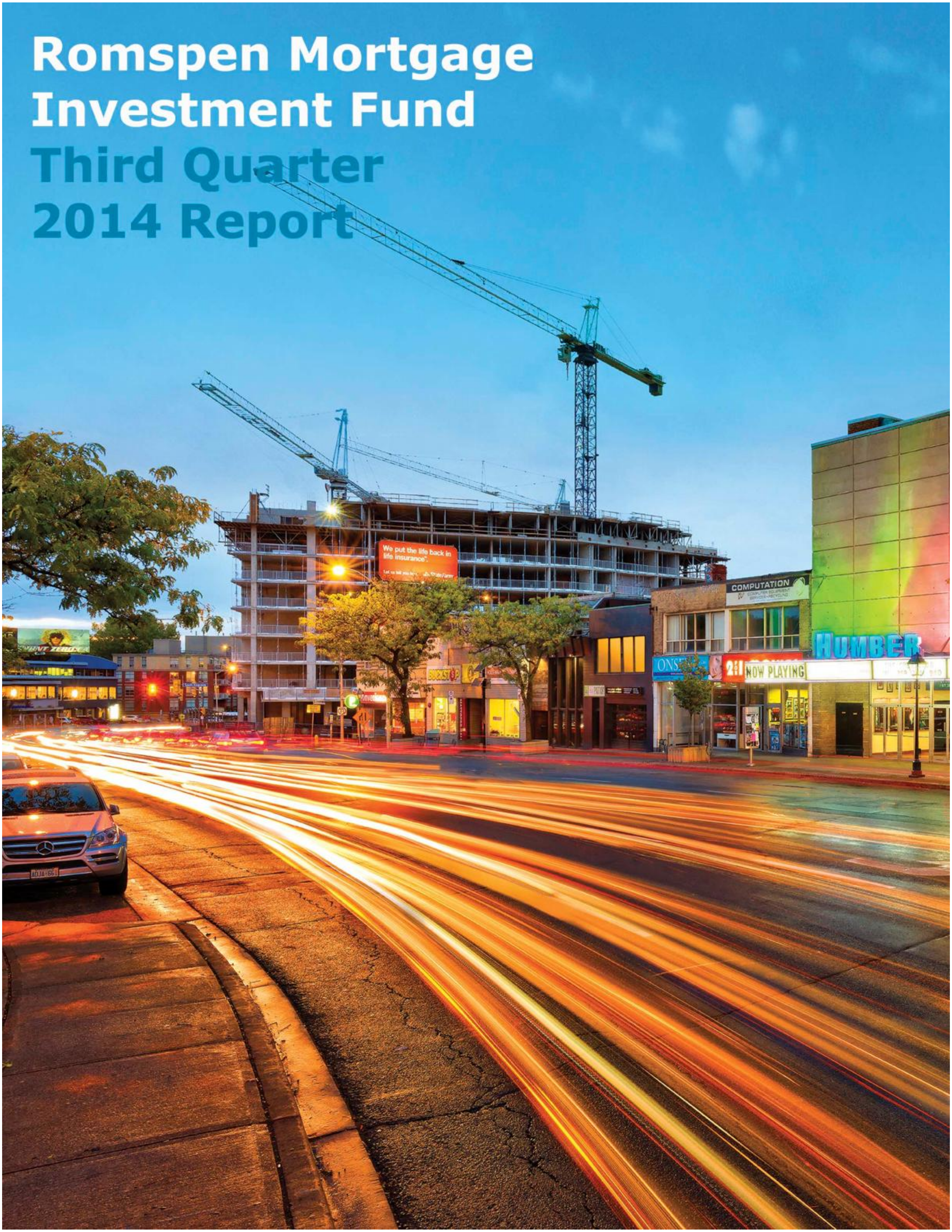
# Romspen Mortgage Investment Fund

# Third Quarter 2014 Report



ROMSPEN

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

## Contents



Cover Image:
Jane/Bloor Retail Development
Toronto, Ontario

# TRUSTEES' LETTER

Dear Fellow Investors:

Romspen's performance in the third quarter was in line with expectations. On a year-to-date and past 12 month basis, the Fund has continued to strongly outperform the fixed income benchmarks.

## Financial Highlights

Net income for the third quarter of 2014 was $26.6 million or $0.22 per unit compared to $16.0 million or $0.15 per unit a year ago. These higher results reflect significant unrealized foreign exchange gains in the current year period related to the appreciation of the US dollar versus the Canadian dollar. Unitholder distributions remained at $0.18 per unit during the third quarter, equal to year ago. On a year to date basis, net income was $0.59 per unit compared to $0.55 per unit last year while distributions were $0.55 per unit compared to $0.54 per unit last year.

As at September 30, the net mortgage portfolio was $1.2 billion, an increase of 10% compared to year ago. Strong demand from US borrowers and increased construction and development activity by mid-market borrowers were responsible for this growth. Within the portfolio, we remain well diversified across property types and continue to diversify our geographic exposure through an increased allocation to the US market. The weighted average interest rate of the mortgage portfolio at September 30 held steady at 10.5% compared to a year ago.

The Fund had net debt (debt less unrestricted cash) of $26.0 million at the end of the third quarter compared to net debt of $9.8 million a year. Total unitholder capital was $1.2 billion at quarter end. The total loss provision at quarter end increased to $22.0 million, thereby maintaining a strong cushion on our balance sheet against potential losses.

Net asset value at September 30 was $9.98 per unit, up $0.04 per unit compared to last year, due to higher unrealized foreign exchange gains. With increased US dollar exposure and the IFRS requirement to report the changing values of currencies at fair market value, net income and NAV will experience more fluctuation than in the past. At quarter end, over 91% of the Fund's CDN/US dollar portfolio exposure was hedged as part of our policy to mitigate foreign exchange loss exposure.

## Comparative Performance

The compounded net yield to unitholders for the first nine months of 2014 was 5.6% compared to 5.5% a year ago. This compares with T-bills, FTSE TMX Short Term Bond Index ("FTSE TMX STBI"), and the S&P/TSX, which yielded 0.7%, 2.1%, and 12.2% respectively on a year-to-date basis.

For the twelve-month period ended September 30, the Fund's compounded net yield to unitholders was 7.5%. This compares to T-bills, FTSE TMX STBI, and S&P/TSX returning 1.0%, 2.9%, and 20.4% respectively.

## Commentary and Outlook

After an unexpectedly strong second quarter, the North American economy continued to experience positive momentum in stark contrast to the disappointing performance of most global economies.

The drag of low global economic growth coupled with geopolitical risks on multiple fronts, caused one of the longest bull markets in the last 50 years to retreat in the face of stretched valuations and investor unease. Globally, interest rates remain persistently low while equity markets have exhibited increasing volatility.

Loose monetary policy has pushed real interest rates to zero and created a hunger for yield and a disregard for risk, particularly so in Canada. Deploying capital prudently in this chaotic environment is challenging, and we have chosen to temporarily close the Fund to new capital to preserve investor returns.

In the US, our relatively large asset base and the dampening effect that a restrictive regulatory environment continues to exert over bank lending, makes it possible for us to access more numerous and significant opportunities to lend. Romspen has recently added further on-the-ground resources to our US team to ensure we are well positioned to take advantage of these opportunities. We are optimistic we will be successful in carefully vetting a sufficient number of compelling lending opportunities to allow the Fund to reopen to new cash investments towards the end of the year.

US mortgages represented $261.0 million or 22% of the portfolio at the end of the third quarter compared to $135.0 million or 12% last year. The US portfolio includes 25 loans concentrated in Pennsylvania, Illinois and North Carolina.

On behalf of the Romspen team, we thank you for your continued support. For further information, please contact Investor Relations at 416-966-1100, or consult our website: www.romspen.com.

