CAPITAL DIRECT I INCOME TRUST

Financial Statements

Year Ended December 31, 2018

Johnsen Archer LLP

Taxation · Accounting · Assurance

CAPITAL DIRECT I INCOME TRUST
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Year Ended December 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Capital Direct I Income Trust

Opinion

We have audited the financial statements of Capital Direct I Income Trust ("the Trust"), which comprise the statement of financial position as at December 31, 2018, and the statements of changes in net assets attributable to unitholders, comprehensive income and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Trust or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Trust's financial reporting process.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Johnsen Archer LLP

Vancouver, B.C.
February 19, 2019

CHARTERED PROFESSIONAL ACCOUNTANTS

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CAPITAL DIRECT I INCOME TRUST

Statement of Financial Position

December 31, 2018

	2018	2017
ASSETS		
Current assets		
Cash	$ 8,052,977	$ 4,004,562
Accounts receivable	2,524,347	3,223,329
Assets held for sale *(Note 4)*	-	88,282
Mortgage investments, current portion *(Note 5)*	92,324,547	78,535,020
	102,901,871	85,851,193
Mortgage investments, net of current portion *(Note 5)*	89,832,147	87,078,656
	$192,734,018	$172,929,849
LIABILITIES AND NET ASSETS		
Current liabilities		
Loan payable *(Note 7)*	$ 35,524,445	$ 38,915,187
Accounts payable and accrued liabilities	7,927,563	5,242,910
	43,452,008	44,158,097
Net assets attributable to unitholders *(Note 9)*	149,282,010	128,771,752
	$192,734,018	$172,929,849

Contingent liability *(Note 7)*

ON BEHALF OF THE MANAGER

"Tim Wittig"

The accompanying notes form an integral part of these financial statements.

CAPITAL DIRECT I INCOME TRUST

Statement of Changes in Net Assets

Year Ended December 31, 2018

	Class A	Class C	Class F	**2018**	2017
Net assets attributable to unitholders at beginning of year	$ 58,548,906	$ 17,281,352	$ 52,941,494	**$ 128,771,752**	$ 106,705,218
Comprehensive income	5,749,030	1,810,541	5,756,108	**13,315,679**	10,279,629
	64,297,936	19,091,893	58,697,602	**142,087,431**	116,984,847
Distribution to unitholders	(4,599,224)	(1,448,433)	(4,604,886)	**(10,652,543)**	(9,251,666)
Distribution to the manager	(1,149,806)	(362,108)	(1,151,222)	**(2,663,136)**	(1,027,963)
Subscriptions	10,262,268	4,813,692	6,160,500	**21,236,460**	23,920,743
Reinvested distributions	2,799,257	1,029,075	2,602,564	**6,430,896**	5,554,651
Interchanges	(125,021)	(36,618)	161,639	**-**	-
Redemptions	(2,934,680)	(2,192,337)	(2,030,081)	**(7,157,098)**	(7,408,860)
Net assets attributable to unitholders at end of year	$ 68,550,730	$ 20,895,164	$ 59,836,116	**$ 149,282,010**	$ 128,771,752

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CAPITAL DIRECT I INCOME TRUST
Statement of Comprehensive Income
Year Ended December 31, 2018

	2018	2017
Revenue		
Interest income	**$ 16,839,706**	$ 13,802,934
Other income	**1,772,579**	1,537,565
	18,612,285	15,340,499
General and administrative expenses		
Bank charges	**423,218**	378,936
Interest on loan payable	**1,604,631**	1,510,707
Management fees	**2,180,673**	1,894,574
Professional fees	**338,902**	178,633
Provision for loan losses	**613,053**	971,133
Trustee and registrar fees	**136,129**	126,887
	5,296,606	5,060,870
Profit and comprehensive income for the year	**$ 13,315,679**	$ 10,279,629

CAPITAL DIRECT I INCOME TRUST
Statement of Cash Flows
Year Ended December 31, 2018

