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Fundamental Research Corp.
Investment Analysis for Intelligent Investors

August 17, 2017

Capital Direct I Income Trust – 7.6% p.a. return in Q2

Sector/Industry: Real Estate Mortgages **www.incometrustone.com**

Offering Summary	
Issuer	Capital Direct I Income Trust
Securities Offered	Classes A, C, and F Trust Units
Unit Price	$10
Minimum Subscription	$5,000
Hurdle Rate	N/A
Distribution to Investors	80% of net income on a quarterly basis
Redemption	Class A - penalty of 5% of NAV in year 1, decreasing by 1% every year; no penalty after year 5 / Class C & Class F - penalty of 2% within 6 months and no penalty after that
Management Fee	2.0% p.a. of NAV on Classes A and C units / 1.0% p.a. of NAV on Class F units
Auditor	Johnsen Archer LLP

Highlights

- Capital Direct I Income Trust's ("trust", "fund") portfolio size (mortgage receivables net of provisions) increased by 9% since the end of 2016 to $160 million by end of Q2-2017 (June 30, 2017).

- First mortgages accounted for 37% at the end of Q2 (versus 38% at the end of Q1). British Columbia (BC) accounted for 48%, and Ontario (ON) accounted for 42% of the portfolio.

- The loan-to-value ("LTV") continued to drop and was at 51.5% at the end of Q2 versus 53.1% at the end of 2016.

- The total realized loan loss in the first six months of 2017 was $0.31 million, or 0.20% of the portfolio.

- We estimate that investors' dividend yield (weighted average of all unit types) was 7.6% p.a. in Q2-2017.

- Revenues grew by 54% YoY in Q2-2017 to $3.84 million. Net Income grew by 41% YoY to $2.54 million.

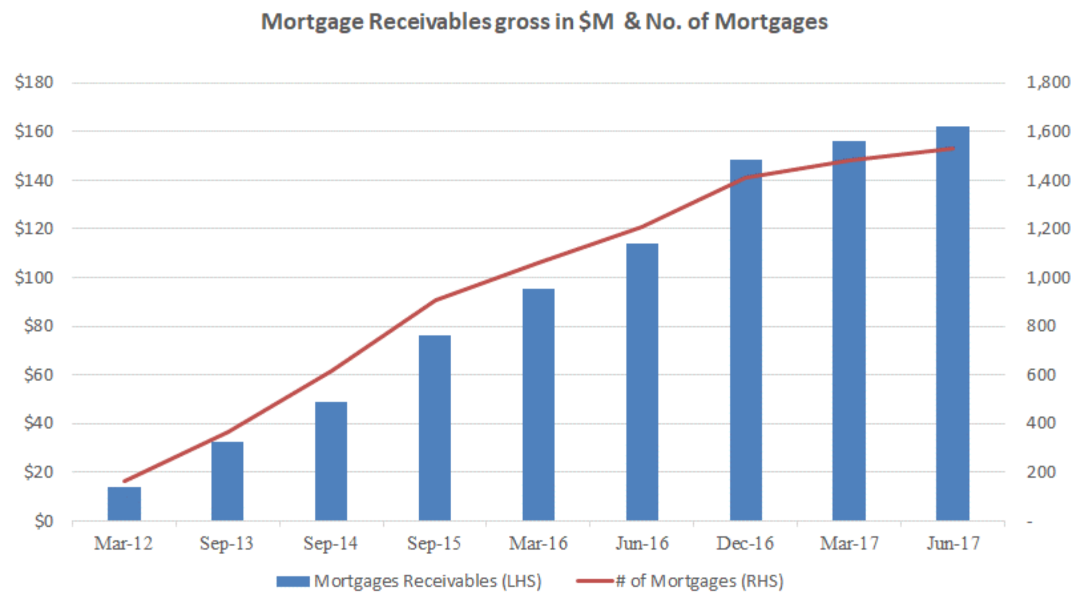
- The recent Home Capital Group (TSX: HCG) incident has turned out to be very favorable for Mortgage Investment Entities ("MIEs"), as more conservative lending by HCG has been driving more borrowers to private lenders.

