ROMSPEN

mortgage investment fund

# First Quarter 2011 Report

ROMSPEN

Romspen has a long-term track record of successful mortgage investing across Canada. With its origins in the mid-60's, Romspen is one of the largest non-bank commercial/industrial mortgage lenders in Canada. The Fund's investment mandate is focused on capital preservation, absolute returns of 10% and performance consistency. Our investors are high net-worth individuals, foundations, endowments and pension plans. Through disciplined investing we have generated consistent returns of approximately 10% annually for our investors.

## Contents

# Trustees' Report

May 25, 2011

Dear Fellow Investors:

Romspen continued to perform in line with our expectations during the first quarter of 2011. Results remained solid although marginally below year ago.

## Financial Highlights

Net income for the first quarter of 2011 was $11.9 million or $0.20 per unit compared to $10.3 million or $0.21 per unit a year ago. Unitholder distributions were $0.20 per unit during the first quarter compared to $0.21 per unit last year.

As at March 31, 2011, the net mortgage portfolio was $582.3 million, an increase of 26% compared to a year ago and remains well diversified. The portfolio growth corresponds with the increase in economic activity which has translated into a larger number of borrowers seeking credit for projects. The weighted average interest rate of the mortgage portfolio at March 31, 2011 decreased to 11.2% compared to 12.3% a year ago as various economic factors continue to exert downward pressure across the yield spectrum. The Fund had net debt (debt less unrestricted cash) of $8.1 million at the end of the first quarter compared to a net cash position of $5.7 million a year ago. Total unitholder capital edged close to $600 million by the end of the quarter with further strong growth expected in the second quarter. We are gratified by investors' confidence in the Fund's performance and future direction. The total loss provision at quarter end increased to $4.8 million to maintain the level of safety on our balance sheet. During the first quarter, there were no recognized losses.

## Comparative Performance

The compounded net yield to investors for the first quarter of 2011 was 2.0% compared to 2.1% a year ago. This compares with T-bills, long bonds, and the S&P/TSX which yielded 0.2%, 0.4%, and 5.6% respectively during the first three months of 2011.

For the twelve-month period ended March 31, 2011, the Fund's compounded net yield to unitholders was 8.6%. This was in line with long bonds which yielded 8.2% due to the large drop in interest rates and well ahead of T-bills which yielded 0.8%. The S&P/TSX, however, showed a 20.1% return as equities continued to enjoy a strong rally in the back half of 2010.

## Outlook

The economy appears to be slowly improving on many fronts, although we are ever mindful that much of this has been achieved through accommodative monetary policy combined with heavy fiscal stimulus, both of which will abate over subsequent quarters. Whether the economy is fully self sustainable will become clearer as the year unfolds. As we have commented previously, we believe growth will be slow and risks remain in the system that will lead to volatility in markets as the economy grows out of past problems.

Within the current portfolio, non-compliant loans are being addressed and many are working through to resolution. In certain cases, we have partnered with industry and local experts to maximize the value of an owned property to avoid losses resulting from an expedient sale. These circumstances are not unusual in our portfolio and non-compliant loans are a normal part of the lending business. Our business model, lending approach and practices are specifically designed to address these circumstances and manage them to a successful outcome.

We continue to have a robust pipeline of mortgage opportunities and expect an active funding calendar throughout 2011. With low investment returns prevalent throughout the economy and record low interest rates, we expect our rates will continue to be under downward pressure.

The credit dislocation in the US, combined with heightened regulatory oversight of banks by the FDIC, has created a dramatic imbalance between available credit and funding opportunities in this market. In turn, this has unnaturally depressed asset values and created an attractive loan pricing environment in many segments of the market. On a daily basis, Romspen is being approached by US buyers and brokers to fund these opportunities. While we have looked at a number of these to-date, we have not progressed any to the commitment phase. However, we do expect that on a selective basis, we may fund a small number of US opportunities that meet our strict credit standards over the year.

We thank you for your continuing confidence and support. If you require further information, please contact any one of us directly or Ms. Ann Ralston at the Fund, or consult our website: www.romspen.com.

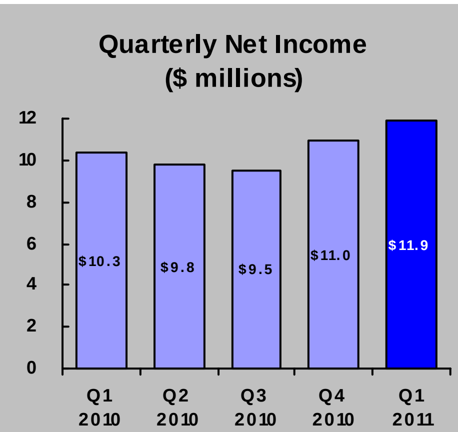
Respectfully submitted,

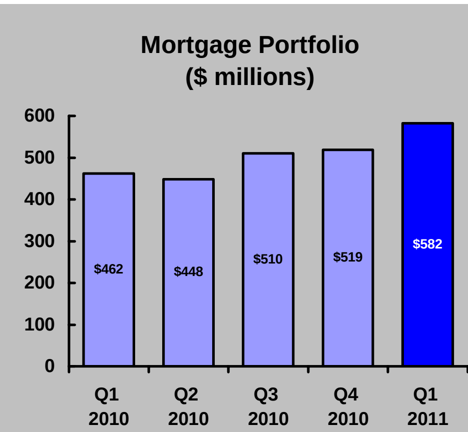
| Sheldon Esbin | Mark Hilson | Arthur Resnick | Wesley Roitman |
|---|---|---|---|

