$695,139	$688,017	-1%
Co-op Apt	$311,650	$331,967	7%	$780,438	$715,000	-8%	$421,164	$525,200	25%
Det Condo	$510,000	$433,450	-15%	$1,297,633	$720,000	-45%	$747,500	$693,692	-7%
Co ownership Apt	$364,500	$469,000	29%	$354,667	$451,667	27%	$404,429	$295,225	-27%

Source: Toronto Real Estate Board

The sales to active listings was 46% in March 2019, slightly up YoY.



Source: TREB and REBGV

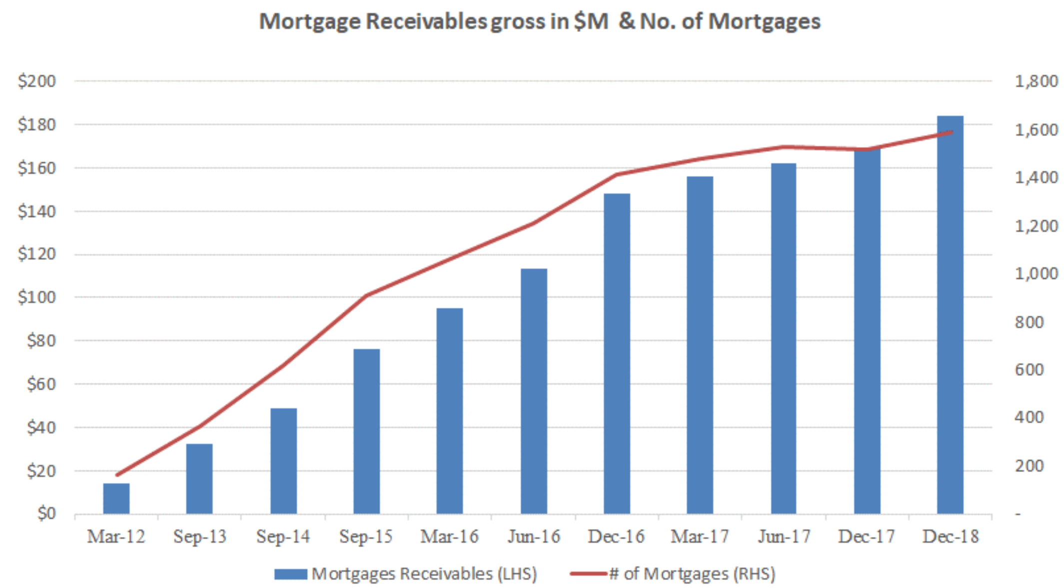
Overall, the Toronto market is stabilizing. With regard to Vancouver, based on historical data, we have identified strong relationships between certain key parameters. **Our models indicate that housing prices could recover in May in Vancouver.**

We expect the market weakness to impact originations this year. The negative impact, we believe, will be partially offset by the conservative lending policies by the banks, which will continue to drive more traffic towards MICs.

The following section reviews Capital Direct's 2018 results.

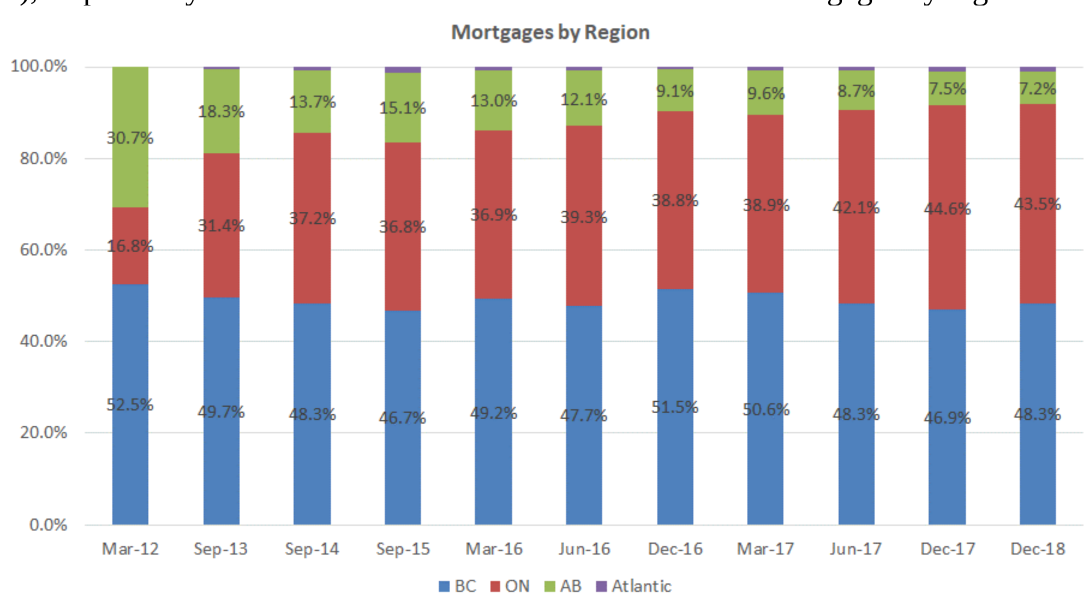
Capital Direct - Portfolio Update and Analysis

