CAPITAL DIRECT I INCOME TRUST

Financial Statements

Year Ended December 31, 2020

JOHNSEN ARCHER LLP
TAXATION • ACCOUNTING • ASSURANCE

CAPITAL DIRECT I INCOME TRUST
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Year Ended December 31, 2020

JOHNSEN ARCHER LLP
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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 statements of financial position as at December 31, 2020 and 2019, and the statements of changes in net assets, comprehensive income and cash flows for the years 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, 2020 and 2019, and its financial performance and cash flows for the years 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 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 these 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 related 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.

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.

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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.
March 9, 2021

CHARTERED PROFESSIONAL ACCOUNTANTS

JOHNSEN ARCHER LLP
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CAPITAL DIRECT I INCOME TRUST
Statement of Financial Position
December 31, 2020

	2020	2019
ASSETS		
Current assets		
Cash	**$ 10,020,064**	$ 14,405,424
Accounts receivable	**5,100,374**	4,004,506
Assets held for sale	**-**	834,499
Mortgage investments, current portion *(Note 4)*	**142,815,410**	100,479,161
	157,935,848	119,723,590
Mortgage investments, net of current portion *(Note 4)*	**116,944,912**	100,003,893
	$274,880,760	$219,727,483
LIABILITIES AND NET ASSETS		
Current liabilities		
Loan payable *(Note 6)*	**$ 62,380,903**	$ 22,355,427
Accounts payable and accrued liabilities *(Note 7)*	**7,791,655**	13,726,639
	70,172,558	36,082,066
Net assets attributable to unitholders *(Note 9)*	**204,708,202**	183,645,417
	$274,880,760	$219,727,483

Contingent liabilities *(Notes 6, 13)*

ON BEHALF OF THE MANAGER

(signed) "Richard F.M. Nichols" *Richard Nichols*

(signed) "Timothy P.J. Wittig" *Tim Wittig*

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CAPITAL DIRECT I INCOME TRUST
Statement of Changes in Net Assets
Year Ended December 31, 2020

	Class A	Class C	Class F	**2020**	2019
Net assets attributable to unitholders at beginning of year	$ 75,771,356	$ 37,309,821	$ 70,564,240	**$183,645,417**	$149,282,010
Comprehensive income	5,985,966	3,194,496	7,012,546	**16,193,008**	15,372,537
	81,757,322	40,504,317	77,576,786	**199,838,425**	164,654,547
Distribution to unitholders	(4,931,621)	(2,631,830)	(5,777,384)	**(13,340,835)**	(12,687,277)
Distribution to the manager	(1,054,345)	(562,666)	(1,235,162)	**(2,852,173)**	(2,685,260)
Subscriptions	4,323,540	9,921,915	18,273,314	**32,518,769**	46,509,603
Reinvested distributions	2,977,319	1,821,989	3,772,666	**8,571,974**	7,575,654
Interchanges	(720,780)	(11,924)	732,704	**-**	-
Redemptions	(5,429,213)	(5,371,502)	(9,227,243)	**(20,027,958)**	(19,721,850)
Net assets attributable to unitholders at end of year	$ 76,922,222	$ 43,670,299	$ 84,115,681	**$204,708,202**	$183,645,417

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CAPITAL DIRECT I INCOME TRUST
Statement of Comprehensive Income
Year Ended December 31, 2020

	2020	2019
Revenue		
Interest income	**$ 20,608,320**	$ 19,334,213
Other income	**1,584,501**	1,765,881
	22,192,821	21,100,094
General and administrative expenses		
Bank charges	**416,125**	376,095
Interest on loan payable	**1,044,810**	1,584,010
Loss on derecognition of mortgages	**-**	374,005
Management fees	**3,099,246**	2,665,738
Professional fees	**416,360**	356,118
Provision for loan losses	**494,703**	221,274
Trustee and registrar fees	**177,322**	150,317
	5,648,566	5,727,557
Profit from operations	**16,544,255**	15,372,537
Loss on assets held for sale	**(351,247)**	-
Profit and comprehensive income for the year	**$ 16,193,008**	$ 15,372,537

