



May 16, 2008

Dear Fellow Unitholders,

We are pleased to report the financial results for the Romspen Mortgage Investment Fund (the "Fund") for the first quarter of 2008. More detailed financial information is also available on our website, in a private, password-protected section available only to unitholders.

The Fund continued to perform well during the first quarter of 2008. Net income for the three month period ended March 31, 2008 was \$0.253 per unit and distributions to unitholders were \$0.25 per unit. The weighted average interest rate of the portfolio at March 31, 2008 was 11.69%. At March 31, 2008, the mortgage portfolio stood at \$425.1 million, an increase of 23% compared to the same time last year. Our efforts this year continue to focus on the preservation of capital in light of current expectations for reduced economic growth. Despite these expectations, Canadian real estate markets to date remain stable, possibly as a result of lower interest rates and the fact that they did not experience the run-up in values seen in the US over the past few years. Credit markets remain under stress due to continuing problems in the US residential subprime mortgage business. In spite of the tighter credit markets, the Fund experienced a large volume of mortgage repayments in the first quarter, largely due to transactions that were independent of the credit markets. On the funding side, Romspen has been experiencing a greater than usual number of quality applications from borrowers since the late summer of 2007 and this continued through the first quarter of 2008.

We expect to continue to see a growing number of high quality investment opportunities across the country which will help us to improve returns and diversify our portfolio. We would like to continue to finance further growth through the issuance of more units in the Fund without the assistance of brokers or other intermediaries. We would like to thank all our investors for their referrals and ask you to please continue to recommend the Fund to your friends and relatives.

If you would like to automatically reinvest your monthly income please visit our website at [www.romspenfund.com](http://www.romspenfund.com). Under "How to Invest" you will find the Distribution Reinvestment sign up form. Please call our investor relations department if you require any assistance with the website. We intend to remain investor focused and are always interested in feedback. Please do not hesitate to contact either Mr. Arthur Resnick or Ms. Ann Ralston at 416-966-1100. Once again, we thank you for your continued support and confidence.

Respectfully submitted,

*Arthur Resnick*

*Sheldon Esbin*

*Wesley Roitman*

Trustees of the Fund

## MANAGEMENT'S DISCUSSION AND ANALYSIS

(all amounts in millions, except per unit amounts, unless otherwise noted)

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*This Management's Discussion and Analysis ("MD&A") for Romspen Mortgage Investment Fund (the "Fund") should be read in conjunction with the unaudited financial statements and notes thereto for the quarter ended March 31, 2008 and the audited financial statements and MD&A for the year ended December 31, 2007. Investment in the Fund is subject to certain risks and uncertainties which are 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.romspenfund.com](http://www.romspenfund.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, 2007.*

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

### 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 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 Unitholders' 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 \$159 pursuant to the Exchange Offering, whereby Romspen's investors exchanged their syndicated mortgage interests for units of the Fund, and \$15 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

(all amounts in millions, except per unit amounts, unless otherwise noted)

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The Offering Memorandum, financial statements and additional information on the Fund is available and updated regularly on the Fund's website at [www.romspenfund.com](http://www.romspenfund.com). Unitholders who would like further information may also contact the Investor Relations department of the Fund at 416-966-1100.

### MORTGAGE PORTFOLIO

On March 31, 2008 the Fund's mortgage portfolio (the "Portfolio"), net of fair value provisions, was \$425.1 compared with \$422.9 at December 31, 2007 and \$345.0 at March 31, 2007. The term "fair value provision" is the new terminology under Accounting Guideline AcG-18 for what in prior years was referred to as "loan loss provision." This represents an increase of \$1 or 0.2% during the three month period. The portfolio consisted of 113 mortgage investments, compared with 120 at December 31, 2007 and 118 at March 31, 2007.

As of March 31, 2008, the Fund manager had unadvanced funding commitments of approximately \$93.1 which, consistent with its policy of favouring the Fund in mortgage syndications, would be primarily allocated to the Fund.

Approximately 94% of the portfolio as of March 31, 2008 was invested in first mortgages, compared with 95% one year ago. The weighted average interest rate of the portfolio was 11.69% per annum (2007-11.53%). The Fund manager continue to concentrate its effort during 2008 on strategies to increase the proportion of higher yield non-first mortgages that maintain loan-to-value and other underwriting criteria consistent with the traditional investment philosophy of the Fund manager.