	2018	2017
Operating activities		
Profit for the year	$ 13,315,679	$ 10,279,629
Items not affecting cash:		
Provision for loan losses	613,053	971,133
Loss on disposal of asset held for sale	47,857	-
	13,976,589	11,250,762
Changes in non-cash working capital:		
Accounts receivable, net of subscriptions	799,438	(1,719,337)
Accounts payable and accrued liabilities, net of redemptions	850,216	481,904
	1,649,654	(1,237,433)
Cash flow from operating activities	15,626,243	10,013,329
Investing activities		
Purchase of mortgage investment, net	(17,156,071)	(19,552,044)
Proceeds on disposal of asset held for sale	40,425	-
Cash flow used by investing activities	(17,115,646)	(19,552,044)
Financing activities		
Distributions to unitholders, net of distributions reinvested	(4,221,647)	(3,697,015)
Distribution to the manager	(2,663,136)	(1,027,963)
Cash received on subscriptions	21,136,004	27,643,683
Redemptions	(5,322,661)	(6,254,520)
Decrease in loan payable, net	(3,390,742)	(5,103,315)
Cash flow from financing activities	5,537,818	11,560,870
Increase in cash flow	4,048,415	2,022,155
Cash - beginning of year	4,004,562	1,982,407
Cash - end of year	$ 8,052,977	$ 4,004,562
Supplementary information		
Interest received	$ 15,474,859	$ 12,716,197
Interest paid	$ 1,604,630	$ 1,510,709
Non-cash transaction - reduction in mortgage investments due to realization of security *(Note 4)*	$ -	$ 88,282

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The accompanying notes form an integral part of these 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, as amended from time to time, 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 IFRS as published by the International Accounting Standards Board ("IASB") and interpreted by the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements have been prepared on the basis of historical cost, except for financial instruments classified as fair value through profit and loss, which are measured at fair value.

These financial statements are presented in Canadian dollars, which is the Trust's functional currency.

These annual financial statements for the year ended December 31, 2018 were authorized for issuance by the Manager on February 19, 2019.

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. Such estimates include valuation of accounts receivable, assets held for sale, the provision for loan losses, and completeness of accrued liabilities. These estimates 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.

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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 at their initial fair value when the Trust becomes party to the contractual provisions of the financial instrument or non-financial derivative contract.

The Trust subsequently measures all financial assets at either a) amortized cost, b) fair value through profit and loss, or c) fair value through other comprehensive income on the basis of both the Trust's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. Under certain circumstances the Trust may designate any financial asset at its inception to be measured at fair value through profit and loss. The Trust has not made such a designation.

A financial asset may only be measured at amortized cost if it meets both the following conditions:

a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
b) the contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

The Trust subsequently measures all financial liabilities at amortized cost unless they arise from a derivative liability, or the Trust chooses to designate them at inception as being measured at fair value through profit and loss.

Cash, accounts receivable mortgage investments, loan payable, and accounts payable and accrued liabilities are measured at amortized cost. Amortized cost is determined using the effective interest rate method.

On transition to IFRS 9, effective January 1, 2018, the Trust assessed its financial instruments and made the following changes in classification. There was no change in measurement of its financial instruments as of the date of adoption of the new standard. As permitted by IFRS 9, comparative figures have not been restated.

	Previous categorization	Previous measurement	New measurement
Assets:			
Cash	Loans and receivables	Amortized cost	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost	Amortized cost
Mortgage investments	Loans and receivables	Amortized cost	Amortized cost
Liabilities:			
Loan payable	Other financial liabilities	Amortized cost	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	Amortized cost

(continues)

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

Comprehensive income

Comprehensive income consists of profit 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 financial instruments carried at fair value through OCI. 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, 2018 (2017: $nil) and no opening or closing balances for accumulated other comprehensive income or loss.

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.

Redeemable units

The Trust's redeemable and retractable units entitle the holders to retract their interest in the Trust for cash at $10 per unit, amongst other contractual rights. These retractable units involve contractual obligations on the part of the Trust and therefore meet the criteria for classification as financial liabilities. The Trust's obligation for net assets attributable to unitholders is measured at amortized cost, which is equal to the redemption amount as of the reporting date.

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

Mortgage investments

The contractual terms of the mortgage investments give rise to scheduled cash flows which are solely payments of principal and interest. As such mortgage investments are measured at amortized cost using the effective interest method, net of an allowance for losses.