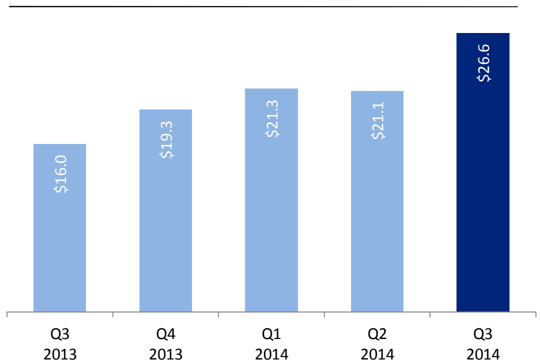
Respectfully submitted,

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

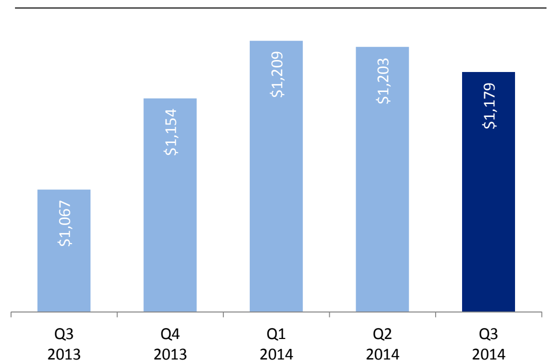
Trustees of the Fund
November 5, 2014

## Key Metrics

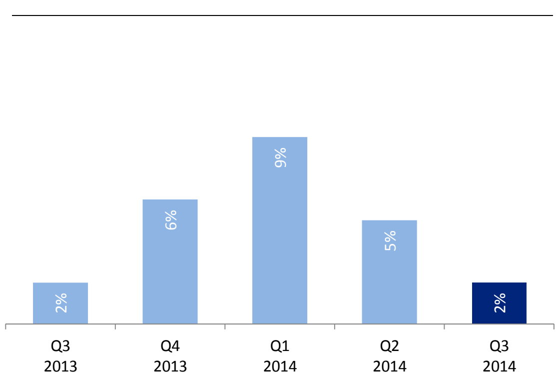
**Net Earnings** ($millions)



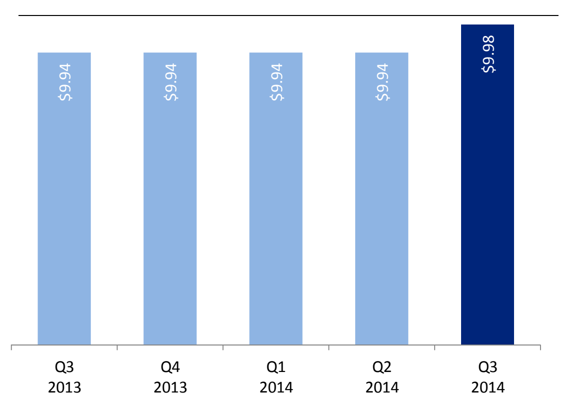

**Total Portfolio** ($millions)



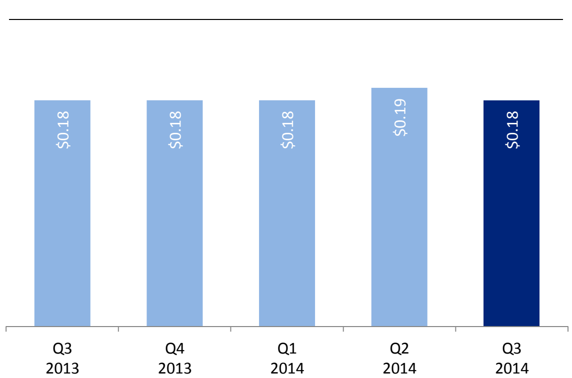

**Net Leverage** (% of portfolio)



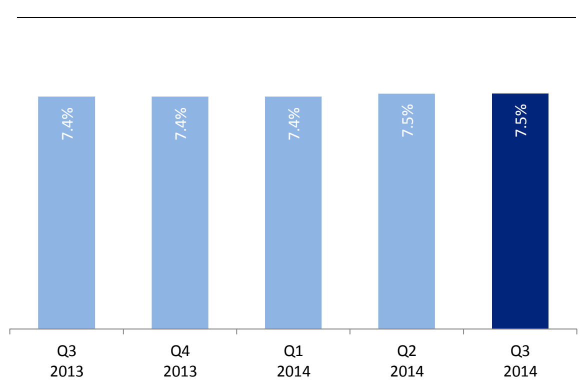

**Unitholder Value** ($/unit)




**Unitholder Distributions** ($/unit)



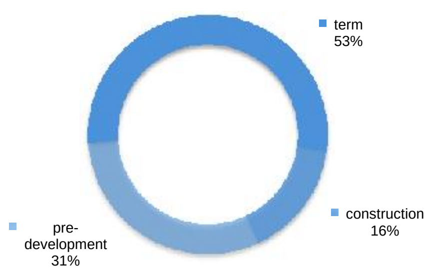

**Trailing 12 Month Net Compounded Return** (%)



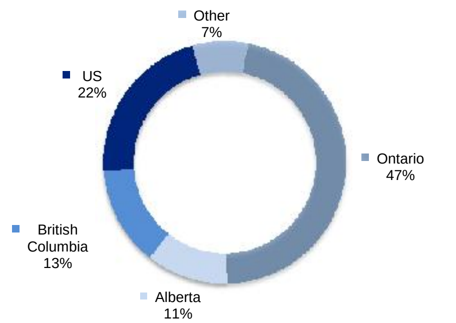
## Investment Portfolio Profile

As of September 30, 2014

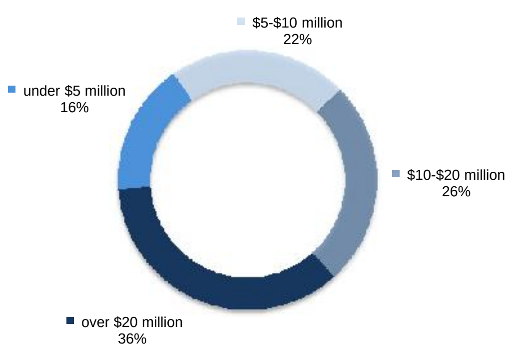
### By Type



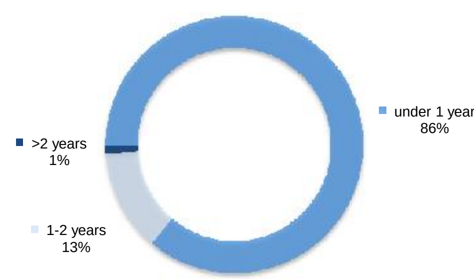

### By Geography




### By Amount

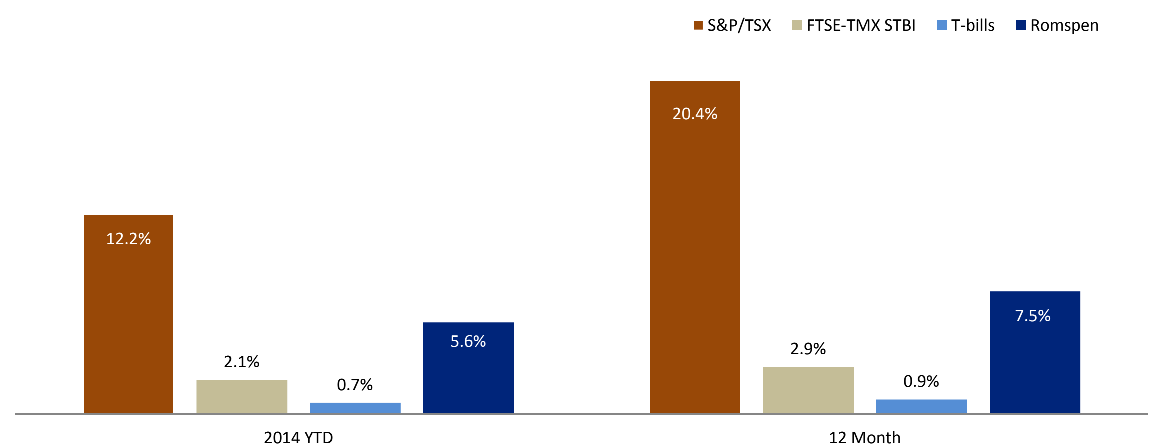



### By Maturity




## Comparative Performance

Net Compounded Return - %



# 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 September 30, 2014 included herein and the audited financial statements and MD&A for the year ended December 31, 2013. 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.*