The portfolio continues to be heavily concentrated in short term mortgages. Approximately 83% of the portfolio's mortgage investments mature within one year (2007-40%) and 94% mature within two years (2007-91%). In addition, the vast majority of our mortgages are open for repayment prior to maturity. The short term nature of Fund's portfolio provides us with the opportunity to continually revolve the portfolio in relation to changes in the real estate market. The Fund manager believes this flexibility is far more important in our market niche than securing fixed term interest rates. As of March 31, 2008 the Fund held no floating rate loans.

As of March 31, 2008, approximately 55% of our mortgage investments were located in Ontario compared with 59% as of December 31, 2007 and 81% as of March 31, 2007. The Fund manager continues to cautiously expand geographically to increase the Fund's diversification and reduce overall portfolio risk. Approximately 38% of the portfolio as of March 31, 2008 was invested in Western Canada, 3% in Quebec, and 4% in Atlantic Canada. The Fund manager selectively reviews investment opportunities in most urban markets in Canada.

The Fund made specific fair value provisions \$0.8 during the quarter. Total fair value provisions as of March 31, 2008 were \$5.6 which represented 1.3% of the original cost of the Fund's mortgage investments or \$0.16 per unit outstanding as of March 31, 2008. There were no realized losses during the quarter. The Fund's trustees believe this fair value provision is prudent

## MANAGEMENT'S DISCUSSION AND ANALYSIS

(all amounts in millions, except per unit amounts, unless otherwise noted)

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and conservative. The 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 trustees and, if appropriate, will be adjusted.

### RESULTS OF OPERATIONS

Total revenues for the quarter ended March 31, 2008 was \$12.5 compared with \$9.3 for the quarter ended March 31, 2007. This growth was largely a result of the significantly higher asset base during 2008. Interest income net of interest expense of \$1.7 for the current quarter was \$10.8 compared to \$8.3 in the quarter ended March 31, 2007. Net earnings after all expenses for the current quarter was \$8.8 compared to \$6.7 for the quarter ended March 31, 2007.

Management fees payable to the Fund manager and other general and administrative expenses of the Fund were \$1.2 during the quarter ended March 31, 2008 compared to \$0.8 during the quarter ended March 31, 2007. In both periods, these fees and expenses represented approximately 0.25% of average gross mortgage assets.

Basic weighted average earnings per unit for the three months ended March 31, 2008 of \$0.25 were comparable to the 2006 weighted average earnings per unit of \$0.25.

For the three month period ended March 31, 2008, the Fund distributed \$8.8 or \$0.25 per unit, compared to \$6.6 or \$0.25 per unit, for the three month period ended March 31, 2007.

Net earnings for the quarter ended March 31, 2008 represented an annualized return on unitholders' equity<sup>1</sup> (based on weighted average unitholders' equity) of 10.11% compared to 10.32% for the quarter ended March 31, 2007.

### CHANGES IN FINANCIAL POSITION

Total assets as of March 31, 2008 were \$450.8 compared with \$432.7 as of December 31, 2007 and \$350.5 as of March 31, 2007. Total assets are comprised primarily of mortgages recorded at fair market value and accrued interest receivable on those mortgages.

Total liabilities as of March 31, 2008 were \$89.7 comprised primarily of \$85.9 in outstanding indebtedness under the Fund's revolving loan facility and \$3.7 in accounts payable and distributions payable to unitholders. As of December 31, 2007 total liabilities were \$101.3 and as of March 31, 2007 they were \$79.3.

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 floating rate of TD Bank prime plus one percent and is secured by all assets of the Partnership and a pledge of all Partnership units held by the Fund.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

(all amounts in millions, except per unit amounts, unless otherwise noted)

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Unitholders' equity as of March 31, 2008 was \$361.1 compared with \$331.4 as of December 31, 2007 and \$271.2 as of March 31, 2007. These amounts represented approximately \$10 per unit outstanding at the end of each reporting period. There were a total of 36,158,702 units outstanding on March 31, 2008 compared to 33,195,610 on December 31, 2007 and 27,131,522 on March 31, 2007. 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 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 leveraged as of March 31, 2008. Borrowings totaled approximately 20%<sup>1</sup> of the book value of mortgages held by the Fund compared to 23%<sup>1</sup> as of December 31, 2007 and 22%<sup>1</sup> as of March 31, 2007. The average daily utilization of the Fund's borrowing for the three month period ended March 31, 2008 was 20%<sup>1</sup> compared to 19%<sup>1</sup> for the same period last year.

