
CAPITAL DIRECT I INCOME TRUST

Financial Statements

Year Ended December 31, 2014

CAPITAL DIRECT I INCOME TRUST
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Year Ended December 31, 2014

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INDEPENDENT AUDITORS' REPORT

To the Unitholders of Capital Direct I Income Trust

We have audited the accompanying financial statements of Capital Direct I Income Trust, which comprise the statement of financial position as at December 31, 2014, December 31, 2013 and January 1, 2013 and the statements of changes in net assets, comprehensive income and cash flows for the fiscal years ended December 31, 2014 and December 31, 2013, 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 International Financial Reporting Standards, 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, 2014, December 31, 2013, and January 1, 2013, and its financial performance and its cash flows for the years ended December 31, 2014 and December 31, 2013, in accordance with International Financial Reporting Standards.

Johnsen Archer LLP

Vancouver, B.C.
February 19, 2015

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

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CAPITAL DIRECT I INCOME TRUST
Statement of Financial Position
December 31, 2014

	<i>December 31</i> 2014	<i>December 31</i> 2013	<i>January 1</i> 2013
ASSETS			
Current assets			
Cash	\$ 556,175	\$ 569,309	\$ 187,552
Accounts receivable	120,045	-	-
Assets held for sale	-	-	15,949
	676,220	569,309	203,501
Mortgage Investments (Note 3)	53,633,836	36,139,391	19,781,725
	\$ 54,310,056	\$ 36,708,700	\$ 19,985,226
LIABILITIES			
Current liabilities			
Loan payable (Note 5)	\$ 24,911,835	\$ 15,631,451	\$ 5,083,066
Accounts payable and accrued liabilities	1,613,901	664,922	478,948
	26,525,736	16,296,373	5,562,014
UNITHOLDERS' EQUITY			
Net assets	27,784,320	20,412,327	14,423,212
	\$ 54,310,056	\$ 36,708,700	\$ 19,985,226

ON BEHALF OF THE BOARD

"Tim Wittig" _____ *Director*



CAPITAL DIRECT I INCOME TRUST
Statement of Changes in Net Assets
Year Ended December 31, 2014

	Class A	Class F	2014	2013
Net assets - beginning of year	\$ 20,412,327	\$ -	\$ 20,412,327	\$ 14,423,212
Comprehensive income	2,186,544	10,960	2,197,504	1,536,217
	22,598,871	10,960	22,609,831	15,959,429
Distribution to unitholders	(1,967,890)	(9,864)	(1,977,754)	(1,382,595)
Distribution to the manager	(218,654)	(1,096)	(219,750)	(153,622)
Capital transactions				
Subscriptions	7,440,666	474,984	7,915,650	5,935,548
Reinvested distributions	1,118,084	-	1,118,084	690,083
Redemptions	(1,661,741)	-	(1,661,741)	(636,516)
Net assets - end of year	\$ 27,309,336	\$ 474,984	\$ 27,784,320	\$ 20,412,327

CAPITAL DIRECT I INCOME TRUST
Statement of Comprehensive Income
Year Ended December 31, 2014

	2014	2013
Revenue		
Interest income	\$ 3,948,088	\$ 2,561,432
Other income	303,728	173,377
	4,251,816	2,734,809
General and administrative expenses		
Audit fees	75,250	55,000
Bank charges	94,370	59,395
Interest on loan payable	689,472	350,013
Legal fees	174,877	109,644
Management fees	461,707	321,564
Provision for loan losses	488,142	242,195
Trustee fees	70,494	60,781
	2,054,312	1,198,592
Profit and comprehensive income for the year	\$ 2,197,504	\$ 1,536,217

CAPITAL DIRECT I INCOME TRUST
Statement of Cash Flows
Year Ended December 31, 2014

	2014	2013
Operating activities		
Profit for the year	\$ 2,197,504	\$ 1,536,217
Items not affecting cash:		
Provision for loan losses	488,142	242,195
	2,685,646	1,778,412
Changes in non-cash working capital:		
Accounts receivable	(120,045)	-
Accounts payable and accrued liabilities	152,112	185,974
	32,067	185,974
Cash flow from operating activities	2,717,713	1,964,386
Investing activities		
Purchase of mortgage investment, net	(17,982,587)	(16,599,861)
Proceeds on disposal of asset held for sale	-	15,949
Cash flow used by investing activities	(17,982,587)	(16,583,912)
Financing activities		
Distributions to unitholders, net of distributions reinvested	(859,670)	(692,512)
Distribution to the manager	(219,750)	(153,622)
Cash received on subscriptions	7,915,650	5,935,548
Redemptions	(864,874)	(636,516)
Loan payable	9,280,384	10,548,385
Cash flow from financing activities	15,251,740	15,001,283
Increase (decrease) in cash	(13,134)	381,757
Cash - beginning of year	569,309	187,552
Cash - end of year	\$ 556,175	\$ 569,309
Supplementary information		
Interest received	\$ 3,673,320	\$ 2,506,768
Interest paid	\$ 689,472	\$ 350,013

CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2014

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") as administrator of the Trust and Computershare Trust Company of Canada (the "Trustee"). The address of the Trust's principal place of business is #305 - 555 West 8th Avenue, Vancouver, B.C. V5Z 1C6.

The Trust is a non-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 annual financial statements with the applicable regulatory authorities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These audited annual financial statements, including comparatives, are prepared in accordance with International Financial Reporting Standards ("IFRS"). These are the Trust's first annual financial statements prepared using accounting policies under IFRS and accordingly IFRS 1, First-time Adoption of IFRS ("IFRS 1") has been applied.

The Trust's financial statements were previously prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). GAAP differs in some areas from IFRS. In preparing these financial statements, there were no significant differences in accounting policies previously applied in the GAAP financial statements and therefore no adjustments were required to comprehensive income for the year ended December 31, 2013 or to unitholders equity as at January 1, 2013 in order to comply with IFRS. No changes were made to the statement of cash flows.

IFRS 1 requires that comparative financial information be provided. As a result, the first date at which the Trust has applied IFRS was January 1, 2013 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date. However, it also provides for certain optional exemptions and certain mandatory exceptions for first-time adopters. The Trust did not apply any transition exemptions or exceptions to full retrospective application of IFRS.

Significant accounting estimates and judgements

The preparation of financial statements in conformity with IFRS 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 provision for loan losses. The estimated provision is 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.

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CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2014

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 profit or loss. Financial assets held to maturity, loans and receivables, and other financial liabilities other than those held for trading, are measured at fair value on initial recognition and subsequently 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:

	<u>Category</u>	<u>Measurement</u>
Assets:		
Cash	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Mortgage investments	Loans and receivables	Amortized cost
Liabilities:		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Loan payable	Other financial liabilities	Amortized cost

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, 2014 (2013: \$nil) and no opening or closing balances for accumulated other comprehensive income or loss.

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CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2014

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

Fair value measurement

The Trust measures financial instruments at fair value on initial recognition. Management estimates fair value in accordance with IFRS 13, Fair Value Measurement, as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a liability reflects the effect of non-performance risk, which includes the Trust's own credit risk and any other factors that might influence the likelihood the obligation may not be fulfilled. The fair value of a liability with a demand feature is not less than the amount that could be demanded, discounted from the first date demand could be required. Where fair value may not be determined based on comparable instruments trading in a public market, it is estimated based on observable inputs, to the extent they are available.

Unitholders' equity

The Trust units issued entitle the holders to a pro rata share of the Trust's net assets on liquidation, and are subordinate to all other classes of financial instruments in the event of liquidation. Aside from the amount and timing of redemption charges, all Trust units have identical features. Distributions on the Trust units are not fixed in amount, but vary with the income of the Trust. On the basis of the above features, unitholders' capital has been classified as equity.

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 collectability, 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.

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CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2014

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

Provision for loan losses

The Trust maintains an allowance 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, 2014 there are no impaired loans for which a specific loss provision has been recorded (2013: \$nil).

The Trust also maintains an allowance that incorporates mortgage investment loss history as the basis for estimating probability of default in mortgage investments. The Trust groups all unimpaired loans according to similar credit risk characteristics, and evaluates the likelihood of an impairment loss on a group basis. The Trust records a general loss provision allowance against each group of loans with such similar characteristics.

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.

Because the Trust is contractually obligated to distribute all income, and such distributions are eligible for deduction against taxable income, the Trust is not required to recognize a deferred tax asset or liability for any temporary differences.

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CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2014

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

Standards issued but not yet effective

As at December 31, 2014, the following standard has been issued by the IASB but is not yet effective for these financial statements, and is relevant to the Company as set out below.

IFRS 9: Financial instruments:

IFRS 9, Financial instruments deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. A financial asset would be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value.