Interest income from mortgages is recorded on an accrual basis in accordance with the effective interest method. Mortgage investments are assessed for impairment at each reporting date. A mortgage investment is classified as impaired when its credit risk has increased significantly from its credit risk at the date of inception of the contract. When a mortgage is classified as impaired, interest revenue is calculated by applying the effective interest rate to the amortized (i.e. impaired) cost of the mortgage. If the credit risk on the mortgage subsequently improves such that it is no longer impaired, interest revenue is calculated again using the effective interest rate on the gross mortgage balance. Subsequent payments received on an impaired mortgage investment are recorded as a reduction in the amortized cost balance or as a reduction in the impairment loss.

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

Provision for loan losses

The Trust maintains an allowance for losses in its mortgage investment portfolio. The allowance for loan losses is increased by a provision for mortgage investment impairment charged to income and reduced by write-offs during the year. Impairment losses are determined using a 3-stage approach based on the change in credit risk from inception.

Stage 1 – When there has not been a significant increase in credit risk since inception of the loan, the impairment provision is assessed based on the probability of default in the following 12 month period, to the extent of credit losses estimated to occur in the next 12 months.

Stage 2 – When there has been a significant increase in credit risk since inception but a loan is not considered to be in default, impairment losses are determined based on the probability of default over the lifetime of the loan to the extent of expected credit losses over the remaining estimated life of the loan.

Stage 3 – When a loan is considered to be in default, the loss provision represents the lifetime expected credit loss on the instrument.

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

The Trust groups loans in Stage 1 according to similar credit risk characteristics, and evaluates the credit risk of on each group of loans with such similar characteristics, recording an allowance for loan losses on an aggregate basis. Credit risk on mortgage loans is presumed to have increased significantly and a loan enters Stage 2 when payments are in arrears over 120 days. A loan is considered to be in Stage 3 when all attempts at recovery with the mortgagee have failed and the Trust enters the foreclosure process to recover the loan balance. The lifetime expected credit losses on the loan take into account the present value of future cash flows including the recovery expected from the disposition of the collateral. The Trust incorporates mortgage investment loss history as well as macroeconomic factors such as trends in interest rates, real estate prices, and insolvency rates, both historical and forecast, into its assessment of credit risk.

A loan is considered to be in default when the borrower has defaulted on their interest or principal payments and the Manager has made various attempts to contact the borrower. The Trust considers that a default has occurred when the borrower refuses to contact the broker and the loan has entered the foreclosure process. Loans are written off when all collection efforts have failed and collateral has been realized.

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 locate a buyer has been initiated, the sale is probable 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 estimated fair value less costs to sell. Fair value is estimated based on comparison to recent sales of properties of similar type, location, and quality.

Income taxes

The Trust qualifies as a "Mutual Fund 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 does not recognize a deferred tax asset or liability for any temporary differences.

3. 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.

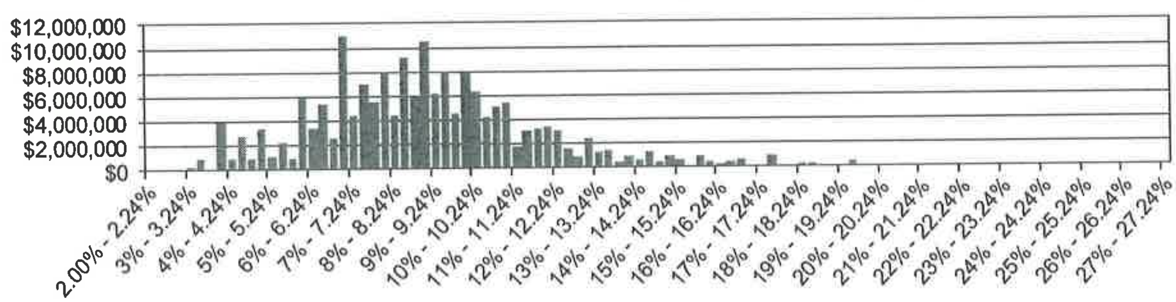
4. ASSETS HELD FOR SALE

The asset held for sale was a residential property which had been pledged as collateral for a mortgage loan receivable. The property was repossessed by the Trust as the mortgage investment it had secured was in arrears and all attempts at collection from the borrower had been exhausted. The Trust disposed of the property during the year.

5. MORTGAGE INVESTMENTS

Interest rates vary on the mortgages as noted below. The weighted average interest rate for the year was 8.51% (2017: 8.34%).

