Fundamental Research Corp.
Investment Analysis for Intelligent Investors

May 6, 2025

Capital Direct I Income Trust

Record Receivables and Earnings with Reduced Risk Profile

Estimated Yield (2025): 9.3%
Rating*: 2
Risk*: 3

Sector: Mortgage Investment Entities

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Highlights

- In 2024, **mortgage receivables increased 21% YoY to $476M**, exceeding our forecast by 10%. In Q1-2025, receivables increased 10% YTD to $521M - the highest in Capital Direct I Income Trust's (CDIT) history.
- CDIT is **one of the larger** Mortgage Investment Entities (MIEs) in Canada. The MIE remains **focused on first/second mortgages** for single family residential units in B.C. and ON.
- In 2024, the fund achieved record revenue and net income. Net income was up 27% to $34M, beating our estimate by 14%, driven by higher lending rates, and mortgage receivables. The **yield on class F units increased 1.1 pp to 9.8%** in 2024 (our forecast was 9.4%), and to 10.1% in Q1-2025.
- Since May 2024, the BoC has cut rates seven times (225 bp), with the **potential for one or two more cuts this year**, driven by high unemployment, escalating geopolitical/trade risks, and concerns over potential weakness in GDP growth.
- We find high-yielding funds, like CDIT, increasingly attractive in the current declining rate environment. This is because **MIC lending rates are less elastic**, meaning their yields tend to decline less in a falling rate environment, and rise more slowly in a rising rate environment.
- At the end of 2024, CDIT had $20M (4% of the portfolio vs the sector average of 6%) in stage three (impaired) mortgages, down from $29M (7% of the portfolio) at the end of 2023, a notable contrast to the broader MIC sector, which saw a rise in impairments.
- We are **projecting a yield of 9.3% in 2025** vs 9.8% in 2024, while raising our overall rating from 2- to 2.

Offering Summary	
Issuer	Capital Direct I Income Trust
Securities Offered	Class F Trust Units
Unit Price	$10
Minimum Subscription	$5,000
Distribution to Investors	80% of net income on a quarterly basis
Redemption	A fee of 2% is applicable within the first 6 months, with no fee thereafter
Management Fee	1.0% p.a. of NAV
Auditor	MNP

Financial Summary	2022	2023	2024	2025E	2026E
Mortgage Investments (net)	$364,338,646	$392,617,096	$475,687,747	$535,148,715	$561,906,151
Debt as a % of Mortgage Outstanding	28%	30%	36%	34%	34%
Revenue	$30,199,267	$40,371,531	$52,566,685	$57,116,200	$57,595,380
Net Income	$21,397,295	$26,423,407	$33,665,160	$38,061,421	$38,155,688
Net Asset Value	$10.00	$10.00	$10.00	$10.00	$10.00
Yield (Class F)	7.45%	8.63%	9.77%	9.29%	8.77%

***This report and research coverage is paid for and commissioned by the issuer. See last page for other important disclosures, rating, and risk definitions. All figures in C$ unless otherwise specified.**

Capital Direct has lower first mortgages, average mortgage size, and LTV

Debt to capital is higher

Yield is higher even though management pays a performance fee in addition to management fees; most comparable MIC do not charge performance-based fees

The following table shows how Capital Direct's portfolio compares to that of other MIEs (with AUM of $100M+) focused on single-family residential units.