*This MD&A and the Interim Financial Statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which are also generally accepted accounting principles ("GAAP"). For all periods up to and including the year ended December 31, 2013, the Financial Statements were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). In accordance with the standard related to the first time adoption of IFRS, the transition date to IFRS was January 1, 2014 and therefore the comparative information for 2014 has been prepared in accordance with IFRS accounting policies. The 2013 financial information contained within this MD&A has been prepared following Canadian GAAP and has not been represented on an IFRS basis, as allowed by the standard related to the first time adoption of IFRS ("IFRS 1").*

*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 quarter ended September 30, 2014.*

*This MD&A contains certain forward-looking statements and non-IFRS financial measures, see "Forward-Looking Statements" and "Non-IFRS 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, changes in foreign exchange 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-IFRS Financial Measures

This MD&A contains certain non-IFRS financial measures. A non-IFRS 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 IFRS 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-IFRS 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 IFRS and may be different from or inconsistent with non-IFRS 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 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 March 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.

## Portfolio

As of September 30, 2014, the Fund's mortgage and investment portfolio (the "portfolio"), net of fair value provisions, was $1,179 million compared with $1,067 million at September 30, 2013. This increase of $112 million or 10% reflects the increased activity in mortgage markets supported by a strong inflow of investor capital. The portfolio decreased marginally to 146 mortgages and investments versus 149 in the prior year.

Approximately 95% of the portfolio was invested in first mortgages at September 30, 2014 versus 94% a year ago. The weighted average interest rate of the portfolio was unchanged from a year ago at 10.5%.

The portfolio continues to consist mainly of short-term mortgages and investments. Approximately 87% of the portfolio's mortgage investments mature within one year (September 30, 2013 – 78%) and 99% mature within two years (September 30, 2013 – 97%). In addition, all of our mortgages are open for repayment prior to maturity. The short-term nature of the Fund's portfolio permits opportunities to continually and rapidly 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 September 30, 2014, approximately 47% of our mortgage investments were in Ontario, which is unchanged from a year ago. Approximately 24% of the Portfolio was invested in Western Canada, 7% in other provinces and 22% in the US. 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, 2014 were $22 million, which represented 2% of the original cost of the Fund's investments as at September 30, 2014. The amount of losses recognized during the third quarter totalled $0.1 million. The fair value provision is based on assumptions relating to the Fund's 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 September 30, 2014 were $33.2 million compared to $20.3 million in the previous year. Current year revenues are higher because of the inclusion of higher unrealized foreign exchange gains from the appreciation of the US dollar and higher than expected recoveries and non-performing loans.

Net earnings for the quarter were higher at $26.6 million compared to $16.0 million for the third quarter last year for similar reasons to those listed above. The basic weighted average earnings per unit for the quarter was $0.22 per unit but after removing the unrealized foreign exchange gain from 2014 and 2013, the remaining $0.18 per unit was the same as the prior year.

The Fund distributed $21.5 million or $0.18 per unit during the third quarter (2013 - $19.3 million or $0.18 per unit). The simple and compounded net yield to unitholders for the nine month period ended September 30, 2014 and September 30, 2013 were 5.5% and 5.6% respectively. The net yield to unitholders on a simple and compound basis, for the preceding twelve-month period were 7.3% and 7.5% respectively.

Management fees payable to the Fund Manager and other general and administrative expenses of the Fund were $3.5 million for the quarter compared to $3.1 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 September 30, 2014 were $1,250 million compared to $1,127 million a year ago. Under IFRS, mortgages that are owed from subsidiary companies have been reclassified from mortgage investments to investments, properties. Total assets are comprised primarily of mortgages recorded at fair market value, investments in properties, and accrued interest receivable.

Total liabilities excluding units submitted for redemption as of September 30, 2014 were $57.6 million compared with $33.5 million a year earlier. Liabilities at the end of the third quarter were comprised mainly of $48.2 million line of credit, and $7.2 million in accounts payable and distribution 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 not exceeding prime plus 1.0% 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 $26.0 million (2% of mortgage portfolio) at quarter end versus $9.8 million (1% of mortgage portfolio) a year ago.

Unitholders' equity plus units submitted for redemption as of September 30, 2014 were $1,192 million compared with $1,094 million as of September 30, 2013. The increase is primarily from proceeds of issuances of $163.8 million in excess of redemptions of $69.5 million during the previous 12 months. There were a total of 119,444,123 units outstanding on September 30, 2014 compared to 110,054,754 on September 30, 2013. 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 taxable earnings are generally 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. The Fund was slightly levered as of September 30, 2014 with 2% borrowed as a percentage of the book value of the portfolio versus 1% a year ago.

During the nine months ended September 30, 2014, proceeds from the issuance of units net of redemptions and costs were $81.6 million compared to $95.2 million during the same period in 2013.

The Fund's mortgages are predominantly short-term in nature with the result that continual repayment by borrowers 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 mortgage origination and capital raising 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 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, please see note 15 of the Financial Statements.

## Outlook

While the North American economy continues to experience positive momentum, other global economies remain mired in persistently low economic growth. Europe in particular remains a concern as Germany, long the engine of continental growth, seems to have stalled in its recovery. A perceived slowdown in China has caused a decline in commodity prices around the globe. To counteract slow global growth, accommodative monetary policies have resulted in generational lows for government bonds, with many sovereign yields below 1%.

The combination of listless economic growth with the increasing number and frequency of global geopolitical risks, brought about the end of one of the longest bull markets in recent history. Investor unease combined with stretched valuations results in greater market volatility.

In Canada, we continue to cautiously observe the effects of excess capital grasping for yield. Many Canadian lenders, in an environment characterized by buoyant real estate prices, are willing to take on more risk in exchange for lower yields. In contrast, the US financing dislocation is prevalent and property values remain attractive for mortgage underwriting. Our competitive strength, combined with depressed bank lending resulting from a restrictive regulatory environment, creates attractive risk/reward opportunities to lend to a myriad of sophisticated borrowers and high quality projects.

We continue to work through non-performing loans with an unwavering determination to maximize recovery values and are experiencing continued progress on numerous fronts. While this painstaking process is often slow, it remains the best avenue for realizing value rather than accepting more expedient and ultimately less profitable outcomes.

With our improving pipeline and increased origination resources, we are optimistic that we will be successful in vetting a sufficient volume of compelling lending opportunities to allow the Fund to reopen to new cash investments towards the end of the year.

