



Third Quarter 2009 Report



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

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# Trustees' Letter

October 29, 2009

Dear Fellow Investors:

Romspen continued to perform well during the third quarter of 2009 with results that matched the second quarter. While results were below the same period last year, they remain solid, particularly given the challenging economic conditions. The Fund continued to add to loss reserves during the quarter, reflecting our cautious stance.

## Financial Highlights

Net income for the third quarter of 2009 was \$9.2 million or \$0.20 per unit compared to \$9.9 million or \$0.24 per unit a year ago. Net income for the nine-month period ended September 30, 2009 was \$0.61 per unit compared to \$0.73 per unit a year ago. Unitholder distributions were \$0.21 per unit during the third quarter and \$0.63 per unit during the first three quarters. This compares to \$0.24 and \$0.73 per unit respectively in the year-ago periods. Lower results compared to the previous year reflect our decision to not accrue interest on certain under-performing mortgages.

As at September 30, 2009, the mortgage portfolio was \$476.5 million, an increase of 5.7% compared to a year ago and remains well diversified. The weighted average interest rate of the mortgage portfolio at September 30, 2009 was 12.2% compared to 11.7% in the year-ago period, reflecting continuing tight credit market conditions. Total net debt (debt less cash) at September 30, 2009 was \$36.5 million or 8% of the mortgage portfolio compared to \$29.2 million or 6% of the mortgage portfolio a year earlier. The Fund added \$0.3 million (\$0.01/unit) to its loss provision during the quarter, increasing the total loss provision to \$9.7 million or 2% of gross mortgage investments. No losses were realized during the quarter.

## Comparative Performance

The compounded net yield to unitholders for the first three quarters of 2009 was 6.5% compared to 7.5% last year. The Fund performed well against T-bills and long bonds during the first three quarters which yielded 0.3% and 1.3% respectively. The stock market continued its early summer rally, gaining 30% through the first three quarters of 2009 following its deep losses last year.

For the 12 month period ended September 30, 2009, the Fund's compounded net yield to unitholders was 8.8%. On this basis, the Fund outperformed T-bills which yielded 0.7% and the stock market which was down 14.5%. Long bonds, however, showed a 9.9% return due largely to a strong technical rally late in 2008 in response to the credit crisis.

## Outlook

Although equity markets have rallied on expectations of an economic recovery, we believe much of this is unjustified due

to the strong headwinds the economy continues to face - unemployment remains high; demand is weak across many sectors; conventional credit is difficult to obtain and balance sheets remain overly leveraged. The backdrop to the impressive stock market gains has been the unprecedented fiscal and monetary action taken by governments around the world to address the credit crisis and aggressive cost cutting by companies to drive earnings in the absence of top-line growth. Neither of these are sustainable initiatives. Despite this, we do believe the worst of the crisis is over, but that the recovery will be protracted. As such, our investment attitude remains highly cautious and reserved.

We have lent defensively over the last number of years and our portfolio has delivered strong results against our investment mandate of capital preservation, absolute 10% returns and consistency. All decisions we make on a day-to-day basis are with this mandate in mind. The current economic environment is creating both challenges and opportunities for the Fund. Within the current portfolio, certain loans are not performing to their terms, with delayed payments and extended maturities while severe cases require hands-on involvement to work out and some cases requiring foreclosure by the Fund for ultimate sale. On the flip side, the credit crisis has narrowed the range of financing options for quality borrowers and projects, thereby creating numerous attractive lending opportunities.

Following overwhelming approval of the discount redemption resolution at the Fund's AGM on May 19, 2009, the trustees implemented this provision offering unitholders in the redemption queue a 25% discounted redemption. As we had expected, not a single unitholder elected the discount redemption, which was gratifying.

Our successful record of capital preservation and superior returns over 15 years are the result of strong alignment among Romspen, its unitholders and its management team. As the largest investor in the Fund, the trustees are fully committed to Romspen's long term success.