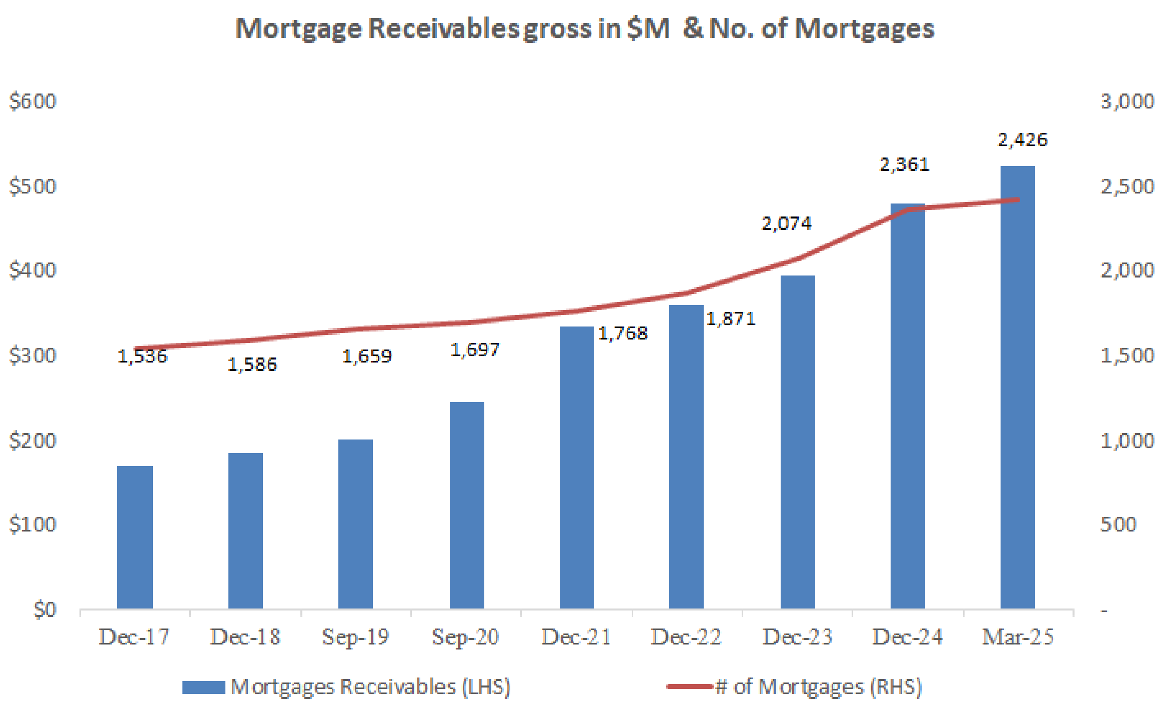
	Capital Direct	Average
First Mortgage	59%	73%
B.C.	39%	37%
ON	38%	51%
AB	17%	8%
Others	6%	4%
LTV	54%	59%
Yield	9.8%	9.3%
Debt to Capital	34%	22%
Average Loan Size	$215,948	$449,912
Stage Three % of Mortgages	4.1%	6.0%
Allowances % of Mortgages	0.3%	0.8%

Source: FRC / Various

Portfolio Update

In 2024, mortgage receivables were up 21% to $476M, 10% higher than our forecast

In Q1-2025, receivables increased 10% YTD to $521M



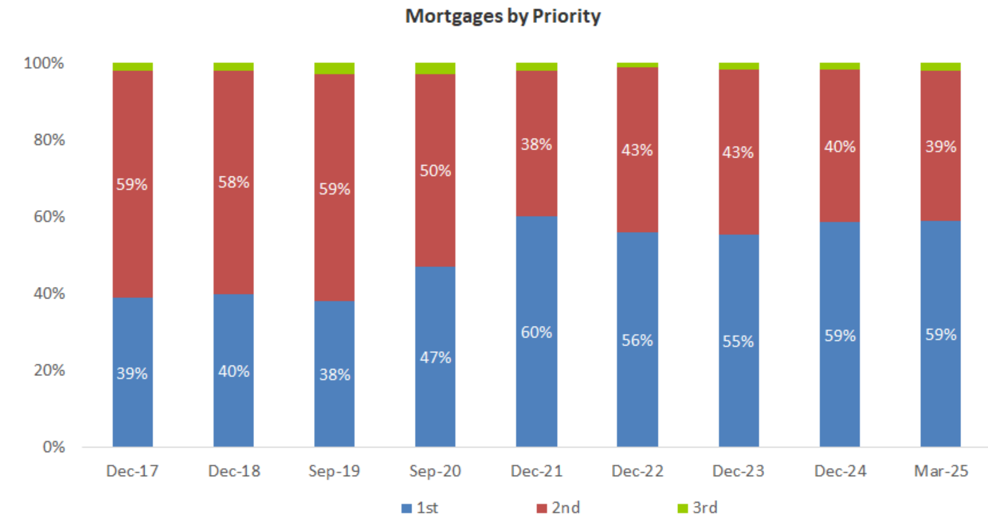
Source: Company / FRC

In 2024, debt to capital increased 5 pp to 34%, in line with comparables (20%-40%)