During the period ended March 31, 2008 proceeds from the issuance of units net of redemptions and costs were \$30 compared to \$25 for the period ended March 31, 2007.

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. The Fund manager intends to continue directing most of its mortgage investment opportunities to the Fund, which results in a continuous transfer of mortgage syndication interests to the Fund as syndicated mortgages are refinanced and renewed. We believe that the Fund's combined borrowing capacity and expected near-term mortgage repayments are not sufficient to finance expected near-term growth in the mortgage portfolio. Consequently, we expect to raise additional equity in future periods.

## RELATED PARTY TRANSACTION

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

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(all amounts in millions, except per unit amounts, unless otherwise noted)

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which are syndicated among Romspen, the Fund's trustees, or related parties. The Partnership's interests in such syndications ranks 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 unaudited consolidated financial statements.

### RISK MANAGEMENT

The Fund is exposed various financial instruments 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 insure the preservation of capital as well as the achieving of acceptable and consistent rates of return. These risks include:

#### (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 mitigates this risk by investing primarily in short-term mortgages. In addition, 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 bears interest at the TD Canada Trust Bank prime rate plus 1%.

#### (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:

- no more than 20% of the Fund's capital may be invested in subordinate mortgages;

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(all amounts in millions, except per unit amounts, unless otherwise noted)

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- 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:

- Initial terms of 12 to 24 months;
- loan to value ratios of less than 65% at time of underwriting;
- significant at-risk capital and/or additional collateral of property owner; and
- 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.

Under the Mortgage Manager Agreement the Fund manager is responsible to manage the Fund's mortgages in accordance with a servicing standard. To meet this requirement, the Fund manager is committed to several processes to ensure credit risk is appropriately managed. This includes:

- employment of an experienced team of loan originators and underwriters;
- comprehensive investigation into the creditworthiness of all borrowers;
- engagement of qualified independent consultants such as lawyers, quantity surveyors, real estate appraisers and insurance consultants to assist in the due diligence process of mortgage underwriting;
- weekly meetings to review due diligence findings on all pending mortgages;
- implementation of an acceptable geographic diversification strategy; and
- prompt initiation of recovery strategies for loans which are overdue or otherwise considered to be at risk;

### (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

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(all amounts in millions, except per unit amounts, unless otherwise noted)

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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.

The Fund's revolving loan facility matures on May 31, 2008 subject to an automatic renewal provision that stipulates either party may, not less than 60 days prior to June 1st of each year, provide written notice of its termination not to renew. Neither of its lenders, nor the Fund, provided written notice of its termination not to renew the loan on April 2, 2008 and consequently it has automatically renewed until June 1, 2009.

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.

### (f) Capital management

The Fund manages capital to attain its objective of providing stable and secure cash distributions of income while preserving unitholders' equity. 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.

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(all amounts in millions, except per unit amounts, unless otherwise noted)

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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. During periods where the Fund manager projects a lesser volume of mortgage investment opportunities, the Fund does not raise additional equity. 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, 2008 the Fund's borrowings totaled 20% of the book value of its mortgages and the Fund was in compliance with all covenants under its revolving loan facility.

## OUTLOOK

The Fund's investment objective is to return a stable and secure cash yield to unitholders while preserving capital through prudent loan underwriting and management. The Fund manager is confident this can be accomplished by holding to its historical prudent and comprehensive approach to mortgage lending. As a result of its recent marketing efforts, long standing reputation and current conditions in the credit markets, the Fund manager continues to be presented with a significant volume of attractive high quality mortgage opportunities. This has resulted in significant growth of the mortgage portfolio since the Fund's commencement of operations in early 2006, and continued growth is expected throughout 2008.