# Interim Consolidated Financial Statements

## ROMSPEN MORTGAGE INVESTMENT FUND

Nine months ended September 30, 2014 (Unaudited)

## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2014, with comparative figures for 2013

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

| | September 30, 2014 | December 31, 2013 (Restated) (Note 18) | September 30, 2013 (Restated) (Note 18) |
|---|---|---|---|
| ASSETS: | | | |
| Cash | $ 22,203 | $ 27,027 | $ 13,515 |
| Restricted cash (note 6) | 1,183 | 1,183 | 1,183 |
| Accrued interest receivable | 42,191 | 42,391 | 40,642 |
| Mortgage investments (note 4) | 1,049,867 | 1,053,434 | 973,137 |
| Investments, properties (note 5) | 128,891 | 100,249 | 94,221 |
| Sundry assets | 5,514 | 5,227 | 4,631 |
| | $ 1,249,849 | $ 1,229,511 | $ 1,127,329 |
| LIABILITIES AND UNITHOLDERS' EQUITY | | | |
| LIABILITIES: | | | |
| Revolving loan facility (note 7) | $ 48,160 | $ 99,353 | $ 23,303 |
| Accounts payable and accrued liabilities (note 13(f)) | 2,141 | 1,700 | 1,361 |
| Unrealized loss on foreign exchange forward contracts (note 8) | - | 1,376 | - |
| Deferred revenue | 95 | 167 | 83 |
| Prepaid unit capital | - | 14,325 | 2,125 |
| Unitholders' distributions payable | 7,167 | 6,679 | 6,603 |
| | 57,563 | 123,600 | 33,475 |
| Units submitted for redemption (note 9) | 5,994 | 3,972 | 10,869 |
| Unitholders' equity (note9) | 1,186,231 | 1,101,939 | 1,082,985 |
| Commitments and contingent liabilities (note 14) | | | |
| | $ 1,249,789 | $ 1,229,511 | $ 1,127,329 |
| Net asset value per unit (note 10) | $ 9.98 | $ 9.94 | $ 9.94 |

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

## INTERIM CONSOLIDATED STATEMENT OF EARNINGS

Nine month ended September 30, 2014, with comparative figures for 2013

(Unaudited - amounts expressed in thousands of dollars, except per unit amounts, unless otherwise noted)

| | 3 months ended September 30, 2014 | 3 months ended September 30, 2013 (Restated) (Note 18) | 9 months ended September 30, 2014 | 9 months ended September 30, 2013 (Restated) (Note 18) |
|---|---|---|---|---|
| **REVENUE** | | | | |
| Mortgage interest | $ 26,906 | $ 22,436 | $ 79,992 | $ 67,139 |
| Other income | 239 | 482 | 1,203 | 890 |
| Realized foreign exchange gain | 597 | 656 | 1,752 | 1,000 |
| Unrealized foreign exchange gain/(loss) | 5,424 | (3,237) | 5,307 | 1,824 |
| | 33,166 | 20,337 | 88,254 | 70,853 |
| **EXPENSES** | | | | |
| Management fees (note 13(a)) | 3,059 | 2,670 | 9,101 | 7,879 |
| Interest | 524 | 239 | 2,454 | 1,622 |
| Unrealized loss in value on investment portfolio | 2,500 | 1,200 | 5,914 | 2,460 |
| Realized loss on mortgage investments | 102 | (140) | 663 | (135) |
| Audit fees | 45 | 56 | 126 | 98 |
| Legal fees | 34 | 41 | 84 | 88 |
| Other | 318 | 294 | 932 | 818 |
| | 6,581 | 4,360 | 19,274 | 12,830 |
| Net earnings | 26,585 | 15,977 | 68,979 | 58,023 |
| Net earnings per unit (note 10) | $ 0.22 | $ 0.15 | $ 0.59 | $ 0.55 |
| Weighted Average number of units issued and outstanding (note 10) | 119,442,571 | 107,463,311 | 116,898,554 | 104,865,138 |

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

# INTERIM CONSOLIDATED STATEMENT OF UNITHOLDER'S EQUITY

September 30, 2014, with comparative figures for 2013

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

| | September 30, 2014 | December 31, 2013 (Restated) (Note 18) | September 30, 2013 (Restated) (Note 18) |
|---|---|---|---|
| **UNIT CAPITAL** | | | |
| Balance, beginning of year | $ 1,110,355 | $ 1,001,371 | $ 1,001,371 |
| Proceeds from issuance of units, net of redemptions (note 9) | 81,574 | 107,978 | 95,248 |
| Penalties on redemptions | 5 | - | - |
| Decrease/(increase) in units submitted for redemption (note 9) | (2,022) | 1,006 | (5,891) |
| Balance, end of period | $ 1,189,911 | $ 1,110,355 | $ 1,090,728 |
| **CUMULATIVE EARNINGS** | | | |
| Balance, beginning of year | $ 353,657 | $ 276,301 | $ 276,301 |
| Net earnings | 68,979 | 77,356 | 58,023 |
| Balance, end of period | $ 422,636 | $ 353,657 | $ 334,324 |
| **CUMULATIVE DISTRIBUTIONS TO UNITHOLDERS** | | | |
| Balance, beginning of year | $ (362,073) | $ (285,492) | $ (285,492) |
| Distributions to unitholders (note 11) | (64,243) | (76,581) | (56,575) |
| Balance, end of period | $ (426,316) | $ (362,073) | $ (342,067) |
| Unitholders' equity | $ 1,186,231 | $ 1,101,939 | $ 1,082,985 |
| Units issued and outstanding, excluding units submitted for redemption (note 10) | 118,843,641 | 110,910,245 | 108,961,186 |

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

## INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

Nine month ended September 30, 2014, with comparative figures for 2013

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

| | 3 months ended September 30, 2014 | 3 months ended September 30, 2013 (Restated) (Note 18) | 9 months ended September 30, 2014 | 9 months ended September 30, 2013 (Restated) (Note 18) |
|---|---|---|---|---|
| CASH PROVIDED BY (USED IN) | | | | |
| Operations: | | | | |
| Net earnings | $ 26,585 | $ 15,977 | $ 68,979 | $ 58,023 |
| Items not affecting Cash: | | | | |
| Amortization of revolving loan facility financing costs | (408) | - | (314) | - |
| Unrealized loss/(gain) on investments | 2,500 | 1,200 | 5,914 | 2,460 |
| Realized loss on mortgage investments | 102 | (140) | 663 | (135) |
| Unrealized foreign exchange gain | (7,642) | 3,237 | (4,555) | (1,824) |
| Amortization of discount | (29) | (2,113) | (579) | (2,768) |
| Change in non-cash operating items: | | | | |
| Accrued interest receivable | 1,099 | 4,585 | 200 | 3,999 |
| Other assets | - | - | 26 | 361 |
| Accounts payable and accrued liabilities | (86) | (1,065) | 930 | 92 |
| Deferred revenue | (19) | (28) | (73) | (92) |
| | 22,102 | 21,653 | 71,191 | 60,116 |
| FINANCING | | | | |
| Proceeds from issuance of units, net redemptions | 18,424 | 53,060 | 81,574 | 95,248 |
| Penalties on redemptions | 12 | - | 65 | - |
| Prepaid unit capital | (10,050) | 2,125 | (14,325) | 1,726 |
| Change in revolving loan facility | (36,793) | (1,934) | (51,193) | (22,946) |
| Distributions to unitholders | (21,497) | (19,333) | (64,243) | (56,575) |
| | (49,905) | 33,918 | (48,121) | 17,453 |
| INVESTMENTS | | | | |
| Funding of mortgages | (97,390) | (140,133) | (330,114) | (452,997) |
| Discharge of mortgages | 142,895 | 112,119 | 341,041 | 358,980 |
| Investments in properties | (16,275) | (14,657) | (38,821) | 24,218 |
| Balance, end of the period | 29,230 | (42,671) | (27,894) | (69,799) |
| Increase/ (decrease) in cash and restricted cash | 1,427 | 12,900 | (4,824) | 7,770 |
| Cash and restricted cash, beginning of period | 21,959 | 1,798 | 28,210 | 6,928 |
| Cash and restricted cash, end of period | $ 23,386 | $ 14,698 | $ 23,386 | $ 14,698 |
| Supplemental cash flow information: | | | | |
| Interest paid | $ 524 | $ 239 | $ 2,454 | $ 1,622 |

The accompanying notes are an integral part of these 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 and syndicator for the Partnership.

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 financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These financial statements were prepared in accordance with IAS 34, Interim Financial Reporting and IFRS 1, first-time adoption of IFRS using the accounting policies the Fund expects to adopt in its 2014 annual financial statements. The Fund adopted this basis of accounting in 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board.

