Fundamental Research Corp.
Investment Analysis for Intelligent Investors

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January 19, 2015

Capital Direct I Income Trust – Residential Mortgages in BC, ON and AB

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

Offering Summary	
Issuer	Capital Direct I Income Trust
Date of OM	15-Jul-14
Offering	Maximum of $125M
Securities Offered	Class A and Class 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 units - penalty of 5% of NAV in year 1, decreasing by 1% every year; no penalty after year 5 / Class F - penalty of 2% within 6 months and no penalty after that
Management Fee	2.0% p.a. of NAV on Class A units / 1.0% p.a. of NAV on Class F units
Auditor	Johnsen Archer LLP

FRC Rating	
Expected Yield	8% - 9% p.a.
Rating	2
Risk	2

*see back of report for rating definitions

Investment Highlights

- Capital Direct I Income Trust ("trust") invests primarily in first and second mortgages secured by residential properties primarily in British Columbia (BC), Ontario (ON), and Alberta (AB). BC accounted for approximately 48% of the portfolio as of September 2014.
- Our previous report on the trust was published in January 2014. We have maintained our overall rating of 2, and risk rating of 2.
- The trust's manager is Capital Direct Management Ltd., which is a subsidiary of a private corporation, Capital Direct Lending Corp. ("Capital Direct", "company").
- As per management, Capital Direct has originated approximately $860 million in mortgages (10,000+) since inception in 1997, and is currently originating between $5 and $8 million per month.
- As of September 30, 2014, the trust had $49 million in assets under management, up from $36 million at the end of 2013. Despite the strong growth of the portfolio, the portfolio has maintained its key parameters and risk exposure, indicating management's ability to continue to grow the portfolio prudently.
- We believe their long track record, and pro active marketing campaigns, give them a strong edge over the competition, and creates barriers to entry for new entrants.
- The trust units are entitled to quarterly cash distributions of 80% of the profits of the fund, and are eligible for redemption semi-annually.

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 loan-to-values ("LTV"), and higher default risk, as the value of collateral decreases.
- 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.
- There are penalties for early redemption.
- The fund has the ability to use leverage (the current debt to capital is 44%), which would increase the exposure of the fund to negative events.
- The fund invests in second and third mortgages which carry higher risks. As of September 30, 2014, first mortgages accounted for 36% of the portfolio.

Overview

Capital Direct I Income Trust is an open-ended investment trust that invests primarily in first and second mortgages. The mortgage loans in the portfolio are secured by residential properties primarily located within 90km of urban cities in BC, Alberta and Ontario. We initiated coverage on the trust on June 12, 2012, with an overall rating of 2- (risk rating of 3). We subsequently raised our rating to 2 (risk rating of 3) in a report published in January 2014.

The assets under management have increased to $49 million as of September 2014, up from $32 million at the same time in 2013, reflecting 52% growth. The distribution of mortgages remains the same, with 97% of the investments in first and second mortgages. BC continues to dominate the trust's portfolio. As of September 2014, approximately 48% of the portfolio is secured by properties in BC versus 50% as of September 2013. The average loan to value ("LTV") of the fund was 56.0% as of September 2014, versus 57.6% as of September 2013.

Target mortgages continue to be short-term in nature (12 – 24 months) to borrowers that are unable to secure traditional sources of financing. The following are examples of typical borrowers:

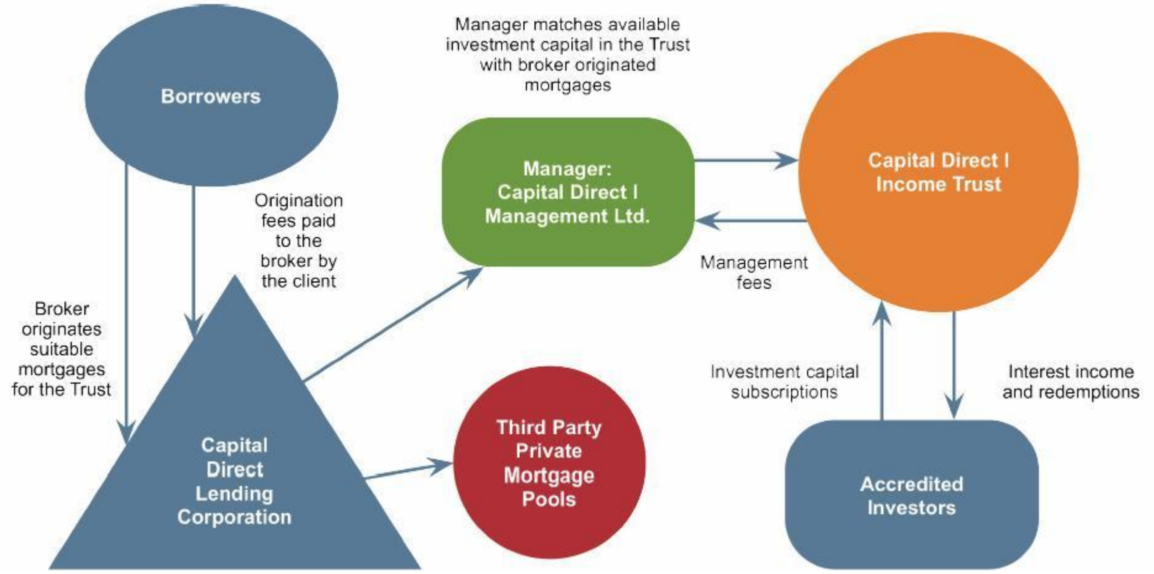
- asset rich, but no steady income.
- self-employed entrepreneurs unable to show confirmed income
- non-residents or new immigrant with no credit history
- a person with significant equity in a property, but needs cash to bring the property to rentable condition
- borrower needs quick cash while home is up for sale
- debt consolidation - homeowners who have a weak credit rating, and seeking to consolidate debt to lower interest payments, re-store credit rating, etc.

The trust's objective is to raise approximately $10 million in the next 12 months through the current offering memorandum.

Manager

The following section provides a background on the trust and its manager.

The trust was created on June 23, 2006, in Vancouver, BC. The manager of the trust is Capital Direct Management Ltd., a subsidiary of a private corporation, Capital Direct Lending Corp., which was incorporated in 1997. The mortgage investments for the trust will be sourced through Capital Direct.