At the end of 2018, the trust had **$184 million in mortgage receivables (gross) across 1,586 properties, up 9% YoY** from $170 million across 1,518 properties at the end of 2017. The following chart shows the portfolio's growth since 2012.



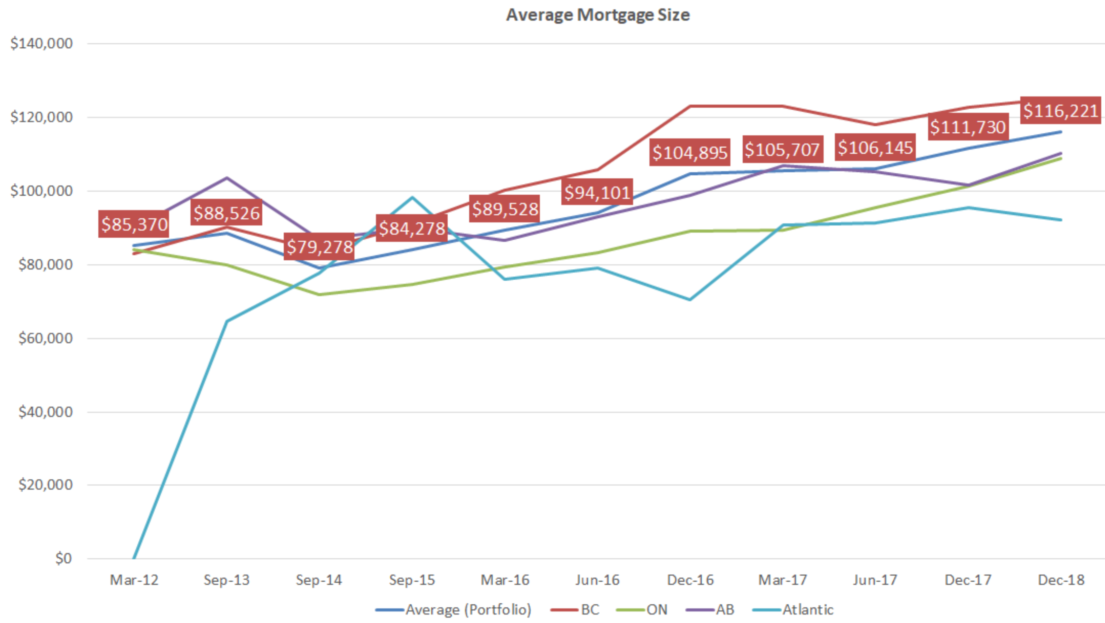
Source: FRC / Raw Data Source: Trust

Mortgages by Region: The fund's **exposure to ON increased slightly** YoY (46.9% to 48.3%), while exposure to B.C. and AB reduced slightly (44.6% to 43.5%) and (7.5% to 7.2%), respectively. The chart below shows the distribution of mortgages by region.