Previously, the Fund prepared its financial statements in accordance with Canadian generally accepted accounting principles as defined in Part V of the CICA Handbook (Canadian GAAP). The Fund has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at September 30, 2013 and throughout all periods presented, as if these policies had always been in effect. Note 18 discloses the impact of the transition to IFRS on the Fund’s reported financial position, including the nature and effect of significant changes in accounting policies from those used in the Fund’s financial statements for the period ended December 31, 2013 prepared under Canadian GAAP.

Financial statements are presented in Canadian dollars, amounts are rounded to the nearest thousand, unless otherwise stated.

## 2. Significant accounting policies

A) Investment Portfolio

i) **Mortgage investments** All mortgages have been designated as fair value through profit or loss (‘‘FVTPL’’ ). Mortgage investments are recorded at fair value, with any changes in fair value reflected in the consolidated statements of earnings, in accordance with IFRS 9, Financial Instruments and IFRS 13, Fair Value Measurement.

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. Any unrealized changes in the fair value of mortgage investments are recorded in the consolidated statements of earnings as an unrealized fair value adjustment.

ii) **Investments, properties** When the Fund’s subsidiaries obtain legal title of the underlying security of an impaired mortgage investment, the carrying value of the mortgage investment, which comprises of principal, accrued interest and a provision for mortgage investment loss, if any, is reclassified from mortgage investments to investments in properties. At each reporting date, these investments are measured at FVTPL, the Fund uses management’s best estimates to determine fair value of the properties (see note 15).

B) Revenue recognition

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

ii) **Discount income** The Fund may acquire mortgage portfolios from third parties at fair market value. A mortgage discount will exist to the extent that the fair market value of a mortgage is less than its par value. The discount is allocated between a valuation reserve component and an accretion component. The valuation reserve component represents the risk of credit loss, while the accretion component represents the part of the discount to be recognized to income over time, thereby adjusting the yield on the mortgage from its face rate to an effective yield. The accretion component is amortized to income over the term of the related mortgage through the application of the effective interest rate method. The valuation reserve component is only recognized into income upon payout, less any realized credit loss.

C) **Use of estimates** The preparation of financial statements in compliance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. The Fund’s investments are recorded in the consolidated statement of financial position at fair value. 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. Actual results may differ from those estimates.

The fair value of the other financial instruments is determined using valuation techniques described in note 15.

These assumptions are limited by the availability of reliable comparable data, economic uncertainty, ongoing geopolitical concerns and the uncertainty of predictions concerning future events. Credit markets, equity markets and consumer spending are factors in 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.

Another significant judgement made in preparing the Interim Financial Statements is the determination that the Fund is an investment entity. In determining its status as an investment entity, the most significant judgments made include the determination by the Fund that its investment-related activities with subsidiaries, do not represent a separate substantial business activity and that fair value is the primary measurement attribute used to monitor and evaluate substantially all of its investments.

**D) Foreign Currency Translation** Investment transactions and income and expenses in foreign currencies have been translated into Canadian dollars at the rates of exchange prevailing at the time of the transactions. The fair value of mortgages and cash denominated in foreign currencies has been translated into Canadian dollars at the rates of exchange prevailing at year end. Foreign exchange gains and losses on the receipts of payments on mortgage investments are included in Realized Gains/Loss on Foreign Exchange on the Consolidated Statement of Earnings.

**E) Foreign Exchange Forward Contracts** The Fund may hold derivative financial instruments to hedge its foreign currency risk exposure on mortgage investments denominated in a foreign currency. Derivatives are recognized initially at fair value, with transaction costs recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value at the end of each reporting period. Any resulting gain or loss is recognized in profit or loss, unless the derivative is designated and effective as a hedging instrument under IRFS. The fund has elected to not account for derivative instruments as a hedge.

The Fund determines fair value on its foreign exchange forward contracts based on the difference between the contract forward rate and the forward bid rate.

**F) Net earnings per unit** Net earnings per unit are computed by dividing net earnings for the year by the weighted average number of units issued and outstanding during the year.

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

**H) Financial Instruments-recognition and measurement** IFRS 9, Financial Instruments establishes standards for recognizing and measuring financial assets and financial liabilities, including non-financial derivatives. In accordance with this standard, the Fund has classified its financial assets as one the following: FVTPL or loans and receivables. All financial liabilities must be classified as: FVTPL or other financial liabilities. The Fund's designations are as follows:

i) Mortgage investments are classified as debt instruments and are measured at FVTPL, categorized into Level 3 inputs. As permitted by IFRS 9, Financial Instruments, the Fund has elected to carry all such investments at FVTPL.

ii) Investments, properties – entities over which the Fund has control are classified as FVTPL, categorised into Level 3 inputs, as permitted by IFRS 10, Investment Entities: exception to consolidation.

iii) Cash, restricted cash, accrued interest receivable and other assets are classified as loans and receivables and are measured at amortized cost.

iv) The revolving loan facility, accounts payable and accrued liabilities, prepaid unit capital, unitholders' distributions payable and units submitted for redemption are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method.

Financial assets classified as FVTPL are carried at fair value on the consolidated financial statements of financial position with realized and unrealized gains and losses recorded in consolidated statements of operations and as an operating activity in the consolidated statement of cash flows.

## 3. Comparative figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

## 4. Mortgage investments (excluding mortgages to investment subsidiaries)

The following is a summary of the mortgages:

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

| | | | 2014 | 2013 |
|---|---|---|---|---|
| | Number of mortgages | Original cost | Fair Value | Fair Value |
| First mortgages | 121 | $ 1,016,729 | $ 1,012,529 | $ 933,952 |
| Second mortgages | 9 | 39,338 | 37,338 | 27,528 |
| Third mortgages | – | – | – | 11,657 |
| | 130 | $ 1,056,067 | $ 1,049,867 | $ 973,137 |

The following is a summary of the original cost of mortgages segmented by interest rate at September 30, 2014:

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

| Interest Rates | 2014 | 2013 |
|---|---|---|
| Less than 10.00% | $ 273,360 | $ 313,879 |
| 10.01% - 11.00% | 429,032 | 351,066 |
| 11.01% - 12.00% | 264,081 | 223,178 |
| 12.01% - 20.00% | 87,114 | 85,616 |
| Over 20.00% | 2,480 | 3,898 |
| | $ 1,056,067 | $ 977,637 |

The following is a summary of the original cost of mortgages segmented by type of mortgage at September 30, 2014:

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

| | 2014 | 2013 |
|---|---|---|
| Pre-development | $ 346,645 | $ 247,194 |
| Construction | 167,381 | 213,229 |
| Term | 542,041 | 517,214 |
| | $ 1,056,067 | $ 977,637 |

The following is a summary of the original cost of mortgages segmented by geography at September 30, 2014:

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

| | 2014 | 2013 |
|---|---|---|
| Ontario | $ 511,977 | $ 459,818 |
| Alberta | 104,139 | 139,303 |
| British Columbia | 138,905 | 161,061 |
| Other Provinces | 73,696 | 82,950 |
| United States | 227,350 | 134,505 |
| | $ 1,056,067 | $ 977,637 |

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, see note 15.

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.

As part of the assessment of fair value, management of the Fund routinely reviews each mortgage for impairment to determine whether or not a mortgage should be recorded at its estimated realizable value.

Principal repayments based on contractual maturity dates are as follows:

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

| | |
|---|---|
| 2014 and earlier | $ 469,359 |
| 2015 | 540,201 |
| 2016 | 42,321 |
| 2017 | 1,405 |
| 2018 and after | 2,781 |
| | $ 1,056,067 |

Included in 2014 and earlier category are loans which are past due or on a month-to month arrangement. Borrowers have the option to repay principal at any time prior to the maturity date.

## 5. Investments, properties

The Partnership has acquired control of the following properties in order to finish development and divest of the property with the goal of maximizing the return to investors.