Interest Rate	# of Loans	Carrying Value	Interest Rate	# of Loans	Carrying Value
3.00 - 3.24%	2	$ 245,650	13.50 - 13.74%	12	$ 546,204
3.25 - 3.49%	8	$ 933,316	13.75 - 13.99%	15	$ 1,002,736
3.50 - 3.74%	1	$ 32,861	14.00 - 14.24%	10	$ 613,589
3.75 - 3.99%	18	$ 3,901,541	14.25 - 14.49%	12	$ 1,336,168
4.00 - 4.24%	6	$ 989,400	14.50 - 14.74%	5	$ 463,286
4.25 - 4.49%	12	$ 2,779,372	14.75 - 14.99%	12	$ 1,010,540
4.50 - 4.74%	5	$ 1,055,879	15.00 - 15.24%	8	$ 610,693
4.75 - 4.99%	8	$ 3,443,298	15.25 - 15.49%	1	$ 58,497
5.00 - 5.24%	6	$ 1,216,341	15.50 - 15.74%	9	$ 1,023,541
5.25 - 5.49%	10	$ 2,323,800	15.75 - 15.99%	13	$ 533,902
5.50 - 5.74%	4	$ 964,876	16.00 - 16.24%	3	$ 351,705
5.75 - 5.99%	28	$ 5,850,977	16.25 - 16.49%	9	$ 467,681
6.00 - 6.24%	25	$ 3,445,822	16.50 - 16.74%	4	$ 598,506
6.25 - 6.49%	26	$ 5,448,174	16.75 - 16.99%	3	$ 208,105
6.50 - 6.74%	14	$ 2,543,255	17.00 - 17.24%	5	$ 156,385
6.75 - 6.99%	77	$ 10,946,694	17.25 - 17.49%	5	$ 914,457
7.00 - 7.24%	36	$ 4,488,593	17.50 - 17.74%	1	$ 34,263
7.25 - 7.49%	54	$ 7,128,793	17.75 - 17.99%	5	$ 153,790
7.50 - 7.74%	38	$ 5,596,254	18.00 - 18.24%	2	$ 256,846
7.75 - 7.99%	74	$ 7,988,624	18.25 - 18.49%	3	$ 251,781
8.00 - 8.24%	50	$ 4,348,368	18.50 - 18.74%	2	$ 166,187
8.25 - 8.49%	81	$ 9,174,120	18.75 - 18.99%	3	$ 90,742
8.50 - 8.74%	54	$ 5,950,860	19.00 - 19.24%	1	$ 25,441
8.75 - 8.99%	85	$ 10,555,009	19.25 - 19.49%	3	$ 482,927
9.00 - 9.24%	48	$ 6,238,288	19.50 - 19.74%	6	$ 135,136
9.25 - 9.49%	61	$ 8,109,498	19.75 - 19.99%	4	$ 169,496
9.50 - 9.74%	49	$ 4,549,045	20.00 - 20.24%	2	$ 76,970
9.75 - 9.99%	84	$ 7,854,575	20.50 - 20.74%	1	$ 21,263
10.00 - 10.24%	54	$ 6,386,569	20.75 - 20.99%	2	$ 54,545
10.25 - 10.49%	47	$ 4,242,680	21.00 - 21.24%	1	$ 33,722
10.50 - 10.74%	41	$ 5,105,652	22.25 - 22.49%	1	$ 15,662
10.75 - 10.99%	51	$ 5,489,806	22.50 - 22.74%	3	$ 135,784
11.00 - 11.24%	24	$ 1,852,052	22.75 - 22.99%	1	$ 22,342
11.25 - 11.49%	30	$ 3,148,780	23.00 - 23.24%	1	$ 26,668
11.50 - 11.74%	31	$ 3,310,242	23.25 - 23.49%	1	$ 29,431
11.75 - 11.99%	40	$ 3,384,619	23.75 - 23.99%	1	$ 19,693
12.00 - 12.24%	32	$ 3,053,723	24.25 - 24.49%	1	$ 32,336
12.25 - 12.49%	20	$ 1,692,723	24.50 - 24.74%	1	$ 23,512
12.50 - 12.74%	11	$ 962,028	24.75 - 24.99%	1	$ 29,103
12.75 - 12.99%	29	$ 2,446,485	25.00 - 25.24%	1	$ 33,969
13.00 - 13.24%	15	$ 1,392,381	26.75 - 26.99%	1	$ 15,909
13.25 - 13.49%	19	$ 1,516,886	27.00 - 27.24%	1	$ 7,876
				1,586	$ 184,329,318