FRC Rating	
Estd. Yield (2017)	7% - 8% p.a.
Rating	2
Risk	2

*see back of report for rating definitions

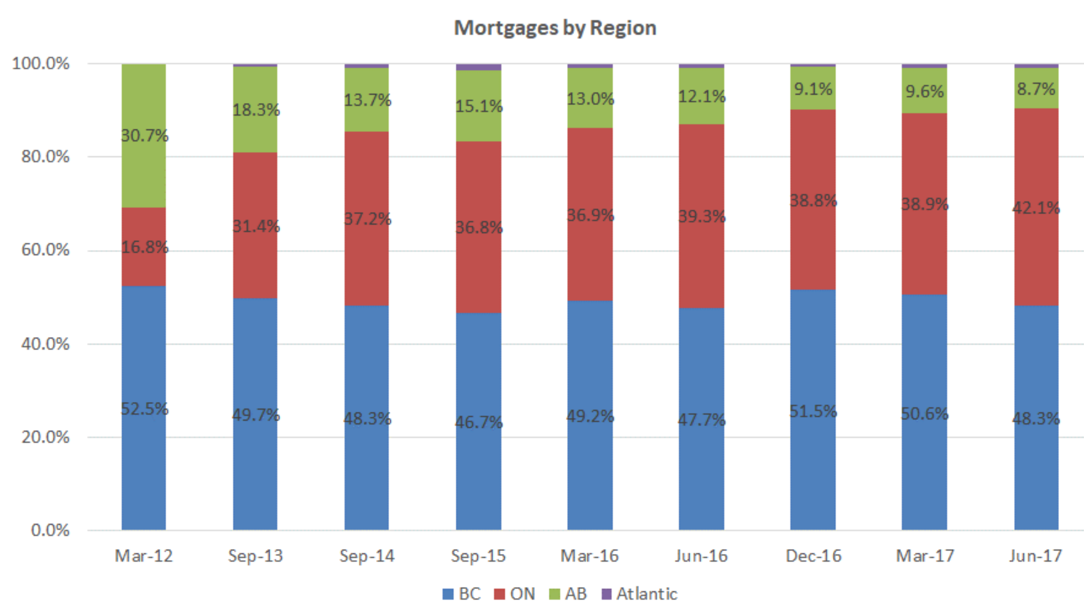
Portfolio Update and Analysis

As of Q2-2017, the trust had $162 million in mortgage receivables across 1,528 properties, up from $156 million across 1,478 properties at the end of Q1. The following chart shows the growth in the portfolio since 2012.



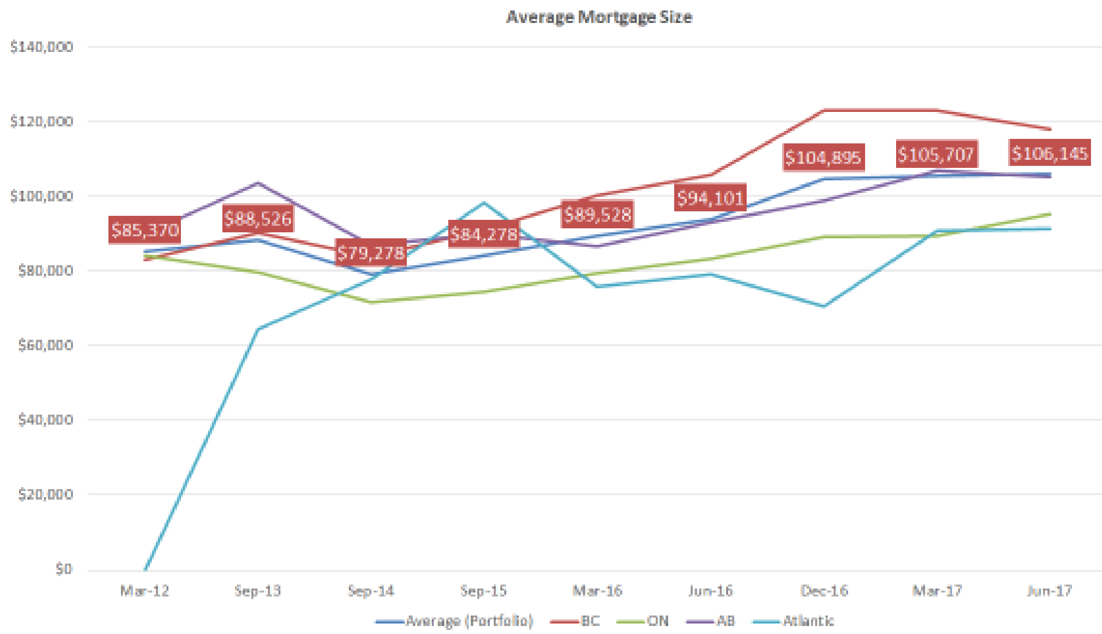
Data Source: Trust

Mortgages by Region: The fund continues to gradually increase its exposure to ON, while reducing its exposure to AB. At the end of Q2, 48% of the mortgages were in BC, 42% in ON, 9% in AB, and 1% in the Atlantic. Note that the fund focuses on properties within a 90-km radius of metropolitan areas. The chart below shows the distribution of mortgages by region.



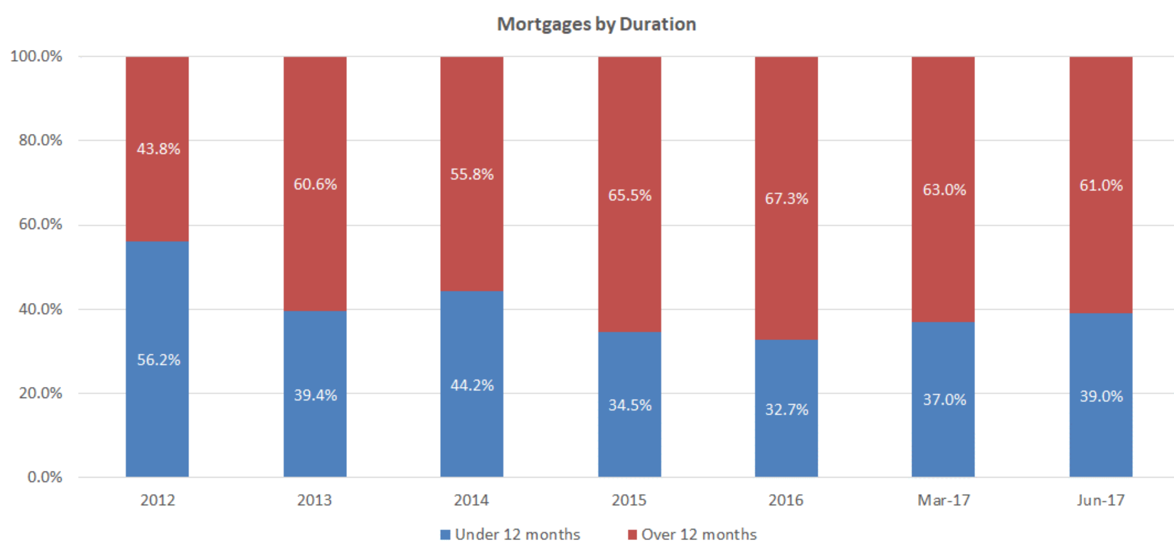
Data Source: Trust

Mortgages by Size: The average mortgage size at the end of Q2-2017 was relatively unchangd QoQ at $106k. BC had the highest average ($119k). One of the primary positives of the fund's portfolio, we believe, continues to be the low average mortgage size.