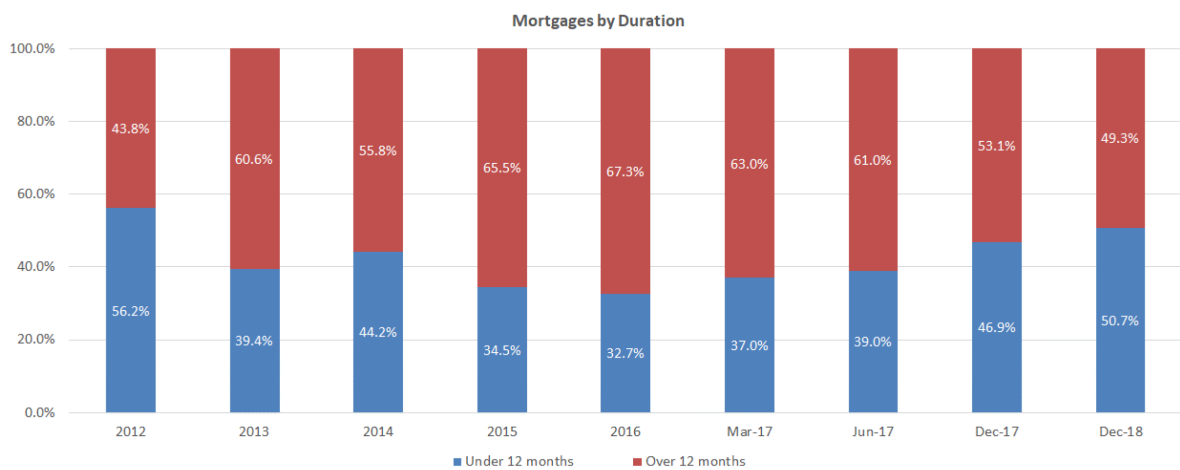
Source: FRC / Raw Data Source: Trust

Mortgages by Size: The average **mortgage size at the end of 2018 increased 4% YoY** to $116k. B.C. continues to have highest average ($125k).



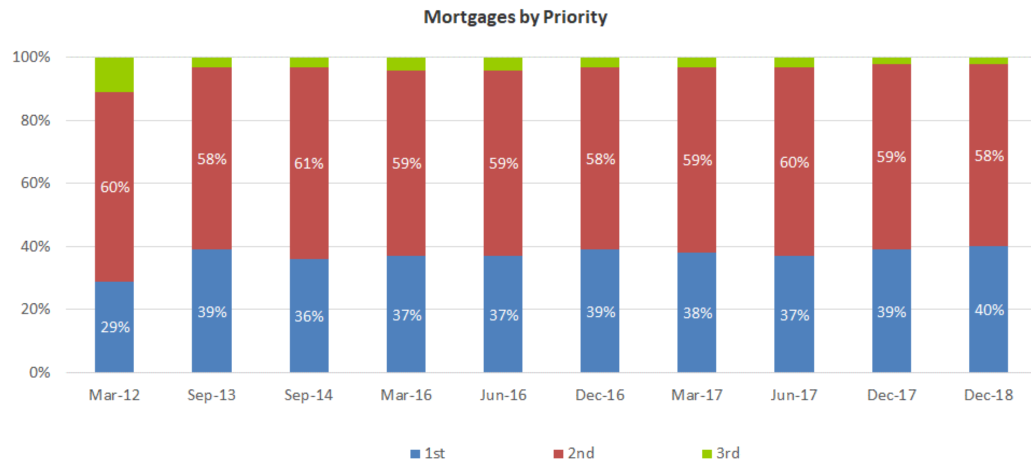
Source: FRC / Raw Data Source: Trust

Mortgages by Duration: At the end of 2018, **approximately 51% of the portfolio had terms of 12 months or less**, versus 47% at the end of 2017. We consider this to be a good sign as a lower duration typically implies lower risk, as well as improved flexibility to adjust lending rates.



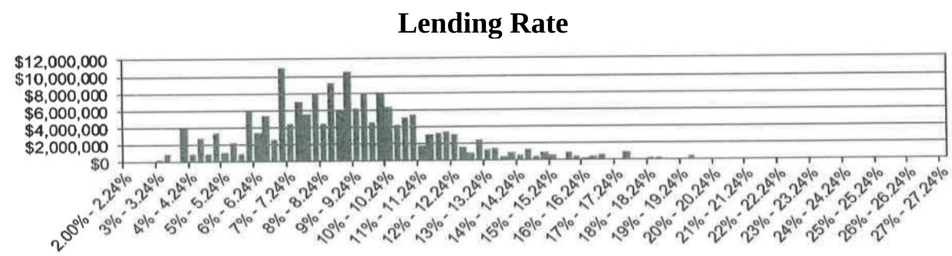
Source: FRC / Raw Data Source: Trust

Mortgages by Priority: First mortgages accounted for 40% at the end of 2018 (versus 39% at the end of 2017). Second mortgages were at 58% and third mortgages were at 2%.



