



**CapitalDirect**

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## **CAPITAL DIRECT I INCOME TRUST**

For the Nine Month Period Ended September 30, 2011

(Unaudited - Management Prepared)

# CAPITAL DIRECT I INCOME TRUST

## Statement of Net Assets

September 30, 2011 with comparative figures for December 31, 2010

(Unaudited - Management Prepared)

	Sep-30-11 (Unaudited)	Dec-31-10 (Audited)
<b>ASSETS</b>		
Current Assets		
Cash	\$102,771	\$121,264
Accounts receivable	\$230,263	\$0
Prepaid Expenses	\$0	\$7,500
Investments (Notes 2,4,6)	\$11,786,010	\$8,479,813
	<b>\$12,119,044</b>	<b>\$8,608,577</b>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable	\$306,039	\$195,435
Demand Loan (Note 5)	\$1,788,005	\$1,162,682
Interest payable	-	-
	<b>\$2,094,043</b>	<b>\$1,358,117</b>
<b>Unitholders Equity</b>		
Net Assets	\$10,025,000	\$7,250,460
	<b>\$12,119,044</b>	<b>\$8,608,577</b>

See accompanying notes to the financial statements.

### Approved by the Board of Governors

"Richard Nichols" Director  
"Richard Nichols"

"Derek Tripp" Director  
Derek Tripp

## CAPITAL DIRECT I INCOME TRUST

### Statement of Change in Net Assets

For the three months ended September 30, 2011  
with comparative figures for December 31 and September 30, 2010  
(Unaudited - Management Prepared)

	Sep-30-11 (Unaudited)	Dec-31-10 (Audited)	Sep-30-10
<b>Net assets - beginning of period</b>	\$8,616,101	\$4,894,752	\$6,186,660
Net income from operations	\$219,660	\$552,615	\$147,511
	\$8,835,761	\$5,447,367	\$6,334,171
Distribution to unitholders <i>(Note 9)</i>	(\$197,694)	(\$497,354)	(\$132,760)
Distribution to the Managers	(\$21,966)	(\$55,261)	(\$14,751)
Capital transactions			
Subscriptions <i>(Note 8)</i>	\$1,322,720	\$2,255,663	\$556,450
Reinvested distributions	\$86,179	\$232,843	\$66,729
Redemptions	\$0	(\$132,798)	(\$132,798)
<b>Net assets - end of period</b>	<b>\$10,025,000</b>	<b>\$7,250,460</b>	<b>\$6,677,041</b>

See accompanying notes to the financial statements.

# CAPITAL DIRECT I INCOME TRUST

## Statement of Operations

For the three months ended September 30, 2011 and 2010

(Unaudited - Management Prepared)

	Sep-30-11 (Unaudited)	Sep-30-10
<b>INCOME</b>		
Mortgage Interest Income	\$298,193	\$166,199
Mortgage Discount Income	\$8,818	\$11,889
Prepayment Income	\$9,872	\$12,770
Early Redemption Income	\$0	\$6,510
Sundry Mortgage Income	\$5,135	\$2,470
	<b>\$322,018</b>	<b>\$199,837</b>
<b>EXPENSES</b>		
Audit Fees	\$16,000	\$5,500
Bank Charges	\$4,514	\$2,605
Filing Fees	\$1,620	\$1,800
Interest Expense	\$26,958	\$7,078
Legal Expense	\$1,579	\$0
Management Fees	\$42,636	\$30,033
Provision for Loan Loss	\$6,779	\$1,630
Trustee Fees	\$0	\$1,352
Sundry Mortgage Expense	\$2,272	\$2,329
	<b>\$102,358</b>	<b>\$52,326</b>
<b>Net Income from operations</b>	<b>\$219,660</b>	<b>\$147,511</b>

See accompanying notes to the financial statements.

# CAPITAL DIRECT I INCOME TRUST

## Statement of Cash Flow

For the three months ended September 30, 2011 and 2010

(Unaudited - Management Prepared)