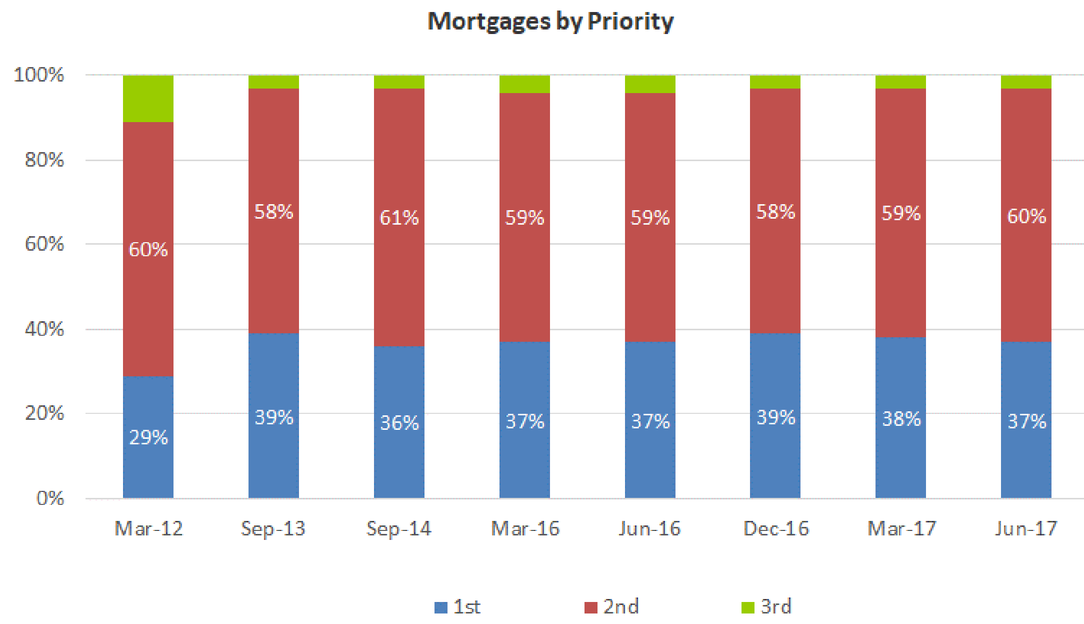
Data Source: Trust

Mortgages by Duration: At the end of Q2-2017, approximately 39% of the portfolio had terms of 12 months or less versus 37% at the end of Q1.



Data Source: Trust

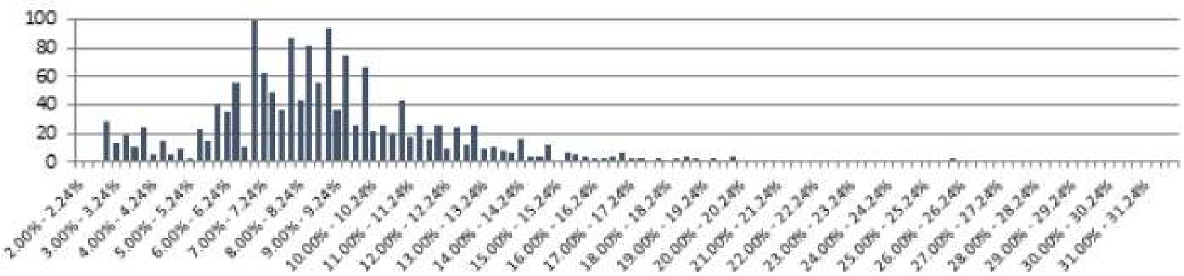
Mortgages by Priority: First mortgages accounted for 37% at the end of Q2 (versus 38% at the end of Q1). Second mortgages were at 60% and third mortgages were at 3%.



Data Source: Trust

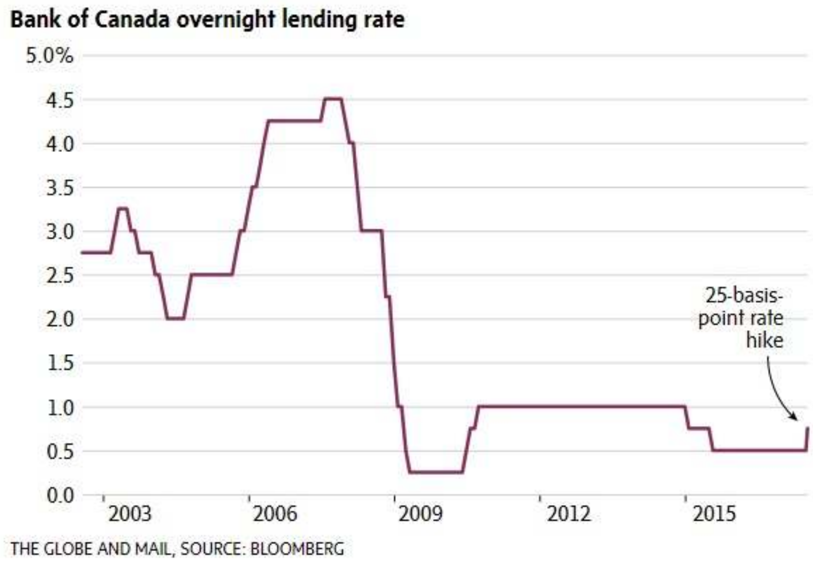
Lending Rate: The following chart shows the interest rates charged to borrowers. The average rate in Q2 was 7.87% p.a. versus 7.95% p.a. in Q1. The following chart shows the distribution of rates by mortgages. Management expects the lending rate in 2017 to remain relatively stable; moving in line with the Bank of Canada's overnight rate.