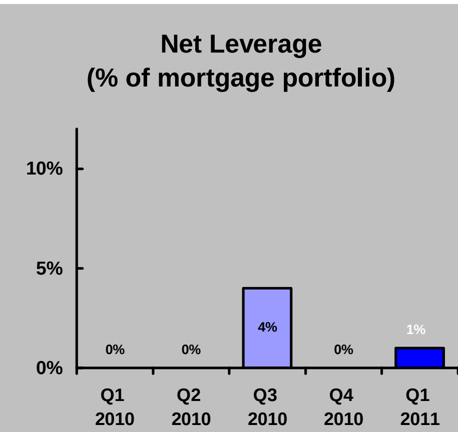
Trustees of the Fund

# Financial Highlights – First Quarter 2011

## Key Metrics



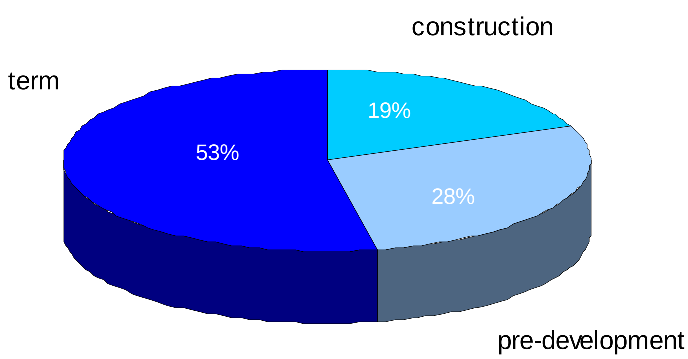



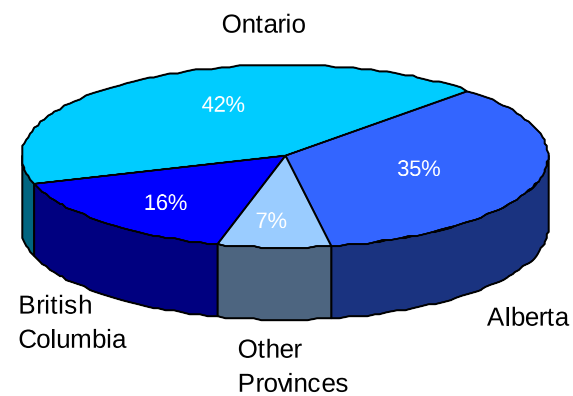

## Mortgage Portfolio Profile

### As of March 31, 2011

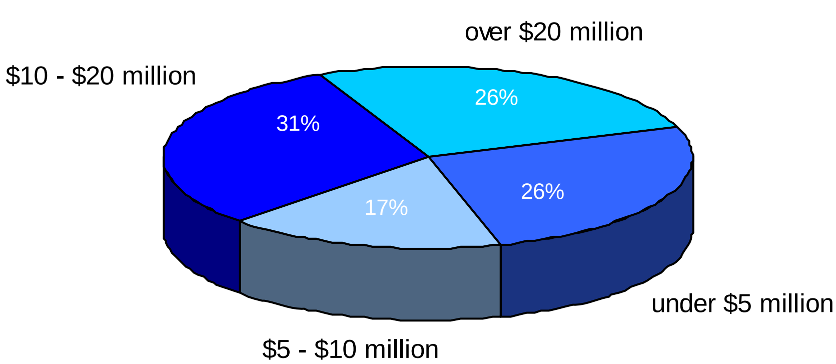
#### By Type



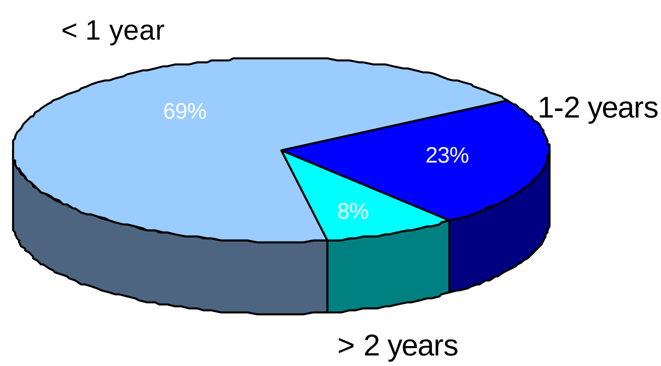

#### By Geography

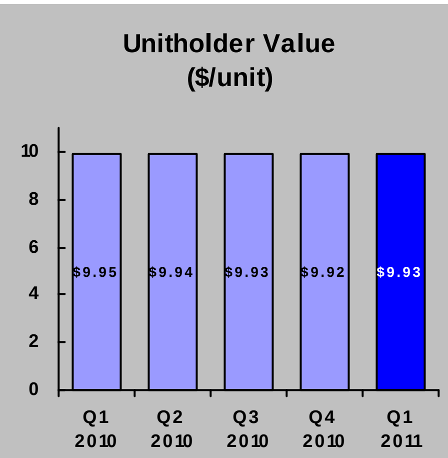


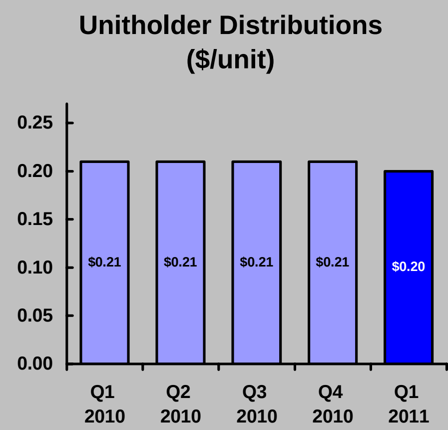

#### By Amount

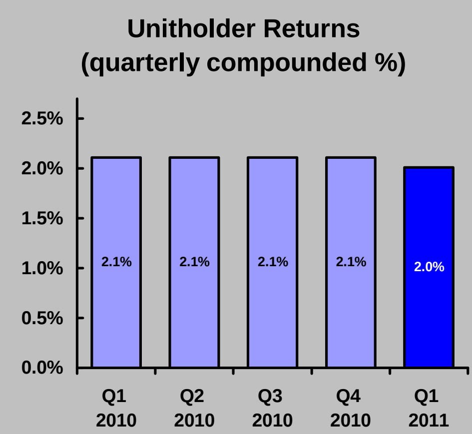



#### By Maturity



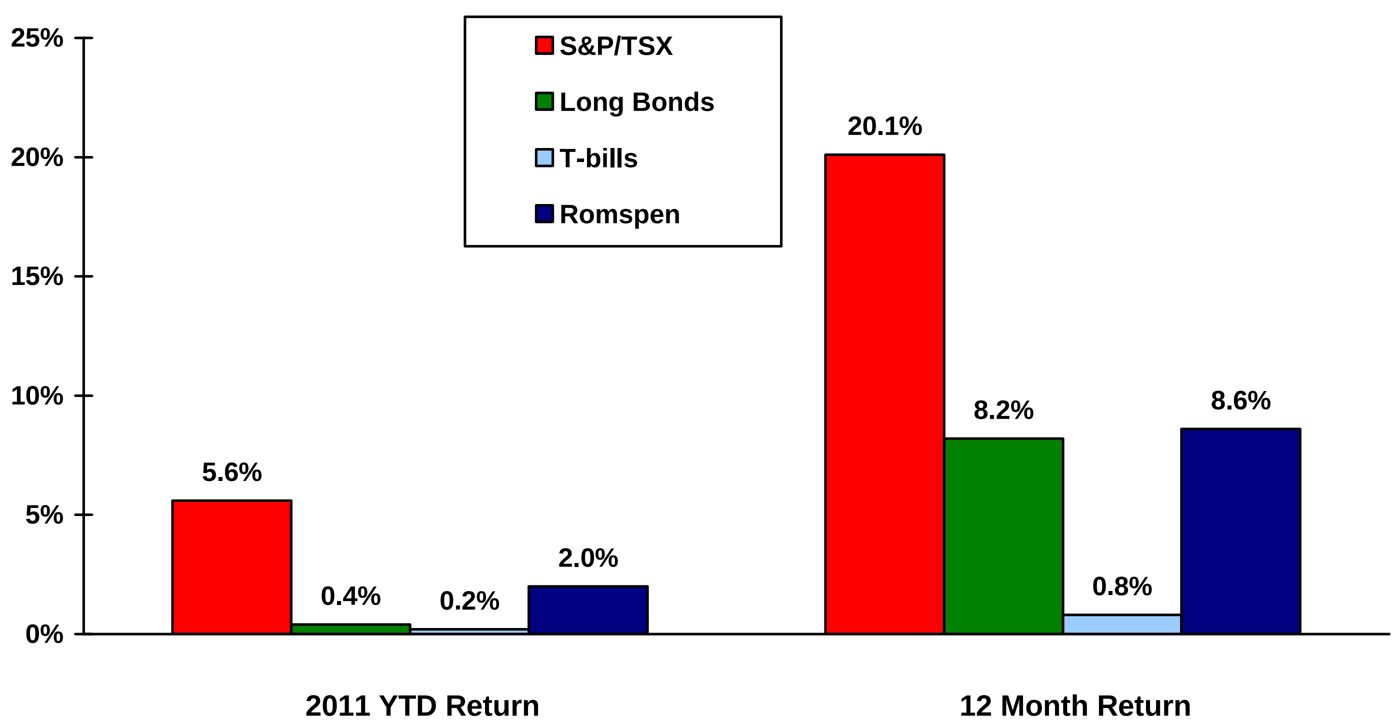



## Comparative Performance

### Compounded Returns as of March 31, 2011



# Management's Discussion & Analysis

## Responsibility Of Management

*This Management's Discussion and Analysis ("MD&A") for Romspen Mortgage Investment Fund (the Fund") should be read in conjunction with the financial statements and notes thereto for the quarter ended March 31, 2011 included herein and the audited financial statements and MD&A for the year ended December 31, 2010. Investment in the Fund is subject to certain risks and uncertainties described in the Fund's Offering Memorandum, which should be read in conjunction with this MD&A. These documents are available on our website at: www.romspen.com.*

*Management is responsible for the information disclosed in this MD&A. The Fund has in place appropriate procedures, systems and controls to ensure such information is materially complete and reliable. In addition, the Fund's trustees have reviewed and approved the MD&A and the financial statements for the year ended December 31, 2010.*

*This MD&A contains certain forward-looking statements and non-GAAP financial measures, see "Forward-Looking Statements" and "Non-GAAP Financial Measures".*

## Forward-Looking Statements

From time to time the Fund makes written and verbal forward-looking statements. These are included in its quarterly Management's Discussion and Analysis ("MD&A"), Fund presentations and other Fund communications.

Forward-looking statements include, but are not limited to, business objectives and targets, Fund strategies, operations, anticipated financial results and the outlook for the Fund, its industry, and the Canadian economy. These statements regarding future performance are "financial outlooks" within the meaning of National Instrument 52-102. Forward-looking statements are typically identified by words such as "believe", "expect", "anticipate", "estimate", "plan", "may", and "could" or other similar expressions. By their very nature, these statements require us to make assumptions and are subject to inherent risks and uncertainties, general and specific, which may cause actual results to differ materially from the expectations expressed in the forward-looking statements. These risks and uncertainties include, but are not limited to, global capital market activity, changes in government monetary and economic policies, changes in interest rates, inflation levels and general economic conditions, legislative and regulatory developments, competition and technological change. The preceding list is not exhaustive of possible factors. These and other factors should be considered carefully and readers are cautioned not to place undue reliance on these forward-looking statements. The Fund does not undertake to update any forward-looking statements, whether written or verbal, that may be made from time to time by it or on its behalf except as required by securities laws.

## Non-GAAP Financial Measures

This MD&A contains certain non-GAAP financial measures. A non-GAAP financial measure is defined as a numerical measure of the Fund's historical or future financial performance, financial position, or cash flows that excludes amounts or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with GAAP in the financial statements or includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measure so calculated and presented. Non-GAAP financial measures disclosed herein are meant to provide additional information and insight regarding the historical operating results and financial position of the Fund. These measures are not in accordance with, or a substitute for, GAAP and may be different from or inconsistent with non-GAAP financial measures used by others.

## Introduction

The Fund is an unincorporated closed-end investment trust established under the laws of the Province of Ontario pursuant to a trust indenture dated as at May 20, 2005. The Fund is a non-bank lender providing and investing primarily in short-term and medium-term commercial mortgages. The Fund is the sole limited partner in the Romspen Mortgage Limited Partnership (the "Partnership") and conducts its lending activities primarily through the Partnership. The objective of the Fund is to provide stable and secure cash distributions of income while preserving equity.