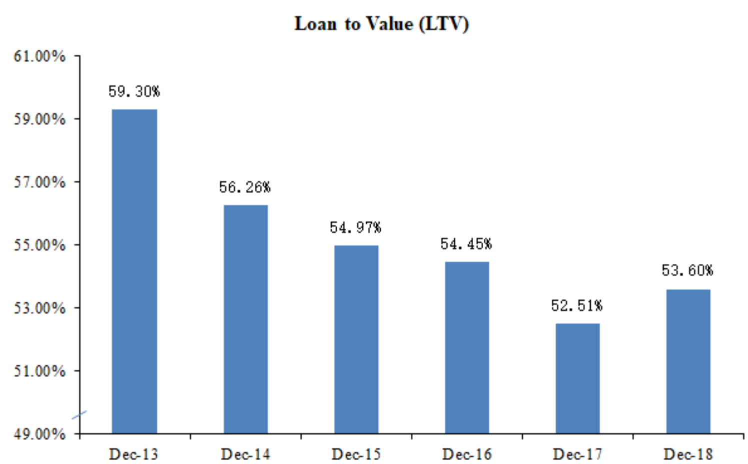
Source: FRC / Raw Data Source: Trust

Lending Rate: The following chart shows the interest rates charged to borrowers. As a result of the rising interest rate environment, the fund's average rate in 2018 was 8.51%, up from 8.34% p.a.in 2017, and 7.99% p.a. in 2016. The following chart shows the distribution of rates by mortgages.



Source: Trust

Loan to Value (LTV): The portfolio's LTV increased in 2018 (from 52.5% to 53.6%), after years of steady decline since 2013.



Source: FRC / Raw Data Source: Trust

Overall, we believe the trust portfolio's risk profile has increased slightly. 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	–

- red (green) indicates an increase (decrease) in risk level

Source: FRC

At the end of 2018, the fund had 14.93 million units outstanding, up 16% YoY.

Units Outstanding	31-Dec-16	31-Dec-17	31-Dec-18	% of Total
Class A	5,449,122	5,854,890	6,855,073	45.9%
Class C	1,358,045	1,728,136	2,089,516	14.0%
Class F	3,863,354	5,294,149	5,983,612	40.1%
Total	**10,670,521**	**12,877,175**	**14,928,201**	**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 2018, was over 1% of the total outstanding.

	Dec-15	% of Total	Dec-16	% of Total	Dec-17	% of Total	Dec-18	% of Total
Richard F.M. Nichols	9,132	0.17%	9,655	0.09%	10,006	0.08%	10,006	0.07%
Derek R. Tripp	14,042	0.26%	14,847	0.14%	15,386	0.12%	15,386	0.10%
Tim Wittig	8,503	0.16%	17,373	0.16%	18,002	0.14%	18,002	0.12%
David Rally	5,192	0.10%	10,645	0.10%	11,032	0.09%	5,689	0.04%
Total	**36,869**	**0.69%**	**52,520**	**0.49%**	**54,426**	**0.42%**	**49,083**	**0.33%**

* *Tim Wittig also has $1 million (0.7% of the total fund) invested in CDIT through other investments*

Data Source: Trust

Financials

Revenues grew 21% YoY in 2018 to $18.61 million. Net income grew 30% YoY to $13.32 million - the highest ever since inception.