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CAPITAL DIRECT I INCOME TRUST

Statement of Cash Flows

Year Ended December 31, 2020

	2020	2019
Operating activities		
Profit for the year	**$ 16,193,008**	$ 15,372,537
Items not affecting cash:		
Provision for loan losses	**494,703**	221,274
Loss on derecognition of mortgages	**-**	374,005
Loss on disposal of asset held for sale	**351,247**	-
Interest accrued on mortgage investments	**(236,160)**	(309,526)
	16,802,798	15,658,290
Changes in non-cash working capital:		
Accounts receivable	**(1,473,720)**	853,712
Accounts payable and accrued liabilities	**(42,332)**	278,693
	(1,516,052)	1,132,405
Cash flow from operating activities	**15,286,746**	16,790,695
Investing activities		
Purchase of mortgage investment, net	**(59,535,811)**	(19,446,612)
Proceeds on disposal of asset held for sale	**483,252**	-
Cash flow used by investing activities	**(59,052,559)**	(19,446,612)
Financing activities		
Distributions to unitholders, net of distributions reinvested	**(4,905,416)**	(4,970,119)
Distribution to the manager	**(2,373,645)**	(3,038,878)
Cash received on subscriptions	**32,896,621**	44,175,732
Redemptions	**(26,262,583)**	(13,989,353)
Proceeds from loan payable, net	**40,025,476**	(13,169,018)
Cash flow from financing activities	**39,380,453**	9,008,364
(Decrease) increase in cash	**(4,385,360)**	6,352,447
Cash - beginning of year	**14,405,424**	8,052,977
Cash - end of year	**$ 10,020,064**	$ 14,405,424
Cash flows supplementary information		
Interest received	**$ 19,209,739**	$ 17,962,411
Interest paid	**$ 1,044,810**	$ 1,584,010
Non-cash transaction - derecognition of mortgage investments on realization of security	**$ -**	$ 834,499

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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 International Financial Reporting Standards ("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, 2020 were authorized for issuance by the Manager on March 9, 2021.

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, due from related party, 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 may differ from these estimates.

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.

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

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, due from related party, loan payable, and accounts payable and accrued liabilities are measured at amortized cost. Amortized cost is determined using the effective interest rate method.

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, 2020 (2019: $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.

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

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.

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

Assets held for sale comprise residential real estate properties seized as collateral for loans in default. An 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

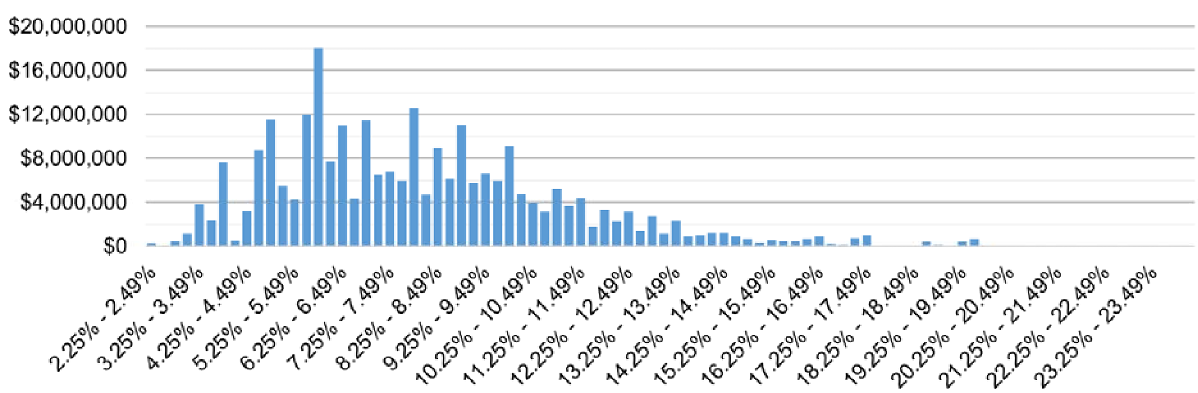
Under the specified investment flow-through trust or partnership ("SIFT") rules, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate 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. MORTGAGE INVESTMENTS

Interest rates vary on the mortgages as noted below. The weighted average interest rate for the year was 8.07% (2019: 9.09%).