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

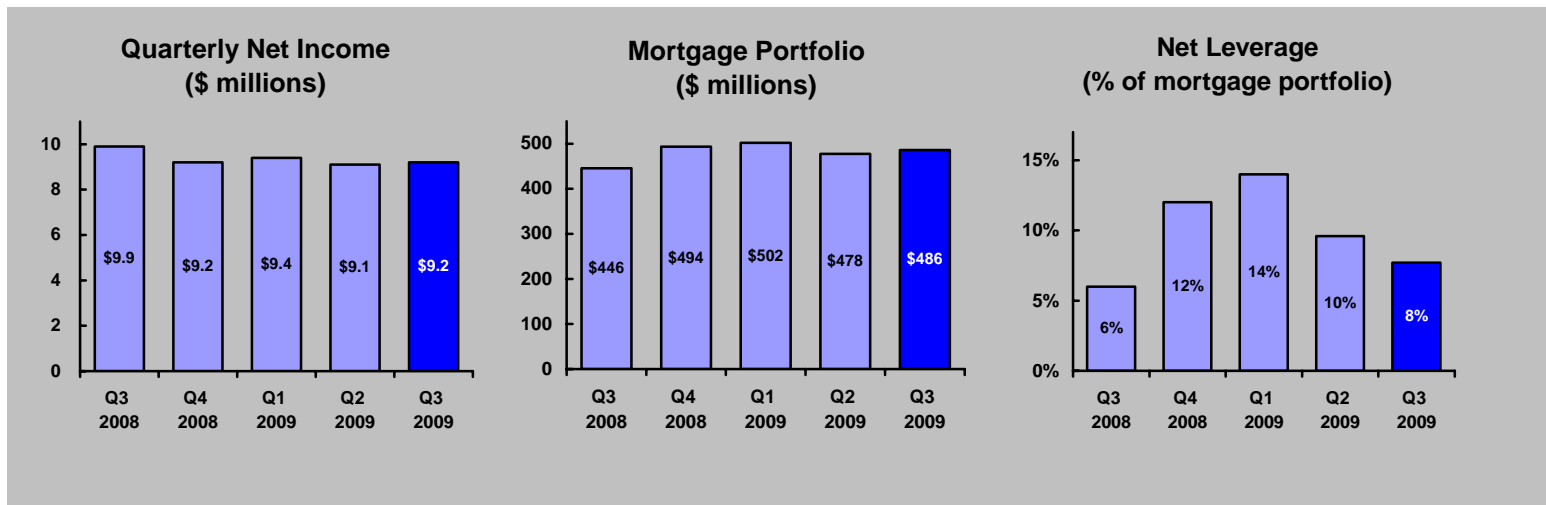
Respectfully submitted,

Sheldon	Mark	Arthur	Wesley
Esbin	Hilson	Resnick	Roitman

Trustees of the Fund

# Financial Highlights – Third Quarter 2009

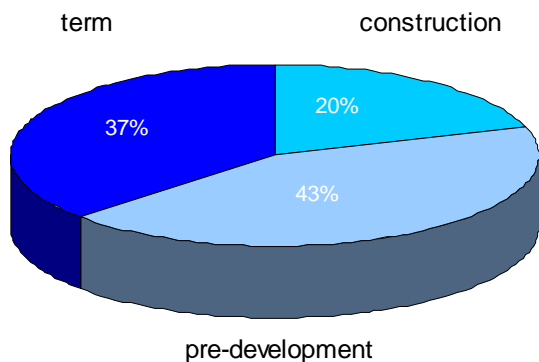
## Key Metrics



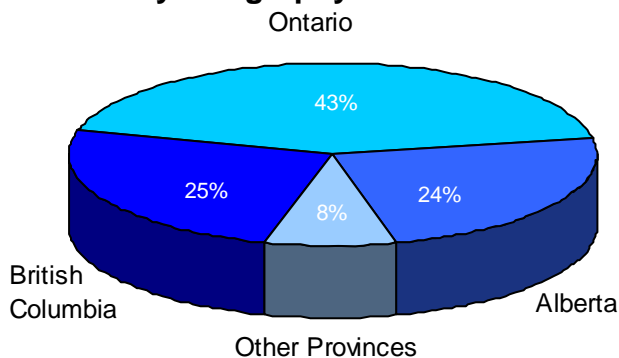