Beginning in the third quarter of 2007 global credit markets experienced a severe disruption and decline in liquidity. Credit market participants became aware that large volumes of subprime residential mortgages in the United States that underlie many bonds and other complex debt securities were highly compromised. The residential subprime mortgages were generally very high loan-to-value loans with minimal documentation and underwriting. They often contained initial low teaser rates of interest and other marketing innovations. The related mortgage backed securities were rated by credit agencies using statistical computer models instead of proper underwriting and were often significantly over-rated given the underlying collateral and loan structure. As it became apparent that many of the subprime loans underlying the securities would default and large losses would result, banks and other large credit market participants withdrew credit from those who they viewed were exposed to these losses. This resulted in the failure of two mid-sized banks in Europe, the near collapse and sale of Bear Stearns, and closer to home, the collapse of the Canadian asset-backed commercial paper markets as our non-bank issuers of commercial paper could not refinance their short term obligations. Central banks around the world responded by injecting liquidity in the form of loans to banks and lowering overnight borrowing costs. This process of asset re-pricing and de-leveraging is continuing and in such an environment it may be expected that more after-shocks will occur.

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(all amounts in millions, except per unit amounts, unless otherwise noted)

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The impact of these events on the general economy is uncertain. Clearly, the area of the economy directly affected will be residential real estate markets in the United States. US home prices and sales volumes are in dramatic decline after several years of overly strong growth. The Fund manager is of the view these declines will continue for some time as defaulted loans are liquidated. The degree to which this decline in the US residential real estate market will spill over to consumer confidence, employment, and in turn affect other consumer credit, such as credit card loans, is less certain but in the Fund manager's view, it is highly probable. The impact on the Canadian economy will be more indirect. Several factors, including government budget surpluses, high commodity prices, low interest rates and sensible local credit practices will serve to insulate Canada from this general slowdown in the US. A high dollar and weak US economy will hurt exporters and manufacturers primarily in Ontario and Quebec.

These recent events have also impacted the Fund. The Fund manager experienced a surge in loan applications as borrowers struggled to replace commitments cancelled by banks and others. Many of these applications were of a higher credit quality than the Fund customarily finds itself competitive. Although the Fund has no exposure to US residential real estate or affected Canadian debt securities, the Fund experienced a brief and mild increase in unitholder redemptions as a handful of concerned investors responded to the initial media reports with redemption requests. Investor confidence appears to have returned to normal with the Fund raising net equity capital of \$30 million in the first three months of 2008.

The Fund manager believes that the current environment is ideal for its business in two respects. First, it will provide the Fund with excellent mortgage opportunities for investment at higher yields than were previously available. And second, many seasoned loans will remain in the Fund as borrowers find refinancing opportunities more limited. Experienced investors recognize that market disruptions, such as those in the current environment, create among the best investment opportunities. The Fund manager expects that, provided sufficient capital is available to the Fund, it will experience strong growth in the coming quarters. The Fund manager continues to prefer investments in Canadian real estate markets other than Quebec and Ontario in the present high dollar environment. This may result in a more geographically diversified portfolio given that the Fund remains concentrated in Ontario at present.

These circumstances in the marketplace, together with prudent strategies to slightly increase the Fund's investment in higher yield non-first mortgages, and perhaps a slightly increased use of leverage, should have a positive impact on the annual return for unitholders.

<sup>1</sup> These are non-GAAP financial measures (see "Non-GAAP Financial Measures").

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(all amounts in millions, except per unit amounts, unless otherwise noted)

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### FORWARD LOOKING STATEMENTS

From time to time the Fund makes written and verbal forward-looking statements. These are included in their quarterly Management 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.