Sources: Capital Direct

Capital Direct, which is owned by three partners, Richard Nichols, Derek Tripp, and Tim Wittig, is in the business of sourcing, underwriting, selling and administrating residential mortgages on behalf of retail investors, registered funds and private mortgage lenders. **Capital Direct has offices in Vancouver, Calgary, Edmonton, Toronto, and the Maritimes (Nova Scotia and New Brunswick, and PEI).** Their nationwide reach, we believe, is a major advantage for the trust, as it spreads out risks across geographic locations. They currently have approximately 50 employees.

As per management, Capital Direct has originated approximately $860 million in mortgages since inception in 1997, and has been originating between $5 and $8 million per month over the past few years. Capital Direct receives a 1% - 3% fee per origination. These mortgages are sold to the trust, and to third-party retail and institutional investors. The origination fees are not passed on to the trust. Currently, they administer approximately $115 million ($102 million at the time of our previous report) in mortgages – which includes $49 million for the trust, and the remaining $67 million ($70 million at the time of our previous report) for other investors.

Capital Direct acquires 75% of its clients directly through advertisements, and 25% from referrals by other brokers and banks. The company, we believe, maintains a significant advertising budget, and is a well-known brand, especially in Vancouver. **Their long track record and aggressive marketing campaigns, we believe, give them a strong edge over the competition, and create barriers to entry for new entrants.**

As Capital Direct sells the mortgages it originates to third-parties, we asked management how they ensure the quality of mortgages that goes into the trust. Their response was that their ownership in the trust (which is approximately 2.6% of the total units outstanding as of June 30, 2014) aligns their interest with investors. Also, Capital Direct posts information on all the mortgages originated, since inception, on their website. **This provides transparency to the trust's portfolio, and allows investors to actually verify if the mortgages in the**

trust are sub-par.

Management Team

Brief biographies of the management team, as provided by the company, follow:

Richard F.M. Nichols - President and Director

Founding Partner and President of the Mortgage Broker from 1997 to the present. During his tenure, the Mortgage Broker has evolved from a Vancouver-based company into an inter-provincial organization. Mr. Nichols oversaw the Mortgage Broker's expansion into new markets including Calgary, Edmonton, and other Central Canadian cities, and later developed a subsidiary in three Atlantic Provinces. He attended the University of Prince Edward Island where he studied finance and capital budgeting and received his Bachelors of Business Administration (BBA). In 1993, Mr. Nichols graduated with honors from the Masters of Business Administration (MBA) program at the University of British Columbia. While completing his Masters degree, Mr. Nichols studied international marketing at the Haute Etude Commerciale in Paris, France. Mr. Nichols is an Accredited Mortgage Professional certified by the Canadian Institute of Mortgage Brokers and Lenders (CIMBL) and the Canadian Association of Accredited Mortgage Professionals (CAAMP). He is an active member of Mortgage Brokers Association of British Columbia (MBABC), Independent Mortgage Brokers Association of Ontario (IMBA) and other provincial and national mortgage-brokering professional and trade organizations. He is also a longstanding member of the Vancouver Board of Trade. In the Spring of 2010, Mr. Nichols was elected to the Corus CKNW Orphan's Fund board of directors. His tenure should result in an entire rebranding of the 65 year old foundation, by fostering a connection between the donors and their stories and the grant recipients themselves.

Derek R. Tripp - Vice President and Director

Founding Partner and Vice President of the Mortgage Broker from 1997 to the present. Mr. Tripp brings 25 years of financial experience to the Mortgage Broker. He has underwritten over $300 million in mortgages and specializes in builder's mortgages. During his tenure at the Mortgage Broker, Mr. Tripp has been instrumental in expanding the company into new provinces throughout Canada. Mr. Tripp studied Urban Land Economics in Real Estate at the University of British Columbia. He is an Accredited Mortgage Professional certified by the Canadian Institute of Mortgage Brokers and Lenders (CIMBL) and the Canadian Association of Accredited Mortgage Professionals (CAAMP) and is a licensed mortgage broker in BC and Alberta and a licensed mortgage agent in Ontario. He is a member of the Alberta Mortgage Brokers Association (AMBA), Independent Mortgage Brokers Association of Ontario (IMBA) and other provincial and national mortgage-brokering professional and trade organizations.

Tim Wittig - Vice President and Director

Partner, Vice President and Director of the Mortgage Broker from 2010 to the present. Mr. Wittig brings 25 years of business experience to the Mortgage Broker. He studied history and political science (Joint Honours) at both the University of Waterloo and the University of British Columbia before answering his entrepreneurial call. In 1987, Mr. Wittig and a partner founded Shaftebury Brewing Company ("Shaftebury") in Vancouver. Mr. Wittig was instrumental in establishing Shaftebury as one of the most successful craft breweries in the Pacific Northwest. Mr. Wittig's entrepreneurial spirit was recognized when he was twice nominated for Ernst & Young's Entrepreneur of The Year Award and when he was a recipient of Business In Vancouver's prestigious Forty Under 40 Award. He has been an investor in private mortgages since 1998 and is a licensed mortgage broker. He is an active member of various professional organizations including the Canadian Association of Accredited Mortgage Professionals (CAAMP), the Mortgage Brokers Association of British Columbia (MBABC) and the Independent Mortgage Brokers Association of Ontario (IMBA).

David Rally - Vice President, Legal Affairs
Vice President, Legal Affairs, of the Mortgage Broker from 1997 to the present. Mr. Rally is a lawyer and has been associate counsel at Beck, Robinson & Company since 1989. In his work as a lawyer, Mr. Rally deals extensively in real estate law, including bank mortgages, private financing and commercial leasing as well as in realizations and insurance law. He has acted as counsel before all levels of court in British Columbia and is a member of good standing of the Bars of British Columbia and Upper Canada (Ontario). Mr. Rally served as an advisor in establishing in-house paralegal services for a well-known real estate service provider and is also licensed as a mortgage broker in Ontario. Mr. Rally studied in the Economics (Honours) program at the University of British Columbia and obtained an LL.B. from the University of British Columbia in 1988.