## Mortgage Portfolio Profile

As of September 30, 2009

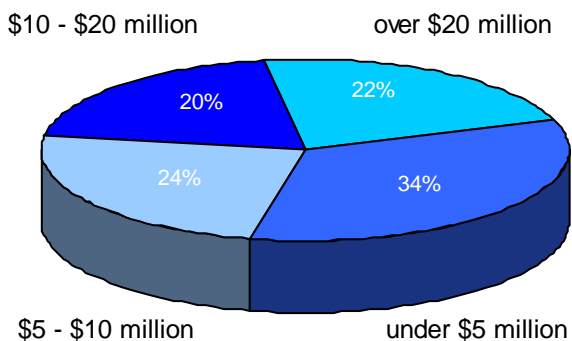
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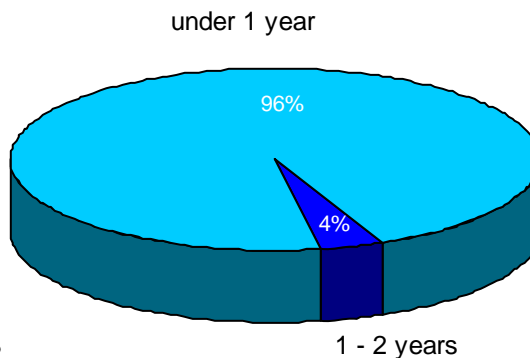
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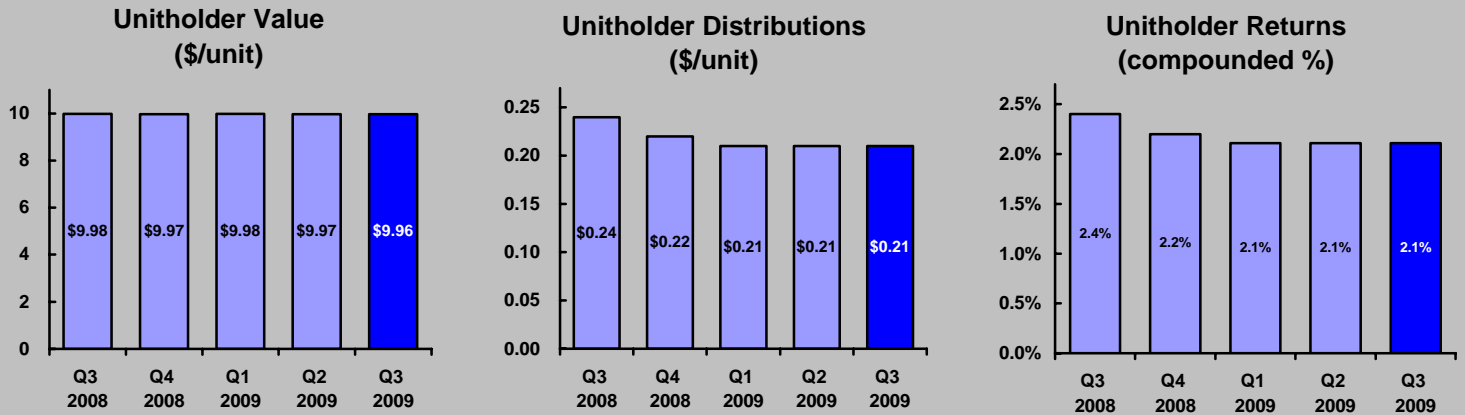