Interim Consolidated Financial Statements of

**ROMSPEN MORTGAGE  
INVESTMENT FUND**

Three months ended March 31, 2008 and 2007  
(Unaudited)

# ROMSPEN MORTGAGE INVESTMENT FUND

Interim Consolidated Balance Sheets  
(In thousands of dollars, except per unit amounts)

|  | March 31,<br>2008<br>(Unaudited) | Dec. 31,<br>2007<br>(Audited) | March 31,<br>2007<br>(Unaudited) |
|--|----------------------------------|-------------------------------|----------------------------------|
| <b>Assets</b>                                    |                                  |                               |                                  |
| Cash   | \$ 17,431                        | \$ 2,144                      | \$ 118                           |
| Accrued interest receivable                      | 8,242                            | 7,694                         | 5,375                            |
| Mortgages, net of allowance for losses (note 4)  | 425,126                          | 422,898                       | 345,041                          |
|  | \$ 450,799                       | \$ 432,736                    | \$ 350,534                       |
| <b>Liabilities and Unitholders' Equity</b>       |                                  |                               |                                  |
| Liabilities:                                     |                                  |                               |                                  |
| Revolving loan facility (note 5)                 | \$ 85,973                        | \$ 82,884                     | \$ 76,465                        |
| Accounts payable                                 | 493                              | 421                           | 409                              |
| Promissory note payable                          | -                                | 15,000                        | -                                |
| Unitholders' distributions payable               | 3,254                            | 3,037                         | 2,442                            |
|  | 89,720                           | 101,342                       | 79,316                           |
| Unitholders' equity (note 6)                     | 361,079                          | 331,394                       | 271,218                          |
| Commitments and contingent liabilities (note 12) |                                  |                               |                                  |
|  | \$ 450,799                       | \$ 432,736                    | \$ 350,534                       |
| Net asset value per unit (note 7)                | \$ 9.99                          | \$ 9.98                       | \$ 9.99                          |

See accompanying notes to consolidated financial statements.

# ROMSPEN MORTGAGE INVESTMENT FUND

Interim Consolidated Statement of Earnings  
(In thousands of dollars, except per unit amounts)

|   | 3 months ended<br>March 31, 2008 | 3 months ended<br>March 31, 2007 |
|---|----------------------------------|----------------------------------|
|   | (Unaudited)                      | (Unaudited)                      |
| Revenue:  |                                  |                                  |
| Mortgage interest   | \$ 12,234                        | \$ 9,176                         |
| Other interest  | 299                              | 93                               |
|   | 12,533                           | 9,269                            |
| Expenses:   |                                  |                                  |
| Management fees (note 11)   | 1,150                            | 844                              |
| Interest  | 1,730                            | 1,043                            |
| Unrealized loss in value of mortgages                               | 755                              | 717                              |
| Audit   | 7                                | 1                                |
| Legal   | 17                               | 4                                |
| Other   | 49                               | -                                |
|   | 3,708                            | 2,609                            |
| Net earnings  | \$ 8,825                         | \$ 6,660                         |
| Net earnings per unit (note 8)                                      | \$ 0.253                         | \$ 0.254                         |
| Weighted average number of units issued<br>and outstanding (note 8) | 35,021,006                       | 26,170,727                       |

See accompanying notes to interim consolidated financial statements.

# ROMSPEN MORTGAGE INVESTMENT FUND

Interim Consolidated Statements of Unitholders' Equity  
(In thousands of dollars)

|   | March 31, 2008<br>(Unaudited) | Dec. 31, 2007<br>(Audited) | March 31, 2007<br>(Unaudited) |
|---|-------------------------------|----------------------------|-------------------------------|
| <b>Unit capital:</b>                            |                               |                            |                               |
| Balance, beginning of period                    | \$ 331,840                    | \$ 246,691                 | \$ 246,691                    |
| Proceeds from issuance of units (note 7)        | 29,630                        | 85,168                     | 24,526                        |
| Offering expenses                               | -                             | (19)                       | -                             |
| <b>Balance, end of period</b>                   | <b>\$ 361,470</b>             | <b>\$ 331,840</b>          | <b>\$ 271,217</b>             |
| <b>Cumulative earnings:</b>                     |                               |                            |                               |
| Balance, beginning of period                    | \$ 47,794                     | \$ 18,789                  | \$ 18,789                     |
| Net earnings of the period                      | 8,825                         | 29,005                     | 6,660                         |
| <b>Balance, end of period</b>                   | <b>\$ 56,619</b>              | <b>\$ 47,794</b>           | <b>\$ 25,449</b>              |
| <b>Cumulative distributions to unitholders:</b> |                               |                            |                               |
| Balance, beginning of period                    | (48,240)                      | (18,902)                   | (18,902)                      |
| Distributions to unitholders (note 8)           | (8,770)                       | (29,338)                   | (6,547)                       |
| <b>Balance, end of period</b>                   | <b>\$ (57,010)</b>            | <b>\$ (48,240)</b>         | <b>\$ (25,449)</b>            |
| <b>Unitholders' equity</b>                      | <b>\$ 361,079</b>             | <b>\$ 331,394</b>          | <b>\$ 271,217</b>             |
| <b>Units issued and outstanding</b>             | <b>36,158,702</b>             | <b>33,195,610</b>          | <b>27,131,522</b>             |

See accompanying notes to consolidated financial statements.