Income Statement	2013	2014	2015	2016	2017	2018
Revenues						
Interest Income	$2,561,432	$3,948,088	$6,155,599	$9,857,086	$13,802,934	$16,839,706
Other Income	$173,377	$303,728	$661,990	$1,185,920	$1,537,565	$1,772,579
	$2,734,809	**$4,251,816**	**$6,817,589**	**$11,043,006**	**$15,340,499**	**$18,612,285**
Expenses						
Audit Fees	$55,000	$75,250	$94,134	$98,204	$89,317	$169,451
Bank Charges	$59,395	$94,370	$131,609	$188,392	$378,936	$423,218
Interest on Loan Payable	$350,013	$689,472	$1,051,910	$1,163,928	$1,510,707	$1,604,631
Legal Fees	$109,644	$174,877	$216,601	$390,689	$89,317	$169,451
Management Fees	$321,564	$461,707	$647,100	$1,282,154	$1,894,574	$2,180,673
Loan Loss Provision	$242,195	$488,142	$916,110	$477,919	$971,133	$613,053
Trustee Fees	$60,781	$70,494	$68,618	$102,291	$126,887	$136,129
	$1,198,592	**$2,054,312**	**$3,126,082**	**$3,703,577**	**$5,060,870**	**$5,296,606**
Net Income	**$1,536,217**	**$2,197,504**	**$3,691,507**	**$7,339,429**	**$10,279,629**	**$13,315,679**
Net Asset Value	$10.00	$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	14,928,201
Distributions						
Investors	1,382,595	1,977,754	3,215,496	6,075,876	9,251,666	10,652,543
Management	153,622	219,750	476,011	1,263,553	1,027,963	2,663,136
Investors' Share	90.0%	90.0%	87.1%	82.8%	90.0%	80.0%

YE – December 31st
Data Source: Trust

The fund paid out 80% of net income to unit holders (quarterly payments). From Q4-2016 to the end of Q4-2017, the fund had paid out 90% of net income to incentivize investors. Note that there is no guarantee the fund will pay out 90% any time in the future, as management has the right to stay at 80%, as per the OM.

The management fee is 2% of NAV for Classes A and C units, and 1% of NAV for Class F units.

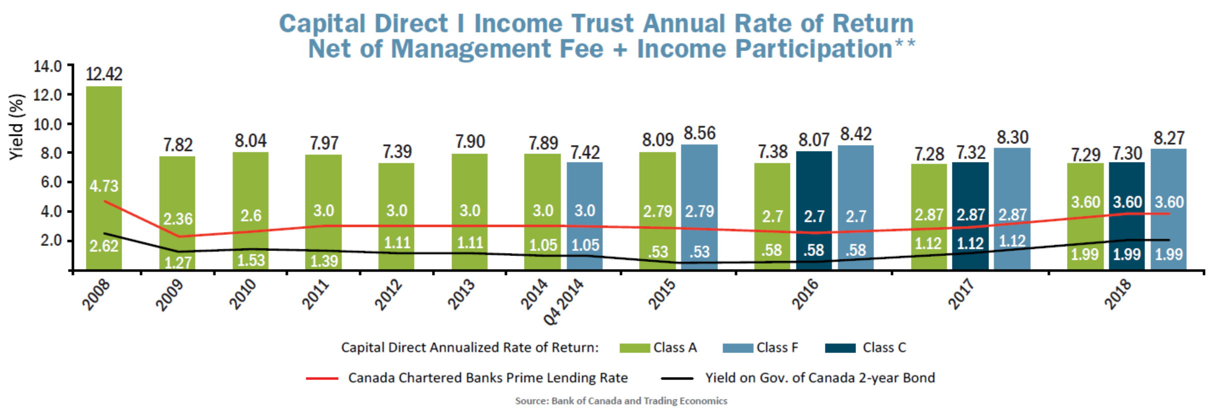
Interest + Other income as a percentage of mortgage receivables was 10.70% p.a. in 2018, versus 9.81% in 2017. **The dividend yield (dividends as a percentage of invested capital) was 7.66% p.a. in 2018, versus 7.86% in 2017.** The higher yield in 2017 was because investors received 90% of net income in 2017 versus 80% in 2018.