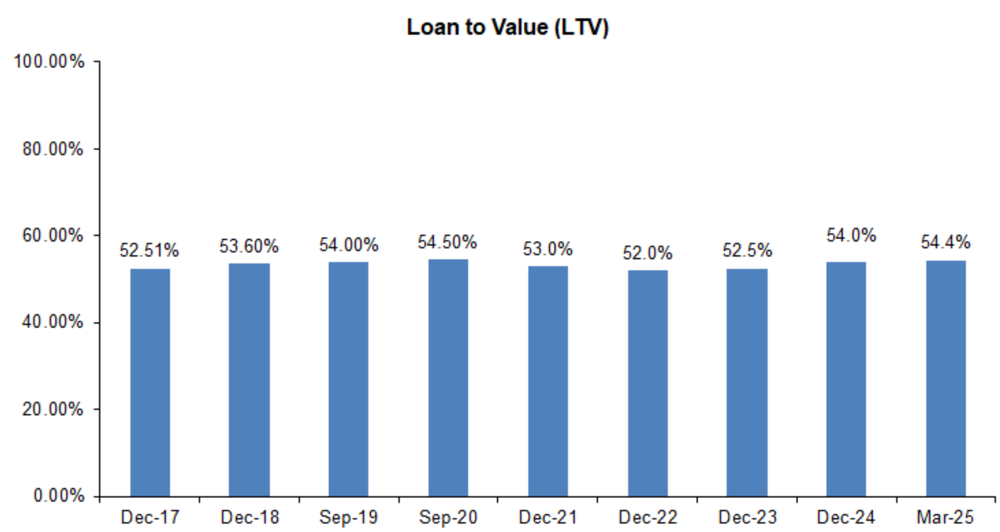
The interest coverage ratio was also in line with comparables (3x-5x)

Balance Sheet	2021	2022	2023	2024	Q1-2025
Assets					
Cash	$13,541,298	$13,619,660	$13,303,792	$22,767,295	$11,462,838
Accounts Receivable	$3,429,247	$5,916,889	$6,883,133	$11,084,627	$8,678,200
Mortgage Investments (net)	$334,981,715	$364,338,646	$392,617,096	$475,687,747	$520,686,171
Total Assets	**$351,952,260**	**$383,875,195**	**$412,804,021**	**$509,539,669**	**$540,827,209**
Liabilities					
Debt	$98,320,737	$101,459,633	$116,662,856	$172,025,772	$183,666,849
Accounts Payable & Accured Liabilities	$12,267,106	$9,383,013	$8,522,326	$9,227,527	$7,845,913
Total Liabilities	**$110,587,843**	**$110,842,646**	**$125,185,182**	**$181,253,299**	**$191,512,762**
Net Asset	$241,364,417	$273,032,549	$287,618,839	$328,286,370	$349,314,447
SE + Liabilities	**$351,952,260**	**$383,875,195**	**$412,804,021**	**$509,539,669**	**$540,827,209**
Debt to Capital	29%	27%	29%	34%	34%
Debt as a % of Mortgage Outstanding	29%	28%	30%	36%	35%
Interest Coverage Ratio	8.1	5.0	4.3	4.3	4.9