Romspen Investment Corporation ("Romspen") is the Fund Manager and acts as the primary loan originator, underwriter, administrator and syndicator for the Partnership. Romspen also acts as administrator of the Fund's affairs. Romspen and its principals, through predecessor companies, have been in the business of mortgage origination, servicing and syndication since 1966.

The Fund commenced operations on January 16, 2006, and during the first quarter of 2006 raised $158.9 million pursuant to the Exchange Offering, whereby Romspen's investors exchanged their syndicated mortgage interests for units of the Fund, and $15.3 million pursuant to the Unit Offering described in its Offering Memorandum dated September 15, 2005.

On June 22, 2007, new federal legislation came into force that altered the taxation regime for specified investment flow-through trusts or partnerships ("SIFT") (the "SIFT Rules"). Under the 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 corporate tax rate. Distributions paid by a SIFT as returns of capital will not be subject to the tax. As its units are not listed on a stock exchange or other public market, the Fund is not subject to the SIFT tax regime.

The Offering Memorandum, financial statements and additional information on the Fund are available and updated regularly on the Fund's website at: www.romspen.com. Unitholders who would like further information may also contact the Investor Relations department of the Fund at: 416-966-1100.

## Mortgage Portfolio

As of March 31, 2011, the Fund's mortgage portfolio (the "Portfolio"), net of fair value provisions, was $582.3 million compared with $461.6 million at March 31, 2010. This increase of 26% or $120.7 million reflects the increased activity in mortgage markets supported by a strong inflow of investor capital. The portfolio increased to 110 mortgages versus 105 at the same time last year.

Approximately 95% of the Portfolio was invested in first mortgages at March 31, 2011 which is unchanged from a year ago. The weighted average interest rate of the Portfolio decreased to 11.2% at the end of the first quarter versus 12.3% a year ago reflecting a reversal of the previous tightening of credit markets.

The Portfolio continues to focus on short-term mortgages. Approximately 69% of the portfolio's mortgage investments mature within one year (March 31, 2010 – 91%) and 92% mature within two years (March 31, 2010 – 99.7%). In addition, all of our mortgages are open for repayment prior to maturity. The short-term nature of the Fund's portfolio provides us with the opportunity to continually evolve the portfolio in response to changes in the real estate and credit markets. The Fund Manager believes this flexibility is far more important in our market niche than securing long-term fixed interest rates.

As of March 31, 2011, approximately 42% of our mortgage investments were in Ontario equal to a year ago. Approximately 51% of the Portfolio was invested in Western Canada, 3% in Quebec and 4% in Atlantic Canada. The Fund Manager believes this level of diversification adds stability to the Fund's performance by reducing dependency on the economic activity and cycles in any given geographic region.

Total fair value provisions as of September 30, 2010 were $4.8 million, which represented 0.8% of the original cost of the Fund's mortgage investments as at March 31, 2011. During the first quarter, no losses were recorded. The fair value provision is based on assumptions relating to the Fund's mortgage investments and only the passage of time will determine the actual performance of the mortgages. The fair value provision will continue to be reviewed by the Fund Manager and the Fund's trustees and, if appropriate, will be adjusted.

## Income Statement Highlights

Total revenues for the quarter ended March 31, 2011 were $14.3 million compared to $11.8 million in the previous year. The increase in revenue reflects an increase in the size of the portfolio offset by a decrease in the weighted average interest rate of the portfolio.

Net earnings for the quarter increased to $11.9 million from $10.3 million for the first quarter last year due to the increase in the size of the portfolio. Basic weighted average earnings per unit for the quarter of $0.20 per unit compared to $0.21 per unit a year ago.