# ROMSPEN MORTGAGE INVESTMENT FUND

Interim Consolidated Statements of Cash Flows  
(In thousands of dollars)

|   | 3 months ended<br>March 31, 2008 | 3 months ended<br>March 31, 2007 |
|---|----------------------------------|----------------------------------|
|   | (Unaudited)                      | (Unaudited)                      |
| Cash provided by (used in):   |                                  |                                  |
| Operations:   |                                  |                                  |
| Net earnings  | \$ 8,825                         | \$ 6,660                         |
| Items not affecting cash:   |                                  |                                  |
| Amortization of deferred financing costs                                  | 87                               | 92                               |
| Unrealized loss in value of mortgages                                     | 755                              | 625                              |
| Change in non-cash operating items:                                       |                                  |                                  |
| Accrued interest receivable and<br>deferred financing costs               | (546)                            | (1,769)                          |
| Accounts payable and unitholders'<br>distributions payable                | 289                              | 447                              |
|   | 9,410                            | 6,055                            |
| Financing:  |                                  |                                  |
| Proceeds from issuance of units, net of<br>offering costs and redemptions | 29,630                           | 24,526                           |
| Increase in revolving loan facility                                       | 3,000                            | 19,865                           |
| Payment of promissory note  | (15,000)                         | -                                |
| Distributions to unitholders  | (8,770)                          | (6,547)                          |
|   | 8,860                            | 37,844                           |
| Investments:  |                                  |                                  |
| Funding of mortgages  | (87,011)                         | (57,701)                         |
| Discharge of mortgages  | 84,028                           | 12,310                           |
|   | (2,983)                          | (45,391)                         |
| Increase in cash  | 15,287                           | (1,492)                          |
| Cash, beginning of period   | 2,144                            | 1,610                            |
| Cash, end of period   | \$ 17,431                        | \$ 118                           |
| Supplemental cash flow information:                                       |                                  |                                  |
| Interest paid   | \$ 1,643                         | \$ 1,043                         |

See accompanying notes to interim consolidated financial statements.

# ROMSPEN MORTGAGE INVESTMENT FUND

Notes to Interim Consolidated Financial Statements  
(In thousands of dollars)

Three months ended March 31, 2008 and 2007

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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.

# ROMSPEN MORTGAGE INVESTMENT FUND

Notes to Interim Consolidated Financial Statements (continued)  
(In thousands of dollars)

Three months ended March 31, 2008 and 2007

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## 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. Actual results could differ from those estimates.

### (d) Net earnings per unit:

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

### (e) 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: (i) held-to-maturity, (ii) loans and receivables, (iii) held-for-trading or (iv) available-for-sale. All financial liabilities must be classified as: (i) held-for-trading, or (ii) other liabilities. The Fund's designations are as follows:

(a) Accrued interest receivable is classified as loans and receivables and is measured at amortized cost.

(b) 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:

New accounting standards issued in December 2006, Handbook Sections 3862 (Financial Instruments – Disclosures) and Section 3863 (Financial Instruments – Presentation), replace Section 3861 (Financial Instruments – Disclosure and Presentation). The new standards require increased qualitative and quantitative disclosures about an entity's exposure to risks arising from financial instruments and how the entity manages those risks. These new standards are effective for the Trust commencing on January 1, 2008. The required note disclosure is set out in note 14 to these financial statements.