Exposure to first mortgages increased 4 pp to 59%, implying lower risk profile

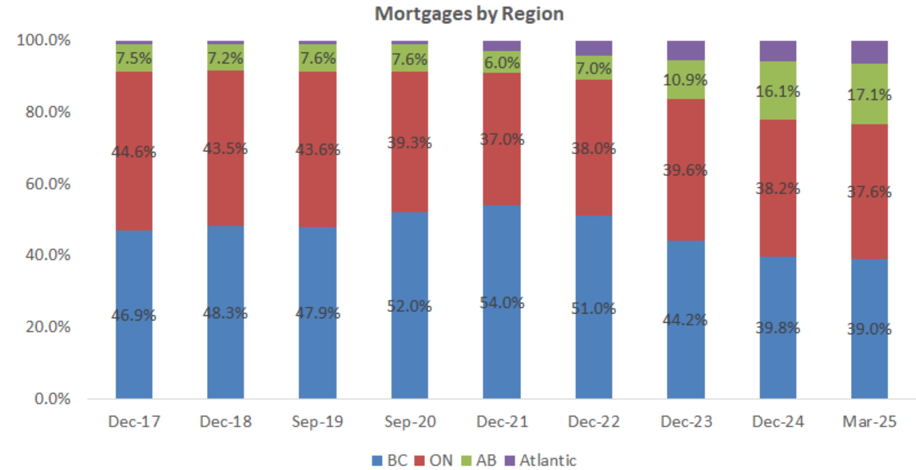


LTV increased slightly

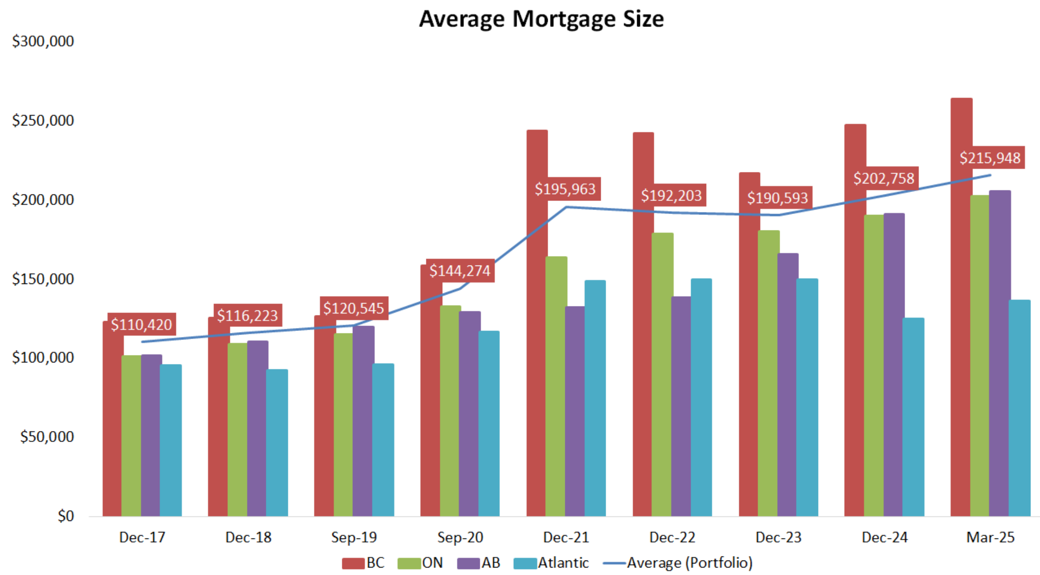


Source: Company / FRC

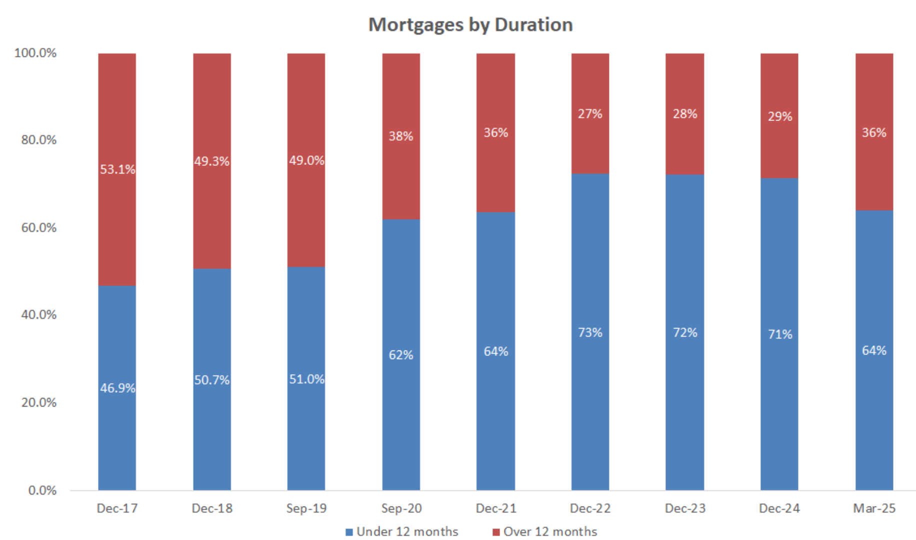
Trimmed B.C. and ON exposure, with a corresponding increase in AB, implying enhanced geographical diversification



The average mortgage size increased 13% to $216k



Duration decreased, but remained lower than the historic average



Source: Company / FRC

In 2024, stage three mortgages decreased 3.3 pp YoY to 4.1% of mortgages, a notable contrast to the broader MIC sector, which saw a rise in impairments

	2021	2022	2023	2024	Q1-2025
Actual Losses	$312,001	$49,472	$48,916	$549,395	$231,772
Actual Losses (% of mortgage receivable)	0.10%	0.01%	0.01%	0.13%	0.05%
Distributions	$14,717,145	$17,905,517	$22,175,017	$27,825,405	$7,942,068
Reinvested	$9,734,434	$11,177,839	$13,666,988	$17,600,481	$5,063,902
Reinvested (as a % of Distributions)	66%	62%	62%	63%	64%
Redemptions	$17,699,880	$32,631,059	$33,399,916	$26,974,644	$6,246,477
Redemption (% of invested capital)	8%	13%	12%	9%	2%