The Fund distributed $11.7 million or $0.20 per unit during the first quarter (2010 - $10.3 million or $0.21 per unit). Both the simple and compounded net yield to unitholders for the three month period ended March 31, 2011 were 2.0%. The net yield to unitholders on a simple and compound basis for the preceding twelve-month period were 8.3% and 8.6% respectively.

Management fees payable to the Fund Manager and other general and administrative expenses of the Fund were $1.5 million for the quarter compared to $1.3 million in the previous year. These expenses were higher than the previous year and reflect the larger portfolio value.

## Balance Sheet Highlights

Total assets as of March 31, 2011 were $623.6 million compared to $494.1 million a year ago. Total assets are comprised primarily of mortgages recorded at fair market value and accrued interest receivable on those mortgages. In addition, the Fund had excess cash at quarter end of $4.5 million.

Total liabilities excluding units submitted for redemption as of March 31, 2011 were $24.8 million compared with $4.4 million a year earlier. Liabilities at the end of the first quarter were comprised mainly of $10.0 million of revolving line of credit and $9.9 million in accounts payable and distributions payable to unitholders. Drawings under the revolving loan facility together with net cash proceeds of the Unit Offering are used to increase the Fund's mortgage portfolio. The revolving loan facility bears interest at the greater of 6.25% and TD Bank prime plus 4% and is secured by all assets of the Partnership and a pledge of all Partnership units held by the Fund. Net debt (debt less unrestricted cash) stood at $8.1 million (1% of mortgage portfolio) at quarter end versus net cash of 5.7 million (1% of mortgage portfolio) last year.

Unitholders' equity plus units submitted for redemption as of March 31, 2011 were $598.8 million compared with $489.7 million as of March 31, 2010. The increase is primarily from proceeds of issuances of $145.7 million in excess of redemptions of $35.0 million during the previous 12 months. These amounts represented approximately ten dollars per unit outstanding at the end of each reporting period. There were a total of 60,282,740 units outstanding on March 31, 2011 compared to 49,228,253 on March 31, 2010. There are no options or other commitments to issue additional units.

## Liquidity And Capital Resources

Pursuant to the trust indenture, 100% of the Fund's net earnings must be distributed to unitholders. This means that growth in the mortgage portfolio can only be achieved through the raising of additional unitholder equity and utilizing available borrowing capacity. Pursuant to the Fund's investment policies, the Fund may borrow up to 35% of the book value of mortgages held by the Fund. The Fund was not fully levered as of March 31, 2011 with borrowings net of cash totalling approximately 1% of the book value of mortgages held by the Fund compared to no borrowings as of March 31, 2010.

During the three months ended March 31, 2011, proceeds from the issuance of units net of redemptions and costs were $46.0 million compared to $6.6 million during the first quarter of 2010. This increase stems from reduced investment contributions during the first half of 2010 where the Fund was closed to new investments for a few months in efforts to reduce the amount of excess cash on hand.

The Fund's mortgages are predominantly short-term in nature with the result that continual repayment by borrowers of existing mortgage investments creates liquidity for ongoing mortgage investments.

## Related Party Transactions

Romspen acts as mortgage manager for the Partnership and administrator for the Fund. The trustees of the Fund are all principals of Romspen. In consideration for its services, Romspen receives a fee equal to 1% per annum, calculated daily and paid monthly, of the total of all mortgage investments plus the fair value of any non-mortgage investments. Romspen also receives all lender, broker, origination, commitment, renewal, extension, discharge, participation, and other administrative fees charged to borrowers. In addition, the Partnership has granted to Romspen the option to purchase any mortgage investment held by the Partnership for a purchase price equal to the principal amount of such mortgage plus any accrued interest.

From time-to-time the Partnership may invest in mortgage loans made to borrowers who are related to Romspen or the trustees of the Fund. The Partnership may also invest in mortgages which are syndicated among Romspen, the Fund's trustees, or related parties. The Partnership's interests in such syndications rank either pari-passu with, or in priority to, the related party investors.

These related party transactions are further discussed in the notes to the accompanying audited consolidated financial statements.

## Risk Management

The Fund is exposed to various financial instrument risks in the normal course of business. The Fund Manager and trustees have put in place various procedures and safeguards to mitigate these risks in order to ensure the preservation of capital as well as the achievement of acceptable and consistent rates of return. For details on financial instrument risks and management's response to these risks, see note 14 of the Financial Statements.

## Outlook

The Fund's investment objective is to return a predictable and secure cash yield to unitholders while preserving capital through prudent loan underwriting and management. The Fund Manager continues to lend cautiously to ensure that capital is well protected.

Our evaluation of new opportunities remains cautious as we pass though this gradually improving, yet challenging period. As mentioned in previous updates, we are operating in a slow moving economy which is showing some signs of stability and modest growth. Despite this, uncertainty remains about the future direction of the economy. This uncertainty will impact mortgage investment decisions and as a consequence, we will be highly selective with new loan evaluation and funding.

We are in the midst of a gradual turnover of the portfolio where some non-performing loans in the portfolio are replaced with newer and better performing loans, albeit at lower rates than current.

Our previous decisions to not accrue interest on certain loans where the collection and/or timing on interest remains unclear, moderately reduces our returns from the long term 10% target. Investors should note that we continue to value our investments at a conservative amount to avoid the increased risks of loss related to optimistic valuations.

Romspen has strongly outperformed most other investment alternatives over the three year period 2008-2010; a challenging investment climate for all investors. While other investments have showed gains over short periods followed by periods of lower returns, losses, or erratic and unpredictable volatility, Romspen's performance has been consistently strong and has kept to the Fund's objective of preserving capital while providing a relatively stable and predictable return.

We continue to work on evaluating a healthy pipeline of mortgage opportunities and expect significant growth in the portfolio during the balance of the year. Though activity has increased in the mortgage markets, we continue to see downward pressure on interest rates. We believe that the remainder of 2011 will continue to pose challenges for all of the reasons we have discussed in this report. Romspen will remain steadfastly focused on our historical and prudent lending standards which have repeatedly proven successful despite the prevailing investment climate.

# Interim Consolidated Financial Statements

## ROMSPEN MORTGAGE INVESTMENT FUND

Three months ended March 31, 2011
(Unaudited)

# Romspen Mortgage Investment Fund

## Interim Consolidated Balance Sheet

(In thousands of dollars, except per unit amounts, unless otherwise noted)

March 31, 2011, with comparative figures for 2010

| | March 31, 2011 (Unaudited) | December 31, 2010 (Audited) | March 31, 2010 (Unaudited) |
|---|---|---|---|
| **Assets** | | | |
| Cash | $ 1,872 | $ 14,046 | $ 5,701 |
| Restricted cash (note 5) | 2,628 | 1,627 | - |
| Accrued interest receivable | 35,631 | 32,298 | 26,832 |
| Mortgages, net of fair value provision (note 4) | 582,348 | 518,951 | 461,561 |
| Sundry assets | 1,132 | 93 | 18 |
| | $ 623,611 | $ 567,015 | $ 494,112 |
| **Liabilities and Unitholders' Equity** | | | |
| Liabilities: | | | |
| Revolving loan facility (note 6) | $ 10,000 | $ - | $ - |
| Accounts payable and accrued liabilities (note 11e) | 5,655 | 4,663 | 199 |
| Deferred revenue (note 11f) | 2,918 | 792 | 675 |
| Prepaid unit capital | 2,002 | 5,000 | 75 |
| Unitholders' distributions payable | 4,220 | 3,898 | 3,446 |
| | 24,795 | 14,353 | 4,395 |
| Units submitted for redemption (note 7) | 2,540 | 2,255 | 4,517 |
| Unitholders' equity (note 7) | 596,276 | 550,407 | 485,200 |
| Commitments and contingent liabilities (note 12) | | | |
| | $ 623,611 | $ 567,015 | $ 494,112 |
| Net asset value per unit (note 8) | $ 9.93 | $ 9.92 | $ 9.95 |

See accompanying notes to consolidated financial statements.