# ROMSPEN MORTGAGE INVESTMENT FUND

Notes to Interim Consolidated Financial Statements (continued)  
(In thousands of dollars)

Three months ended March 31, 2008 and 2007

## 4. Mortgage investments:

The following is a summary of the 113 mortgages held as at March 31, 2008:

|                  |  |                  | March 31,<br>2008 | December 31,<br>2007 |
|------------------|--|------------------|-------------------|----------------------|
|                  | Number of<br>mortgages<br>making up<br>balance | Original<br>cost | Fair<br>value     | Fair<br>value        |
| First mortgages  | 104  | \$ 404,816       | \$ 399,186        | \$ 390,588           |
| Second mortgages | 9  | 25,940           | 25,940            | 26,423               |
| Third mortgages  | -  | -                | -                 | 5,887                |
|                  | 113  | \$ 430,756       | \$ 425,126        | \$ 422,898           |

The following is a summary of the original cost of mortgages grouped by interest rate at March 31, 2008:

| Rates         | March 31,<br>2008 | December 31,<br>2007 |
|---------------|-------------------|----------------------|
| 9.0% - 10.0%  | \$ 40,637         | \$ 42,170            |
| 10.1% - 11.0% | 155,581           | 171,877              |
| 11.1% - 12.0% | 199,629           | 178,836              |
| 12.1% - 20.0% | 33,891            | 33,890               |
| Over 20.0%    | 1,018             | 1,000                |
|               | \$ 430,756        | \$ 427,773           |

The mortgages are secured by real property and other security, bear interest at a weighted average rate of 11.69% at March 31, 2008 (December 31, 2007 - 11.63%) and mature between 2008 and 2011.

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

Where appropriate, management makes specific provisions for loan losses.

Principal repayments based on contractual maturity dates are as follows:

# ROMSPEN MORTGAGE INVESTMENT FUND

Notes to Interim Consolidated Financial Statements (continued)  
(In thousands of dollars)

Three months ended March 31, 2008 and 2007

## 4. Mortgage investments (continued):

The twelve months ended:

|                |            |
|----------------|------------|
| March 31, 2009 | \$ 355,990 |
| 2010           | 49,148     |
| 2011           | 15,788     |
| 2012           | 9,830      |
|                | <hr/>      |
|                | \$ 430,756 |

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

## 5. Revolving loan facility:

The Partnership has entered into a revolving loan facility in the maximum amount of \$120,000, of which approximately \$14,000 (December 31, 2007 - \$37,000) is available and \$86,000 has been drawn as at March 31, 2008 (December 31, 2007 - \$83,000). Interest on the loan is charged at the TD Canada Trust Bank prime rate plus 1%. The minimum and maximum amounts drawn under the revolving loan facility during the three months ended March 31, 2008 were \$76,000 and \$102,000 (2007 - \$56,000 and \$76,465), 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 May 31, 2008 and is subject to automatic renewal provisions and an annual renewal fee of 0.25% of the maximum facility. Either party may, on 60-days' notice, elect not to renew the loan.

|   | March 31,<br>2008 | December 31,<br>2007 |
|---|-------------------|----------------------|
| Carrying value of revolving loan facility   | \$ 86,000         | \$ 83,000            |
| Revolving loan facility financing costs, net of<br>accumulated amortization of \$555<br>(December 31, 2007 - \$468) | 27                | 116                  |
|   | <hr/>             | <hr/>                |
|   | \$ 85,973         | \$ 82,884            |

As discussed in note 3 herein, in accordance with the new accounting standard adopted by the Fund, deferred financing costs relating to the revolving loan facility are no longer presented as a separate asset on the interim consolidated balance sheet and are now netted against the carrying value of the revolving loan facility.

The costs associated with the establishment of the revolving loan facility are amortized over the one year initial term of the facility.

# ROMSPEN MORTGAGE INVESTMENT FUND

Notes to Interim Consolidated Financial Statements (continued)  
(In thousands of dollars)

Three months ended March 31, 2008 and 2007

## 6. Promissory note payable:

The promissory note payable was due on demand, bore interest at 9% per annum, payable monthly interest only. The promissory note was secured by a general security agreement over the assets of the Fund. The note was paid in full during the three months ended March 31, 2008.

## 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 permitted only if the total amount of requests for redemptions for that month are less than 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. The Fund also has the right to redeem units held by any unitholder.