Lending Rate



Source: Trust

In July 2017, the Bank of Canada announced a 0.25% increase in the overnight lending rate. The following chart shows the overnight lending rate since 2002.

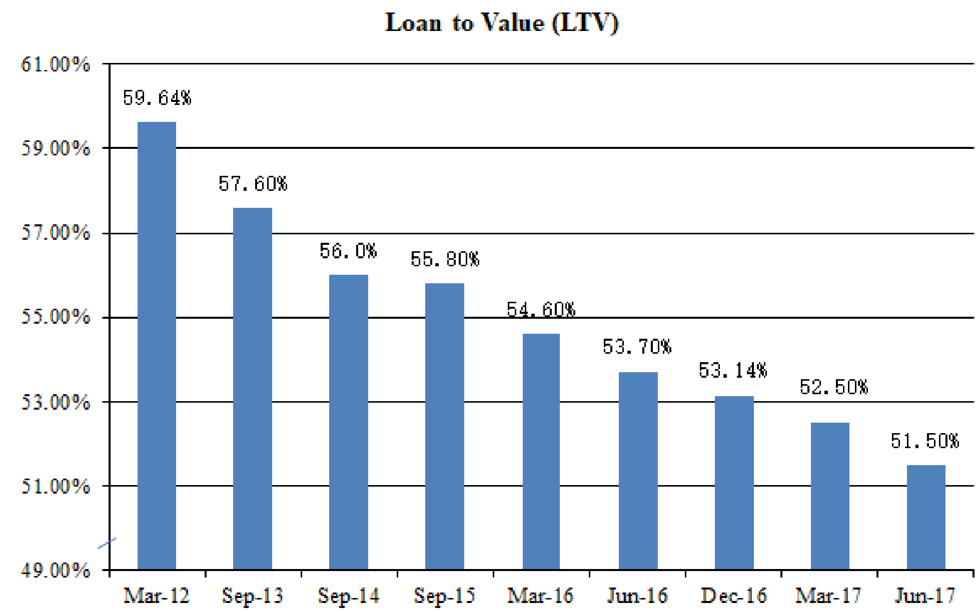


We expect this to result in a gradual increase in mortgage rates over the coming quarters. A significant increase in the GOC (1 to 3 year) bond yields confirms this outlook.

Source: Bank of Canada

Loan to Value (LTV): The portfolio's LTV continued to drop and was 51.5% at the end of Q2 versus 52.5% at the end of Q1.

FRC Fundamental Research Corp.



Data Source: Trust

Overall, we believe the trust has maintained its portfolio's risk profile. We expect the recent Home Capital Group (TSX: HCG) incident to drive more borrowers towards private lenders, such as Capital Direct. HCG primarily focuses on residential mortgages and operates in the space between the banks and private lenders. Its more conservative lending post the recent financing issues has been driving more borrowers to private lenders.

Note that HCG's issues were a result of company specific events, and do not reflect the mortgage lending space. Warren Buffett's Berkshire Hathaway Inc (NYSE: BRK) made a $400 million equity investment in Home Capital and offered a $2 billion line of credit in June 2017.

Toronto and Vancouver Market Update

The Ontario government's move to add a 15% tax on non-resident buyers of properties in the Greater Golden Horseshoe area resulted in a significant slowdown in real estate sales. Toronto MLS sales dropped by 20% YoY in May, by 37% YoY in June, and then by 40% YoY in July, after reporting a significant YoY increase in the first three months of the year. Despite the drop in sales, the average price was up 5% YoY in July. The price in July was down 19% from the record highs in April. The table below summarizes the key parameters.

Toronto	Jan-16	Jan-17	YoY	Feb-16	Feb-17	YoY	Mar-16	Mar-17	YoY	Apr-16	Apr-17	YoY
Residential Sales	4,672	5,188	11%	7,621	8,014	5%	10,326	12,077	17%	12,016	11,630	-3%
New Listings	8,906	7,338	-18%	11,234	9,834	-12%	14,795	17,051	15%	16,190	21,630	34%
Active Listings	9,966	5,034	-49%	10,902	5,400	-50%	12,132	7,865	-35%	12,554	12,926	3%
Sales to Listings	46.88%	103.06%		69.90%	148.41%		85.11%	153.55%		95.71%	89.97%	
MLS Home Price Index	$630,193	$770,745	22%	$685,738	$875,983	28%	$688,011	$916,567	33%	$739,762	$920,791	24%

Toronto	May-16	May-17	YoY	Jun-16	Jun-17	YoY	Jul-16	Jul-17	YoY
Residential Sales	12,790	10,196	-20%	12,725	7,974	-37%	9,929	5,921	-40%
New Listings	17,356	25,837	49%	16,918	19,614	16%	13,482	14,171	5%
Active Listings	12,931	18,477	43%	12,327	19,680	60%	11,346	18,751	65%
Sales to Listings	98.91%	55.18%		103.23%	40.52%		87.51%	31.58%	
MLS Home Price Index	$752,100	$863,910	15%	$747,018	$793,915	6%	$710,471	$746,218	5%

Source: Toronto Real Estate Board

An indicator of the health of the real estate market is the sales to active listings ratio – which dropped from a record high of 154% in March to 37% by July.