Paul Wylie - Independent member of the Board of Governors
Mr. Wylie's experience includes over 17 years with two leading financial institutions within North America. Most recently Mr. Wylie worked as a Senior Vice-President and Branch Manager with the financial institutions. Throughout his banking career, he has held numerous management roles in various divisions including: private banking, credit, sales and service and wealth management. Mr. Wylie was educated at the University of Toronto, Wharton Business School and the Canadian Securities Institute. He has gained a number of designations including a Bachelors of Arts, Certified Investment Management Analyst, Financial Management Advisor and has completed the Partners, Directors and Senior Officer's Course. Mr. Wylie has also served on the executive board of his local Big Brothers & Sisters chapter and the community board of Energy International Thermonuclear Research Canada.

The board of governors consists of five individuals, namely, Richard Nichols, Derek Tripp, David B. Rally, Paul Wylie and Tim Wittig. The board's mandate is to identify and establish procedures for resolving situations where there exists a conflict or potential conflict between the interests of the manager and mortgage broker, and the interests of the trust unitholders. Some of the roles of the board include, approving every material contract, review portfolio performance, appoint auditors, etc.

We believe that the board of a company should include independent or unrelated directors who are free of any relationships or business that could materially interfere with the director's ability to act in the best interest of the company. Although there is only one independent director on the company's board, the non-independent directors combined, own

2.6% of the outstanding units (as of June 2014). The trust units purchased by the directors were at a price of $10 per unit (the same price as investors). **As shown in the table below, management has increased their ownership of trust units since our last report, which is an encouraging sign.**

	Jun-14	% of Total	Aug-13	% of Total
Richard F.M. Nichols	7,954	0.31%	7,490	0.41%
Derek R. Tripp	12,231	0.48%	11,517	0.63%
Tim Wittig	40,846	1.61%	38,460	2.10%
David Rally	4,522	0.18%	3,026	0.16%
Total	**65,554**	**2.58%**	**60,493**	**3.30%**

Current Portfolio

As of September 30, 2014, the trust had $49 million in assets under management across 618 properties (average - $78,579), with a duration of up to 24 months (38% have less than 12 months maturity). The average term was 14.1 months as of September 2014, versus 12.1 months as of September 2013.

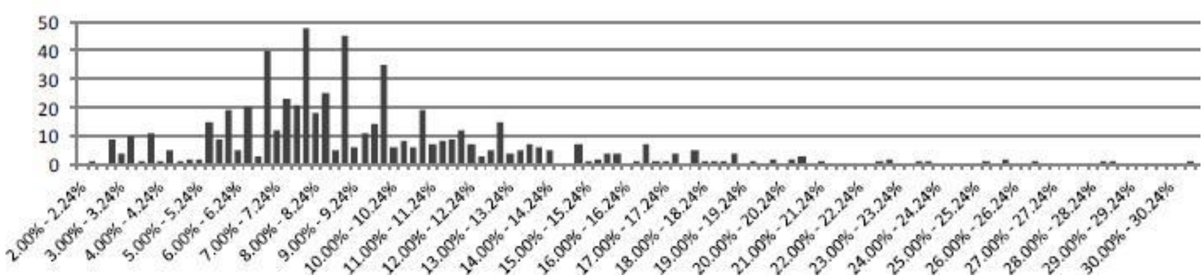
The table below outlines the trust portfolio's distribution of mortgages by province. Approximately 48% of the portfolio, as of September 2014, was secured by properties in BC versus 50% as of September 2013. According to management, a majority of the 618 properties are within a 90 km radius of metropolitan areas. **As mentioned in our previous reports, properties close to metropolitan areas, we believe, are less vulnerable to economic downturns.**

Prov	#Loans	Fair Value	%Portfolio
Atlantic	5	$389,745	0.80%
AB	77	$6,697,643	13.67%
BC	282	$23,675,515	48.32%
ON	254	$18,233,197	37.21%
TOTAL	618	$48,996,099	100.00%

Source: Capital Direct

Our discussions with management indicated that over the long-term, their goal is to have an equal distribution of investments in BC, ON, and AB.

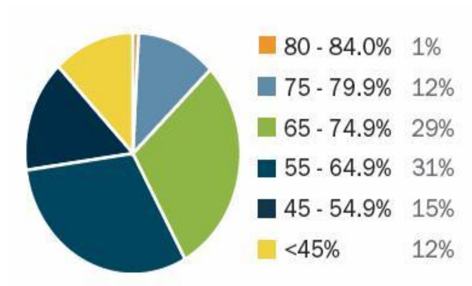
The following chart shows the interest rates charged to the borrowers. The average rate, as of September 2014, was 9.77%.



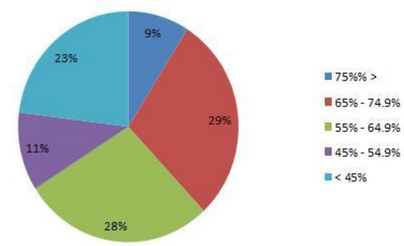
Source: Capital Direct

The following charts show the LTV, security position and term of the mortgages in the portfolio as of September 30, 2014 compared to a year ago.

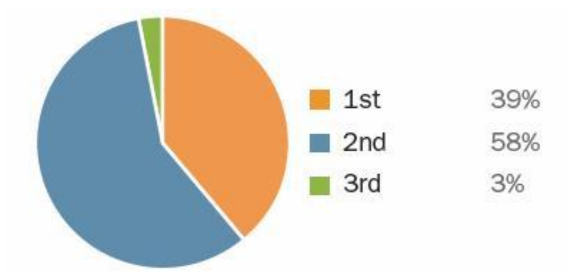
LTV (Sept 30, 2013)



LTV (Sept 30, 2014)



Security Position (Sept 30, 2013)



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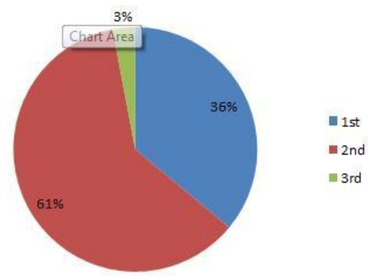
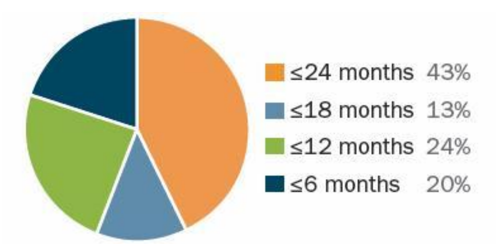
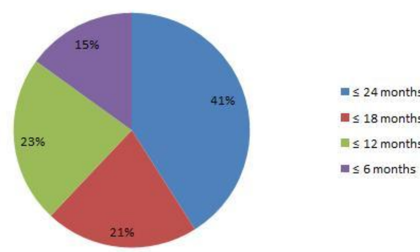