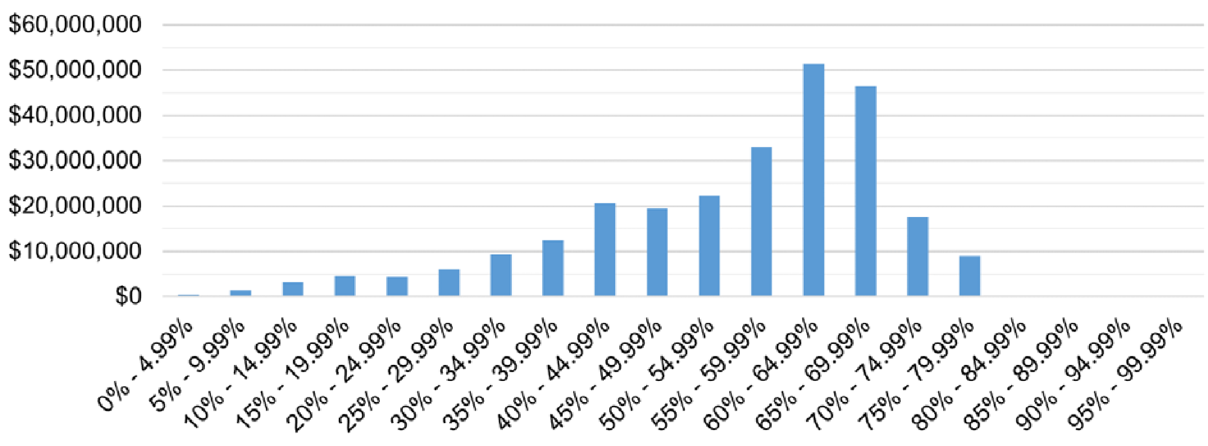
Interest Rate	# of Loans	Carrying Value	Interest Rate	# of Loans	Carrying Value
2.25 - 2.49%	1	$ 263,571	13.00 - 13.24%	11	$ 1,172,251
2.75 - 2.99%	6	$ 468,607	13.25 - 13.49%	18	$ 2,307,295
3.00 - 3.24%	7	$ 1,166,892	13.50 - 13.74%	11	$ 954,180
3.25 - 3.49%	13	$ 3,829,350	13.75 - 13.99%	14	$ 1,033,176
3.50 - 3.74%	10	$ 2,367,647	14.00 - 14.24%	11	$ 1,199,576
3.75 - 3.99%	26	$ 7,646,536	14.25 - 14.49%	11	$ 1,218,479
4.00 - 4.24%	2	$ 522,100	14.50 - 14.74%	14	$ 916,022
4.25 - 4.49%	11	$ 3,151,509	14.75 - 14.99%	10	$ 644,454
4.50 - 4.74%	23	$ 8,807,206	15.00 - 15.24%	7	$ 295,438
4.75 - 4.99%	52	$ 11,540,570	15.25 - 15.49%	8	$ 581,236
5.00 - 5.24%	16	$ 5,499,859	15.50 - 15.74%	6	$ 462,068
5.25 - 5.49%	12	$ 4,281,777	15.75 - 15.99%	9	$ 466,573
5.50 - 5.74%	31	$ 12,000,554	16.00 - 16.24%	4	$ 662,095
5.75 - 5.99%	75	$ 18,007,477	16.25 - 16.49%	8	$ 918,897
6.00 - 6.24%	39	$ 7,752,312	16.50 - 16.74%	3	$ 203,353
6.25 - 6.49%	43	$ 11,005,831	16.75 - 16.99%	4	$ 147,799
6.50 - 6.74%	20	$ 4,356,115	17.00 - 17.24%	3	$ 721,737
6.75 - 6.99%	66	$ 11,424,208	17.25 - 17.49%	10	$ 1,013,264
7.00 - 7.24%	43	$ 6,523,981	17.50 - 17.74%	1	$ 60,679
7.25 - 7.49%	52	$ 6,820,367	17.75 - 17.99%	2	$ 69,694
7.50 - 7.74%	44	$ 5,972,158	18.00 - 18.24%	2	$ 117,389
7.75 - 7.99%	80	$ 12,607,413	18.25 - 18.49%	1	$ 111,872
8.00 - 8.24%	42	$ 4,695,373	18.50 - 18.74%	4	$ 444,345
8.25 - 8.49%	71	$ 8,936,709	18.75 - 18.99%	3	$ 177,720
8.50 - 8.74%	48	$ 6,132,558	19.00 - 19.24%	2	$ 22,889
8.75 - 8.99%	77	$ 11,046,138	19.25 - 19.49%	5	$ 437,081
9.00 - 9.24%	53	$ 5,794,922	19.50 - 19.74%	5	$ 677,223
9.25 - 9.49%	56	$ 6,581,941	19.75 - 19.99%	2	$ 51,152
9.50 - 9.74%	47	$ 5,940,723	20.00 - 20.24%	1	$ 19,106
9.75 - 9.99%	69	$ 9,126,234	20.25 - 20.49%	1	$ 10,424
10.00 - 10.24%	53	$ 4,712,463	21.25 - 21.49%	1	$ 30,699
10.25 - 10.49%	31	$ 3,954,864	21.50 - 21.74%	2	$ 86,312
10.50 - 10.74%	24	$ 3,138,203	21.75 - 21.99%	1	$ 12,975
10.75 - 10.99%	50	$ 5,207,952	22.00 - 22.24%	1	$ 17,379
11.00 - 11.24%	34	$ 3,684,800	22.25 - 22.49%	1	$ 15,868
11.25 - 11.49%	34	$ 4,396,270	22.50 - 22.74%	1	$ 17,608
11.50 - 11.74%	16	$ 1,776,834	22.75 - 22.99%	1	$ 22,414
11.75 - 11.99%	36	$ 3,317,353	23.00 - 23.24%	1	$ 29,950
12.00 - 12.24%	23	$ 2,270,322	23.50 - 23.74%	2	$ 99,466
12.25 - 12.49%	28	$ 3,125,157	23.75 - 23.99%	1	$ 51,923
12.50 - 12.74%	13	$ 1,407,863	24.00 - 24.24%	1	$ 28,812
12.75 - 12.99%	23	$ 2,705,767			
				1,704	$ 261,499,359