The standard is effective for annual periods beginning on or after January 1, 2018. The impact of IFRS 9 may change as a consequence of further developments resulting from the IASB's project to replace IAS 39. As a result, it is impracticable to quantify the impact of IFRS 9 as at the date of issue of these financial statements.

CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2014

3. MORTGAGE INVESTMENTS

Interest rates vary on the mortgages as noted below:

Interest Rate	# of Loans	Carrying Value	Interest Rate	# of Loans	Carrying Value
2.75 - 2.99%	6	\$ 438,819	13.00-13.24%	4	\$ 301,881
3.00 - 3.24%	3	\$ 436,950	13.25-13.49%	6	\$ 476,181
3.25 - 3.49%	9	\$ 757,912	13.50-13.74%	8	\$ 307,813
3.50 - 3.74%	2	\$ 210,726	13.75-13.99%	7	\$ 256,268
3.75 - 3.99%	13	\$ 1,764,150	14.00-14.24%	5	\$ 386,492
4.25 - 4.49%	5	\$ 777,719	14.25-14.49%	3	\$ 140,653
4.50 - 4.74%	2	\$ 169,368	14.50-14.74%	2	\$ 55,355
4.75 - 4.99%	6	\$ 411,717	14.75-14.99%	6	\$ 474,346
5.00 - 5.24%	3	\$ 487,383	15.00-15.24%	1	\$ 35,726
5.25 - 5.49%	15	\$ 1,444,075	15.25-15.49%	2	\$ 121,491
5.50 - 5.74%	16	\$ 1,695,102	15.50-15.74%	3	\$ 138,906
5.75 - 5.99%	23	\$ 2,393,222	15.75-15.99%	6	\$ 318,781
6.00 - 6.24%	5	\$ 1,226,527	16.25-16.49%	2	\$ 173,063
6.25 - 6.49%	25	\$ 2,392,054	16.50-16.74%	8	\$ 344,924
6.50 - 6.74%	9	\$ 801,833	16.75-16.99%	2	\$ 49,792
6.75 - 6.99%	33	\$ 3,088,033	17.25-17.49%	4	\$ 127,986
7.00 - 7.24%	6	\$ 580,255	17.50-17.74%	1	\$ 42,559
7.25 - 7.49%	29	\$ 2,854,616	17.75-17.99%	5	\$ 224,759
7.50 - 7.74%	19	\$ 1,358,327	18.00-18.24%	1	\$ 24,600
7.75 - 7.99%	54	\$ 4,175,978	18.25-18.49%	2	\$ 674,477
8.00 - 8.24%	15	\$ 1,466,683	18.50-18.74%	1	\$ 21,587
8.25 - 8.49%	27	\$ 1,636,016	18.75-18.99%	4	\$ 117,553
8.50 - 8.74%	10	\$ 1,071,197	19.25-19.49%	2	\$ 34,660
8.75 - 8.99%	49	\$ 3,300,959	19.75-19.99%	3	\$ 71,374
9.00 - 9.24%	11	\$ 714,838	20.25-20.49%	2	\$ 32,615
9.25 - 9.49%	12	\$ 1,243,877	20.50-20.74%	1	\$ 222,637
9.50 - 9.74%	16	\$ 1,115,454	21.00-21.24%	1	\$ 20,934
9.75 - 9.99%	40	\$ 2,659,084	21.75-21.99%	1	\$ 80,622
10.00-10.24%	7	\$ 485,842	22.50-22.74%	1	\$ 25,004
10.25-10.49%	9	\$ 454,346	22.75-22.99%	3	\$ 76,954
10.50-10.74%	8	\$ 790,663	23.25-23.49%	1	\$ 29,448
10.75-10.99%	25	\$ 1,843,809	23.50-23.74%	1	\$ 9,057
11.00-11.24%	7	\$ 338,552	23.75-23.99%	1	\$ 42,849
11.25-11.49%	7	\$ 636,148	25.25-25.49%	1	\$ 9,018
11.50-11.74%	9	\$ 672,610	25.75-25.99%	1	\$ 13,226
11.75-11.99%	10	\$ 651,579	26.50-26.74%	1	\$ 37,230
12.00-12.24%	7	\$ 323,092	28.50-28.74%	3	\$ 108,185
12.25-12.49%	4	\$ 195,882	30.50-30.74%	1	\$ 8,345
12.50-12.74%	5	\$ 146,251	31.50-31.74%	1	\$ 13,940
12.75-12.99%	14	\$ 1,199,367			
				683	\$ 54,062,306

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CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2014