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

| Company | Property | Description | Amount Invested |
|---|---|---|---|
| 1460518 Alberta Inc. | 9420 51st Avenue, Edmonton, AB | Office complex | $ 18,594 |
| 2220740 Ontario Inc. | Old Lakeshore Rd., Collingwood, ON | Land for residential development | $ 821 |
| 3231451 Nova Scotia Ltd. | 24 Harbourside Dr, Wolfville, NS | Condominium | $ 5,150 |
| Aspen Lakes Communities Ltd. | Blackfalds, AB | Land for residential development | $ 4,620 |
| 22411497 Ontario Ltd. | 430 Ottawa St., Almonte, ON | Retail plaza | $ 5,555 |
| Big Mac Athletic Corp. | Langford, BC | Office complex | $ 8,835 |
| Romspen FC Homes Inc. | Abbotsford, BC | Residential subdivision | $ 12,770 |
| RIC Management Inc. (in trust) | 1 Dunsford Lane, Wymbolwood Beach, ON | Commercial development | $ 1,349 |
| 1604954 Alberta Ltd. | 1925 & 1933 18th Ave NE, Calgary, AB | Office Complex | $ 108 |
| 1411786 Alberta Ltd. | Hamlet of Balzac, AB | Land for residential development | $ 2,777 |
| Royal Oaks Homes Ltd. | Moncton, NB | Residential subdivision | $ 10,881 |
| 2270386 Ontario Limited | 160 Brooks Road, Cayuga, ON | Landfill | $ 23,199 |
| 2204604 Ontario Inc. | Collingwood, ON | Commercial/ Residential | $ 14,538 |
| 1593785 Alberta Ltd. | Rocky View, AB | Land for industrial development | $ 1,714 |
| 2247112 Ontario Inc. | Jarvis St., Toronto, ON | Multi-Unit Residential | $ 4,591 |
| Romspen Club Holdings Inc. | Southern U.S. | Various Golf Courses | $ 30,370 |

The Fund's investments in properties are measured at fair value using Level 3 unobservable inputs, see note 15.

### 6. Restricted cash

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

### 7. Revolving loan facility

The Partnership entered into a revolving loan facility on July 16, 2012 and it was amended on July 18, 2014 with an increased maximum amount of $200,000 (2013 - $150,000) including borrowings of equivalent amount denominated in US dollars. Approximately $151,840 (2013 - $126,697) is available and $48,160 has been drawn as at September 30, 2014 (2013 - $23,003). Interest on the loan is charged at a maximum of prime rate plus 1.0%. The minimum and maximum amounts drawn under the revolving loan facility during the nine months ended September 30, 2014 were $nil, and $130,500 (2013 - $nil and $82,000), 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 July 18, 2016.

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 $437 (2013 - $261), net of accumulated amortization of $14 (2013 - $80).

### 8. Foreign exchange forward contracts

The foreign exchange forward contracts are used to hedge the Fund's exposure to loans denominated in U.S. dollars. As at September 30, 2014 there was no foreign exchange forward contracts held by the Fund.

### 9. 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.

In the extraordinary circumstance where the number of units properly tendered for redemption ("Tendered Units") by unitholders ("Tendering Unitholders") on any given Redemption Date exceeds 3% of the total number of units outstanding on such Redemption Date, the trustees are entitled in their sole discretion to modify or suspend unitholder redemption rights. Specifically, if the extraordinary circumstance referenced above occurs, the trustees are entitled, in their sole discretion, to implement one of the following measures:

**i) Discounted redemptions** The trustees shall give notice to Tendering Unitholders that their Tendered Units shall be redeemed on the next Redemption Date at a redemption price discounted by a discount factor to be determined by the trustees in their sole discretion, acting reasonably. In determining the discount factor, the trustees may consider such factors as market prices for similar investments that are traded on a stock exchange in Canada, the variation inherent in any estimates used in the calculation of the fair market value of the Tendered Units to be redeemed, the liquidity reasonably available to the Fund and general economic conditions in Canada. Unitholders may choose to retract their redemption request upon receiving notice from the trustees of a discounted redemption; however, unit holders who retract will be prohibited from redeeming the Tendered Units to which their retraction applies for a period of up to 12 months following the date the discounted redemptions are processed.

**ii) Temporary suspension of redemptions** The trustees shall give notice to all unitholders that normal course redemption rights are suspended for a period of up to six months. Issuance of a suspension notice by trustees will have the effect of cancelling all pending redemption requests. At the end of the suspension period, the trustees may call a special meeting of unitholders to approve an extension of the suspension period, failing which normal course redemptions will resume.

As at September 30, 2014, unitholders representing approximately 600,482 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. Units submitted for redemption are redeemed at the net asset value.

**A) The following units are issued and outstanding (see chart on the next page):** During the normal course of business, the Fund receives unit issuance and redemption requests from the investors. In 2014, the Fund received requests for redemption of 4,347,450 units (2013 – 4,795,198) and redeemed 4,147,324 units (2013 – 4,203,599) for $41,235 (2013 - $41,738) in accordance with its policies.

The Fund continues to issue new units and receive redemption requests, which will be processed in accordance with the policies mentioned below.

**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.

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

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Units | Amount | Units | Amount |
| Balance, beginning of year | 111,310,601 | $ 1,114,190 | 100,559,826 | $ 1,006,212 |
| New units issued | 9,174,154 | 91,742 | 11,128,113 | 111,281 |
| New units issued under distribution reinvestment plan | 3,106,692 | 31,067 | 2,570,414 | 25,705 |
| Units redeemed | (4,147,324) | (41,235) | (4,203,599) | (41,738) |
| Proceeds from issuance of units, net of redemptions | 8,133,522 | 81,574 | 9,494,928 | 95,248 |
| Balance, end of year | 119,444,123 | $ 1,195,764 | 110,054,754 | $ 1,101,460 |

### 10. 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 118,843,641 as at September 30, 2014 (2013 – 108,961,186).

Net earnings per unit have been computed using the weighted average number of units issued and outstanding of 116,898,554 for the nine months ended September 30, 2014 (2013 – 104,865,138).

### 11. 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 nine months ended September 30, 2014, the Fund declared distributions of $0.55 (2013 - $0.54) per unit and a total of $64,243 (2013 - $56,575) was distributed to the unitholders.

### 12. 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 income taxes.

The Fund is not subject to the SIFT tax regime as its units are not listed or traded 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.

### 13. 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 consolidated 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 mortgage investments and the fair market value of all other non-mortgage investments. For the nine months ended September 30, 2014, the amount was $9,101 (2013 - $7,879).

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, insufficient funds and administration fees generated on the mortgages. For the nine months ended September 30, 2014, this amount was $14,887 (2013 - $11,359).

C) Romspen charges the Fund for brokering and originating the acquisition of a portfolio of existing loans, calculated as 2% of the loan portfolio. For the nine months ended September 30, 2014, the amount was $nil (2013 - $nil).

D) 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.

E) As at September 30, 2014, the Fund had two (2013 - five) investments outstanding with an original cost of $24,607 (2013 - $29,583), including accrued interest of $1,748 (2013 - $3,703) and fair value of $20,955 (2013 - $28,723) due from mortgagors and investments in which members of management of Romspen own non-controlling equity interests.

F) At the discretion of Romspen, the Fund participated in 50% of the funding fees received by Romspen on certain mortgage advances. Amounts received during the nine months ended September 30, 2014 amounted to $nil (2013 - $nil) and $82 (2013 - $92) was recognized in other revenue.

## 14. 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.

C) The Partnership in certain situations provides guarantees for its subsidiaries.

D) The Fund has letters of guarantee outstanding at September 30, 2014 of $8,051 (2013 – 6,967).

## 15. Fair values of financial instruments

IFRS 13 establishes enhanced disclosure requirements for fair value measurements of financial instruments and liquidity risks. 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).

Foreign exchange forward contracts have been classified in Level 2 of the hierarchy.

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.

The Fund's investments in properties are measured at fair value using Level 3 unobservable inputs.