The following table shows that sales dropped across almost all property types in June:

Toronto Sales by Type	Jan-16	Jan-17	YoY	Feb-16	Feb-17	YoY	Mar-16	Mar-17	YoY	Apr-16	Apr-17	YoY
Detached	2,109	2,261	7%	3,627	3,721	3%	4,954	5,887	19%	6,062	5,887	-3%
Semi - Detached	452	423	-6%	725	651	-10%	986	1,002	2%	1,137	1,002	-12%
Att/Row/Townhouse	375	421	12%	591	619	5%	830	937	13%	980	937	-4%
Condo Townhouse	356	356	0%	511	546	7%	721	789	9%	862	789	-8%
Condo Apartment	1,302	1,636	26%	2,046	2,360	15%	2,641	3,261	23%	2,809	3,261	16%
Link	67	81	21%	103	99	-4%	177	170	-4%	205	170	-17%
Co-op Apt	7	3	-57%	7	7	0%	7	11	57%	17	11	-35%
Det Condo	1	2	100%	3	7	133%	5	13	160%	4	13	225%
Co ownership Apt	3	5	67%	8	4	-50%	5	7	40%	9	7	-22%
Total	4,672	5,188	11%	7,621	8,014	5%	10,326	12,077	17%	12,085	12,077	0%

Toronto Sales by Type	May-16	May-17	YoY	Jun-16	Jun-17	YoY	Jul-16	Jul-17	YoY
Detached	6,500	4,757	-27%	6,307	3450	-45%	4,653	2434	-48%
Semi - Detached	1210	930	-23%	1265	759	-40%	963	583	-39%
Att/Row/Townhouse	975	802	-18%	987	652	-34%	769	531	-31%
Condo Townhouse	889	711	-20%	903	629	-30%	779	443	-43%
Condo Apartment	3,056	2,854	-7%	3,114	2371	-24%	2,665	1840	-31%
Link	217	113	-48%	180	87	-52%	133	72	-46%
Co-op Apt	7	14	100%	15	10	-33%	11	11	0%
Det Condo	7	7	0%	20	9	-55%	10	4	-60%
Co ownership Apt	9	8	-11%	3	7	133%	6	3	-50%
Total	12,870	10,196	-21%	12,794	7,974	-38%	9,989	5,921	-41%

Source: Toronto Real Estate Board

We maintain a cautious outlook on the Toronto real estate market, and believe that it has become riskier.

Vancouver's real estate market is on a recovery. Sales dropped at a much lower rate in May, June and July, compared to the first four months of the year.

Metro Vancouver	Jan-16	Jan-17	YoY	Feb-16	Feb-17	YoY	Mar-16	Mar-17	YoY	Apr-16	Apr-17	YoY
Residential Sales	2,519	1,523	-40%	4,172	2,425	-42%	5,173	3,579	-31%	4,781	3,553	-26%
New Listings	4,442	4,140	-7%	5,812	3,666	-37%	6,278	4,762	-24%	6,127	4,907	-20%
Active Listings	6,635	7,238	9%	7,299	7,594	4%	7,358	7,586	3%	7,550	7,813	3%
Sales to Listings	37.97%	21.04%		57.16%	31.93%		70.30%	47.18%		63.32%	45.48%	
MLS Home Price	$775,300	$896,000	16%	$795,500	$906,700	14%	$815,000	$919,300	13%	$844,800	$941,100	10%

Metro Vancouver	May-16	May-17	YoY	Jun-16	Jun-17	YoY	Jul-16	Jul-17	YoY
Residential Sales	4,769	4,364	-8%	4,400	3,897	-11%	3,226	2,960	-8%
New Listings	5,875	5,721	-4%	5,875	5,721	-3%	5,241	5,256	0%
Active Listings	7,726	9,168	19%	7,812	8,515	9%	8,351	9,194	10%
Sales to Listings	61.73%	47.60%		56.32%	45.77%		38.63%	32.19%	
MLS Home Price	$889,100	$967,500	9%	$917,800	$998,700	9%	$930,400	$1,019,400	10%

Source: Real Estate Board of Greater Vancouver

The decline in Vancouver's real estate sales was primarily a result of the B.C. government's announcement in July 2016, to add a 15% property transfer tax on foreign nationals buying real estate in Metro Vancouver. Another factor that contributed to the slowdown is the federal government's announcement to increase the required down payment for properties over $500k.

As shown in the table above, property prices continue to rise despite the drop in sales. The sales to active ratio was 32% in July 2017, versus 39% in July 2016. This decline is not as steep relative to previous months. We consider this a positive development as it indicates a stabilization of the market.

Detached properties continued to experience the steepest decline in sales volumes.