### By Amount



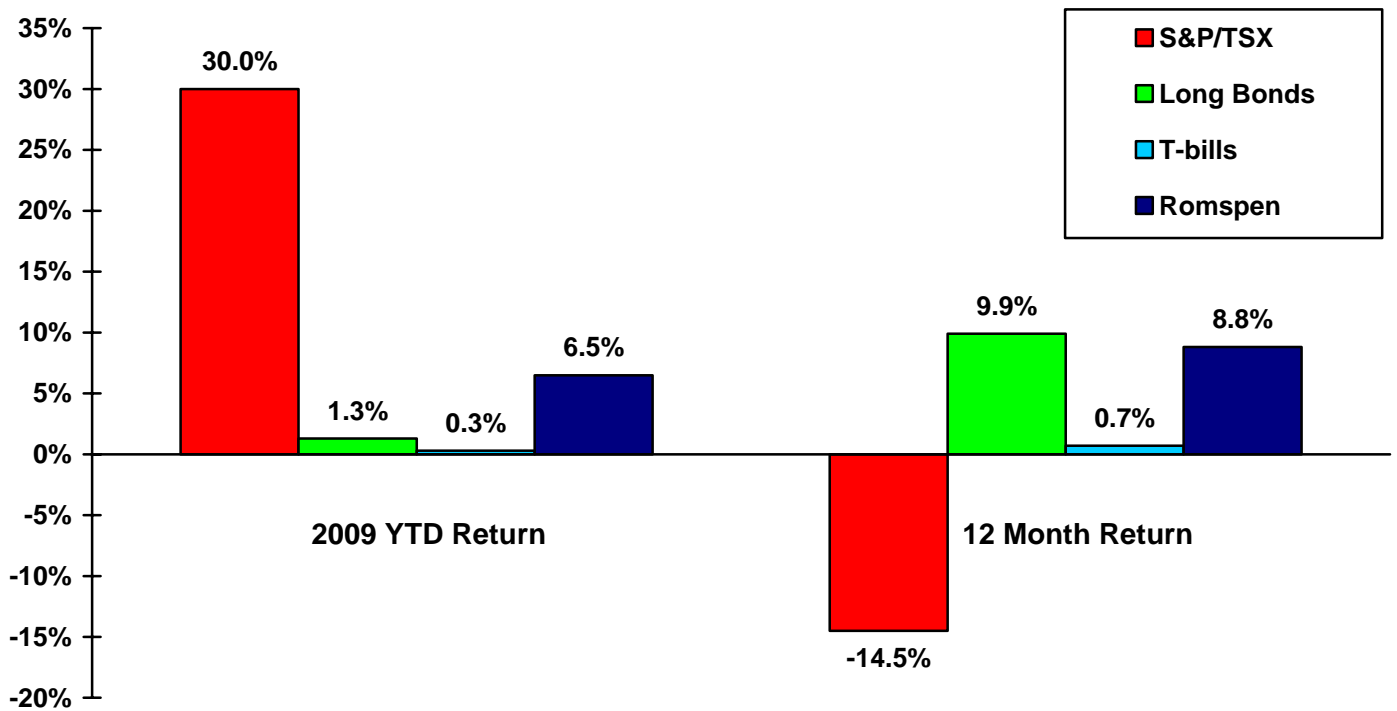
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## Comparative Performance

Compounded Returns as of September 30, 2009



# 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, 2009 included herein and the audited financial statements and MD&A for the year ended December 31, 2008. 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](http://www.romspen.com).*

*Management is responsible for the information disclosed in this MD&A. The Fund has in place appropriate procedures, systems and controls to ensure such information is materially complete and reliable. In addition, the Fund's trustees have reviewed and approved the MD&A and the financial statements for the year ended December 31, 2008.*

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

## Forward-Looking Statements

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

Forward-looking statements include, but are not limited to, business objectives and targets, Fund strategies, operations, anticipated financial results and the outlook for the Fund, its industry, and the Canadian economy. These statements regarding future performance are "financial outlooks" within the meaning of National Instrument 52-102. Forward-looking statements are typically identified by words such as "believe", "expect", "anticipate", "estimate", "plan", "may", and "could" or other similar expressions. By their very nature, these statements require us to make assumptions and are subject to inherent risks and uncertainties, general and specific, which may cause actual results to differ materially from the expectations expressed in the forward-looking statements. These risks and

uncertainties include, but are not limited to, global capital market activity, changes in government monetary and economic policies, changes in interest rates, inflation levels and general economic conditions, legislative and regulatory developments, competition and technological change. The preceding list is not exhaustive of possible factors. These and other factors should be considered carefully and readers are cautioned not to place undue reliance on these forward-looking statements. The Fund does not undertake to update any forward-looking statements, whether written or verbal, that may be made from time to time by it or on its behalf except as required by securities laws.