A reconciliation of Level 3 assets for the second quarter ended September 30, 2014 is as follows:

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

| | 2014 | 2013 |
|---|---|---|
| Investments balance, Beginning of year | $ 1,153,683 | $ 995,082 |
| Funding of mortgages | 330,114 | 452,997 |
| Discharge of mortgages | (341,041) | (358,980) |
| Investments in properties | 38,821 | (24,218) |
| Unrealized loss in the value of Investments | (5,914) | (2,460) |
| Realized gain (loss) on investments | (663) | 135 |
| Amortization of discount | 579 | 2,768 |
| Foreign currency adjustment on investments | 3,178 | 2,034 |
| Investments Balance, end of year | $ 1,178,757 | $ 1,067,358 |

Fair value of the portfolio is the amount of consideration that would be agreed upon in an arm’s-length transaction between knowledgeable, willing parties under no compulsion to act. As there is no quoted price in an active market for these mortgages, loan investments and investments in properties, the Fund manager makes its determination of fair value based on the assessment of the current lending market for investments of same or similar terms. Typically, these investments approximate their carrying values given the mortgage and loan investments consist of short-term loans that are repayable at the option of the borrower without yield maintenance or penalties. When collection of the principal amount of a mortgage or loan is no longer reasonably assured, the fair value of the investment is adjusted to the fair value of the underlying security.

The fair values of cash, restricted cash, accrued interest receivable, revolving loan facility, accounts payable and accrued liabilities, unitholders’ distributions payable and prepaid unit capital approximate their carrying values due to their short-term maturities.

## 16. 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 manages this risk 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 7) bears interest not exceeding the prime rate plus 1.0%.

As at September 30, 2014, if interest rates on the revolving loan facility had been 100 basis points lower or higher, with all other variables held constant, net earnings for the quarter would be affected with a total increase or decrease of $475 (2013 - $313). The Fund monitors the financial markets and can adjust the pricing of renewals and new loans when it deems it appropriate.

**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 (note 4 and note 5) and, therefore, generally all of its assets are exposed to credit risk. Any instability in the real estate sector and adverse change in economic conditions in Canada could result in declines in the value of real property securing the Fund's mortgage investments. 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 approximately 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.

The Fund's revolving loan facility (note 7 and note 18) was renewed and matures on July 18, 2016. 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.

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 of the Fund's mortgages will fluctuate based on changes in foreign currency exchange rates. Approximately $246,184 (2013 – 118,204), 21% of the total

Fund's investments at quarter end are denominated in United States dollars; consequently, the Fund is subject to currency fluctuations that may impact its financial position and results.

**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.

The primary purpose of the Fund's borrowing strategy is to ensure that unitholders' capital is fully invested. As of September 30, 2014, the Fund's borrowings totalled 4% (2013 – 2%) of the book value of its total investments and the Fund was in compliance with all covenants under its revolving loan facility.

## 17. 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.

## 18. Explanation of transition to IFRS

As stated in note 2(a), these are the Group's first consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in note 2 have been applied in preparing the financial statements for the year ended 31 December 2013, the comparative information presented in these financial statements for the year ended December 31, 2013 and in the preparation of an opening IFRS statement of financial position at January 01, 2013.

In preparing its opening IFRS statement of financial position, the Fund has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP.

An explanation of how the transition from Canadian GAAP to IFRS has affected the Fund's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

## RECONCILIATION OF STATEMENT OF FINANCIAL POSITION

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

| | Canadian GAAP | Effect of transition to IFRS | IFRS | Canadian GAAP | Effect of transition to IFRS | IFRS | Canadian GAAP | Effect of transition to IFRS | IFRS |
|---|---|---|---|---|---|---|---|---|---|
| | | January 01, 2013 | | | December 31, 2013 | | | September 30, 2013 | |
| ASSETS: | | | | | | | | | |
| Cash | $ 5,746 | $ - | $ 5,746 | $ 27,027 | $ - | $ 27,027 | $ 13,515 | $ - | $ 13,515 |
| Restricted cash (note 6) | 1,183 | - | 1,183 | 1,183 | - | 1,183 | 1,183 | - | 1,183 |
| Accrued interest receivable | 44,635 | - | 44,635 | 42,391 | - | 42,391 | 40,642 | - | 40,642 |
| Mortgage investments (note 4) | 995,082 | (119,463) | 875,619 | 1,153,683 | (100,249) | 1,053,434 | 1,067,358 | (94,221) | 973,137 |
| Investments, properties (note 5) | - | 119,463 | 119,463 | - | 100,249 | 100,249 | - | 94,221 | 94,221 |
| Sundry assets | 4,690 | - | 4,690 | 5,227 | - | 5,227 | 4,631 | - | 4,631 |
| | $ 1,051,336 | $ - | $ 1,051,336 | $ 1,229,511 | $ - | $ 1,229,511 | $ 1,127,329 | $ - | $ 1,127,329 |
| LIABILITIES AND UNITHOLDERS' EQUITY | | | | | | | | | |
| LIABILITIES: | | | | | | | | | |
| Revolving loan facility (note 7) | $ 46,000 | $ - | $ 46,000 | $ 99,353 | $ - | $ 99,353 | $ 23,303 | $ - | $ 23,303 |
| Accounts payable and accrued liabilities (note 13(f)) | 1,570 | - | 1,570 | 1,700 | - | 1,700 | 1,361 | - | 1,361 |
| Unrealized loss on foreign exchange forward contracts (note 8) | - | - | - | 1,376 | - | 1,376 | - | - | - |
| Deferred revenue | 175 | - | 175 | 167 | - | 167 | 83 | - | 83 |
| Prepaid unit capital | 400 | - | 400 | 14,325 | - | 14,325 | 2,125 | - | 2,125 |
| Unitholders' distributions payable | 6,033 | - | 6,033 | 6,679 | - | 6,679 | 6,603 | - | 6,603 |
| | 54,178 | - | 54,178 | 123,600 | - | 123,600 | 33,475 | - | 33,475 |
| Units submitted for redemption (note 9) | 4,978 | - | 4,978 | 3,972 | - | 3,972 | 10,869 | - | 10,869 |
| | - | | | - | | | - | | |
| Unitholders' equity (note9) | 992,180 | - | 992,180 | 1,101,939 | - | 1,101,939 | 1,082,985 | - | 1,082,985 |
| Commitments and contingent liabilities (note 14) | | | | | | | | | |
| | $ 1,051,336 | $ - | $ 1,051,336 | $ 1,229,511 | $ - | $ 1,229,511 | $ 1,127,329 | $ - | $ 1,127,329 |
| Net asset value per unit (note 10) | $ 9.92 | $ - | $ 9.92 | $ 9.94 | $ - | $ 9.94 | $ 9.94 | $ - | $ 9.94 |

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

## RECONCILIATION OF STATEMENT OF EARNINGS

(Unaudited - amounts expressed in thousands of dollars, except per unit amounts, unless otherwise noted)

| | Canadian GAAP | Effect of transition to IFRS | IFRS | Canadian GAAP | Effect of transition to IFRS | IFRS |
|---|---|---|---|---|---|---|
| | 3 months ended September 30, 2013 | | | 9 months ended September 30, 2013 | | |
| **REVENUE** | | | | | | |
| Mortgage interest | $ 22,436 | $ - | $ 22,436 | $ 67,139 | $ - | $ 67,139 |
| Other income | 482 | - | 482 | 890 | - | 890 |
| Realized foreign exchange gain | 656 | - | 656 | 1,000 | - | 1,000 |
| Unrealized foreign exchange gain/(loss) | (3,237) | - | (3,237) | 1,824 | - | 1,824 |
| | 20,337 | - | 20,337 | 70,853 | - | 70,853 |
| **EXPENSES** | | | | | | |
| Management fees (note 13(a)) | 2,670 | - | 2,670 | 7,879 | - | 7,879 |
| Interest | 239 | - | 239 | 1,622 | - | 1,622 |
| Unrealized loss in value on investment portfolio | 1,200 | - | 1,200 | 2,460 | - | 2,460 |
| Realized loss on mortgage investments | (140) | - | (140) | (135) | - | (135) |
| Audit fees | 56 | - | 56 | 98 | - | 98 |
| Legal fees | 41 | - | 41 | 88 | - | 88 |
| Other | 294 | - | 294 | 818 | - | 818 |
| | 4,360 | - | 4,360 | 12,830 | - | 12,830 |
| Net earnings | 15,977 | - | 15,977 | 58,023 | - | 58,023 |
| Net earnings per unit (note 10) | $ 0.15 | $ - | $ 0.15 | $ 0.55 | $ - | $ 0.55 |
| Weighted Average number of units issued and outstanding (note 10) | 107,463,311 | - | 107,463,311 | 104,865,138 | - | 104,865,138 |