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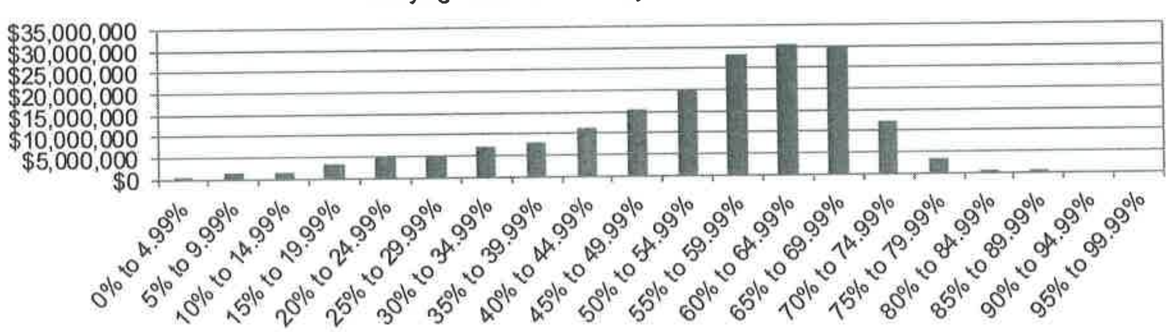
5. MORTGAGE INVESTMENTS *(continued)*

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 (2017: $nil) under the National Housing Act (Canada). Loan to value ratios on the mortgages vary as noted below. The weighted average loan to value ratio as at December 31, 2018 was 54% (2017: 53%). Balances shown include accrued interest receivable totaling $998,922 (2017: $856,164).

Loan to Value Ratio	Number of Loans	Carrying Value
0.00 - 4.99%	12	$ 353,433
5.00 - 9.99%	32	1,762,418
10.00 - 14.99%	20	1,461,669
15.00 - 19.99%	46	3,621,567
20.00 - 24.99%	51	4,983,280
25.00 - 29.99%	49	5,308,557
30.00 - 34.99%	64	7,365,343
35.00 - 39.99%	81	8,221,338
40.00 - 44.99%	107	11,259,914
45.00 - 49.99%	141	15,625,408
50.00 - 54.99%	160	20,038,516
55.00 - 59.99%	210	28,224,636
60.00 - 64.99%	205	30,511,644
65.00 - 69.99%	245	30,022,111
70.00 - 74.99%	114	12,133,575
75.00 - 79.99%	47	3,299,070
80.00 - 84.99%	1	19,693
85.00 - 89.99%	1	117,146
90.00 - 94.99%	0	-
95.00 - 99.99%	0	-
	1,586	$ 184,329,318
Loan loss provision		(1,202,670)
Deferred mortgage discount income		(969,954)
		$ 182,156,694

Carrying Value of Loans by Loan to Value Ratio



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5. MORTGAGE INVESTMENTS *(continued)*

The table below provides a breakdown of the allowance for credit losses of the investment portfolio as at December 31, 2018.

	Stage 1	Stage 2	Stage 3	Total
Gross mortgage balance	177,330,323	516,011	6,482,984	184,329,318
Impairment allowance	(997,670)	-	(205,000)	(1,202,670)
Deferred discount income	(969,954)	-	-	(969,954)
Net	175,362,699	516,011	6,277,984	182,156,694
Details of allowance for credit losses				
Opening balance (IAS 39)	1,013,639	-	-	1,013,639
Additional provision	613,053	-	-	613,053
Transfer to Stage 3	(402,520)	-	402,520	-
Balances written off	(226,502)	-	(197,520)	(424,022)
Closing balance	997,670	-	205,000	1,202,670

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

	2018	2017
12 months or less	**$ 92,324,547**	$ 78,535,020
13 to 24 months	**89,832,147**	87,078,656
Total	**$182,156,694**	$165,613,676

The carrying amount of mortgages 30 to 59 days in arrears total $6,925,879 (2017: $8,314,069); 60 to 89 days in arrears total $1,347,042 (2017: $1,486,133); 90 to 119 days in arrears total $1,338,727 (2017: $1,278,972); and 120 days or more in arrears total $6,998,995 (2017: $3,795,623). Impairment losses are recorded only once loans are 120 days or more in arrears.