## Non-GAAP Financial Measures

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

## Introduction

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

Fund is to provide stable and secure cash distributions of income while preserving equity.

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

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

On June 22, 2007, new federal legislation came into force that altered the taxation regime for specified investment flow-through trusts or partnerships (“SIFT”) (the “SIFT Rules”). Under the SIFT Rules, certain distributions from a SIFT will no longer be deductible in computing a SIFT’s taxable income and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general corporate tax rate. Distributions paid by a SIFT as returns of capital will not be subject to the tax. As its units are not listed on a stock exchange or other public market, the Fund is not subject to the SIFT tax regime.

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

## **Mortgage Portfolio**

On September 30, 2009, the Fund’s mortgage portfolio (the “Portfolio”), net of fair value provisions, was \$476.5 million compared with \$445.6 million at September 30, 2008. This represents a growth of 6.9% or an increase of \$30.9 million. The portfolio decreased marginally in size to 107 mortgages compared to 114 at the same time last year.

Approximately 95% of the Portfolio was invested in first mortgages at September 30, 2009 compared to 97% a year

ago. The weighted average interest rate of the Portfolio increased to 12.2% at the end of the third quarter versus 11.7% as September 30, 2008. Though the Fund Manager continued to focus on safety, renewals of existing mortgages have been executed with higher interest rates available because of tightening credit market conditions that left few alternatives for borrowers.

The Portfolio continues to be concentrated in short-term mortgages. Approximately 96% of the portfolio’s mortgage investments mature within one year (September 30, 2008 - 83%) and 100% mature within two years (September 30, 2008 - 97%). In addition, all of our mortgages are open for repayment prior to maturity. The short-term nature of the Fund’s portfolio provides us with the opportunity to continually evolve the portfolio in response to changes in the real estate and credit markets. The Fund Manager believes this flexibility is far more important in our market niche than securing long-term fixed interest rates.

As of September 30, 2009, approximately 43% of our mortgage investments were in Ontario compared to 51% one year ago. As of September 30, 2009, approximately 49% of the Portfolio was invested in Western Canada, and 8% in other provinces. 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, 2009 were \$9.7 million, which represented 2.0% of the original cost of the Fund’s mortgage investments or \$0.21 per unit outstanding as at September 30, 2009. During the first three quarters of 2009, the Fund made specific fair value provisions of \$2.4 million and no losses were realized on the Portfolio. The Fund Manager believes this provision is prudent and conservative. The fair value provision is based on assumptions relating to the Fund’s mortgage investments and only the passage of time will determine the actual performance of the mortgages. The fair value provision will continue to be reviewed by the Fund Manager and the Fund’s trustees and, if appropriate, will be adjusted.

## Income Statement Highlights

Total revenues for the quarter ended September 30, 2009 were \$11.8 million compared to \$12.4 million in the previous year. For the first nine months of 2009, total revenues were \$37.1 million compared to \$36.8 million in the previous year.

Lower third quarter revenues principally reflects our decision to not accrue interest on certain underperforming loans until we are confident the loans will perform in accordance to their terms. Marginally higher nine-month revenue reflects the overall larger mortgage portfolio compared to last year.

Net earnings for the quarter were \$9.2 million compared with \$9.9 million for the third quarter last year. For the first three quarters of 2009, net earnings were \$27.7 million unchanged from a year earlier. Basic weighted average earnings per unit for the nine months of \$0.61 per unit was lower than the comparable 2008 amount of \$0.73 per unit as the Fund stopped accruing interest on some underperforming loans and continued to increase its provision for losses as a precautionary measure.

