CAPITAL DIRECT I INCOME TRUST

Financial Statements

Year Ended December 31, 2013

JOHNSEN ARCHER LLP
TAXATION · ACCOUNTING · ASSURANCE

CAPITAL DIRECT I INCOME TRUST
Index to Financial Statements
Year Ended December 31, 2013

JOHNSEN ARCHER LLP
TAXATION · ACCOUNTING · ASSURANCE

30 years of original thinking

JOHNSEN ARCHER LLP

TAXATION • ACCOUNTING • ASSURANCE

INDEPENDENT AUDITORS' REPORT

To the Unitholders of Capital Direct I Income Trust

Report on the Financial Statements

We have audited the accompanying financial statements of Capital Direct I Income Trust, which comprise the statement of net assets as at December 31, 2013, and the statements of changes in net assets, operations, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Capital Direct I Income Trust as at December 31, 2013, its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Johnsen Archer LLP

Vancouver, B.C.
February 24, 2014

300 - 7485 130TH STREET, SURREY, BC, CANADA V3W 1H8 • TEL 604.501.2822 FAX 604.501.2832
WWW.JOHNSENARCHER.CA
AFFILIATED WORLDWIDE WITH
jhi

CAPITAL DIRECT I INCOME TRUST
Statement of Net Assets
December 31, 2013

	2013	2012
ASSETS		
Current		
Cash	**$ 569,309**	$ 187,552
Asset held for sale	**-**	15,949
	569,309	203,501
Mortgage investments, net of loss provision *(Notes 4, 11)*	**36,139,391**	19,781,725
	$ 36,708,700	$ 19,985,226
LIABILITIES		
Current		
Loan payable *(Note 5)*	**$ 15,631,451**	$ 5,083,066
Accounts payable and accrued liabilities	**664,922**	478,948
	16,296,373	5,562,014
UNITHOLDERS' EQUITY		
Net assets	**20,412,327**	14,423,212
	$ 36,708,700	$ 19,985,226

JOHNSEN ARCHER LLP
TAXATION · ACCOUNTING · ASSURANCE

"Tim Wittig" *Director*

See notes to financial statements

CAPITAL DIRECT I INCOME TRUST
Statement of Changes in Net Assets
Year Ended December 31, 2013

	2013	2012
Net assets - beginning of year	**$ 14,423,212**	$ 10,709,227
Comprehensive Income	**1,536,217**	1,061,321
Distributions to unitholders *(Note 7)*	**(1,382,595)**	(955,189)
Distribution to the Manager	**(153,622)**	(106,132)
Capital transactions *(Note 8)*	-	-
Subscriptions	**5,935,548**	3,807,554
Reinvested distributions	**690,083**	495,024
Redemptions	**(636,516)**	(588,593)
Net assets - end of year	**$ 20,412,327**	$ 14,423,212

JA JOHNSEN ARCHER LLP
TAXATION · ACCOUNTING · ASSURANCE

See notes to financial statements

CAPITAL DIRECT I INCOME TRUST
Statement of Operations
Year Ended December 31, 2013

	2013	2012
Revenue		
Interest income	$ 2,561,432	$ 1,584,171
Other income	173,377	106,324
	2,734,809	1,690,495
General and administrative expenses		
Audit fees	55,000	60,300
Bank charges	59,395	30,510
Interest on loan payable	350,013	131,177
Legal fees	109,644	72,464
Management fees	321,564	227,121
Provision for loan losses	242,195	91,085
Trustee fees	60,781	16,517
	1,198,592	629,174
Net income and comprehensive income for the year	$ 1,536,217	$ 1,061,321

JOHNSEN ARCHER LLP
TAXATION · ACCOUNTING · ASSURANCE

CAPITAL DIRECT I INCOME TRUST
Statement of Cash Flows
Year Ended December 31, 2013

	2013	2012
Operating activities		
Net income	$ 1,536,217	$ 1,061,321
Item not affecting cash:		
Provision for loan losses	242,195	91,085
	1,778,412	1,152,406
Changes in non-cash working capital:		
Accounts receivable	-	119,180
Accounts payable and accrued liabilities	185,974	126,023
	185,974	245,203
Cash flow from operating activities	1,964,386	1,397,609
Investing activities		
Purchase of mortgage investments, net	(16,599,861)	(7,051,032)
Proceeds on disposal of asset held for sale	15,949	-
Cash flow used by investing activities	(16,583,912)	(7,051,032)
Financing activities		
Distributions to unitholders, net of distributions reinvested	(692,512)	(460,165)
Distribution to the Manager	(153,622)	(106,132)
Cash received on subscriptions	5,935,548	3,807,554
Redemptions	(636,516)	(588,593)
Loan payable	10,548,385	2,899,980
Cash flow from financing activities	15,001,283	5,552,644
Increase (decrease) in cash	381,757	(100,779)
Cash - beginning of year	187,552	288,331
Cash and cash equivalents - end of year	$ 569,309	$ 187,552
Supplementary information		
Interest received	$ 2,506,768	$ 1,544,779
Interest paid	$ 350,013	$ 131,177
Non-cash transaction - reduction in mortgage investments due to realization of security	$ -	$ 15,949