6. 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.

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6. FINANCIAL INSTRUMENTS *(continued)*

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

	2018				2017
	Carrying Value	Fair Value	Difference	Fair Value Hierarchy	Difference
Assets					
Loans and receivables:					
Cash	$ 8,052,977	$ 8,052,977	$ -	Level 1	$ -
Accounts receivable	2,524,347	2,524,347	-	Level 3	-
Mortgage investments	182,156,694	182,156,694	-	Level 3	-
Liabilities					
Other financial liabilities:					
Loan payable	35,524,445	35,524,445	-	Level 2	-
Accounts payable and accrued liabilities	7,927,563	7,927,563	-	Level 3	-
			-		-
Net difference			$ -		$ -

There is no quoted price in an active market for mortgage investments. As such the Manager estimates the fair value of mortgage investments based on its assessment of the current lending market for mortgage investments of same or similar terms. Fair value has been estimated 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. As a result the fair value of mortgage investments is based on Level 3 inputs.

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.

There were no transfers between Level 1, Level 2, and Level 3 during the year ended December 31, 2018.

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.

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6. 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 and the Manager regularly reviews and monitors the fair value of the collateral.

The Trust uses a 3-stage process to evaluate credit risk and potential impairment on mortgage investments. Loans are grouped in Stage 1 at inception and credit risk is reviewed and evaluated on a regular basis. The Trust incorporates mortgage investment loss history as well as macroeconomic factors such as trends in interest rates, real estate prices, and insolvency rates, both historical and forecast, into its assessment of credit risk. Management regularly reviews the mortgage listing for balances in arrears and follows up with borrowers as needed regarding repayment. The Trust closely monitors loan activity for increased credit risks and is in communication with borrowers who have missed a payment. Overdue payments of 30 days are not uncommon and do not on their own indicate a significant decline in credit risk. When payments are in arrears over 120 days, in absence of any other indicators, credit risk on mortgage loans is presumed to have increased significantly and a loan enters Stage 2. Management continues to evaluate credit risk as discussions with the borrower proceed.

For individual accounts in arrears where discussion with the borrower has not succeeded, foreclosure proceedings commence and a loan is considered to be in Stage 3. Balances receivable include accrued interest income and legal and other costs related to attempts at collection net of any provision for expected losses management deems necessary. 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.

The loss provision for the mortgage investments includes a provision for specifically identified impaired mortgage investments and a general provision applied to other loans based on similar credit characteristics. The Manager has provided a loan loss provision of approximately 0.65% (2017: 0.60%) of gross mortgage investments. As at December 31, 2018 management had identified loans totaling 4% (2017: 3%) of the portfolio in arrears over 120 days. Of these, $6.4 million (2017: $3.5 million) of loans have entered some form of legal proceedings in attempt to recover the balance. Included in the loan loss provision is $205,000 (2017: $40,000) relating to specific loans totaling $1,247,818 (2017: $297,537).

As at December 31, 2018, the Trust has outstanding mortgages totaling $89,033,223, or 48% (2017: $79,435,878, or 48%) of the balance in British Columbia and $80,201,927, or 44% (2017: $75,510,965, or 46%) of the balance in Ontario. These loans are concentrated in Greater Vancouver Area and the Greater Toronto Area, respectively. The remaining mortgages are in Alberta and Atlantic Canada.

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6. FINANCIAL INSTRUMENTS *(continued)*

Liquidity Risk

Liquidity risk refers to the Trust's ability to meet its own financial obligations such as funding mortgage commitments, operational expenses, trust distributions, and unitholder redemptions. In this regard the Manager monitors cash regularly to ensure the Trust can meet its obligations, however the Manager does have the right to postpone redemptions if it feels that the Trust's financial position will become impaired. Contractual maturities of all financial liabilities are 12 months or less.

Market Risk

Market risk includes both interest rate risk and foreign currency risk. The interest rate risk relates to the Trust's ability to adjust to the changing interest rates on their loan payable (Note 7). To offset this risk the Trust generally lends its funds with rates adjustable within one or two years, which allows the Trust to adjust rates on renewals annually. There is no foreign exchange risk as the Trust is limited to investing in mortgages denominated in Canadian dollars.

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 $249,000 (2017: $174,000).