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

## RECONCILIATION OF STATEMENT OF UNITHOLDER'S EQUITY

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

| | Canadian GAAP | Effect of transition to IFRS | IFRS | Canadian GAAP | Effect of transition to IFRS | IFRS |
|---|---|---|---|---|---|---|
| | December 31, 2013 | | | September 30, 2013 | | |
| UNIT CAPITAL | | | | | | |
| Balance, beginning of year | $ 1,001,371 | $ - | $ 1,001,371 | $ 1,001,371 | $ - | $ 1,001,371 |
| Proceeds from issuance of units, net of redemptions (note 9) | 107,978 | - | 107,978 | 95,248 | - | 95,248 |
| Penalties on redemptions | - | - | - | - | - | - |
| Decrease/(increase) in units submitted for redemption (note 9) | 1,006 | - | 1,006 | (5,891) | - | (5,891) |
| Balance, end of period | $ 1,110,355 | $ - | $ 1,110,355 | $ 1,090,728 | $ - | $ 1,090,728 |
| CUMULATIVE EARNINGS | | | | | | |
| Balance, beginning of year | $ 276,301 | | $ 276,301 | $ 276,301 | | $ 276,301 |
| Net earnings | 77,356 | | 77,356 | 58,023 | | 58,023 |
| Balance, end of period | $ 353,657 | $ - | $ 353,657 | $ 334,324 | $ - | $ 334,324 |
| CUMULATIVE DISTRIBUTIONS TO UNITHOLDERS | | | | | | |
| Balance, beginning of year | $ (285,492) | | $ (285,492) | $ (285,492) | | $ (285,492) |
| Distributions to unitholders (note 11) | (76,581) | | (76,581) | (56,575) | | (56,575) |
| Balance, end of period | $ (362,073) | $ - | $ (362,073) | $ (342,067) | $ - | $ (342,067) |
| Unitholders' equity | $ 1,101,939 | $ - | $ 1,101,939 | $ 1,082,985 | $ - | $ 1,082,985 |
| Units issued and outstanding, excluding units submitted for redemption (note 10) | 110,910,245 | - | 110,910,245 | 108,961,186 | - | 108,961,186 |

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

## RECONCILIATION OF STATEMENT OF CASH FLOWS

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

| | Canadian GAAP | Effect of transition to IFRS | IFRS | Canadian GAAP | Effect of transition to IFRS | IFRS |
|---|---|---|---|---|---|---|
| | 3 months ended September 30, 2013 | | | 9 months ended September 30, 2013 | | |
| CASH PROVIDED BY (USED IN) | | | | | | |
| Operations: | | | | | | |
| Net earnings | $ 15,977 | $ - | $ 15,977 | $ 58,023 | $ - | $ 58,023 |
| Items not affecting Cash: | - | - | - | - | - | - |
| Amortization of revolving loan facility financing costs | - | - | - | - | - | - |
| Unrealized loss/(gain) on investments | 1,200 | - | 1,200 | 2,460 | - | 2,460 |
| Realized loss on mortgage investments | (140) | - | (140) | (135) | - | (135) |
| Unrealized foreign exchange gain | 3,237 | - | 3,237 | (1,824) | - | (1,824) |
| Amortization of discount | (2,113) | - | (2,113) | (2,768) | - | (2,768) |
| Change in non-cash operating items: | - | - | - | - | - | - |
| Accrued interest receivable | 4,585 | - | 4,585 | 3,999 | - | 3,999 |
| Other assets | - | - | - | 361 | - | 361 |
| Accounts payable and accrued liabilities | (1,065) | - | (1,065) | 92 | - | 92 |
| Deferred revenue | (28) | - | (28) | (92) | - | (92) |
| | 21,653 | - | 21,653 | 60,116 | - | 60,116 |
| FINANCING | | | | | | |
| Proceeds from issuance of units, net redemptions | 53,060 | - | 53,060 | 95,248 | - | 95,248 |
| Penalties on redemptions | - | - | - | - | - | - |
| Prepaid unit capital | 2,125 | - | 2,125 | 1,726 | - | 1,726 |
| Change in revolving loan facility | (1,934) | - | (1,934) | (22,946) | - | (22,946) |
| Distributions to unitholders | (19,333) | - | (19,333) | (56,575) | - | (56,575) |
| | 33,918 | - | 33,918 | 17,453 | - | 17,453 |
| INVESTMENTS | | | | | | |
| Funding of mortgages | (140,684) | 551 | (140,133) | (414,672) | 34,948 | (379,724) |
| Discharge of mortgages | 98,012 | 14,107 | 112,119 | 344,873 | 3,873 | 348,746 |
| Investments in properties | - | (14,657) | (14,657) | - | 24,218 | 24,218 |
| Balance, end of the period | (42,671) | - | (42,671) | (69,799) | 63,039 | (6,760) |
| Increase/ (decrease) in cash and restricted cash | 12,900 | - | 12,900 | 7,770 | 63,039 | 70,809 |
| Cash and restricted cash, beginning of period | 1,798 | - | 1,798 | 6,928 | - | 6,928 |
| Cash and restricted cash, end of period | $ 14,698 | $ - | $ 14,698 | $ 14,698 | $ 63,039 | $ 77,737 |
| Supplemental cash flow information: | | | | | | |
| Interest paid | $ 239 | $ - | $ 239 | $ 1,622 | $ - | $ 1,622 |

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

## TRUSTEES & MANAGEMENT

Romspen's team of investment professionals is led by seven Managing Partners who collectively have over 180 years of finance and real estate experience. The investment team is supported by more than 30 professionals dedicated to the financial control, underwriting, legal and reporting matters of our business. The trustees and the management team are the largest non-institutional investors in the Fund. This alignment is elemental to preserving capital and generating strong consistent returns for all investors.

### Romspen Mortgage Investment Fund

Sheldon Esbin
**Trustee**

Mark Hilson
**Trustee**

Arthur Resnick
**Trustee**

Wesley Roitman
**Trustee**

### Romspen Investment Corporation

Sheldon Esbin
**Managing General Partner**

Mark Hilson
**Managing General Partner**

Wesley Roitman
**Managing General Partner**

Blake Cassidy
**Managing Partner**

Pierre Leonard
**Managing Partner**

Arthur Resnick
**Managing Partner**

Richard Weldon
**Managing Partner**

Arnie Bose
**Vice President, Finance**

Bonnie Bowerman
**Vice President, Underwriting**

Vitor Fonseca
**Vice President and Treasurer**

Mary Gianfriddo
**Vice President, Mortgage Administration**

Joel Mickelson
**Corporate Counsel**

Dianna Price
**Executive Vice President, Investor Relations**

## 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 generally distributes 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:

Romspen Mortgage Investment Fund
Suite 300, 162 Cumberland Street
Toronto, Ontario M5R 3N5
416-966-1100

### 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.

### Auditors

KPMG LLP Chartered Accountants

### Legal Counsel

Gardiner Roberts LLP

### Website

www.romspen.com

ROMSPEN