Stage Three (impaired)	$8,823,177	$11,756,409	$29,072,130	$19,580,409	n/a
% of Receivable	2.6%	3.2%	7.4%	4.1%	n/a
Loan loss provisions	$669,271	$197,366	$59,942	$658,560	$357,256
Loan loss allowance (year/quarter ended)	$1,156,232	$1,304,126	$1,315,152	$1,424,317	$1,549,801
% of Receivable	0.35%	0.36%	0.33%	0.30%	0.30%

Source: Company / FRC

In summary, we believe the portfolio's risk profile has decreased (four green vs three red signals), primarily driven by higher first mortgages, and lower stage three mortgages

Parameter	Risk Profile
Average Mortgage	↑
Diversification	↑
Priority	↑
Property Type (lower-risk properties)	-
LTV	↑
Stage Three Mortgages	↓
Debt to Capital	↑
Duration	↓

- red (green) indicates an increase (decrease) in risk level

Source: FRC

2024 revenue was up 30% YoY, beating our estimate by 16%, driven by higher lending rates and mortgage receivables

Net income was up 27% YoY, beating our estimate by 14%

In Q1-2024, revenue and net income were up 38% YoY, and 40% YoY, respectively

The yield on class F units increased from 8.63% in 2023, to 9.77% in 2024 (our forecast was 9.35%), and to 10.11% in Q1-2025