Vancouver Sales by Type	Jan-16	Jan-17	YoY	Feb-16	Feb-17	YoY	Mar-16	Mar-17	YoY	Apr-16	Apr-17	YoY
Detached	1,047	444	-58%	1,778	745	-58%	2,135	1,150	-46%	1,979	1,211	-39%
Apartments	1,096	825	-25%	1,790	1,275	-29%	2,252	1,841	-18%	2,107	1,722	-18%
Attached Property	376	254	-32%	604	404	-33%	786	588	-25%	695	620	-11%
Total	2,519	1,523	-40%	4,172	2,424	-42%	5,173	3,579	-31%	4,781	3,553	-26%

Vancouver Sales by Type	May-16	May-17	YoY	Jun-16	Jun-17	YoY	Jul-16	Jul-17	YoY
Detached	1,865	1,548	-17%	1,562	1,320	-15%	1,077	949	-12%
Apartments	2,150	2,025	-6%	2,108	1,905	-10%	1,602	1,468	-8%
Attached Property	754	791	5%	730	668	-8%	547	543	-1%
Total	4,769	4,364	-8%	4,400	3,893	-12%	3,226	2,960	-8%

Source: Real Estate Board of Greater Vancouver

Immigration and foreign investment is expected to continue due to the city's global appeal, Canada's economic stability, and the weakness in the C$. In summary, although we have a cautious outlook, we believe Vancouver's housing market is reasonably healthy in the near-term (due to low supply), and do not expect a major correction.

Structure

At the end of Q2, the fund had 12.14 million units outstanding, up from 11.89 million units at the end of Q1.

Units Outstanding	30-Jun-17	% of Total
Class A	5,627,905	46.4%
Class C	1,569,092	12.9%
Class F	4,943,046	40.7%
Total	**12,140,043**	**100.0%**

- Class A (since inception) - offered to investors directly
- Class F (introduced in 2014) - offered to funds managed by portfolio managers and other fee-based investment advisors.
- Class C (introduced in 2016) - offered to investors who purchase units through Dealers (IIROC and Exempt Market Dealers).

Financials

Revenues grew by 54% YoY in Q2-2017 to $3.84 million. Net Income grew by 41% YoY to $2.54 million.

Income Statement	2016 (6M)	2017 (6M)	Q1-2016	Q1-2017	Q2-2016	Q2-2017
Revenues						
Interest Income	$4,145,160	$6,204,577	$1,961,570	$3,051,233	$2,183,590	$3,153,344
Other Income	$546,054	$1,165,405	$241,888	$476,055	$304,166	$689,350
	$4,691,214	**$7,369,982**	**$2,203,458**	**$3,527,288**	**$2,487,756**	**$3,842,694**
Expenses						
Audit Fees	$76,700	$101,866	$28,816	$49,033	$47,884	$52,833
Bank Charges	$13,346	$170,907	$6,369	$8,917	$6,977	$161,990
Interest on Loan Payable	$521,178	$727,887	$310,888	$366,977	$210,290	$360,910
Legal Fees	$51,961	$48,151	$25,727	$26,846	$26,234	$21,305
Management Fees	$531,438	$907,384	$236,249	$432,585	$295,189	$474,799
Loan Loss Provision	$220,347	$480,617	$127,375	$250,546	$92,972	$230,071
Trustee Fees	$18,234	$10,500	$11,760	$10,500	$6,474	$0
	$1,433,204	**$2,447,312**	**$747,184**	**$1,145,404**	**$686,020**	**$1,301,908**
Net Income	**$3,258,010**	**$4,922,670**	**$1,456,274**	**$2,381,884**	**$1,801,736**	**$2,540,786**
Net Asset Value	$10.00	$10.00	$10.00	$10.00	$10.00	$10.00
Units Outstanding	7,889,242	12,140,044	6,030,683	11,892,344	7,889,242	12,140,044
Distributions						
Investors	2,606,409	4,430,406	1,165,019	2,143,696	$1,441,390	$2,286,710
Management	651,602	492,267	291,255	238,188	$360,347	$254,079
Investors' Share	80.0%	90.0%	80.0%	90.0%	80.0%	90.0%

YE – December 31st

Although the Offering Memorandum states that 80% of the net income will be paid to the unit holders on a quarterly basis (20% to the manager), the fund has been paying out 90% of net income to investors since Q4-2016. The management fee is 2% of NAV for Classes A and C units, and 1% of NAV for Class F units.

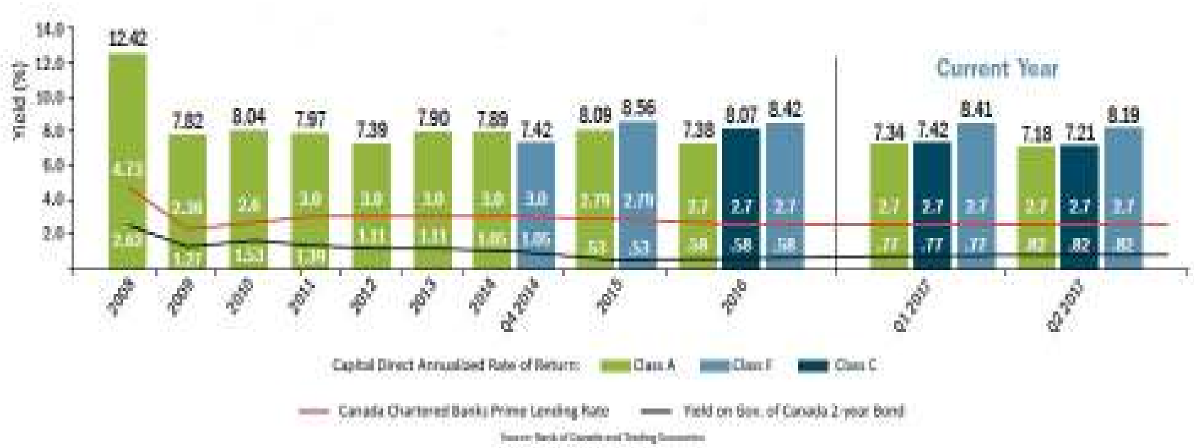
Interest + Other income as a percentage of mortgage receivables was 9.75% p.a. in Q2-2017, versus 9.62% in Q2-2016, and 9.35% in Q1-2017. The dividend yield (dividends as a percentage of invested capital) was 7.61% p.a. in Q2-2017, versus 8.28% in Q2-2016, and 7.60% in Q1-2017.