7. LOAN PAYABLE

The Trust has an agreement with Canadian Western Bank providing a $120,000,000 (2017: $50,000,000) demand revolving operating loan, subject to margin requirements on eligible mortgage investments, which bears interest at a rate of 0.97% (2017: 0.75%) per annum above the bank's prime lending rate. For the year ended, December 31, 2018, the bank's average prime lending rate was 3.64% per annum (2017: 2.91%). The facility 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.

Of the amount available above, up to $3,500,000 (2017: $2,500,000) is available to Capital Direct Management Ltd., for which it has provided a separate overdraft lending agreement to Canadian Western Bank. The outstanding balance in Capital Direct Management Ltd. as of December 31, 2018 is $3,315,989, for which the Trust is contingently liable.

The line of credit is subject to certain financial covenants as outlined in Note 12. As at December 31, 2018, the Trust was in compliance with these covenants.

The maximum and minimum amounts borrowed during the year were $39,049,768 (2017: $44,149,128) and $31,402,000 (2017: $36,902,483) respectively.

8. RELATED PARTY TRANSACTIONS

During the year, the Trust purchased 99.4% (2017: 99.4%) of its mortgages with a face value totaling $108,620,989 (2017: $103,478,583) from Capital Direct Lending Corp. and 0.6% (2017: 0.6%) of its mortgages totaling $680,700 (2017: $674,200) 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.

9. NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

Pursuant to the Declaration of Trust, the Trust is authorized to issue an unlimited number of redeemable and retractable 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.

The Trust's current offering authorizes Class A, Class C and Class F redeemable and retractable units totaling 37,500,000 units for a combined maximum of $375,000,000. Class A, Class C and Class F units are issued and retracted as listed below.

Class A, Class C and Class F units share pro rata in distributions from the Trust. All classes of units are permitted to be retracted on June 30 or December 31 in any year by giving written notice to the Manager. Class C and Class F units may be retracted after 180 days with no penalty. Class A units bear a retraction fee which diminishes over 5 years from 5% to zero.

Prior to December 31, 2018, 514,728 (2017: 331,284) units were called for retraction. The retraction price of $5,147,277 (2017: $3,312,840) is accrued in accounts payable. 154,616 (2017: 144,570) units were issued for subscription prior to December 31, 2018 for which proceeds are receivable from brokers as at year end. The subscription price of $1,546,156 (2017: $1,445,700) is accrued in accounts receivable.

	Class A	Class C	Class F	Total
Units outstanding, beginning of period	5,854,890	1,728,136	5,294,149	12,877,175
Units issued on subscription	1,026,227	481,369	616,050	2,123,646
Units issued on reinvestment	279,926	102,907	260,257	643,090
Units interchanged	(12,502)	(3,662)	16,164	-
Units retracted	(293,468)	(219,234)	(203,008)	(715,710)
Units outstanding, end of period	6,855,073	2,089,516	5,983,612	14,928,201
Net assets attributable to unitholders:	$ 68,550,730	$ 20,895,164	$ 59,836,116	$149,282,010
Net asset value per unit	$ 10	$ 10	$ 10	$ 10

During the year, 16,164 units were interchanged from Class A and Class C to Class F. The overall units outstanding and net assets of the Trust were not affected.

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10. DISTRIBUTIONS TO UNITHOLDERS

The Trust distributes 80% of the net income from operations to 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.

The Manager has waived nil% (2017: 50%) of the distribution income to which it was entitled during the year ended December 31, 2018, thereby providing distributions of 80% (2017: 90%) of profit for the year to the unitholders.

11. 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 Class A net asset value plus 2% of the Class C net asset value plus 1% of the Class F net asset value. The total management fee for the year was $2,180,673 (2017: $1,894,574).

In addition, 20% of the net income from operations is distributed to the Manager on a quarterly basis (Note 10).

The Board of Directors of the Manager unanimously agreed to waive nil% (2017: 50%) of the distribution to which it was entitled for the fourth quarter of the year ended December 31, 2018. The amount waived was distributed to the unitholders. The total distribution paid to the Manager for the year was $2,663,136 (2017: $1,027,963).

Of the above amounts, $1,318,316 (2017: $772,583) 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.

12. CAPITAL MANAGEMENT

The Trust defines capital as loan payable and net assets attributable to unitholders. 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 net assets attributable to unitholders is described in Note 9.