Term to Maturity (Sept 30, 2013)



Term to Maturity (Sept 30, 2014)

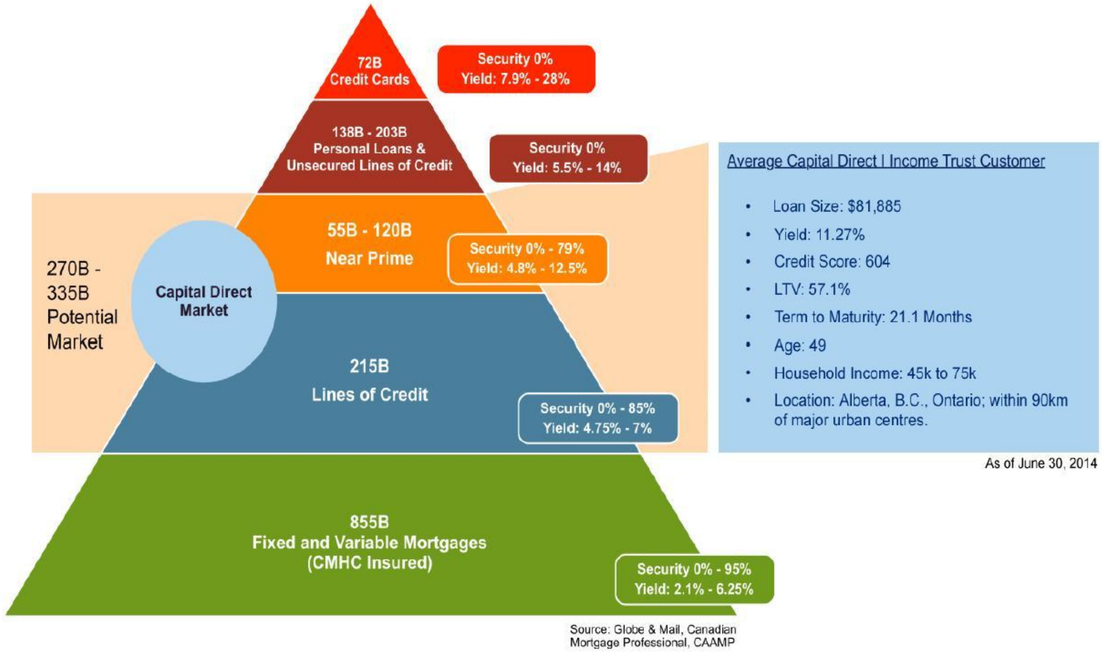


Source: Capital Direct

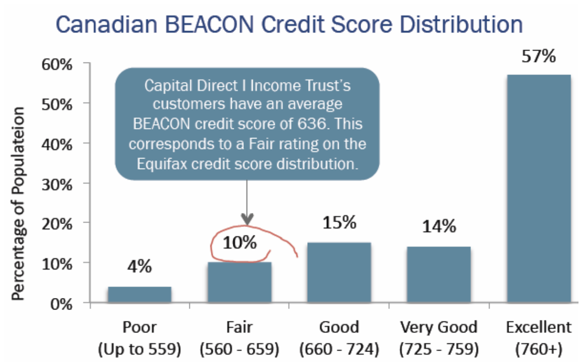
As shown above, there has not been any significant change in any of the key parameters since our last report. As mortgages are short-term, small fluctuations in the parameters are likely.

The average LTV was 56.0% as of September 2014, versus 57.6% as of September 30, 2013. First mortgages accounted for 36% (versus 39% as of September 2013). Second mortgages were at 61% versus 59% as of September 2013.

The following chart gives a snapshot of a typical Capital Direct borrower's profile (no significant change from last year).

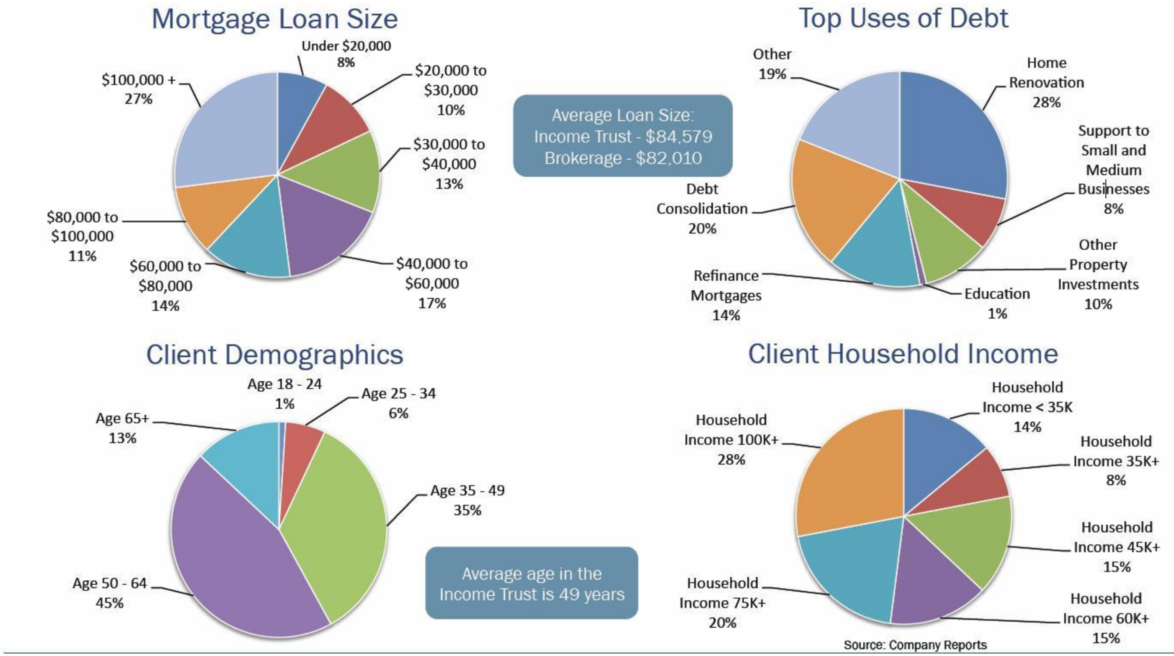


Source: Capital Direct



Source: Capital Direct

The homeowner may use the loan at his or her discretion. The following charts show the breakdown of how the borrowers use funds, client demographics, household income, etc.