% of Mortgage Receivable	2013	2014	2015	2016	2017	2018
Interest Income	9.16%	8.80%	8.65%	8.36%	8.83%	9.68%
Other Income	0.62%	0.68%	0.93%	1.01%	0.98%	1.02%
Interest Income + Others	**9.78%**	**9.47%**	**9.58%**	**9.37%**	**9.81%**	**10.70%**
Less:						
Management Fee	-1.15%	-1.03%	-0.91%	-1.09%	-1.21%	-1.25%
G&A Expenses	-1.02%	-0.92%	-0.72%	-0.66%	-0.44%	-0.52%
Loan Loss Provision	-0.87%	-1.09%	-1.29%	-0.41%	-0.62%	-0.35%
Interest	-1.25%	-1.54%	-1.48%	-0.99%	-0.97%	-0.92%
Net	5.49%	4.90%	5.19%	6.23%	6.57%	7.66%
Investors' Returns (% of Invested Capital)	**7.94%**	**8.21%**	**7.92%**	**7.59%**	**7.86%**	**7.66%**

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.

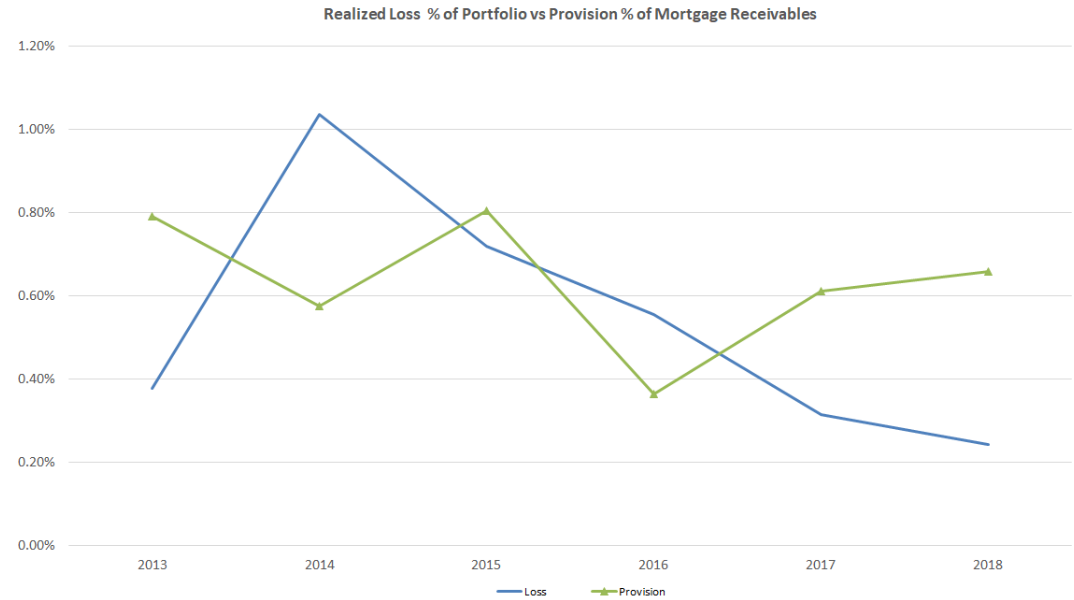
Source: FRC / Raw Data Source: Trust

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 2018, the trust reported approximately $0.42 million in realized losses, or 0.24% of the total portfolio versus $0.49 million (0.32% of the portfolio) in 2017.

	2013	2014	2015	2016	2017	2018
Actual Losses	106,052	465,260	511,711	654,748	494,257	424,021
Actual Losses (% of mortgage receivable)	0.38%	1.04%	0.72%	0.56%	0.32%	0.24%
Distributions	$1,382,595	$1,977,754	$3,215,496	$6,075,876	$9,251,666	$10,652,543
Reinvested	$690,083	$1,118,084	$1,900,488	$3,739,538	$5,554,651	$6,430,896
Reinvested (as a % of Distributions)	50%	57%	59%	62%	60%	60%
Redemptions	$636,516	$1,661,741	$1,419,586	$3,210,287	$7,408,860	$7,157,098
Redemption (% of invested capital)	4%	7%	3%	4%	6%	5%
Loan loss provision (year/quarter ended)	$286,310	$309,192	$713,591	$536,762	$1,013,638	$1,202,670
Provision % of Receivable	0.79%	0.58%	0.80%	0.36%	0.61%	0.66%

Source: FRC / Raw Data Source: Trust

At the end of 2018, the trust had a loan loss provision of $1.20 million, or 0.66% of the portfolio (0.61% at the end of 2017). We estimate that comparable MIEs typically assign 0.75% - 1.25% of their portfolios to loan loss provisions.