# Romspen Mortgage Investment Fund

## Interim Consolidated Statement of Earnings

(In thousands of dollars, except per unit amounts, unless otherwise noted)

Three months ended March 31, 2011, with comparative figures for 2010

| | 3 months ended March 31, 2011 (Unaudited) | 3 months ended March 31, 2010 (Unaudited) |
|---|---|---|
| Revenue: | | |
| Mortgage interest | $ 13,344 | $ 11,491 |
| Other income | 994 | 267 |
| | 14,338 | 11,758 |
| Expenses: | | |
| Management fees (note 11) | 1,351 | 1,188 |
| Interest | 60 | 89 |
| Unrealized loss in value of mortgage investments | 900 | 30 |
| Realized loss on mortgage investments | - | - |
| Audit fees | 22 | 30 |
| Legal fees | 10 | 10 |
| Other | 101 | 78 |
| | 2,444 | 1,425 |
| Net earnings | $ 11,894 | $ 10,333 |
| Net earnings per unit (note 8) | $ 0.203 | $ 0.209 |
| Weighted average number of units issued and outstanding (note 8) | 58,683,108 | 49,423,494 |

See accompanying notes to consolidated financial statements.

# Romspen Mortgage Investment Fund

## Interim Consolidated Statements of Unitholders' Equity

(In thousands of dollars, except per unit amounts, unless otherwise noted)

Three months ended March 31, 2011, with comparative figures for 2010

| | March 31, 2011 (Unaudited) | Dec. 31, 2010 (Audited) | March 31, 2010 (Unaudited) |
|---|---|---|---|
| **Unit capital:** | | | |
| Balance, beginning of period | $ 554,943 | $ 483,644 | $ 483,644 |
| Proceeds from issuance of units, net of redemptions (note 7) | 45,993 | 71,309 | 6,565 |
| Penalties on redemptions | - | 60 | 13 |
| Reduction in units submitted for redemption (note 7) | (285) | (70) | (2,331) |
| Balance, end of period | $ 600,651 | $ 554,943 | $ 487,891 |
| **Cumulative earnings:** | | | |
| Balance, beginning of period | $ 162,147 | $ 121,501 | $ 121,501 |
| Net earnings for the period | 11,894 | 40,646 | 10,333 |
| Balance, end of period | $ 174,041 | $ 162,147 | $ 131,834 |
| **Cumulative distributions to unitholders:** | | | |
| Balance, beginning of period | (166,683) | (124,195) | (124,195) |
| Distributions to unitholders (note 9) | (11,733) | (42,488) | (10,331) |
| Balance, end of period | $ (178,416) | $ (166,683) | $ (134,526) |
| Unitholders' equity | $ 596,276 | $ 550,407 | $ 485,200 |
| Units issued and outstanding, excluding units submitted for redemption (note 7) | 60,027,002 | 55,461,687 | 48,774,178 |

See accompanying notes to consolidated financial statements.

# Romspen Mortgage Investment Fund

## Interim Consolidated Statement of Cash Flows

(In thousands of dollars, except per unit amounts, unless otherwise noted)

Three months ended March 31, 2011, with comparative figures for 2010

| | 3 months ended March 31, 2011 (Unaudited) | 3 months ended March 31, 2010 (Unaudited) |
|---|---|---|
| Cash provided by (used in): | | |
| Operations: | | |
| Net earnings | $ 11,894 | $ 10,333 |
| Items not affecting cash: | | |
| Unrealized loss in value of mortgages | 900 | 30 |
| Realized loss on mortgage investments | - | - |
| Change in non-cash operating items: | | |
| Accrued interest receivable and deferred financing costs | (3,333) | (4,871) |
| Accounts payable and accrued liabilities | 1,314 | (328) |
| Other assets | (1,039) | - |
| Deferred Revenue | 2,126 | (245) |
| | 11,862 | 4,919 |
| Financing: | | |
| Proceeds from issuance of units, net of offering costs & redemptions | 45,993 | 6,565 |
| Penalties on redemptions | - | 13 |
| Prepaid Unit Capital | (2,998) | (155) |
| Change in revolving loan facility | 10,000 | (9,975) |
| Distributions to unitholders | (11,733) | (10,331) |
| | 41,262 | (13,883) |
| Investments: | | |
| Funding of mortgages | (99,202) | (18,923) |
| Discharge of mortgages | 34,905 | 33,288 |
| | (64,297) | 14,365 |
| Increase/(decrease) in cash | (11,173) | 5,401 |
| Cash, beginning of period | 15,673 | 300 |
| Cash, end of period | $ 4,500 | $ 5,701 |
| Supplemental cash flow information: | | |
| Interest paid | $ 60 | $ 89 |

See accompanying notes to consolidated financial statements.

Romspen Mortgage Investment Fund (the "Fund") is an unincorporated closed-end investment trust established under the laws of the Province of Ontario pursuant to a trust indenture dated as at May 20, 2005. The Fund is the sole limited partner in the Romspen Mortgage Limited Partnership (the "Partnership") and conducts its lending activities primarily through the Partnership. The objective of the Fund is to provide stable and secure cash distributions of income while preserving unitholders' equity.

Romspen Investment Corporation ("Romspen") is the Fund's mortgage manager and acts as the primary loan originator, underwriter, administrator and syndicator for the Partnership. Romspen also acts as administrator for the Fund's affairs.

The Fund commenced operations on January 16, 2006. Under an exchange offering completed in January 2006, mortgages in the aggregate principal amount of $158,855 were exchanged for 15,885,461 units of the Fund.

## 1. Basis of presentation:

These interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles. The consolidated financial statements include the accounts of the Fund and the Partnership.

## 2. Significant accounting policies:

(a) Mortgage investments:

Mortgage investments are stated at their fair values. Certain of the Fund's mortgages are in arrears and realization by the Fund may result in a shortfall. In determining fair value of individual mortgages, management considers the length of time the mortgage has been in arrears, the overall financial strength of the borrowers and the residual value of the security pledged.

(b) Revenue recognition:

Interest income is accounted for on the accrual basis. Funding fees received are amortized over the expected term of the mortgage.

## 2. Significant accounting policies (continued):

(c) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. The most significant estimates that the Fund is required to make relate to the fair value of the mortgage investments in (a) above. The estimates may include: assumptions regarding local real estate market conditions; interest rates and the availability of credit; cost and terms of financing; the impact of present or future legislation or regulation; prior encumbrances and other factors affecting the mortgage and underlying security of the mortgage investments.