	Sep-30-11 (Unaudited)	Sep-30-10
<b>Operating activities</b>		
Net income from operations	\$219,660	\$147,511
Items not affecting cash:		
Distribution to unitholders and Manager	(\$219,660)	(\$147,511)
Reinvested distributions	\$0	\$0
	\$0	\$0
Changes in non-cash working capital:		
Account payable and Interest payable	\$44,160	\$8,137
Deferred mortgage discount income	\$1,333	\$17
	\$45,493	\$8,154
Cash flow from operating activities	\$45,493	\$8,154
<b>Investing activity</b>		
Purchase of investments, net	(\$548,921)	(\$324,293)
Cash flow used by investing activities	(\$548,921)	(\$324,293)
<b>Financing activities</b>		
Advances from related parties	(\$706,374)	\$0
Cash subscriptions	\$1,408,899	\$623,179
Redemptions	\$0	(\$132,798)
Cash flow from financing activities	\$702,525	\$490,381
<b>Net change in cash and cash equivalents during the period</b>	\$199,097	\$174,242
Cash and cash equivalents - beginning of period	\$133,937	\$470,708
<b>Cash and cash equivalents - end of period</b>	\$333,034	\$644,949
<b>Cash flow supplementary information</b>		
Interest paid	\$26,958	\$7,078

See accompanying notes to the financial statements.

NOTE: All investments carry risk, past performance is not an indication of future returns.

# CAPITAL DIRECT I INCOME TRUST

## Notes to Financial Statements

Nine Month Period Ended September 30, 2011

(Unaudited - Management Prepared)

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### 1. ORGANIZATION OF THE TRUST

The Capital Direct I Income Trust (the "Trust") is an open-ended investment trust established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated June 23, 2006 by Capital Direct Management Ltd. (the "Manager"), as administrator of the Trust and Computershare Trust Company of Canada (the "Trustee")

The Trust is not a reporting issuer under securities legislation and therefore is relying on Part 2.11 of National Instrument 81-106 for exemption from the requirements to file financial statements with the applicable regulatory authorities.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

#### Cash and Cash Equivalents

The Trust considers all cash and highly liquid investments purchased with an initial maturity of one year or less to be cash and cash equivalents.

#### Investments

Investments consist primarily of residential mortgages and are valued at the outstanding principal balance which approximates fair market value. The Manager based on reasonable discretion, may determine a value which more accurately reflects the fair market value of the

#### Income Recognition

Income from cash equivalents and investments are recognized on an accrual basis. Gain or loss on investments is recognized in the period when sold or when the Manager determines that a permanent impairment in value has occurred. Mortgage discount income is deferred and recognized over the term of the underlying mortgages.

#### Loss Reserve

Management reviews, estimates and accrues the loss provision on a monthly basis consistent with the historical outcomes of mortgages originated by Capital Direct Lending Corp., parent company of the Manager.

# CAPITAL DIRECT I INCOME TRUST

## Notes to Financial Statements

Nine Month Period Ended September 30, 2011

(Unaudited - Management Prepared)

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### 3. FINANCIAL INSTRUMENTS

The Trust's financial instruments consist of cash and cash equivalents, investments, accounts payable and payable to a related party.

#### Credit Risk

It is the Manager's opinion that the Trust is exposed to credit risks on all investments. The credit risk is minimized as all investments are collateralized, there is no geographical concentration of investments and the Manager regularly reviews and monitors the fair value of each investment. Accordingly, it is the Manager's opinion that the Trust is not exposed to significant credit risk.

#### Fair Value

The Trust's carrying value of cash and cash equivalents, accounts payable and payable to a related party approximates its fair value due to the immediate or short term of these instruments.

#### Liquidity Risk

The Trust's investments are subject to liquidity risk due to the fact the investments are collateralized by real estate. As a result, the Trust may not be able to realize the full fair value of the investments in the event that these financial assets need to be sold quickly.

# CAPITAL DIRECT I INCOME TRUST

## Notes to Financial Statements

Nine Month Period Ended September 30, 2011

(Unaudited - Management Prepared)

### 4. INVESTMENTS

Investments consist primarily of residential mortgages acquired from Capital Direct Lending Corp. The mortgages have a maturity ranging from 12 to 24 months and range in position of collateral from first to third. Interest rates on the mortgages vary as noted below:

LTV	Number of Loans	Fair Value
5% to 9.99%	1	\$76,673
10% to 14.99%	1	\$46,068
15% to 19.99%	4	\$330,799
20% to 24.99%	2	\$54,157
25% to 29.99%	2	\$112,161
30% to 34.99%	8	\$653,873
35% to 39.99%	5	\$292,610
40% to 44.99%	5	\$412,202
45% to 49.99%	13	\$1,279,667
50% to 54.99%	6	\$672,291
55% to 59.99%	14	\$1,255,729
60% to 64.99%	15	\$1,946,268
65% to 69.99%	19	\$2,223,697
70% to 74.99%	22	\$1,310,054
75% to 79.99%	22	\$1,214,043
	<u>139</u>	<u>\$11,880,292</u>
General Loan loss provision		(\$70,798)
Deferred mortgage discount income		(\$23,484)
		<u>\$11,786,010</u>