Source: Capital Direct

As per management, typically, 33% of customers renew at end of their terms.

Overall, we were pleased to see that the portfolio has maintained its key parameters and risk exposure despite a 52% YOY increase in AUM, indicating management's ability to continue to grow the portfolio in a prudent manner.

Investment Criteria

The investment criteria for the selection of mortgage investments in the trust is summarized below:

- The mortgages will primarily be on residential property situated within Canada. No more than 5% of the trust's assets will be invested in mortgages on the same property.
- The trust will not directly invest in real property; however, it may hold property acquired as a result of foreclosure.
- The trust will not make loans to, nor invest in securities issued by the manager or its affiliates. The trust will not make loans to any of the directors or officers of the manager, or their associates, or members of the board of governors.
- The trust may only invest in "qualified investments", as defined in the tax act for a trust governed by a deferred plan.
- The trust may co-invest with a third party(ies) in a mortgage, but has never done so in the past.
- The trust may invest in mortgages with any length of term; however, the focus will always be on 1-2 year terms.
- The trust may only borrow funds in order to acquire or invest in specific mortgage investments or mortgage portfolios. The maximum amount the trust is able to borrow is the greater of $1.0 million and 50% of the book value of the trust mortgage portfolio, and at an interest less than the interest rate charged, or yield earned, by the trust's overall mortgage

portfolio.

- The trust may participate in mortgages on a syndication basis, subject to approval by the credit committee of the investment amount, and the proposed syndication partners.
- Management uses independent property appraisals when evaluating loan applications.

Private Lending Market

The mortgage lending market is highly affected by changes in interest rates and home prices. The low interest rate environment has been attracting a lot of investors to higher yield opportunities such as MICs. **The structure of the trust's mortgages makes it so their income is minimally affected by home prices and interest rates in the short term**. As the weighted average term to maturity of the mortgages in the portfolio is just 14.1 months, this enables them to re-price interest rates quickly. Also, a weighted average LTV of 56% indicated that there would have to be a significant one year drop in property prices to cause LTVs to rise to levels where the underlying property is valued at less than the mortgage. However, long term real estate prices will have an impact on the deal flow due to the following:

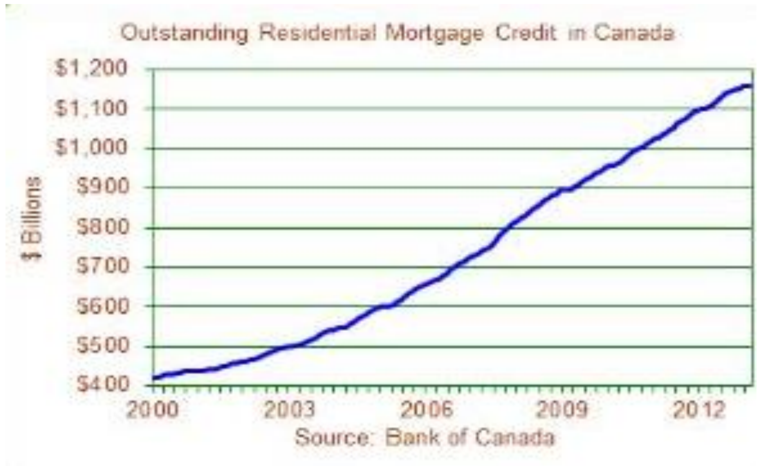
- If prices decrease, there will be less activity, mainly because people hold off purchasing and selling, until the market stabilizes.
- Borrowers will have less collateral to borrow with.

A decrease in market activities will reduce mortgage volume, which will impact lenders' deal flow.

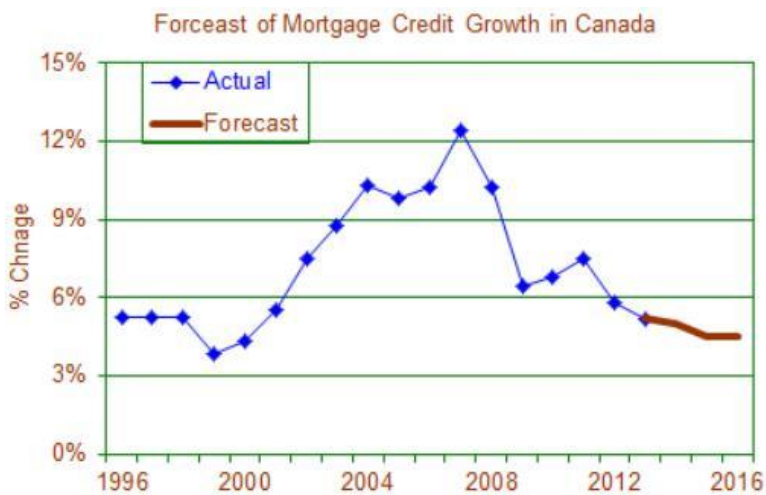
A November 2014 report published by the Canadian Association of Accredited Mortgage Professionals ("CAAMP") indicated that there are currently approximately 9.62 million homeowners in Canada, of whom, about 5.64 million have mortgages and may also have a home equity line of credit. Over 85% of homeowners have 25% or more equity in their homes. Approximately 11% of homeowners took equity out of their home (averaging $55k) in the past year, totaling $63 billion. The most common uses of the funds are listed below:

- *$20.6 billion (33%) for debt consolidation / repayment*
- *$17.4 billion (28%) for renovation / home repair*
- *$6.6 billion (11%) used for purchases (including education)*
- *$7.7 billion (12%) is for investments, and*
- *$10.3 billion (16%) is for other purposes*

The following chart shows the Canadian residential mortgage market size from 2000.