The Trust's loan payable (Note 7) 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 redeemable trust units may be retracted or repurchased.

1. To maintain a Cash Flow Coverage Ratio of not less than 2:1 in each quarter.
2. To maintain a Tangible Net Worth of not less than $100,000,000 in each quarter.
3. To maintain a Debt to Tangible Net Worth Ratio not greater than 0.65:1 in each quarter.

As at December 31, 2018, the Trust was in compliance with the above covenants.

13. CONTINGENT LIABILITIES

From time to time the Trust may be subject to various lawsuits arising from investing in mortgages in which claims for monetary damages are asserted in the ordinary course of business. While any litigation involves an element of uncertainty, it is the opinion of the Manager that liabilities, if any, arising from such litigation will not have a material adverse effect on the Trust's financial condition, liquidity, or results of operations.

14. KEY MANAGEMENT COMPENSATION

The compensation of the senior management of the Manager is paid through the management fees paid to the Manager (Note 11).

15. ANNUALIZED RATE OF RETURN

Class A Redeemable Units

	Net asset value	Weighted average net assets per quarter	Net income to be allocated to holders of redeemable units
First quarter - March 31, 2018	61,118,333	59,549,121	1,058,173
Second quarter - June 30, 2018	63,107,040	61,521,103	1,085,523
Third quarter - September 30, 2018	64,774,169	63,607,026	1,165,104
Fourth quarter - December 31, 2018	68,550,730	67,294,677	1,290,424
Year ended December 31, 2018	68,550,730	62,992,982	4,599,224

	Average annualized rate of return calculated quarterly	Compounded annual rate of return	Weighted average return weighted by net assets outstanding	Effective weighted average annual rate of return
First quarter - March 31, 2018	7.11 %		1.68 %	
Second quarter - June 30, 2018	7.06 %		1.72 %	
Third quarter - September 30, 2018	7.33 %		1.85 %	
Fourth quarter - December 31, 2018	7.67 %		2.05 %	
Year ended December 31, 2018	7.29 %	7.49 %	7.30 %	7.50 %

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15. ANNUALIZED RATE OF RETURN *(continued)*

Class C Redeemable Units

	Net asset value	Weighted average net assets per quarter	Net income to be allocated to holders of redeemable units
First quarter - March 31, 2018	19,274,250	18,091,859	321,371
Second quarter - June 30, 2018	19,992,549	19,534,928	345,757
Third quarter - September 30, 2018	20,845,442	20,136,272	368,660
Fourth quarter - December 31, 2018	20,895,164	21,495,029	412,645
Year ended December 31, 2018	20,895,164	19,814,522	1,448,433

	Average annualized rate of return calculated quarterly	Compounded annual rate of return	Weighted average return weighted by net assets outstanding	Effective weighted average annual rate of return
First quarter - March 31, 2018	7.11 %		1.62 %	
Second quarter - June 30, 2018	7.08 %		1.75 %	
Third quarter - September 30, 2018	7.32 %		1.86 %	
Fourth quarter - December 31, 2018	7.68 %		2.08 %	
Year ended December 31, 2018	7.30 %	7.50 %	7.31 %	7.51 %

(continues)

15. ANNUALIZED RATE OF RETURN *(continued)*

Class F Redeemable Units

	Net asset value	Weighted average net assets per quarter	Net income to be allocated to holders of redeemable units
First quarter - March 31, 2018	55,203,260	52,934,026	1,067,878
Second quarter - June 30, 2018	55,494,497	55,270,564	1,113,175
Third quarter - September 30, 2018	58,258,166	55,623,597	1,155,155
Fourth quarter - December 31, 2018	59,836,116	58,750,485	1,268,678
Year ended December 31, 2018	59,836,116	55,644,668	4,604,886

	Average annualized rate of return calculated quarterly	Compounded annual rate of return	Weighted average return weighted by net assets outstanding	Effective weighted average annual rate of return
First quarter - March 31, 2018	8.07 %		1.92 %	
Second quarter - June 30, 2018	8.06 %		2.00 %	
Third quarter - September 30, 2018	8.31 %		2.08 %	
Fourth quarter - December 31, 2018	8.64 %		2.28 %	
Year ended December 31, 2018	8.27 %	8.53 %	8.28 %	8.54 %