### 5. DEMAND LOAN

The Trust has a credit facility with Canadian Western Bank to a maximum of \$3,000,000 which bears interest at the greater of 4.00% per annum and a rate of 1.25% per annum above the bank's prime lending rate. As of December 31, 2010, the bank's prime lending rate is 3.00% per annum. The line of credit is secured by a general security agreement, a general assignment of mortgages agreement, a general assignment of insurance and limited liability guarantees in an amount of \$335,000 executed by each of the directors.

# CAPITAL DIRECT I INCOME TRUST

## Notes to Financial Statements

Nine Month Period Ended September 30, 2011

(Unaudited - Management Prepared)

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### 6. RELATED PARTY TRANSACTIONS

The Trust purchased 100% of its mortgages from Capital Direct Lending Corp., the parent company of the Manager. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

### 7. TAXATION

The Trust qualifies as a "Unit Trust" within the meaning of the Canadian Income Tax Act ("The Act"). The Trust is subject to applicable federal and provincial taxes on the amounts of its net income for tax purposes for the year, including net realizable taxable capital gains, except to the extent such amounts are distributed to unitholders. Losses incurred by the Trust cannot be allocated to unitholders, but may be deducted by the Trust in future years in accordance with The Act.

### 8. UNITHOLDER EQUITY

Pursuant to the Declaration of Trust, the Trust is authorized to issue an unlimited number of retractable, redeemable and transferable units, each of which represents and equal, undivided interest in any distributions made by the Trust and in the net assets of the Trust in the event of termination or windup. Each Unitholder is entitled to one vote for each whole unit held by such Unitholder.

Units are permitted to be retracted on June 30 or December 31 in any year by giving written notice to the Manager. The retraction proceeds payable for each unit is determined by a formula based on a percentage of net asset value per unit and the length of time since the unit was acquired.

For the three month period ended September 30, 2011 132,272 units were issued for a total subscription price of \$1,322,720.00.

Units outstanding, beginning of period	861,610
Units issued	132,272
Units issued on reinvestment	8,618
Units redeemed	0
Units outstanding, end of period	<u><u>1,002,500</u></u>

# CAPITAL DIRECT I INCOME TRUST

## Notes to Financial Statements

Nine Month Period Ended September 30, 2011

(Unaudited - Management Prepared)

### 9. DISTRIBUTION TO UNITHOLDERS

The Trust distributes 80% of the net income from operations to the unitholders on a quarterly basis from investments held by the Trust. The quarterly distributions are paid in arrears on the 15th day following the first three calendar quarters and on March 31 following the fourth calendar quarter to which the distribution relates. Distributions by the Trust will be paid in cash unless the unitholder elects to receive distributions in the form of units.

### 10. MANAGEMENT FEES AND EXPENSES

#### Management fees

Pursuant to the Management Agreement between the Trust and the Manager, the Manager is to provide management, administration and investment advisory services to the Trust. For these services, the Manager will be entitled to receive a monthly fee (the "Manager's Fee") calculated and payable monthly in arrears based on an annual rate of 2% of the net asset value.

In addition, 20% of the net income from operations will be paid to the Manager on a quarterly basis.

#### Expenses

All organization expenses and sales commission or fees paid to registered dealers in connection with the Offering will be paid by the Manager.

All expenses or outlays relating to the Trust from inception including, but not limited to, the Manager's Fee, the Trustee's fee, offering expenses (other than organizational expenses and sales commissions on fees paid to registered dealers in connection with the offer and sale of units), taxes payable by the Trust, expenses related to Unitholders' meetings, brokerage, legal and other fees and disbursements relating to the implementation of transactions for Trust investments, if any, will be paid by the Trust.

### 11. ANNUALIZED RATE OF RETURN

Subscription Month	Net Asset Value	Weighted Average Net Asset Value Per Month	Net Income Allocated to Unitholders	Annualized Return
Initial subscription on settlement	\$10			
Jul-31-11	\$8,721,670	\$8,721,670	\$186,480.82	8.553%
Aug-31-11	\$270,000	\$180,000	\$3,848.64	8.553%
Sep-30-11	\$1,033,320	\$344,440	\$7,364.58	8.553%
	\$10,025,000	\$9,246,110	\$197,694.04	8.553%