These assumptions are limited by the availability of reliable comparable data, economic uncertainty, ongoing geopolitical concerns and the uncertainty of predictions concerning future events. Illiquid credit markets, volatile equity markets and declines in consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. Accordingly, by their nature, estimates of fair value are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated fair value could change by a material amount.

(d) Net earnings per unit:

Net earnings per unit are computed by dividing net earnings for the period by the weighted average number of units outstanding during the period.

(e) Prepaid unit capital:

Prepaid unit capital consists of subscription amounts received in advance of the unit issuance date.

(f) Financial instruments-recognition and measurement:

CICA Section 3855, Financial Instruments - Recognition and Measurement, establishes standards for recognizing and measuring financial assets and financial liabilities, including non-financial derivatives. In accordance with this new standard, the Fund has classified its financial assets as one of the following: held-to-maturity; loans and receivables; held-for-trading or (iv) available-for-sale. All financial liabilities must be classified as: held-for-trading or other liabilities. The Fund's designations are as follows:

(In thousands of dollars, except per unit amounts, unless otherwise noted)

## 2. Significant accounting policies (continued):

(i) Cash and accrued interest receivable is classified as loans and receivables and are measured at amortized cost.

(ii) The revolving loan facility, promissory note payable, accounts payable and accrued liabilities and unitholders' distribution payable are classified as other liabilities and are measured at amortized cost using the effective interest rate method.

## 3. New accounting policies:

The Canadian Accounting Standards Board ("AcSB") confirmed that the adoption of International Financial Reporting Standards ("IFRS") would be effective for the interim and annual periods beginning on or after January 1, 2011 for Canadian publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP for these enterprises. Comparative IFRS information for the previous fiscal year will also have to be reported. These new standards will be effective for the Fund in the first quarter of 2011.

In January 2011, The AcSB announced amendments which will provide investment companies with the option to defer adoption of IFRS until fiscal years beginning on or after January 1, 2013. As a result of the amendments, the Fund will adopt IFRS at the earliest beginning January 1, 2013, and will issue its first interim financial statements in accordance with IFRS, including comparative IFRS information for the previous fiscal period, for the interim period ending June 30, 2013.

## 4. Mortgage investments:

The following is a summary of the 110 mortgages held as at March 31, 2011:

| | | | Mar. 31, 2011 | Dec. 31, 2010 |
|---|---|---|---|---|
| | Number of mortgages making up balance | Original cost | Fair value | Fair value |
| First mortgages | 101 | $ 555,265 | $ 552,619 | $ 487,360 |
| Second mortgages | 9 | 31,836 | 29,729 | 31,591 |
| | 110 | $ 587,101 | $ 582,348 | $ 518,951 |

(In thousands of dollars, except per unit amounts, unless otherwise noted)

## 4. Mortgage investments (continued):

The following is a summary of the original cost of mortgages segmented by interest rate at March 31, 2011:

| Interest rates | Mar. 31, 2011 | Dec. 31, 2010 |
|---|---|---|
| 0% - 10.00% | $ 136,966 | $ 94,198 |
| 10.01% - 11.00% | 120,025 | 102,412 |
| 11.01% - 12.00% | 174,436 | 182,933 |
| 12.01% - 20.00% | 151,957 | 139,545 |
| Over 20.00% | 3,717 | 3,717 |
| | $ 587,101 | $ 522,805 |

In June 2009, the AcSB amended Section 3862, by providing enhanced disclosure requirements for fair value measurements of financial instruments and liquidity risks. Section 3862 establishes a three-level valuation hierarchy for disclosure of financial instruments measured at fair value based upon the degree to which the inputs used to value an asset or liability as of the measurement date are observable:

- Level 1 - quoted (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the assets or liability that are not based on observable market data (unobservable inputs).

The Fund's mortgage investments are measured at fair value using unobservable inputs. As a result, all mortgage investments have been classified in Level 3 of the valuation hierarchy.

A reconciliation of Level 3 assets for the 3 months ended March 31, 2011 is as follows:

| | 2011 | 2010 |
|---|---|---|
| Mortgage investment balance, beginning of year | $ 518,951 | $ 475,955 |
| Funding of mortgage investments | 99,202 | 18,923 |
| Discharge of mortgage investments | (34,905) | (33,287) |
| Fair value adjustment unrealized loss included in earnings | (900) | (30) |
| Realized Losses | - | - |
| Mortgage investment balance, end of quarter | $ 582,348 | $ 461,561 |

(In thousands of dollars, except per unit amounts, unless otherwise noted)

## 4. Mortgage investments (continued):

The mortgages are secured by real property and other security, bear interest at a weighted average rate of 11.23% at March 31, 2011 (December 31, 2010 – 11.51%) and mature between 2011 and 2014.

Credit risk arises from the possibility that mortgagors may be unable to fulfill their obligations. In accordance with the Fund's policies, the Fund mitigates this risk by ensuring that its mix of mortgages is diversified and by limited exposure to any one mortgagor or property.

Where appropriate, management makes specific provisions for loan losses.

Principal repayments based on contractual maturity dates are as follows:

| | |
|---|---|
| 2011 | $ 356,783 |
| 2012 | 133,436 |
| 2013 | 90,057 |
| 2014 | 6,825 |
| | $ 587,101 |

Borrowers have the option to repay principal at any time prior to the maturity date.

From 2008 to 2010, the Partnership has subscribed for shares in the following corporations to either improve, redevelop, or complete these properties in order to maximize their disposition value.

| Company | Property | Description | Mortgage Value |
|---|---|---|---|
| 1460518 Alberta Inc. | 9420 51st Avenue, Edmonton, AB | Office complex | $11,782 |
| 2220740 Ontario Inc. | Old Lakeshore Road, Collingwood, ON | Land for residential development | $701 |
| 3231451 Nova Scotia Ltd. | 24 Harbourside Drive, Wolfville, NS | Condominium development | $4,824 |
| Aspen Lakes Communities Ltd. | Blackfalds, AB | Land for residential development | $13,722 |
| 22411497 Ontario Ltd. | 430 Ottawa Street, Almonte, ON | Retail plaza | $4,655 |
| Big Mac Athletic Corp. | Langford, BC | Office complex | $7,343 |
| Romspen FC Homes Inc. | Abbotsford, BC | Residential subdivision | $2,995 |
| RIC Management Inc. (in trust) | 1 Dunsford Lane Wymbolwood Beach, ON | Commercial development | $1,023 |

## 5. Restricted Cash:

Restricted cash represents irrevocable standby letters of credit issued by the Fund.

## 6. Revolving loan facility:

The Partnership has entered into a revolving loan facility in the maximum amount of $60,000, of which approximately $50,000 (December 31, 2010 - $60,000) is available and $10,000 has been drawn as at March 31, 2011 (December 31, 2010 - nil). Interest on the loan is charged at the greater of 6.25% and the TD Canada Trust Bank prime rate plus 4%. The minimum and maximum amounts drawn under the revolving loan facility during the three months ended March 31, 2011 were $0 and $10,000 (2010 - nil and $10,000), respectively. The loan is secured by all assets of the Partnership and a pledge of all Partnership units held by the Fund. The loan matures on June 1, 2011.