Financials

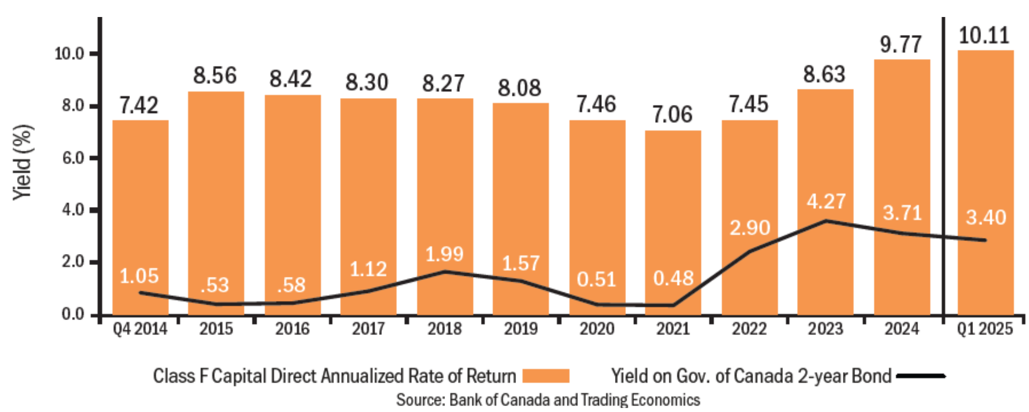
Income Statement	2021	2022	2023	2024	YoY	Q1-2024	Q1-2025	YoY
Revenues								
Interest Income	$23,392,286	$28,560,753	$38,633,064	$50,365,065	30%	$11,234,118	$13,495,776	20%
Other Income	$2,010,543	$1,638,514	$1,738,467	$2,201,620	27%	-$709,153	$1,050,317	-248%
Total Revenue	**$25,402,829**	**$30,199,267**	**$40,371,531**	**$52,566,685**	**30%**	**$10,524,965**	**$14,546,093**	**38%**
Expenses								
G&A	$596,181	$532,299	$783,845	$757,608	-3%	$79,462	$359,192	352%
Bank Charges	$467,888	$448,918	$502,777	$556,935	11%	$137,598	$76,483	-44%
Interest on Loan Payable	$2,464,585	$4,954,360	$8,134,065	$10,577,836	30%	$2,333,128	$2,527,883	8%
Management Fees	$3,640,705	$4,207,029	$4,396,632	$4,766,745	8%	$1,148,140	$1,297,694	13%
Loan Loss Provision	$669,271	$197,366	$59,942	$658,560	999%	-$267,235	$357,256	
Total Operating Expenses	**$7,838,630**	**$10,339,972**	**$13,877,261**	**$17,317,684**	**25%**	**$3,431,093**	**$4,618,508**	**35%**
Gain on financial instruments		$1,538,000	-$70,863	-$1,583,841				
Net Income	**$17,564,199**	**$21,397,295**	**$26,423,407**	**$33,665,160**	**27%**	**$7,093,872**	**$9,927,585**	**40%**
Net Asset Value	$10.00	$10.00	$10.00	$10.00	0%	$10.00	$11.79	18%
Units Outstanding	24,136,442	27,303,255	28,761,884	32,828,637	14%	29,628,409	29,628,410	130%
Distributions								
Investors	$14,717,145	$17,905,517	$22,175,017	$27,825,405	25%	$6,384,485	$7,942,068	24%
Management	$2,847,054	$3,491,778	$4,248,390	$5,839,755	37%	$709,387	$1,985,517	180%
Investors' Share	83.8%	83.7%	83.9%	82.7%		90.0%	80.0%	

% of Mortgage Receivable	2021	2022	2023	2024	Q1-2025*
Interest Income	7.87%	8.17%	10.21%	11.60%	10.84%
Other Income	0.68%	0.47%	0.46%	0.51%	0.84%
Interest Income + Others	**8.54%**	**8.64%**	**10.67%**	**12.11%**	**11.68%**
Less:					
Management Fee	-1.22%	-1.20%	-1.16%	-1.10%	-1.04%
G&A Expenses	-0.36%	-0.28%	-0.34%	-0.30%	-0.35%
Loan Loss Provision and Others	-0.23%	-0.06%	-0.02%	-0.15%	-0.29%
Interest	-0.83%	-1.42%	-2.15%	-2.44%	-2.03%
Net	5.91%	5.68%	7.00%	8.12%	7.97%
Investors' Returns (% of Invested	**6.60%**	**6.96%**	**7.91%**	**9.04%**	**9.38%**