The Fund distributed \$9.6 million or \$0.21 per unit during the third quarter (2008 - \$10.0 million or \$0.24 per unit) and \$28.3 million or \$0.63 per unit during the first nine months of 2009 (2008 - \$27.9 million or \$0.73 per unit). The simple and compounded net yields to unitholders for the quarter ended September 30, 2009 were 6.3% and 6.5% respectively. The net yield to unitholders, on a simple and compound basis, for the preceding twelve-month period was 8.5% and 8.8% respectively.

Management fees payable to the Fund Manager and other general and administrative expenses of the Fund were \$2.6 million for the quarter and \$9.4 million year-to-date compared to \$2.5 million and \$9.1 million in the prior year.

## Balance Sheet Highlights

Total assets as of September 30, 2009 were \$498.8 million compared to \$473.7 million a year ago. Total assets are comprised primarily of mortgages recorded at fair market value, accrued interest receivable on those mortgages and income producing property. In addition, the Fund had excess cash at quarter end of \$1.5 million.

Total liabilities excluding units submitted for redemption as of September 30, 2009 were \$41.2 million compared with \$44.4 million a year earlier. Liabilities at the end of the third quarter were comprised of \$37.9 million in outstanding indebtedness under the Fund's revolving loan facility and \$3.3 million in accounts payable and distributions payable to unitholders. Drawings under the revolving loan facility together with net cash proceeds of the Unit Offering are used to increase the Fund's mortgage portfolio. The revolving loan facility bears interest at the greater of 8% and TD Bank prime plus 5% and is secured by all assets of the Partnership and a pledge of all Partnership units held by the Fund. Net debt (debt less cash) stood at \$36.5 million (7.7% of mortgage portfolio) at quarter end versus \$29.2 million (6.5% of mortgage portfolio) last year.

Unitholders' equity including units submitted for redemption as of September 30, 2009 was \$457.6 million compared with \$429.3 million as of September 30, 2008. The increase is primarily from proceeds of issuances in excess of redemptions of \$2.9 million during the previous 12 months. These amounts represented approximately ten dollars per unit outstanding at the end of each reporting period. There was a total of 45,926,624 units outstanding on September 30, 2009 compared to 43,004,625 on September 30, 2008. There are no options or other commitments to issue additional units.

## Liquidity And Capital Resources

Pursuant to the Fund's trust indenture, 100% of the Fund's net earnings must be distributed annually to unitholders. This means that growth in the mortgage portfolio can only be achieved through the raising of additional unitholder equity and utilizing available borrowing capacity. Pursuant to the Fund's investment policies, the Fund may borrow up to 35% of the book value of mortgages held by the Fund. The Fund was not fully leveraged as of September 30, 2009 with borrowings net of cash totalling approximately 7.7% of the book value of mortgages held by the Fund compared to 6.5% as of September 30, 2008.

During the nine months ended September 30, 2009 proceeds from the issuance of units net of redemptions and costs were \$14.1 million compared to \$98.1 million during the same period in 2008. The large reduction in

proceeds from new unit issuance reflects the impact of the global financial crisis.

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 new mortgage investments. We believe that the Fund's combined borrowing capacity and expected short-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 and syndicate a portion of new loans to third parties.

### **Related Party Transactions**

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

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

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

### **Risk Management**

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

instrument risks and management's response to these risks, see note 13 of the Financial Statements.

### **Outlook**

The Fund's investment objective is to return a predictable and secure cash yield to unitholders while preserving capital through prudent loan underwriting and management. The Fund Manager is confident this can be accomplished by holding to its prudent and comprehensive approach of mortgage lending.

While uneven business conditions persist, the worst of the global financial crisis appears to be behind us, supported by substantial government fiscal and monetary stimulus. The ultimate consequences of these policies are worrisome in the long term. Continued tight credit market conditions, anaemic consumer and industrial demand, high unemployment, and overly-leveraged balance sheets will make any forthcoming recovery slow and difficult. Real estate markets have been impacted by these same forces and this will make 2009 a challenging year. Within this challenge, however, there exists a large universe of borrowers requiring capital, but with limited options, thereby allowing us to be highly selective as to quality, rate and terms for the opportunities that we are actively pursuing.