% of Mortgage Receivable	2016 (6M)*	2017 (6M)*	Q1-2016*	Q1-2017*	Q2-2016*	Q2-2017*
Interest Income	8.23%	8.07%	8.59%	8.09%	8.45%	8.00%
Other Income	1.08%	1.52%	1.06%	1.26%	1.18%	1.75%
Interest Income + Others	**9.32%**	**9.58%**	**9.65%**	**9.35%**	**9.62%**	**9.75%**
Less:						
Management Fee	-1.06%	-1.18%	-1.03%	-1.15%	-1.14%	-1.20%
G&A Expenses	-0.32%	-0.43%	-0.32%	-0.25%	-0.34%	-0.60%
Loan Loss Provision	-0.44%	-0.63%	-0.56%	-0.66%	-0.36%	-0.58%
Interest	-1.03%	-0.95%	-1.36%	-1.10%	-0.81%	-0.92%
Net	6.47%	6.40%	6.38%	6.19%	6.97%	6.45%
Investors' Returns (% of Invested Capital)	**7.88%**	**7.77%**	**8.20%**	**7.60%**	**8.28%**	**7.61%**

** annualized*

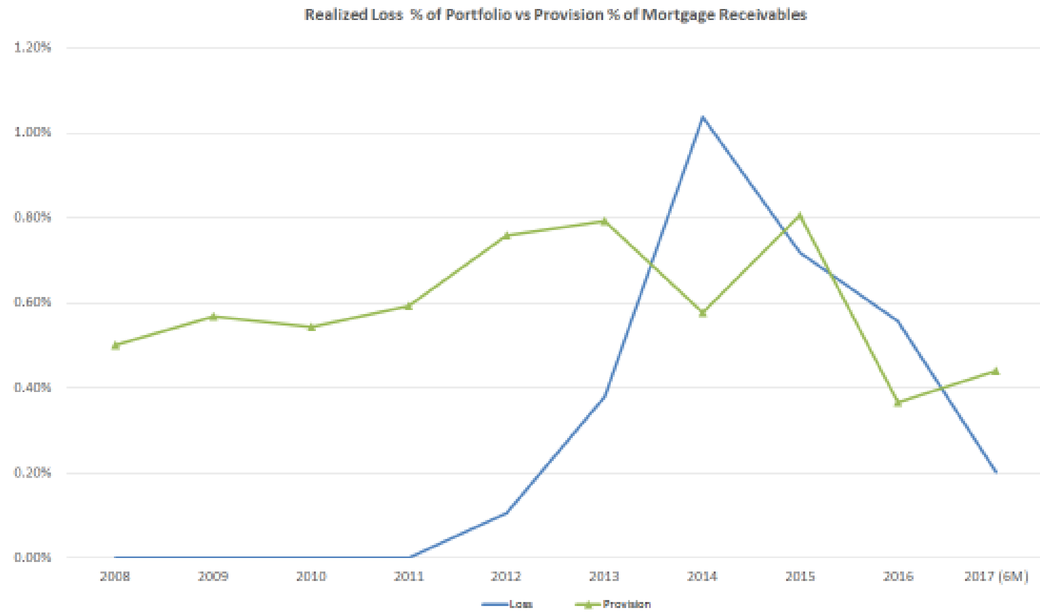
Note that the above figures may be slightly different from the figures reported by Capital Direct due to the difference in the method of calculation. We used the average of the opening balance, and year-end balance of the mortgages outstanding, and invested capital, to arrive at the above figures.

The following charts show investors' yield relative to GOC 2-year bonds:



Source: Trust

The chart below shows the realized losses and the loan loss provision as a percentage of mortgage receivables since 2010.



Data Source: Trust

In Q2-2017, the trust reported approximately $0.14 million in realized losses, or 0.09% of the total portfolio. The total loss in the first six months of 2017 was $0.31 million (0.20% of the portfolio) versus $0.38 million (0.38% of the portfolio) in the same time period in the last year.

At the end of Q2-2017, the trust had a loan loss provision of $0.71 million, or 0.44% of the portfolio. We estimate that comparable MIEs typically assign 0.8% - 1.0% of their portfolios as loan loss provisions. The lower loan loss provision, we believe, reflects the overall health of the trust's portfolio.