** 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.

Class F Units - Yields



Source: Company

Units Outstanding and Ownership

35M units outstanding at the end of Q1-2025, up 18% YoY

Units Outstanding	31-Mar-24	31-Dec-24	31-Mar-25	% of Total
Class A	9,026,032	9,709,848	9,996,064	28.6%
Class C	8,143,060	8,742,820	9,775,298	28.0%
Class F	12,459,317	14,375,969	15,160,082	43.4%
Total	**29,628,409**	**32,828,637**	**34,931,444**	**100.0%**

Source: Company

- Class A - offered to investors directly
- Class F - offered to funds managed by portfolio managers, and other fee-based investment advisors
- Class C - offered to investors who purchase units through dealers (IIROC and Exempt Market Dealers)

FRC Projections and Rating

With rates trending downward, we foresee yields declining in 2025 and 2026

Financial Summary	2021	2022	2023	2024	2025E	2026E
Mortgage Investments (net)	$334,981,715	$364,338,646	$392,617,096	$475,687,747	$535,148,715	$561,906,151
Debt as a % of Mortgage Outstanding	29%	28%	30%	36%	34%	34%
Revenue	$25,402,829	$30,199,267	$40,371,531	$52,566,685	$57,116,200	$57,595,380
Net Income	$17,564,199	$21,397,295	$26,423,407	$33,665,160	$38,061,421	$38,155,688
Net Asset Value	$10.00	$10.00	$10.00	$10.00	$10.00	$10.00
Yield (Class F)	7.06%	7.45%	8.63%	9.77%	9.29%	8.77%

We are projecting yields of 9.3% in 2025, and 8.8% in 2026

Our estimate for the 2025 yield varies between 8.7% and 9.7%, as loan loss provisions and lending rates vary

2025E Yield		YoY Decline in the Weighted Average Lending Rate in 2025E				
		0.40%	0.60%	0.80%	1.00%	1.20%
Loan Loss Provisions % of Receivables (2025E)	0.00%	10.0%	9.8%	9.5%	9.3%	9.0%
	0.05%	10.0%	9.7%	9.5%	9.2%	9.0%
	0.10%	9.9%	9.7%	9.4%	9.2%	8.9%
	0.20%	9.8%	9.5%	9.3%	9.0%	8.8%
	0.50%	9.4%	9.2%	8.9%	8.7%	8.4%
	1.00%	8.8%	8.6%	8.3%	8.1%	7.8%

Source: Company/FRC

We find high-yielding funds, like Capital Direct, increasingly attractive in the current declining rate environment. This is because MIC lending rates are less elastic, meaning their yields tend to decline less in a falling rate environment, and rise more slowly in a rising rate environment.

We believe the MIE has demonstrated its ability to deliver strong yields, while reducing portfolio risk by increasing exposure to first mortgages, and lowering impaired mortgages. As a result, **we are upgrading our overall rating from 2- to 2**, while keeping the risk rating unchanged at 3.

FRC Rating	
Expected Yield (FY2025E)	9.3%
Rating	2
Risk	3

Risks

- Loans are short term and need to be sourced and replaced quickly
- Lower housing prices will result in higher LTVs
- **Investors' principal is not guaranteed**
- No guaranteed minimum distributions
- The fund has the ability to use leverage, increasing exposure to negative events
- Second mortgages carry higher risk
- **Default rates can rise during recession**