JOHNSEN ARCHER LLP
TAXATION · ACCOUNTING · ASSURANCE

See notes to financial statements

1. ORGANIZATION OF THE TRUST

Capital Direct I Income Trust (the "Trust") is an open-ended investment trust established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated June 23, 2006 by Capital Direct Management Ltd. (the "Manager") and Computershare Trust Company of Canada (the "Trustee"). The Trust is a non-bank provider of primarily residential real estate finance. The Trust generates fees and income from investments in a portfolio of mortgage loans in order to generate stable distributions to unitholders.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. These estimates include the allowance for loan losses and completeness of accrued liabilities. These are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

(continues)

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

Financial instruments

Recognition and measurement

The Trust recognizes financial assets and financial liabilities, including derivatives and embedded derivatives, on the balance sheet when the Trust becomes party to the contractual provisions of the financial instruments or non-financial derivative contract. The Trust classifies all financial assets and financial liabilities as either a) Held for trading, b) Available for sale, c) Held to maturity, d) Loans and receivables or e) Other financial liabilities, depending on the Trust's stated intention and/or historical practice. Financial assets and liabilities held for trading are measured at fair value with gains and losses recognized in net income. Financial assets held to maturity, loans and receivables, and other financial liabilities other than those held for trading, are measured at amortized cost based on the effective interest method. Available for sale instruments are measured at fair value with gains and losses, net of tax, recognized in other comprehensive income.

The Trust's financial assets and liabilities are classified as follows:

	Category	Measurement
Assets:		
Cash	Held for trading	Fair value
Mortgage investments	Loans and receivables	Amortized cost
Liabilities:		
Loan payable	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

(continues)

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

Comprehensive income

Comprehensive income consists of net earnings and other comprehensive income ("OCI"). OCI comprises the change in fair value of the effective portion of the derivatives used as hedging items in a cash flow hedge and the change in fair value of any available for sale financial instruments. Amounts included in OCI are shown net of tax. Accumulated other comprehensive income is an equity category comprised of the cumulative amounts of OCI.

The Trust had no "other comprehensive income or loss" transactions during the year ended December 31, 2013 (2012 - $nil) and no opening or closing balances for accumulated other comprehensive income or loss.

Credit risk and fair value of financial assets and financial liabilities

The Trust follows the recommendations of EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" from the Canadian Institute of Chartered Accountants ("CICA"). Under the requirements of EIC-173, an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments.

Mortgage investments

Mortgage investments are measured at amortized cost using the effective interest method, net of an allowance for losses.

Interest income from mortgage investments is recorded on an accrual basis, except for mortgage investments that are considered to be impaired. A mortgage investment is classified as impaired when, in management's opinion, there is reasonable doubt as to the ultimate collectibility, either in whole or in part, of principal and interest. When a mortgage investment is classified as impaired, recognition of interest in accordance with the term of the original mortgage investment agreement ceases. Subsequent payments received on an impaired mortgage investment are recorded as a reduction in principal. Mortgage investments are generally returned to accrual status when the timely collection of both principal and interest is reasonably assured and all delinquent principal and interest payments are brought current.

Mortgage discount income is deferred and recognized over the term of the underlying mortgage. Other fees are recognized as the services are performed.

(continues)

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

Provision for loan losses

The Trust maintains specific and general allowances for losses in its mortgage investment portfolio. The provision for loan losses is increased by a provision for mortgage investment impairment charged to income and reduced by write-offs during the year.

A loan is considered to be impaired when payments are in arrears, all attempts at recovery with the mortgagee have failed and the Trust enters the foreclosure process to recover the loan balance. A specific provision is recorded to the extent the fair value of the collateral charged against the loan does not exceed the loan balance. Interest income continues to be accrued until the courts begin selling the property. Legal fees and other costs are also accrued to the loan balance to the extent they are expected to be recovered. At December 31, 2013 there are no impaired loans for which a specific loss provision has been recorded (2012: $nil). The Trust also maintains a general allowance that incorporates mortgage investment loss history as the basis for estimating probability of default in mortgage investments.