Some of the mortgages in our portfolio are not performing to their terms and we are taking appropriate steps to address these non-compliant loans. While we believe our current loss reserves are adequate to deal with these exposures, we will continue to add to these reserves through the balance of the year to be prudent in otherwise uncertain times. In addition, we have stopped accruing interest on certain loans that are not performing to their terms, thereby providing an additional margin of safety.

The year will continue to be challenging year for most businesses and markets in Canada, including commercial real estate. At present, our expectation is that the Fund will perform near the lower end of our long-standing track record, including that which predates the formation of the Fund, which has been in the range of 8.6% to 10.8%.

# **Interim Consolidated Financial Statements**

## **ROMSPEN MORTGAGE INVESTMENT FUND**

Nine months ended September 30, 2009 and 2008  
(Unaudited)

## Romspen Mortgage Investment Fund

### Interim Consolidated Balance Sheet

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

September 30, 2009, with comparative figures for 2008

	September 30, 2009 (Unaudited)	December 31, 2008 (Audited)	September 30, 2008 (Unaudited)
<b>Assets</b>			
Cash	\$ 1,482	\$ 19,410	\$ 11,931
Accrued interest receivable	20,901	13,240	11,086
Mortgages, net of fair value provision (note 4)	476,465	493,562	450,708
Sundry assets	-	21	-
	<b>\$ 498,848</b>	<b>\$ 526,233</b>	<b>\$ 473,725</b>
<b>Liabilities and Unitholders' Equity</b>			
Liabilities:			
Revolving loan facility (note 5)	\$ 37,933	\$ 78,896	\$ 40,822
Accounts payable	91	171	124
Unitholders' distributions payable	3,215	3,116	3,440
	41,239	82,183	44,386
Units submitted for redemption (note 6)	1,300	38,927	-
Unitholders' equity (note 6)	456,309	405,123	429,339
Commitments and contingent liabilities (note 11)			
	<b>\$ 498,848</b>	<b>\$ 526,233</b>	<b>\$ 473,725</b>
Net asset value per unit (note 7)	<b>\$ 9.96</b>	<b>\$ 9.97</b>	<b>\$ 9.98</b>

See accompanying notes to consolidated financial statements.

## Romspen Mortgage Investment Fund

### Interim Consolidated Statement of Earnings

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

Nine months ended September 30, 2009, with comparative figures for 2008

	3 months ended September 30, 2009 (Unaudited)	3 months ended September 30, 2008 (Unaudited)	9 months ended September 30, 2009 (Unaudited)	9 months ended September 30, 2008 (Unaudited)
<b>Revenue:</b>				
Mortgage interest	\$ 11,750	\$ 12,291	\$ 36,967	\$ 36,151
Other income	8	84	90	661
	11,758	12,375	37,057	36,812
<b>Expenses:</b>				
Management fees (note 10)	1,126	1,167	3,735	3,424
Interest	976	593	2,934	3,089
Loss provision (unrealized)	323	625	2,437	2,355
Audit fees	18	7	58	21
Legal fees	6	14	23	45
Other	111	48	185	144
	2,560	2,454	9,372	9,078
Net earnings	\$ 9,198	\$ 9,921	\$ 27,685	\$ 27,734
Net earnings per unit (note 7)	\$ 0.20	\$ 0.24	\$ 0.61	\$ 0.73
Weighted average number of units issued and outstanding (note 8)	45,600,097	41,550,538	45,038,794	38,221,548

See accompanying notes to consolidated financial statements.