The company re-stated 2017-year end figures for mortgages in arrears from $19.16 million ($11.24 million were 60+ days past due) to $14.87 million ($6.56 million were 60+ days past due) as it aligned its methodology with that of the auditors. At the end of 2018, $16.61 million in mortgages were in arrears, or 9.12% of the total. Of this, $9.68 million were 60+ days past due, or 5.32% of the total.

Arrears	2016	2017	2018
30 - 56 days	$6,181,123	$8,314,069	$6,925,879
60 - 89 days	$1,367,825	$1,486,133	$1,347,042
90 - 119 days	$1,034,026	$1,278,972	$1,338,727
120+ days	$3,526,766	$3,795,623	$6,998,975
Total	**$12,109,740**	**$14,874,797**	**$16,610,623**

Arrears as a % of Mortg Receivable	2016	2017	2018
30 - 56 days	4.20%	5.02%	3.80%
60 - 89 days	0.93%	0.90%	0.74%
90 - 119 days	0.70%	0.77%	0.73%
120+ days	2.40%	2.29%	3.84%
Total	**8.23%**	**8.98%**	**9.12%**

Data Source: Trust

We estimate that the fund's arrears is higher than comparable MIEs. The increase in percentage of mortgages over 60+ days in 2018 (3.96% to 5.32%) is slighly concerning.

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

Balance Sheet	2013	2014	2015	2016	2017	2018
Assets						
Cash	$569,309	$556,175	$194,106	$1,982,407	$4,004,562	$8,052,977
Accounts Receivable		$120,045	$1,736,095	$5,226,932	$3,223,329	$2,524,347
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	$182,156,694
	$36,708,700	**$54,310,056**	**$90,603,130**	**$154,330,386**	**$172,929,849**	**$192,734,018**
Liabilities						
Loan Payable	$15,631,451	$24,911,835	$35,619,549	$44,018,502	$38,915,187	$35,524,445
Accounts Payable & Accured Liabilities	$664,922	$1,613,901	$1,601,517	$3,606,666	$5,242,910	$7,927,563
	$16,296,373	$26,525,736	$37,221,066	$47,625,168	$44,158,097	$43,452,008
Net Asset	$20,412,327	$27,784,320	$53,382,064	$106,705,218	$128,771,752	$149,282,010
SE + Liabilities	**$36,708,700**	**$54,310,056**	**$90,603,130**	**$154,330,386**	**$172,929,849**	**$192,734,018**
Debt to Capital	43%	47%	40%	29%	23%	19%
Debt as a % of Mortgage Outstanding	43%	46%	40%	30%	23%	20%
Interest Coverage Ratio	5.4	4.2	4.5	7.3	7.8	9.3

Source: FRC / Raw Data Source: Trust

The fund had a high cash position at the end of 2018 ($8 million or 4% of assets). Although, an MIE's cash position can vary from time to time as loans are paid out and new loans are funded, we suspect the high cash position is a result of a slowdown in originations due to the market weakness. Note that timely cash deployment is critical in this business. As the MIC had a debt to capital of approximately 19% at the end of 2018, originations have to drop 19% before investors' capital starts to be under-deployed. We estimate that investors' returns could drop to approximately 5.0% - 5.5% if originations drop 20%, and to 2.50% - 2.75% if originations drop by 50% in 2019.

Line of credit – At the end of 2018, $36 million was withdrawn, reflecting a debt to capital of 19%. The trust's line of credit (prime + 0.97% p.a. / previously prime + 0.75% p.a.) with Canadian Western Bank is $120 million (previously $50 million). We estimate that comparable MIEs typically use debt levels ranging between 20% and 40%. **The interest coverage ratio improved YoY from 7.8x to 9.3x.**

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 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 adjusting our overall rating from 2 to 2-, while maintaining our risk rating at 3.

FRC Rating	
Yield (2019)	7.25% - 7.75%
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	30%	Risk - 2	8%
Rating - 3	47%	Risk - 3	41%
Rating - 4	9%	Risk - 4	33%
Rating - 5	4%	Risk - 5	8%
Rating - 6	1%	Suspended	10%
Rating - 7	0%		
Suspended	10%		

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