Assets held for sale

A long lived asset is classified as held for sale when the Manager commits to a plan to sell, it is available for sale in its present condition, an active program to initiate sale has been initiated, the sale is probably and expected to complete within a year, it is being actively marketed for sale, and there are unlikely to be significant changes to the plan of sale. Assets held for sale are measured at their fair value less costs to sell.

Income taxes

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

3. FINANCIAL INSTRUMENTS

(a) Fair value of financial assets and liabilities

The following table details carrying values and fair values of financial assets and financial liabilities by financial instrument classification. The fair values of financial assets and liabilities with fixed interest rates have been determined using discounted cash flow techniques based on interest rates being offered for similar types of assets and liabilities with similar terms and risks as at the balance sheet date. The fair values of other financial assets and liabilities are assumed to approximate their carrying values, principally due to their short term nature.

These fair values, presented for information only, reflect conditions that existed only at the balance sheet date.

(continues)

3. FINANCIAL INSTRUMENTS *(continued)*

	2013			2012
	Carrying Value	Fair Value	Difference	Difference
Assets				
Held for trading:				
Cash	$ 569,309	569,309	$ -	$ -
Loans and receivables:				
Mortgage investments	36,139,391	36,139,391	-	-
			-	-
Liabilities				
Other financial liabilities:				
Loan payable	15,631,451	15,631,451	-	-
Accounts payable	664,922	664,922	-	-
			-	-
Net difference			-	-

(b) Fair value hierarchy

The Trust uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. The use of quoted market prices (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3) in the valuation of financial instruments was as follows:

	Fair value measurements classifications			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash	-	569,309	-	569,309

There were no transfers between the levels during the period.

(c) Risk management

Risk management involves the identification, ongoing assessment, managing and monitoring of material risks that could adversely affect the Trust. The Trust is exposed to credit risk, liquidity risk, market risk and interest rate risk.

(continues)

3. FINANCIAL INSTRUMENTS *(continued)*

Credit Risk

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty to discharge its contractual commitment or obligation to the Trust. It is the Manager's opinion that the Trust is exposed to credit risks on all mortgage investments. The credit risk is mitigated as all mortgage investments are collateralized, there is no significant geographical concentration of mortgage investments, and the Manager regularly reviews and monitors the fair value of the collateral. The loss provision for the mortgage investments is established based on a provision for identified specific mortgage investments and a general provision applied to the portfolio as a whole. The Manager has assessed that there are no specifically identified mortgage investments exposed to credit risks. The Manager has provided a general loan loss provision based on approximately 0.9% (2012: 0.7%) of mortgage investments.

Management regularly reviews the mortgage listing for balances in arrears and follows up with clients as needed regarding payment. For individual accounts in arrears where discussion with the client has not succeeded, foreclosure proceedings commence. Balances receivable include accrued interest income and legal and other costs related to attempts at collection. The loans are collateralized by real property and losses are recognized to the extent that recovery of the balance through sale of the underlying property is not reasonably assured. As at December 31, 2013 management had identified $2.6 million of loans in arrears over 120 days. Of these, $2.1 million of loans have entered some form of legal proceedings in attempt to recover the balance. Based on the most recent property appraisals management has not identified any specific loans for which a loss provision should be made (2012: $nil).

Liquidity Risk

Liquidity risk is the risk of the Trust being unable to honour all cash outflow obligations as they come due. The Trust's investments are subject to liquidity risk due to the fact that the investments are collateralized by real estate. As a result, the Trust may not be able to realize the full fair value of the investments in the event that these financial assets need to be sold quickly. The Manager manages liquidity by investing in mortgage investments that are suitable for the Trust, monitoring the performance of the Trust's mortgage portfolio, and assessing the loan to collateral value ratio.

Market Risk

Market risk is the risk of a loss resulting from changes in interest rates, foreign exchange rates, and market prices and volatilities that arise from the Trust's investment activities. The Trust's principal risk arises from interest rate risk as the Trust does not undertake foreign exchange or trading activities.

Interest Rate Risk

Interest rate risk is the risk that a movement in the interest rates could impact net interest income and the economic value of assets, liabilities and unitholders' equity. The Trust is exposed to interest rate risk on the mortgage investments and the loan payable.