APPENDIX

Income Statement	2022	2023	2024	2025E	2026E
Revenues					
Interest Income	$28,560,753	$38,633,064	$50,365,065	$54,589,109	$54,852,743
Other Income	$1,638,514	$1,738,467	$2,201,620	$2,527,091	$2,742,637
Total Revenue	**$30,199,267**	**$40,371,531**	**$52,566,685**	**$57,116,200**	**$57,595,380**
Expenses					
G&A	$532,299	$783,845	$757,608	$833,369	$875,037
Bank Charges	$448,918	$502,777	$556,935	$584,782	$614,021
Interest on Debt	$4,954,360	$8,134,065	$10,577,836	$10,560,773	$10,271,250
Management Fees	$4,207,029	$4,396,632	$4,766,745	$6,065,019	$6,582,329
Loan Loss Provision	$197,366	$59,942	$658,560	$1,010,836	$1,097,055
Total Operating Expenses	**$10,339,972**	**$13,877,261**	**$17,317,684**	**$19,054,779**	**$19,439,692**
Gain on financial instruments	$1,538,000	-$70,863	-$1,583,841		
Net Income	**$21,397,295**	**$26,423,407**	**$33,665,160**	**$38,061,421**	**$38,155,688**
Net Asset Value	$10.00	$10.00	$10.00	$10.00	$10.00
Units Outstanding	27,303,255	28,761,884	32,828,637	35,801,685	37,139,557
Distributions					
Investors	$17,905,517	$22,175,017	$27,825,405	$31,895,471	$31,974,467
Management	$3,491,778	$4,248,390	$5,839,755	$6,165,950	$6,181,222
Investors' Share	83.7%	83.9%	82.7%	83.8%	83.8%

Balance Sheet	2021	2022	2023	2024	2025E	2026E
Assets						
Cash	$13,541,298	$13,619,660	$13,303,792	$22,767,295	$363,952	$360,025
Accounts Receivable	$3,429,247	$5,916,889	$6,883,133	$11,084,627	$12,193,090	$12,802,744
Mortgage Investments (net)	$334,981,715	$364,338,646	$392,617,096	$475,687,747	$535,148,715	$561,906,151
Total Assets	**$351,952,260**	**$383,875,195**	**$412,804,021**	**$509,539,669**	**$547,705,758**	**$575,068,921**
Liabilities						
Debt	$98,320,737	$101,459,633	$116,662,856	$172,025,772	$180,000,000	$193,500,000
Accounts Payable & Accured Liabilities	$12,267,106	$9,383,013	$8,522,326	$9,227,527	$9,688,903	$10,173,349
Total Liabilities	**$110,587,843**	**$110,842,646**	**$125,185,182**	**$181,253,299**	**$189,688,903**	**$203,673,349**
Net Asset	$241,364,417	$273,032,549	$287,618,839	$328,286,370	$358,016,854	$371,395,572
SE + Liabilities	**$351,952,260**	**$383,875,195**	**$412,804,021**	**$509,539,669**	**$547,705,758**	**$575,068,921**
Debt to Capital	29%	27%	29%	34%	33%	34%
Debt as a % of Mortgage Outstanding	29%	28%	30%	36%	34%	34%
Interest Coverage Ratio	8.1	5.0	4.3	4.3	4.7	4.8

Cash Flow Statements	2025E	2026E
Operating Activities		
	$38,061,421	$38,155,688
Chnges in non-cash Working Capital		
Accounts Receivable	-$1,108,463	-$609,654
Accounts Payable and Accured Liabilities	$461,376	$484,445
	-$647,086	-$125,209
Cash from Operating Activities	**$37,414,334**	**$38,030,479**
Investing Activities		
Net Puchase of Mortgage Investments	-$59,460,968	-$26,757,436
Cash from Investing Activities	**-$59,460,968**	**-$26,757,436**
Financing Activities		
Distribution to unitholders (net of reinvestments)	-$31,895,471	-$31,974,467
Distribution to Manager	-$6,165,950	-$6,181,222
Redemption	$29,730,484	$13,378,718
Loan Payable	$7,974,228	$13,500,000
Cash from Financing Activities	**-$356,709**	**-$11,276,970**

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	33%	Risk - 2	10%
Rating - 3	45%	Risk - 3	41%
Rating - 4	8%	Risk - 4	32%
Rating - 5	4%	Risk - 5	8%
Rating - 6	1%	Suspended	10%
Rating - 7	0%		
Suspended	9%		

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