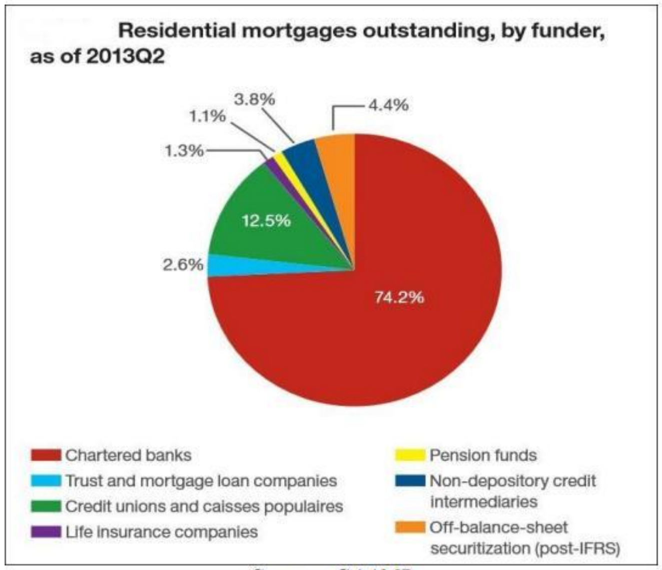


In their November 2014 report, CAAMP estimates that residential mortgage credit growth in Canada averaged 8.1% p.a. over the past decade. CAAMP estimated the total outstanding residential mortgages to grow to $1.28 trillion by the end of 2014. **They expect the sector to grow by 4.7% in 2015, and by 4.5% in 2016, and reach $1.4 trillion by the end of 2016 (as shown in chart below).**



Source: CAAMP

The majority of the outstanding mortgages are through chartered banks, as shown in the chart below. Trust and mortgage loan companies accounted for just 2.6% of the total outstanding mortgages as of Q2-2013. In their November 2014 report, CAAMP indicated that of the current outstanding mortgages, 55% were obtained from a bank, 30% from a mortgage broker, 9% from a credit union, 3% from a life insurance or trust company, and 3% from other sources.



Source: CAAMP

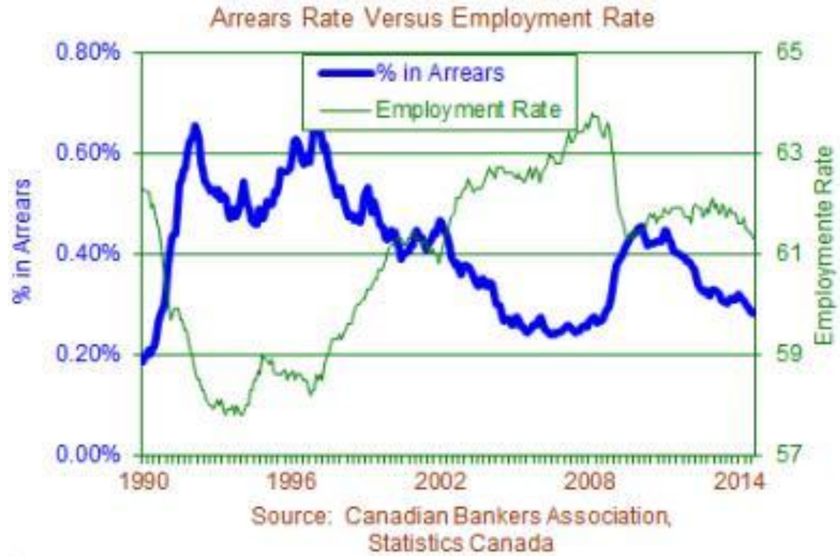
The slower mortgage growth in the past few years (as mentioned in the previous page) was because of the new regulations introduced by the government to tighten banks' lending policies, primarily the B20 (standard for banks) introduced in 2012. This resulted in more business opportunities for private lenders, such as Capital Direct.

Although there is significant uncertainty over how the recent dip in oil prices will impact AB's housing prices, and how the increase in condo supply in Toronto and Vancouver markets will impact their housing prices, we expect all three markets to be quite stable over the next 12-24 months. Firstly, we have a positive outlook on the oil sector, and therefore, do not believe the recent dip in oil prices will have a significant impact on housing prices in AB. Consensus estimates indicate all three markets will report growth in housing prices. The following table shows RE/MAX's projections, which indicate 3% growth in Vancouver and Calgary, and 4% in Toronto.

Average Residential Sale Price	2011	2012	2013	2014E	2015E
Vancouver	$779,730	$730,063	$781,517	$838,400	$863,600
YOY Change		*-6.4%*	*7.0%*	*7.3%*	*3.0%*
Calgary	$402,851	$412,315	$456,000	$483,000	$497,500
YOY Change		*2.3%*	*10.6%*	*5.9%*	*3.0%*
Toronto	$465,412	$497,150	$522,963	$566,400	$589,100
YOY Change		*6.8%*	*5.2%*	*8.3%*	*4.0%*
Canada	$363,346	$363,740	$382,513	$406,145	$416,300
YOY Change		0.1%	5.2%	6.2%	2.5%

Source: RE/MAX (2015 Outlook)

The key factors why we expect a stable housing market are - low interest rate environment, expected growth in Gross Domestic Product ("GDP"), and continued growth in immigration. Also, improving unemployment in the country is resulting in lowering arrears, as shown in the chart below.



Structure of the Offering

The fund is structured as an income trust. The fund currently qualifies, and intends to remain qualified, as a registered investment, and eligible for deferred plans, such as LIF, RRSP, TFSA, RESP, etc. The trust's structure is very similar to a mortgage investment corporation ("MIC"). Both structures allow investors to invest in a pool of diversified mortgages and receive income from them. The major differences between the two structures are - a MIC is required to hold at least 50% of its holdings in residential mortgages and cash, whereas a mutual fund trust does not have such a restriction.

The trust will be managed by the manager, Capital Direct Management Ltd. **The manager will be entitled to a share of the profits as well as a management fee.** Details of the profit sharing are below:

- 80% of the aggregate of net income and net realized capital gains will be paid to the unitholders on a quarterly basis. **Since Q4-2008, management has handed out 90% of the net income to investors.** Note that there is no guarantee that management will maintain the percentage at 90%.
- The remaining 20% of the aggregate of net income, and net realized capital gains, will be paid to the manager.