(continues)

3. FINANCIAL INSTRUMENTS *(continued)*

For mortgage investments, the Trust manages interest rate risk by holding mortgage investments that are substantially based on a fixed interest rate. It is estimated that a general 0.5% (2012: 0.5%) increase or decrease in market interest rates would have no impact on the mortgage investment income, due to the fixed nature of the interest rates being earned on the mortgage investments. It is estimated that an increase of 0.5% in the prime lending rate would result in an increase in interest expense on the loan payable of approximately $43,000 (2012: $16,000).

4. MORTGAGE INVESTMENTS

Mortgage investments consist of residential mortgages acquired from Capital Direct Lending Corp., the parent company of the Manager, and Capital Direct Atlantic Inc., a subsidiary of the parent Company of the Manager. Loan to value ratios on the mortgages vary as noted below:

Loan to Value	Number of Loans		
0% to 4.99%	3	$	105,435
5% to 9.99%	11		685,033
10% to 14.99%	6		409,405
15% to 19.99%	7		529,967
20% to 24.99%	9		654,048
25% to 29.99%	3		101,260
30% to 34.99%	12		650,861
35% to 39.99%	10		1,185,358
40% to 44.99%	14		915,145
45% to 49.99%	24		2,248,942
50% to 54.99%	23		2,696,412
55% to 59.99%	39		4,578,241
60% to 64.99%	47		6,479,799
65% to 69.99%	63		5,489,729
70% to 74.99%	81		5,170,383
75% to 79.99%	71		4,447,154
80% to 84.99%	2		197,315
85% to 89.99%	0		-
90% to 94.99%	0		-
95% to 99.99%	0		-
	425		36,544,487
General loan loss provision			(286,310)
Deferred mortgage discount income			(118,785)
		$	36,139,391

In 2012 the general loan loss provision was $150,167, or 0.7% of the gross mortgage loan balance. During the year ended December 31, 2013 the Trust increased the general provision by $242,195 to 0.9% of the gross mortgage loan balance. The Trust wrote off loans totalling $106,050 (2012: $nil) against the loan loss provision.

(continues)

4. MORTGAGE INVESTMENTS *(continued)*

The mortgages typically have an original maturity ranging from 12 to 24 months and range in position of collateral from first to third. Mortgages mature as follows:

	2013	2012
less than 12 months	**14,414,117**	11,243,236
12 to 24 months	**21,888,510**	8,681,104
over 24 months	**241,860**	83,836
Total	**36,544,487**	20,008,176

5. LOAN PAYABLE

The Trust has an operating line of credit with Canadian Western Bank to a maximum of $18,000,000 (2012: $8,000,000) which bears interest at a rate of 0.75% per annum above the bank's prime lending rate. For the year ended, December 31, 2013, the bank's average prime lending rate was 3.00% per annum (2012: 3%). The line of credit is secured by a general security agreement including a fixed first charge over the real and personal property of the Trust, Capital Direct Lending Corporation, and Capital Direct Management Ltd., a general assignment of mortgages agreement, a general assignment of insurance and limited liability guarantees in an amount of $335,000 each executed by three of the directors.

The line of credit is subject to certain financial covenants as outlined in Note 12. As at December 31, 2013, the Trust was in compliance with these covenants.

6. TAXATION

Under the specified investment flow-through trust or partnership ("SIFT") rules, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions paid by a SIFT as returns of capital will not be subject to the tax.

The Trust is not subject to the SIFT tax regime since units of the Trust are not listed on a stock exchange or other public market. Accordingly, the Trust has not recorded a provision for income taxes or future income tax assets or liabilities in respect of the SIFT Rules.

7. DISTRIBUTIONS TO UNITHOLDERS

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

The Board of Directors of the Manager unanimously agreed to waive 50% of the distributions it was entitled to for the period from January to December 2013, thereby increasing the distribution to the unitholders to 90% of the net income for the year.

8. UNITHOLDERS' EQUITY

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

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

For the year ended December 31, 2013, 593,555 units (2012: 380,755 units) were issued for a total subscription price of $5,935,547 (2012: $3,807,554) and 63,652 units (2012: 58,859 units) were redeemed for a total redemption price of $636,516 (2012: $588,593). 69,008 units (2012: 49,502) units were issued on reinvestment of trust distributions.

	2013	2012
Units outstanding, beginning of period	**1,442,321**	1,070,923
Units issued on subscription	**593,556**	380,755
Units issued on reinvestment	**69,008**	49,502
Units redeemed	**(63,652)**	(58,859)
Units outstanding, end of period	**2,041,233**	1,442,321

9. MANAGEMENT FEES AND EXPENSES

Management fees and distributions

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

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

The Board of Directors of the Manager unanimously agreed to waive 50% of the distribution it is entitled to for the period from January to December 2013. This amount was distributed to the unitholders.