The costs associated with the establishment of the revolving loan facility are amortized over the one year initial term of the facility and have been included in other assets for $25 (2010 - $17), net of accumulated amortization of $125 (2010 – $83).

## 7. Unitholders' equity:

The beneficial interests in the Fund are represented by a single class of units, which are unlimited in number. Each unit carries a single vote at any meeting of unitholders and carries the right to participate pro rata in any distributions. Unitholders have a limited right to redeem their units, on a monthly basis, upon a minimum of 30 days' notice. Partial or complete redemption of units is limited on a monthly basis to 1% of the aggregate fair market value of units outstanding on the valuation date immediately preceding the said redemption date. Redemption notices on any given redemption date shall maintain their order of priority until the unit redemption price for such units has been paid in full. Additionally, the Trustees shall be entitled in their sole discretion to extend the time for payment of any unit redemption prices if, in the reasonable opinion of the Trustees, such payment would be materially prejudicial to the interests of the remaining unitholders in the Fund.

As at March 31, 2011, unitholders representing approximately 255,738 units have requested redemption of their units, the redemption of which is subject to the above restrictions. These units have been reclassed to liabilities from unitholders' equity in order to comply with applicable accounting rules. These units, however, continue to have the same rights and no priority over the remaining units.

(In thousands of dollars, except per unit amounts, unless otherwise noted)

## 7. Unitholders' equity (continued):

(a) The following units are issued and outstanding:

| | Three months ended March 31 | | | |
|---|---|---|---|---|
| | 2011 | | 2010 | |
| | Units | Amount | Units | Amount |
| Balance, beginning of period | 55,687,187 | $ 557,101 | 48,581,891 | $ 485,792 |
| New units issued | 4,707,884 | 47,079 | 2,083,698 | 20,837 |
| New units issued under distribution reinvestment plan | 369,667 | 3,697 | 301,827 | 3,018 |
| Units redeemed | (481,998) | (4,786) | (1,739,163) | (17,291) |
| Proceeds from issuance of units, net of redemptions | 4,595,553 | 45,990 | 646,362 | 6,564 |
| Balance, end of period | 60,282,740 | $603,091 | 49,228,253 | $ 492,356 |

During the normal course of business, the Fund receives unit issuance and redemption requests from the investors. In the first three months of 2011, the Fund received requests for redemptions of 511,045 units and redeemed 481,998 units for $4,786 in accordance with its policies.

The Fund continues to receive redemption requests which will be processed in accordance with the above mentioned policies.

(b) Distribution reinvestment plan and direct unit purchase plan:

The Fund has a distribution reinvestment plan and direct unit purchase plan for its unitholders which allows participants to reinvest their monthly cash distributions in additional units at a unit price equivalent to $10.00 per unit.

## 8. Net asset value per unit and net earnings per unit:

Net asset value per unit is calculated as total assets less total liabilities allocable to outstanding units, excluding units submitted for redemption, of 60,027,002 as at March 31, 2011 (year ended Dec 31, 2010 – 55,461,687).

Net earnings per unit has been computed using the weighted average number of units outstanding of 58,683,108 for the three months ended March 31, 2011 (March 31, 2010 – 50,728,232).

## 9. Distributions:

The Fund makes distributions to the unitholders monthly on or about the 15th day of each month. The Fund's trust indenture requires that the Fund will distribute 100% of the net earnings of the Fund, determined in accordance with the Income Tax Act (Canada), to the unitholders.

For the three months ended March 31, 2011, the Fund declared distributions of $0.20 (2010 - $0.21) per unit and a total of $11,733 (2010 - $10,331) was distributed to the unitholders.

## 10. Income taxes:

The Fund is taxed as a mutual fund trust for income tax purposes. Pursuant to the trust indenture, the Fund is required to distribute 100% of its income for income tax purposes each period to such an extent that it will not be liable for income tax under the Income Tax Act (Canada). Therefore, no provision for income taxes is required on earnings of the Fund.

On June 22, 2007, new legislation relating to the federal income taxation of a specified investment flow-through trust or partnership ("SIFT") received royal assent (the "SIFT Rules").

Under the 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 income taxes 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 income taxes.

The Fund is not subject to the SIFT tax regime as its units are not listed on a stock exchange or other public market. Accordingly, the Fund has not recorded a provision for income taxes or future income tax assets or liabilities in respect of the SIFT Rules.

## 11. Related party transactions and balances:

Transactions with related parties are in the normal course of business and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties and which represents fair market value.

Other than the transactions disclosed elsewhere in these financial statements, the Fund had the following significant related party transactions:

(a) All the trustees of the Fund are owners of Romspen. Under various agreements, Romspen manages all the day-to-day affairs of the Fund and the Partnership. Romspen receives fees totalling 1% per annum, calculated daily and payable monthly, of the principal balance of all

## 11. Related party transactions and balances (continued):

mortgage investments and the fair market value of all other non-mortgage investments. For the three months ended March 31, 2011, the amount was $1,350 (2010 - $1,188).

(b) Romspen and related entities also receive certain fees directly from the borrower generated from Fund mortgage investments as follows: all lender, broker, origination, commitment, renewal, extension, discharge, participation, non-sufficient funds and administration fees generated on the mortgages. For the three months ended March 31, 2011, this amount was $1,151 (2010 - $370).

(c) Several of the Fund's mortgages are syndicated with other investors of Romspen, which may include Romspen, members of management of Romspen, and officers or trustees of the Fund. The Fund ranks equally with, or in priority to, other members of the syndicate as to receipt of principal and income.

(d) For the three months ended March 31, 2011, the Fund had six (December 31, 2010 - six) mortgages outstanding with a cost of $35,129 (December 31, 2010 - $34,222) including accrued interest of $6,226 (December 31, 2010 - $5,669) and fair value of $32,822 (December 31, 2010 - $31,915) due from mortgagors in which members of management of Romspen own non-controlling equity interests.

(e) Included in accounts payable and accrued liabilities is an amount of $1,937 (nil – 2010) payable to Romspen.

(f) At the discretion of Romspen, the Fund participated in 50% of the Funding fees received by Romspen on certain mortgage advances. As of March 31, 2011, the Fund has $680 (nil – 2010) of deferred funding fees included in deferred revenue.

## 12. Commitments and contingent liabilities:

(a) In the event that management agreements are terminated, the various management agreements between the Fund, the Partnership and Romspen contain provisions for the payment of termination fees of an amount equal to 2% of the fair market value of the Partnership's assets under administration on the date on which the termination notice is received, in addition to any other amounts owing by the Partnership. These amounts will be satisfied by the payment of cash, interests in mortgages or in such combination thereof as determined by the mortgage manager. These agreements continue in force until terminated in accordance with their provisions.

(b) The Partnership has granted an irrevocable option to Romspen to purchase, at any time, any or all Partnership mortgages at a purchase price equal to the principal amount of such mortgage plus accrued interest.

## 13. Fair values of financial instruments:

The fair values of accrued interest receivable, revolving loan facility, promissory note payable, accounts payable and accrued liabilities and unitholders' distribution payable approximate their carrying values due to their short-term maturities.

## 14. Financial instrument risk management:

(a) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund achieves this mitigating strategy by investing primarily in short-term mortgages. The Fund's investment objective is to obtain an acceptable and consistent absolute rate of return that is not related to any market based interest rate benchmark.