Typically, MICs, or residential income trusts, incorporate a hurdle rate (preferred return) for investors, after which management shares in profits. We would have liked to see a hurdle rate for this structure as well.

In the most recent OM, the trust introduced a new class of units – Class F. These units are intended for funds / investment advisor who manage funds.

There is no market or exchange that the trust units trade on. The units are non-transferable. They are eligible for redemption twice a year (June 30 and December 31). For Class A units, if redemption requests are within the first 5 years, the following redemption schedule applies:

- If notice of redemption is given prior to the first anniversary of acquisition of such units, redemption will be 95% of the net asset value per unit on the redemption date. The redemption amount will increase by 1% each year until on, or after the fifth anniversary, at which time redemptions will be equal to 100% of the net asset value of the units on the redemption date.

  As for Class F, a 2% penalty applies in the first 180 days. There is no penalty for requests after 180 days.

The following is a list of the fees associated with the offering:

- **2.0% of NAV in annual management fee for Class A units, and a 1.0% of NAV for Class F units.** This fee is in line with comparables; the range on similar offerings is 1% - 3%. The NAV is calculated by management every quarter.

- There are **no sales commissions** charged to the trust - any sales commissions paid (maximum of 1.5% of the gross proceeds + a 1% trailer fee) will be the responsibility of the manager.

The trust's financials are audited by Johnsen Archer LLP. Johnsen Archer LLP is a Chartered Accountant firm with over 25 years of experience.

Financials

The following table shows a summary of the income statement since inception.

FRC Fundamental Research Corp.

Income Statement	2007 (9M)	2008	2009	2010	2011	2012	2013	2014 (9M)
Revenues								
Interest Income	$59,318	$337,521	$501,656	$702,948	$1,154,458	$1,584,171	$2,561,432	$2,676,664
Other Income	$2,908	$32,125	$36,100	$72,312	$72,792	$106,324	$173,377	$280,584
	$62,226	**$369,646**	**$537,756**	**$775,260**	**$1,227,250**	**$1,690,495**	**$2,734,809**	**$2,957,248**
Expenses								
Audit Fees	$2,240	$10,000	$22,000	$40,000	$67,275	$60,300	$55,000	$89,419
Bank Charges	$826	$4,316	$1,975	$8,048	$27,923	$30,510	$59,395	$29,311
Interest on Loan Payable	$27,739	$70,983	$51,773	$31,063	$84,727	$131,177	$350,013	$476,196
Legal Fees		$8,532	$5,892	$18,681	$64,287	$72,464	$109,644	$155,105
Management Fees	$2,257	$24,539	$54,797	$97,621	$145,619	$227,121	$321,564	$329,694
Provision for Loan Losses	$7,963	$8,641	$14,152	$15,380	$29,976	$91,085	$242,195	$223,279
Trustee Fees		$11,612	$10,368	$11,852	$12,294	$16,517	$60,781	$21,075
	$41,025	**$138,623**	**$160,957**	**$222,645**	**$432,101**	**$629,174**	**$1,198,592**	**$1,324,079**
Net Income	**$21,201**	**$231,023**	**$376,799**	**$552,615**	**$795,149**	**$1,061,321**	**$1,536,217**	**$1,633,169**
Net Asset Value	$10.00	$10.00	$10.00	$10.00	$10.00	$10.00	$10.00	$10.00
Units Outstanding	66,801	292,514	489,475	725,046	1,070,923	1,442,321	2,041,233	2,703,909

YE – December 31st

Revenues grew from $0.06 million in 2007, to $2.96 million in the first nine months of 2014. Net Income grew from $0.02 million in 2007, to $1.63 million in the first nine months of 2014.

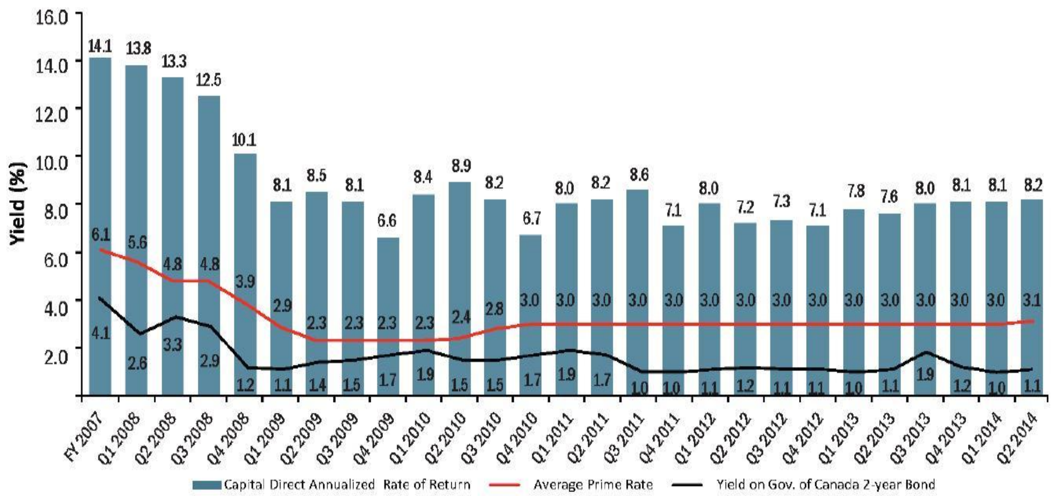
Interest + Other income as a percentage of mortgage receivables was 9.31% p.a. in the first nine month of 2014. The dividend yield (dividends as a percentage of invested capital) was 8.26% p.a.

% of Mortgage Receivable	2007 (9M)	2008	2009	2010	2011	2012	2013	2014 (9M)*
Interest Income	3.48%	13.42%	11.49%	10.12%	10.83%	9.71%	9.16%	8.43%
Other Income	0.17%	1.28%	0.83%	1.04%	0.68%	0.65%	0.62%	0.88%
Interest Income + Others	**3.65%**	**14.70%**	**12.32%**	**11.16%**	**11.51%**	**10.36%**	**9.78%**	**9.31%**
Less:								
Management Fee	-0.13%	-0.98%	-1.25%	-1.41%	-1.37%	-1.39%	-1.15%	-1.04%
G&A Expenses	-0.18%	-1.37%	-0.92%	-1.13%	-1.61%	-1.10%	-1.02%	-0.93%
Provision for Loan Losses	-0.47%	-0.34%	-0.32%	-0.22%	-0.28%	-0.56%	-0.87%	-0.70%
Interest	-1.63%	-2.82%	-1.19%	-0.45%	-0.79%	-0.80%	-1.25%	-1.50%
Net	1.24%	9.19%	8.63%	7.96%	7.46%	6.51%	5.49%	5.14%
Investors' Returns (% of Invested Capital)	**2.54%**	**10.71%**	**8.67%**	**8.19%**	**7.97%**	**7.60%**	**7.94%**	**8.26%**
2-year GOC	4.19%	2.62%	1.27%	1.53%	1.34%	1.11%	1.30%	1.05%

** 2014 (9M) - annualized*

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.