Expenses

All organizational expenses and sales commissions or fees paid to registered dealers in connection with the offering and sale of units are paid by the Manager.

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

10. ANNUALIZED RATE OF RETURN

	Net asset value	Average net assets per quarter	Net income to be allocated to unitholders
First quarter - March 31, 2013	15,870,467	14,929,371	290,645
Second quarter - June 30, 2013	17,360,839	17,055,040	325,307
Third quarter - September 30, 2013	18,393,583	18,029,667	360,184
Fourth quarter - December 31, 2013	20,412,327	19,893,643	406,459
Year ended December 31, 2013	20,412,327	17,476,930	1,382,595

	Average annualized rate of return compounded quarterly	Effective annual rate of return	Weighted average return weighted by net assets outstanding	Effective weighted average annual rate of return
First quarter - March 31, 2013	7.79%		1.66%	
Second quarter - June 30, 2013	7.63%		1.86%	
Third quarter - September 30, 2013	7.99%		2.06%	
Fourth quarter - December 31, 2013	8.17%		2.33%	
Year ended December 31, 2013	7.90%	8.13%	7.91%	8.15%

11. RELATED PARTY TRANSACTIONS

During the year, the Trust purchased 99% (2012 - 100%) of its mortgages totaling $25,808,842 (2012 - $17,891,995) from Capital Direct Lending Corp. and 1% (2012: nil) of its mortgages totalling $344,000 (2012: nil) from Capital Direct Atlantic Inc.

The Trust paid $321,564 (2012 - $227,121) of management fees and $153,622 (2012 - $106,132) of distributions to Capital Direct Management Ltd., the Manager.

Accounts payable includes $135,310 (2012: $94,645) due to the Manager.

These transactions were conducted in the normal course of business and are recorded at the exchange amount being the consideration agreed to by the related parties.

12. CAPITAL MANAGEMENT

The Trust defines capital as loan payable and unitholders' equity. The Manager's objective when managing capital is to make prudent investments in mortgages so that it can continue to provide stable returns for its Unitholders. The Trust achieves its investment objectives by monitoring the Trust's mortgage investment portfolio. Information on the Unitholders' equity is described in Note 8.

The Trust's loan payable (Note 5) is subject to the following covenants as calculated in accordance with the credit facility agreement. In the event of a violation of the covenants, no trust units may be redeemed or repurchased.

1. To maintain a Cash Flow Coverage Ratio of not less than 1.50:1 in each quarter.
2. To maintain a Tangible Net Worth of not less than $14,000,000 in each quarter.
3. To maintain a Debt to Tangible Net Worth Ratio not greater than 1:1 in each quarter.

As at December 31, 2013, the Trust was in compliance with the above covenants.

13. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

In December 2011, the Canadian Accounting Standards Board ("AcSB") amended their mandatory requirement for all Canadian publicly accountable enterprises to prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), permitting investment companies to defer the adoption of IFRS to fiscal years beginning on or after January 1, 2014.

In December 2012, the IASB and the AcSB confirmed that the relevant standards would be incorporated into IFRS beginning January 1, 2014. Adoption of IFRS for publicly accountable investment companies will be mandatory for the year ended December 31, 2014. The Trust will issue its first full set of financial statements in accordance with IFRS commencing the year ended December 31, 2014.

Certain relevant accounting differences between Canadian GAAP and IFRS and the possible impacts on the financial statements of the Trust has been described below:

(continues)

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

Financial instruments - presentation

IAS 32 defines a financial instrument as a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Trust's trust units, which are currently categorized under Canadian GAAP as equity, may be considered a liability under IFRS.

Impact

Based on an initial assessment of the financial instruments criteria, the Trust has determined that the Trust units would still be classified as equity under IFRS.

Provisions and Contingent Liabilities

IAS 37 requires a provision to be recognized when: (i) there is a present obligation as a result of a past transaction or event; (ii) it is possible that an outflow of resources will be required to settle the obligation; and (iii) a reliable estimate can be made of the obligation. The threshold for recognition of a provision under Canadian GAAP is higher than under IFRS. It is possible, therefore, that some contingent liabilities which would not been recognized under Canadian GAAP may meet the criteria for recognition as a provision under IFRS.

Impact

No significant impact is expected.