4. 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 (2019: 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, 2020 was 55% (2019: 54%). Balances shown include accrued interest receivable totaling $1,412,240 (2019: $1,176,080).

Loan to Value Ratio	Number of Loans	Carrying Value
0.00 - 4.99%	14	$ 537,725
5.00 - 9.99%	37	1,526,636
10.00 - 14.99%	31	3,142,272
15.00 - 19.99%	41	4,531,893
20.00 - 24.99%	36	4,262,988
25.00 - 29.99%	51	6,036,685
30.00 - 34.99%	77	9,300,656
35.00 - 39.99%	98	12,424,093
40.00 - 44.99%	133	20,616,277
45.00 - 49.99%	145	19,418,533
50.00 - 54.99%	155	22,302,878
55.00 - 59.99%	203	33,019,107
60.00 - 64.99%	226	51,323,926
65.00 - 69.99%	235	46,415,286
70.00 - 74.99%	137	17,595,409
75.00 - 79.99%	82	8,870,310
80.00 - 84.99%	0	-
85.00 - 89.99%	1	25,173
90.00 - 94.99%	1	126,512
95.00 - 99.99%	1	23,000
	1,704	$ 261,499,359
Loan loss provision		(798,962)
Deferred mortgage discount income		(940,075)
		$ 259,760,322



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4. MORTGAGE INVESTMENTS *(continued)*

The table below provides a breakdown of the allowance for credit losses of the investment portfolio as at December 31, 2020.