3. MORTGAGE INVESTMENTS (continued)

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 Capital Direct Lending Corp. The Trust has insured no mortgages under the National Housing Act (Canada). Loan to value ratios on the mortgages vary as noted below:

Loan to Value Ratio	Number of Loans	Carrying Value
0.00 - 4.99%	5	\$ 151,438
5.00 - 9.99%	19	937,795
10.00 - 14.99%	15	948,802
15.00 - 19.99%	18	1,578,079
20.00 - 24.99%	17	1,173,646
25.00 - 29.99%	20	1,605,693
30.00 - 34.99%	20	1,322,629
35.00 - 39.99%	19	1,452,924
40.00 - 44.99%	36	3,591,878
45.00 - 49.99%	33	2,936,076
50.00 - 54.99%	34	3,157,935
55.00 - 59.99%	65	7,153,351
60.00 - 64.99%	85	8,962,035
65.00 - 69.99%	101	7,621,770
70.00 - 74.99%	113	6,685,225
75.00 - 79.99%	83	4,783,030
80.00 - 84.99%	0	-
85.00 - 89.99%	0	-
90.00 - 94.99%	0	-
95.00 - 99.99%	0	-
	683	\$ 54,062,306
Loan loss provision		(309,192)
Deferred mortgage discount income		(119,278)
		\$ 53,633,836

In 2013 the loan loss provision was \$286,310, or 0.8% of the gross mortgage loan balance. During the year ended December 31, 2014 the Trust adjusted the provision by \$22,882 to 0.6% of the gross mortgage loan balance. The Trust wrote off loans totaling \$465,260 (2013: \$106,050) against the loan loss provision.

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:

	2014	2013
Less than 12 months	\$ 23,906,612	\$ 14,414,117
12 to 24 months	30,120,411	21,888,510
Over 24 months	35,283	241,860
Total	\$ 54,062,306	\$ 36,544,487

CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2014

4. 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 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 for disclosure purposes was as summarized below.

The fair value of mortgage investments has been determined using discounted cash flow techniques based on interest rates being offered for similar types of assets with similar terms and risks as at the balance sheet date. The fair values of other financial assets and financial liabilities are assumed to approximate their carrying values, principally due to their short term or demand nature.

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

	2014			2013	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Difference</u>	<u>Fair Value Hierarchy</u>	<u>Difference</u>
<u>Assets</u>					
Loans and receivables:					
Cash	\$ 556,175	\$ 556,175	\$ -	Level 1	\$ -
Accounts receivable	120,045	120,045	-	Level 3	-
Mortgage investments	53,633,836	53,633,836	-	Level 2	-
			-		-
<u>Liabilities</u>					
Other financial liabilities:					
Loan payable	24,911,835	24,911,835	-	Level 2	-
Accounts payable and accrued liabilities	1,613,901	1,613,901	-	Level 3	-
			-		-
Net difference			-		-

b) 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 risks, liquidity risk, market risk and interest rate risk. There were no significant changes in risk from those disclosed in the Trust's annual financial statements.

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CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2014

4. 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 loans with similar credit characteristics. 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 0.6% (December 31, 2013: 0.8%) 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, 2014 management had identified loans totaling 5% of the portfolio in arrears over 120 days. Of these, \$2.4 million (2013: \$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 (December 31, 2013: \$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 liquidity risk arises due to the fact that its investments are collateralized by real estate. As a result, the Trust may not be able to realized the full fair value of the investments in the event that these financial assets need to be sold quickly in order to discharge its liabilities. 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.

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CAPITAL DIRECT I INCOME TRUST
Notes to Financial Statements
Year Ended December 31, 2014

4. FINANCIAL INSTRUMENTS (continued)

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 the assets, liabilities and unitholders' equity. The Trust is exposed to interest rate risk on the mortgage investments (Note 3) and the loan payable (Note 5).

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% 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 \$88,000 (2013: \$43,000).

5. LOAN PAYABLE

The Trust has an operating line of credit with Canadian Western Bank to a maximum of \$30,000,000 (2013: \$18,000,000), subject to margin requirements on eligible mortgage investments, which bears interest at a rate of 0.75% per annum above the bank's prime lending rate. For the year ended, December 31, 2014, the bank's average prime lending rate was 3.00% per annum (2013: 3.00%). 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 Corp., and Capital Direct Management Ltd., a general assignment of mortgages agreement, and a general assignment of insurance.

The line of credit is subject to certain financial covenants as outlined in Note 11. As at December 31, 2014, the Trust was in compliance with these covenants.