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



Source: Bank of Canada, Bloomberg and Company Reports

One of the key strengths of the trust has been the extremely low loss rate. The trust had two mortgages in default at the end of September 2014. To date, we estimate, the trust has only lost $302k. The annual provision for loan losses has ranged between 0.22% and 0.87% of the mortgage receivables.

	2007 (9M)	2008	2009	2010	2011	2012	2013	2014 (9M)
Actual Losses	-	-	-	-	-	17,030	106,052	178,575
Actual Losses (% of mortgage receivable)	0.00%	0.00%	0.00%	0.00%	0.00%	0.10%	0.38%	0.42%
Distributions	$16,961	$192,478	$339,112	$497,354	$715,634	$955,189	$1,382,595	$1,469,852
Reinvested	$0	$105,133	$151,708	$232,843	$330,497	$495,024	$690,083	$795,930
Reinvested (as a % of Distributions)	0%	55%	45%	47%	46%	52%	50%	54%
Redemptions	$0	$62,543	$217,016	$132,798	$10,000	$588,593	$636,516	$864,875
Redemption (% of invested capital)	0%	3%	6%	2%	0%	5%	4%	4%
Provision for Loan Losses	$7,963	$8,641	$14,152	$15,380	$29,976	$91,085	$242,195	$223,279
General loan loss provision (year end)	$7,963	$16,604	$30,756	$46,136	$76,112	$150,167	$286,310	$331,014
		$16,604	$30,756	$46,136	$76,112	$167,197	$392,362	$509,589
FRC est of actual loss		-	-	-	-	$17,030	$106,052	$178,575

Source: FRC and Management

Investors have reinvested about 45% - 55% of the annual distributions so far – which is extremely encouraging. Annual redemptions have ranged between 0% and 6% of invested capital. They key point to note here is that management was able to redeem $0.59 million in 2012, and $0.64 million in 2013, and $0.86 million in the first nine months of 2014 - indicating management's ability and willingness to meet redemption requests. According to management, they have never declined any redemption request to date.

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

Balance Sheet	2007	2008	2009	2010	2011	2012	2013	Q3-2014
Assets								
Cash	$75,327	$698,744	$215,007	$121,264	$288,331	$187,552	$569,309	$353,977
Accounts Receivable			$2,333		$119,180			$8,809
Prepaid Expense				$7,500				
Assets held for sale						$15,949		
Mortgage Invenstment (net)	$1,704,378	$3,324,557	$5,408,042	$8,479,813	$12,837,727	$19,781,725	$36,139,391	$48,562,073
	$1,779,705	**$4,023,301**	**$5,625,382**	**$8,608,577**	**$13,245,238**	**$19,985,226**	**$36,708,700**	**$48,924,859**
Liabilities								
Loan Payable	$1,000,000	$1,000,000	$600,000	$1,162,682	$2,183,086	$5,083,066	$15,631,451	$21,076,481
Accounts Payable & Accured Liabilities	$111,695	$98,161	$130,700	$195,435	$352,925	$478,948	$664,922	$809,284
	$1,111,695	$1,098,161	$730,700	$1,358,117	$2,536,011	$5,562,014	$16,296,373	$21,885,765
Net Asset	$668,010	$2,925,140	$4,894,752	$7,250,460	$10,709,227	$14,423,212	$20,412,327	$27,039,094
SE + Liabilities	**$1,779,705**	**$4,023,301**	**$5,625,452**	**$8,608,577**	**$13,245,238**	**$19,985,226**	**$36,708,700**	**$48,924,859**
Debt to Capital	60%	25%	11%	14%	17%	26%	43%	44%
Debt as a % of Mortgage Outstanding	59%	30%	11%	14%	17%	26%	43%	43%
Interest Coverage Ratio	1.8	4.4	8.5	19.2	10.5	9.2	5.6	4.5

Total loans issued increased from $36 million at the end of 2013, to $49 million at the end of Q3-2014 (September 30, 2014). The fund's cash position can vary from time to time as loans are paid out and new loans are funded. The cash position at the end of Q3 was $0.35 million.

Line of credit – The trust has a $30 million (prime + 0.75%) line of credit with Canadian Western Bank. The credit limit was just $18 million at the end of 2013. Management indicates that the trust will not withdraw more than 50% of the book value of outstanding mortgages. As of September 30, 2014, $21 million was withdrawn, reflecting debt to capital of 44%, and debt as a percentage of outstanding mortgages of 43%. The interest coverage ratio of the trust is fairly strong, and it is good to see that operating profits generated by the trust can easily cover its annual debt obligation. **As the interest rate on the line of credit is significantly lower than the trust's lending rate, we believe taking on debt (at acceptable levels), to acquire mortgages, will improve investors' returns.**

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.
- There are penalties for early redemption.
- Like most mortgage lending companies, loans are primarily interest only loans.
- The fund has the ability to use leverage (the current debt to capital is 44%), which would increase the exposure of the fund to negative events.
- The fund can invest in second and third mortgages which carry higher risk.
- Annual redemptions may be limited to 10% of the total invested capital, and may not be paid in cash.

Conclusion / Rating

We maintain our overall rating of 2, and risk rating of 2.

FRC Rating	
Expected Yield	8% - 9% p.a.
Rating	2
Risk	2

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	25%	Risk - 2	2%
Rating - 3	45%	Risk - 3	31%
Rating - 4	11%	Risk - 4	42%
Rating - 5	5%	Risk - 5	10%
Rating - 6	1%	Suspended	15%
Rating - 7	0%		
Suspended	12%		

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