	Stage 1	Stage 2	Stage 3	Total
Gross mortgage balance	255,252,318	90,114	6,156,927	261,499,359
Impairment allowance	(650,962)	-	(148,000)	(798,962)
Deferred discount income	(940,075)	-	-	(940,075)
Net	253,661,281	90,114	6,008,927	259,760,322
Details of allowance for credit losses				
Opening balance	805,970	-	165,000	970,970
Additional provision	32,041	-	462,662	494,703
Transfer to Stage 3	(187,049)	-	187,049	-
Balances written off	-	-	(666,711)	(666,711)
Closing balance	650,962	-	148,000	798,962

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:

	2020	2019
12 months or less	**$142,815,410**	$100,479,161
13 to 24 months	**116,846,758**	99,956,270
Over 24 months	**98,154**	47,623
Total	**$259,760,322**	$200,483,054

5. 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.

(continues)

5. FINANCIAL INSTRUMENTS *(continued)*

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

	2020				2019
	Carrying Value	Fair Value	Difference	Fair Value Hierarchy	Difference
Assets					
Loans and receivables:					
Cash	$10,020,064	$10,020,064	$ -	Level 1	$ -
Accounts receivable	5,100,374	5,100,374	-	Level 3	-
Mortgage investments	259,760,322	260,378,469	618,147	Level 3	-
			618,147		-
Liabilities					
Other financial liabilities:					
Loan payable	62,380,903	62,380,903	-	Level 2	-
Accounts payable and accrued liabilities	7,791,655	7,791,655	-	Level 3	-
			-		-
Net difference			$ 618,147		$ -

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, 2020.

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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5. 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. Maximum exposure to credit risk at December 31, 2020 is the carrying value of mortgage investments which total $259,760,322 (2019: $200,483,054). The credit risk is mitigated as all mortgage investments are collateralized by residential real estate property 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 0.31% (2019: 0.48%) of gross mortgage investments. As at December 31, 2020 management had identified loans totaling 2.4% (2019: 4.2%) of the portfolio in arrears over 120 days. Of these, $6.2 million (2019: $7.4 million) of loans have entered some form of legal proceedings in attempt to recover the balance. Included in the loan loss provision is $148,000 (2019: $165,000) relating to specific loans totaling $751,488 (2019: $1,177,169).

As at December 31, 2020, the Trust has outstanding mortgages totaling $137,913,468, or 53% (2019: $94,362,826, or 47%) of the balance in British Columbia and $100,489,555, or 38% (2019: $90,831,766, or 45%) 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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5. 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 6). 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 $137,000 (2019: $114,800).

6. LOAN PAYABLE

The Trust has an agreement with Canadian Western Bank providing a $120,000,000 (2019: $120,000,000) demand revolving operating loan, subject to margin requirements on eligible mortgage investments, which bears interest at a rate of 0.97% (2019: 0.97%) per annum above the bank's prime lending rate. For the year ended, December 31, 2020, the bank's average prime lending rate was 2.74% per annum (2019: 3.95%). 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., (the "Borrowing Parties") a general assignment of mortgages agreement, and a general assignment of insurance.

Of the amount available above, up to $5,500,000 (2019: $5,500,000) is available to Capital Direct Management Ltd., for which it has provided a separate overdraft lending agreement to Canadian Western Bank. Furthermore, the facility labeled the Swingline Facility is available to any of the Borrowing Parties to a maximum of $5,000,000. The remaining $109,500,000 is available to the Trust.

The facility is subject to certain financial covenants as outlined in Note 12. As at December 31, 2020, the Trust was in compliance with these covenants.

The maximum and minimum amounts borrowed during the year were $66,502,000 (2019: $40,576,000) and $15,530,487 (2019: $16,337,815) respectively.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2020	2019
Redemptions	**$ 4,645,149**	$ 10,879,774
Unitholder distributions	**1,231,109**	1,367,664
Manager distribution and management fees	**1,657,536**	1,107,359
Other	**257,861**	371,842
	$ 7,791,655	$ 13,726,639

8. RELATED PARTY TRANSACTIONS

During the year, the Trust purchased 97.9% (2019: 99.3%) of its mortgages with a face value totaling $165,035,522 (2019: $114,810,085) from Capital Direct Lending Corp. and 2.1% (2019: 0.7%) of its mortgages totaling $3,489,000 (2019: $763,100) from Capital Direct Atlantic Inc.