The maximum and minimum amounts borrowed during the year were \$24,911,835 (2013: \$15,631,451) and \$15,321,909 (2013: \$5,283,066) respectively.

Subsequent to year end the bank's prime lending rate was lowered to 2.85% per annum.

6. RELATED PARTY TRANSACTIONS

During the year, the Trust purchased 99% (2013: 99%) of its mortgages totaling \$35,420,212 (2013: \$25,808,842) from Capital Direct Lending Corp. and 1% (2013: 1%) of its mortgages totalling \$391,000 (2013: \$344,000) from Capital Direct Atlantic Inc.

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.

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7. 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 deferred income tax in respect of the SIFT Rules.

8. DISTRIBUTIONS 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.

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9. UNITHOLDERS' 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 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.

During the year the Trust created a new class of trust units, designated Class F. These units bear similar features to the Class A units except that Class F units may be retracted after 180 days with no penalty, whereas Class A units bear a retraction fee which diminishes over five years from 5% prior to the first anniversary of issue to zero. Class A and Class F units share pro rata in distributions from the Trust. Both classes of units are permitted to be retracted on June 30 or December 31 in any year by giving written notice to the Manager.

The Trust's current offering authorizes Class A and Class F units totalling 12,500,000 units for a combined maximum of \$125,000,000. Class A and Class F units are issued as listed below.

For the year ended December 31, 2014, 791,565 units (2013: 593,555 units) were issued for a total subscription price of \$7,915,650 (2013: \$5,935,548) and 86,487 units (2013: 63,652 units) were redeemed for a total redemption price of \$864,874 (2013: \$636,516). 79,687 were called for retraction prior to December 31, 2014. The redemption price of \$796,867 is accrued in accounts payable. 111,808 units (2013: 69,008) units were issued on reinvestment of trust distributions.

	Class A	Class F	Total
Units outstanding, beginning of period	2,041,233	-	2,041,233
Units issued on subscription	744,067	47,498	791,565
Units issued on reinvestment	111,808	-	111,808
Units redeemed	(166,174)	-	(166,174)
Units outstanding, end of period	2,730,934	47,498	2,778,432
Unitholders equity:	\$ 27,309,336	\$ 474,984	\$ 27,784,320
Net asset value per unit	\$ 10	\$ 10	\$ 10

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10. 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 (the "Manager's Fee") calculated and payable monthly in arrears based on an annual rate of 2% of the net asset value. The total management fee for the year was \$461,707 (2013: \$321,564).

In addition, 20% of the net income from operations 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 2014. This amount was distributed to the unitholders. The total distribution paid to the Manager for the year was \$219,750 (2013: \$153,622).

Of the above amounts, \$188,448 (2013: \$135,310) remains in accounts payable and accrued liabilities.

Expenses

All organizational expenses and sales commissions 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, are paid by the Trust.

11. 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 9.

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 \$20,000,000 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, 2014, the Trust was in compliance with the above covenants.

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Notes to Financial Statements
Year Ended December 31, 2014

12. ANNUALIZED RATE OF RETURN

Class A Units				
	Net asset value	Weighted average net assets per quarter	Net income to be allocated to unitholders	
First quarter - March 31, 2014	22,606,567	21,715,423	442,502	
Second quarter - June 30, 2014	25,355,794	24,329,792	496,793	
Third quarter - September 30, 2014	26,810,464	26,326,388	527,503	
Fourth quarter - December 31, 2014	27,309,336	27,405,001	501,092	
Year ended December 31, 2014	27,309,336	24,944,151	1,967,890	

	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, 2014	8.15 %		1.77 %	
Second quarter - June 30, 2014	8.17 %		1.99 %	
Third quarter - September 30, 2014	8.01 %		2.11 %	
Fourth quarter - December 31, 2014	7.24 %		1.99 %	
Year ended December 31, 2014	7.89 %	8.13 %	7.86 %	8.09 %

(continues)

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12. ANNUALIZED RATE OF RETURN (continued)

Class F Units			
	Net asset value	Weighted average net assets per quarter	Net income to be allocated to unitholders
Third quarter - September 30, 2014	228,630	152,420	3,054
Fourth quarter - December 31, 2014	474,984	367,067	6,810
Year ended December 31, 2014	474,984	259,744	9,864

	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
Third quarter - September 30, 2014	8.01 %		2.35 %	
Fourth quarter - December 31, 2014	7.42 %		5.24 %	
Year ended December 31, 2014	7.72 %	7.95 %	7.59 %	7.81 %