(a) The following units are issued and outstanding:

|  | Three months ended March 31, |            |             |            |
|--|------------------------------|------------|-------------|------------|
|  | 2008                         |            | 2007        |            |
|  | Units                        | Amount     | Units       | Amount     |
| Balance, beginning of period                             | 33,195,610                   | \$ 331,840 | 24,678,904  | \$ 246,691 |
| New units issued   | 2,824,994                    | 28,250     | 9,171,408   | 91,714     |
| New units issued under<br>distribution reinvestment plan | 253,603                      | 2,536      | 771,353     | 7,714      |
| Units redeemed   | (115,505)                    | (1,156)    | (1,426,055) | (14,260)   |
| Offering expenses  | -                            | -          | -           | (19)       |
| Balance, end of period                                   | 36,158,702                   | \$ 361,470 | 33,195,610  | \$ 331,840 |

(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 per unit.

# ROMSPEN MORTGAGE INVESTMENT FUND

Notes to Interim Consolidated Financial Statements (continued)  
(In thousands of dollars)

Three months ended March 31, 2008 and 2007

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## 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 of 36,158,702 for the three months ended March 31, 2008 (year ended December 31, 2007 - 33,195,610).

Net earnings per unit has been computed using the weighted average number of units outstanding of 35,021,006 for the three months ended March 31, 2008 (year ended December 31, 2007 - 29,299,636).

## 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, 2008, the Fund declared distributions of \$0.25 (2007 - \$0.25) per unit and a total of \$8,770 (2007 - \$6,547) 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 taxes 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.

# ROMSPEN MORTGAGE INVESTMENT FUND

Notes to Interim Consolidated Financial Statements (continued)  
(In thousands of dollars)

Three months ended March 31, 2008 and 2007

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## 10. Income taxes (continued):

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 Trust 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 three months ended March 31, 2008, the amount was \$1,150 (2007 - \$844).
- (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, 2008, this amount was \$2,069 (2007 - \$1,838).
- (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, 2008, the Fund had 3 (December 31, 2007 - 3) mortgages outstanding with an original cost of \$13,818 (December 31, 2007 - \$12,745) including accrued interest of \$1,401 (December 31, 2007 - \$942) and fair value of \$13,122 (December 31, 2007 - \$12,049) due from mortgagors in which members of management of Romspen own non-controlling interests.

# ROMSPEN MORTGAGE INVESTMENT FUND

Notes to Interim Consolidated Financial Statements (continued)  
(In thousands of dollars)

Three months ended March 31, 2008 and 2007

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## 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, a Partnership mortgage 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 mitigates this risk by investing primarily in short-term mortgages. In addition, 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.

# ROMSPEN MORTGAGE INVESTMENT FUND

Notes to Interim Consolidated Financial Statements (continued)  
(In thousands of dollars)

Three months ended March 31, 2008 and 2007

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

The Fund's debt under the revolving loan facility (see Note 5) bears interest based at the TD Canada Trust Bank prime rate plus 1%.

As at March 31, 2008, 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 quarter would not have been materially affected.

### (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:

- no more than 20% of the Fund's capital may be invested in subordinate mortgages;
- 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:

- Initial terms of 12 to 24 months;
- loan to value ratios of less than 65% at time of underwriting;
- significant at-risk capital and/or additional collateral of property owner; and
- 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.

# ROMSPEN MORTGAGE INVESTMENT FUND

Notes to Interim Consolidated Financial Statements (continued)  
(In thousands of dollars)

Three months ended March 31, 2008 and 2007

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

### (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.

The Fund's revolving loan facility (see Note 5) matures on May 31, 2008 subject to an automatic renewal provision that stipulates either party may, not less than 60 days prior to June 1<sup>st</sup> of each year, provide written notice of its termination not to renew. Neither of its lenders, nor the Fund, provided written notice of its termination not to renew the loan on April 2, 2008 and consequently it has automatically renewed until June 1, 2009.

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.

# ROMSPEN MORTGAGE INVESTMENT FUND

Notes to Interim Consolidated Financial Statements (continued)  
(In thousands of dollars)

Three months ended March 31, 2008 and 2007

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

### (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.

### (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. 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. During periods where the Fund manager projects a lesser volume of mortgage investment opportunities, the Fund does not raise additional equity. 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, 2008 the Fund's borrowings totalled 20% 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.