Accounts receivable includes $2,175,000 for subscriptions (2019: $nil) due from 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.

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, 2020, 464,515 (2019: 1,087,977) units were called for retraction. The retraction price of $4,645,149 (2019: $10,879,774) is accrued in accounts payable. 350,218 (2019: 386,801) units were issued for subscription prior to December 31, 2020 for which proceeds are receivable from brokers as at year end. The subscription price of $3,502,175 (2019: $3,880,027) is accrued in accounts receivable.

	Class A	Class C	Class F	Total
Units outstanding, beginning of period	7,577,136	3,730,982	7,056,424	18,364,542
Units issued on subscription	432,354	992,191	1,827,331	3,251,876
Units issued on reinvestment	296,294	182,199	377,267	855,760
Units interchanged	(72,078)	(1,192)	73,270	-
Units retracted	(542,921)	(537,150)	(922,724)	(2,002,795)
Units outstanding, end of period	7,690,785	4,367,030	8,411,568	20,469,383
Net assets attributable to unitholders:	$ 76,922,222	$ 43,670,299	$ 84,115,681	$204,708,202
Net asset value per unit	$ 10	$ 10	$ 10	$ 10

During the year, 73,270 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.

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 12% (2019: 13%) of the distribution income to which it was entitled during the year ended December 31, 2020, thereby providing distributions of 82% (2019: 83%) 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 $3,099,246 (2019: $2,665,738).

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 50% (2019: 50%) of the distribution to which it was entitled for the first (2019: fourth) quarter of the year ended December 31, 2020. The amount waived was distributed to the unitholders. The total distribution paid to the Manager for the year was $2,852,173 (2019: $2,685,260).

Of the above amounts, $1,657,536 (2019: $1,107,359) 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 6) 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, 2020, 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, 2020	77,139,138	76,003,498	1,336,128
Second quarter - June 30, 2020	74,922,158	77,148,566	1,158,697
Third quarter - September 30, 2020	76,834,581	75,231,406	1,185,685
Fourth quarter - December 31, 2020	76,922,222	77,180,158	1,251,111
Year ended December 31, 2020	76,922,222	76,390,907	4,931,621

	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, 2020	7.03 %		1.75 %	
Second quarter - June 30, 2020	6.01 %		1.52 %	
Third quarter - September 30, 2020	6.30 %		1.55 %	
Fourth quarter - December 31, 2020	6.48 %		1.64 %	
Year ended December 31, 2020	6.46 %	6.61 %	6.46 %	6.61 %

(continues)

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, 2020	41,597,557	38,881,746	687,939
Second quarter - June 30, 2020	39,862,597	42,282,785	639,204
Third quarter - September 30, 2020	41,141,707	40,060,159	627,147
Fourth quarter - December 31, 2020	43,670,299	41,693,407	677,540
Year ended December 31, 2020	43,670,299	40,729,524	2,631,830

	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, 2020	7.08 %		1.69 %	
Second quarter - June 30, 2020	6.05 %		1.57 %	
Third quarter - September 30, 2020	6.26 %		1.54 %	
Fourth quarter - December 31, 2020	6.50 %		1.66 %	
Year ended December 31, 2020	6.47 %	6.63 %	6.46 %	6.62 %

(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, 2020	75,808,465	72,545,088	1,453,781
Second quarter - June 30, 2020	75,849,101	77,803,080	1,365,475
Third quarter - September 30, 2020	81,377,430	77,395,079	1,415,674
Fourth quarter - December 31, 2020	84,115,681	82,394,535	1,542,454
Year ended December 31, 2020	84,115,681	77,534,446	5,777,384

	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, 2020	8.02 %		1.88 %	
Second quarter - June 30, 2020	7.02 %		1.76 %	
Third quarter - September 30, 2020	7.32 %		1.83 %	
Fourth quarter - December 31, 2020	7.49 %		1.99 %	
Year ended December 31, 2020	7.46 %	7.67 %	7.45 %	7.66 %

16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

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