	2016 (6M)	2017 (6M)	Q1-2016	Q1-2017	Q2-2016	Q2-2017
Actual Losses	384,342	310,569	25,782	171,571	$358,560	$138,998
Actual Losses (% of mortgage receivable)	0.38%	0.20%	0.05%	0.22%	0.35%	0.09%
Distributions	$2,606,409	$4,430,406	$1,165,019	$2,143,696	$1,441,390	$2,286,710
Reinvested	$1,570,477	$2,681,172	$586,544	$1,321,880	$983,933	$1,359,292
Reinvested (as a % of Distributions)	60%	61%	50%	62%	68%	59%
Redemptions	$1,051,785	$4,084,820	$0	$10,316	$1,051,785	$4,074,504
Redemption (% of invested capital)	2.0%	3.8%	0.0%	0.0%	1.5%	3.4%
Loan loss provision (year/quarter ended)	$549,596	$706,810	$815,184	$615,737	$549,596	$706,810
Provision % of Receivable	0.49%	0.44%	0.87%	0.40%	0.49%	0.44%

Investors continue to reinvest a significant portion of the distributions (59% in Q2) – which, we believe, is a very positive sign and shows their confidence in the investment.

Redemptions totaled $4.08 million in the first six months, or 3.8% of the average invested capital.

The following table shows a summary of the company's balance sheet.

Balance Sheet	2011	2012	2013	2014	2015	2016	Q1-2017	Q2-2017
Assets								
Cash	$288,331	$187,552	$569,309	$556,175	$194,106	$1,982,407	$6,007,628	$4,133,165
Accounts Receivable	$119,180			$120,045	$1,736,095	$5,226,932	$2,756,025	$1,387,775
Prepaid Expense								
Assets held for sale		$15,949						
Mortgage Investments (net)	$12,837,727	$19,781,725	$36,139,391	$53,633,836	$88,672,929	$147,121,047	$154,791,463	$160,467,858
	$13,245,238	**$19,985,226**	**$36,708,700**	**$54,310,056**	**$90,603,130**	**$154,330,386**	**$163,555,116**	**$165,988,798**
Liabilities								
Loan Payable	$2,183,086	$5,083,066	$15,631,451	$24,911,835	$35,619,549	$44,018,502	$42,949,755	$38,768,285
Accounts Payable & Accured Liabilities	$352,925	$478,948	$664,922	$1,613,901	$1,601,517	$3,606,666	$1,681,934	$5,820,078
	$2,536,011	$5,562,014	$16,296,373	$26,525,736	$37,221,066	$47,625,168	$44,631,689	$44,588,363
Net Asset	$10,709,227	$14,423,212	$20,412,327	$27,784,320	$53,382,064	$106,705,218	$118,923,427	$121,400,435
SE + Liabilities	**$13,245,238**	**$19,985,226**	**$36,708,700**	**$54,310,056**	**$90,603,130**	**$154,330,386**	**$163,555,116**	**$165,988,798**
Debt to Capital	17%	26%	43%	47%	40%	29%	27%	24%
Debt as a % of Mortgage Outstanding	17%	26%	43%	46%	40%	30%	28%	24%
Interest Coverage Ratio	10.4	9.1	5.4	4.2	4.5	7.3	7.5	8.0

The cash position at the end of June 2017 was $4.13 million. Timely cash deployment is critical in this business. However, the fund's cash position can vary from time to time as loans are paid out and new loans are funded.

Line of credit – At the end of Q2, $39 million was withdrawn, reflecting debt to capital of 24%. The trust's line of credit (prime + 0.75%) with Canadian Western Bank is $50 million. We estimate that comparable MIEs typically use debt levels ranging between 20% and 40%. **The interest coverage ratio continues to be strong and was 8x in Q2.**

Risk

Investors are exposed to the following risks:

- Loans are short term and need to be sourced and replaced quickly.
- Timely deployment of capital is crucial.
- A drop in housing prices will result in higher LTVs, and higher default risk, as the value of collateral decreases.
- Unit holders' principal is not guaranteed, as the NAV per unit could decrease from current levels (as a result of loan losses). Unit holders are also not guaranteed minimum distributions.
- No hurdle rate.
- The net income distribution between investors and the manager has been 90%:10% in the past few years; however, there is no guarantee that this trend will continue going forward.
- The fund has the ability to use leverage, which would increase the exposure of the fund to negative events.

- The fund invests in second and third mortgages (historically 60% to 65% of the portfolio) which carry higher risk.
- Annual redemptions may be limited to 10% of the total invested capital, and may not be paid in cash.

Rating

We are maintaining our overall rating and our risk rating at 2.

FRC Rating	
Estd. Yield (2017)	7% - 8% p.a.
Rating	2
Risk	2

Fundamental Research Corp. Rating Scale:

Rating – 1: Excellent Return to Risk Ratio
Rating – 2: Very Good Return to Risk Ratio
Rating – 3: Good Return to Risk Ratio
Rating – 4: Average Return to Risk Ratio
Rating – 5: Weak Return to Risk Ratio
Rating – 6: Very Weak Return to Risk Ratio
Rating – 7: Poor Return to Risk Ratio
A "+" indicates the rating is in the top third of the category, A "-" indicates the lower third and no "+" or "-" indicates the middle third of the category.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk)
2 (Below Average Risk)
3 (Average Risk)
4 (Speculative)
5 (Highly Speculative)

FRC Distribution of Ratings			
Rating - 1	0%	Risk - 1	0%
Rating - 2	26%	Risk - 2	6%
Rating - 3	49%	Risk - 3	38%
Rating - 4	9%	Risk - 4	35%
Rating - 5	4%	Risk - 5	9%
Rating - 6	1%	Suspended	11%
Rating - 7	0%		
Suspended	10%		

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