As a result, the credit characteristics of the Fund's mortgages will evolve such that in periods of higher market interest rates, the Fund's mortgages will be those with narrower credit spreads, and vice-versa in periods of lower market interest rates compared to other benchmark interest rates.

The majority of the Fund's investments are in fixed rate, short-term mortgages. The Fund generally holds all of its mortgages to maturity. There is no secondary market for the Fund's mortgages and in syndication transactions these mortgages are generally traded at face value without regard to changes in market interest rates.

The Fund's debt under the revolving loan facility (note 5) bears interest based on the greater of 6.25% and the prime rate plus 4%.

As at March 31, 2011, if interest rates on the revolving loan facility had been 100 basis points lower or higher, with all other variables held constant, net income for the year would be affected with a total increase or decrease of $100. The Fund monitors the financial markets and can adjust the pricing of renewals and new loans when it deems it appropriate.

## 14. Financial instrument risk management (continued):

(b) Credit risk:

Credit risk is the risk of loss due to borrowers under the Fund's mortgages failing to discharge their obligations. The Fund's sole activity is investing in mortgages and, therefore, generally all of its assets are exposed to credit risk. The Fund manages credit risk by adhering to the investment and operating policies as set out in its Offering Memorandum. This includes the following policies:

(i) no more than 20% of the Fund's capital may be invested in subordinate mortgages; and

(ii) no more than 10% of the Fund's capital may be invested in any single mortgage or to any single borrower.

The Fund focuses its investments in the commercial mortgage market segments described in its Offering Memorandum which includes Development Mortgages, Construction Mortgages, Term Financing Mortgages and Residential Mortgages. These mortgages generally have the following characteristics:

(i) initial terms of 12 to 24 months;

(ii) loan to value ratios of less than 65% at time of underwriting;

(iii) significant at-risk capital and/or additional collateral of property owner; and

(iv) full recourse to property owners supported by personal guarantees.

In addition, the Fund's trustees meet regularly to review and approve each mortgage investment and to review the overall portfolio to ensure it is adequately diversified.

(c) Liquidity risk:

Liquidity risk is the risk that the Fund will not have sufficient cash to meet its obligations as they become due. The Fund mitigates this risk by monitoring its scheduled mortgage repayments and ensuring that sufficient funds are available in the near term to satisfy all of its obligations. The Fund's obligations are primarily those which arise under the revolving loan facility, the Mortgage Management Agreement and its Declaration of Trust. In the current economic climate and capital markets, the lenders may continue to tighten their lending standards which could make it challenging for the Fund to obtain financing on favourable terms, or to obtain financing at all.

## 14. Financial instrument risk management (continued):

The Fund's revolving loan facility (note 5) matured on May 31, 2010 and was renewed. The new facility matures June 1, 2011. If it is not extended at maturity, repayments under the Fund's mortgage portfolio would be utilized to repay the revolving loan facility. The Fund's mortgages are predominantly short-term in nature, and as such, the continual repayment by borrowers of existing mortgage investments creates liquidity for ongoing mortgage investments and funding commitments.

If the Fund is unable to continue to have access to its revolving loan facility, the size of the Fund's mortgage portfolio will decrease and the income historically generated through holding a larger portfolio by utilizing leverage will not be earned.

As at March 31, 2011, the Fund had not utilized its full leverage availability, being a maximum of 35% of its qualified mortgage investments.

The Fund is not obliged to invest in any mortgages originated by the Fund manager and, therefore, the Fund has no future funding obligations in respect of the Fund manager's mortgage commitments. The Fund is obliged to pay management fees to the Fund manager which are funded out of interest income.

Unitholders in the Fund have the limited right to redeem their units in the Fund as described in its Offering Memorandum and paragraph 5.25 of the Fund's Declaration of Trust. The trustees are entitled, in their sole discretion, to extend the time for payment of any unitholder redemption if in their reasonable opinion such payment would be materially prejudicial to the interests of the remaining unitholders.

(d) Market risk:

Market risk is the risk that the fair value of the collateral securing any of the Fund's mortgage investments falls to a level approaching the loan amount. The Fund manager ensures that it is aware of real estate market conditions in the regions in which it operates. Real estate market trends are monitored on an ongoing basis and the Fund manager's lending practices and policies are adjusted when necessary.

(e) Currency risk:

Currency risk is the risk that the fair value or future cash flows the Fund's mortgages will fluctuate based on changes in foreign currency exchange rates. All of the Fund's mortgages are denominated in Canadian dollars and secured primarily by charges on real estate located in Canada, consequently the Fund is not subject to currency risk.

## 14. Financial instrument risk management (continued):

(f) Capital risk management:

The Fund manages capital to attain its objective of providing stable and secure cash distributions of income while preserving unitholders' equity. The Fund defines capital as being capital raised by issuing Fund units. It is the Fund's policy to distribute 100% of its taxable income to unitholders, with the result that growth in the mortgage portfolio can only be achieved through the raising of additional equity capital and by utilizing available borrowing capacity.

The Fund raises equity capital on a monthly basis during periods where the Fund manager projects a greater volume of mortgage investment opportunities than the Fund's near term capital would be sufficient to fund. In the event the Fund may have surplus equity capital, the trustees of the Fund have the right to redeem units held by unitholders or to declare a return of capital distribution.

Pursuant to the Fund's investment policies, the Fund may borrow up to 35% of the book value of its mortgages. The primary purpose of the Fund's borrowing strategy is to ensure that unitholders' capital is fully invested. The secondary purpose is to obtain a spread between the interest rates payable under its mortgage investments and its borrowings. As of March 31, 2011, the Fund's net borrowings totalled 1% of the book value of its mortgages and the Fund was in compliance with all covenants under its revolving loan facility.

## 15. Exemption from filing:

The Fund is relying on the exemption obtained in National Instrument 81-106, Part 2.11 to not file their financial statements in SEDAR.

# Trustees & Management

### Romspen Mortgage Investment Fund



### Romspen Investment Corporation



# Unitholder Information

## Units

The Fund units represent a beneficial ownership interest in the Romspen Mortgage Investment Fund. The Fund is an unincorporated closed- end investment trust and is the sole limited partner in the Romspen Mortgage Limited Partnership.

## Distributions

Distributions on Fund units are payable on or about the 15th day of each month. The Fund is required to distribute its net earnings each year to the unitholders.

## Distribution Reinvestment Plan

The distribution reinvestment plan provides unitholders a means to reinvest cash distributions in new units of the Fund. To participate, registered unitholders should contact Romspen.

## Investor Relations Contact

Requests for the Fund's annual report, quarterly reports, or other corporate communications should be directed to:

Investor Relations
Romspen Mortgage Investment Fund
Suite 300, 162 Cumberland Street
Toronto, Ontario
M5R 3N5

## Auditors

KPMG LLP
Chartered Accountants

## Legal Counsel

Gardiner Roberts LLP

## Website

www.romspen.com

## Duplicate Communication

Registered holders of Romspen units may receive more than one copy of shareholder mailings. Every effort is made to avoid duplication, but when units are registered under different names and/or addresses, multiple mailings result. Unitholders who receive but do not require more than one mailing for the same ownership are requested to contact Investor Relations and arrangements will be made to combine the accounts for mailing purposes.

ROMSPEN