# ROMSPEN MORTGAGE INVESTMENT FUND

## Interim Consolidated Statements of Unitholders' Equity

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

September 30, 2009, with comparative figures for 2008

	September 30, 2009 (Unaudited)	December 31, 2008 (Audited)	September 30, 2008 (Unaudited)
<b>Unit capital:</b>			
Balance, beginning of period	\$ 406,154	\$ 331,840	\$ 331,840
Proceeds from issuance of units, net of redemptions (note 6)	14,147	113,241	98,089
Penalties on redemptions	28	-	-
Reduction in units submitted for redemption (note 6)	37,628	(38,927)	-
Balance, end of period	\$ 457,957	\$ 406,154	\$ 429,929
<b>Cumulative earnings:</b>			
Balance, beginning of period	\$ 84,776	\$ 47,794	\$ 47,794
Net earnings for the period	27,684	36,982	27,734
Balance, end of period	\$ 112,460	\$ 84,776	\$ 75,528
<b>Cumulative distributions to unitholders:</b>			
Balance, beginning of period	(85,807)	(48,240)	(48,240)
Distributions to unitholders (note 8)	(28,301)	(37,567)	(27,878)
Balance, end of period	\$ (114,108)	\$ (85,807)	\$ (76,118)
<b>Unitholders' equity</b>	<b>\$ 456,309</b>	<b>\$ 405,123</b>	<b>\$ 429,339</b>
Units issued and outstanding, excluding units submitted for redemption (note 6)	45,796,188	40,615,348	43,004,625

See accompanying notes to consolidated financial statements.

# Romspen Mortgage Investment Fund

## Interim Consolidated Statement of Cash Flows

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

Periods ended September 30, 2009, with comparative figures for 2008

	3 months ended September 30, 2009 (Unaudited)	3 months ended September 30, 2008 (Unaudited)	9 months ended September 30, 2009 (Unaudited)	9 months ended September 30, 2008 (Unaudited)
<b>Cash provided by (used in):</b>				
<b>Operations:</b>				
Net earnings	\$ 9,198	\$ 9,921	\$ 27,684	\$ 27,734
Items not affecting cash:				
Amortization of def. financing costs	-	75	-	213
Unrealized loss in value of mortgages	323	625	2,437	2,355
Change in non-cash operating items:				
Accrued interest receivable and deferred financing costs	(2,887)	(2,043)	(7,660)	(3,557)
Accounts payable and unitholders' distributions payable	92	(636)	19	106
	6,725	7,942	22,480	26,851
<b>Financing:</b>				
Proceeds from issuance of units, net of offering costs & redemptions	11,103	39,083	14,147	98,089
Penalties on redemptions	54	-	28	-
Change in revolving loan facility	(13,475)	9,047	(40,942)	(42,062)
Repayment of promissory note	-	-	-	(15,000)
Distributions to unitholders	(9,565)	(9,973)	(28,301)	(27,878)
	(11,883)	38,157	(55,068)	13,149
<b>Investments:</b>				
Funding of mortgages	(15,154)	(46,516)	(56,064)	(167,642)
Discharge of mortgages	15,984	10,080	70,722	138,701
Additions to commercial property held for sale	-	(440)	-	(1,272)
	830	(36,876)	14,658	(30,213)
Increase/(decrease) in cash	(4,328)	9,223	(17,928)	9,787
Cash, beginning of period	5,810	2,708	19,410	2,144
Cash, end of period	\$ 1,482	\$ 11,931	\$ 1,482	\$ 11,931
<b>Supplemental cash flow information:</b>				
Interest paid	\$ 951	\$ 518	\$ 2,796	\$ 2,875

See accompanying notes to consolidated financial statements.

# Romspen Mortgage Investment Fund

## Notes to Interim Consolidated Financial Statements

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

Nine months ended September 30, 2009 and 2008

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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.

#### (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

# Romspen Mortgage Investment Fund

## Notes to Interim Consolidated Financial Statements (continued)

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

Nine months ended September 30, 2009 and 2008

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### 2. Significant accounting policies (continued):

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

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

#### (d) Net earnings per unit:

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

#### (e) 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:

- Accrued interest receivable is classified as loans and receivables and is measured at amortized cost.
- The revolving loan facility, promissory note payable, accounts payable and accrued liabilities and unitholders' distribution payable are classified as other liabilities and are measured at amortized cost using the effective interest rate method.

## Romspen Mortgage Investment Fund

### Notes to Interim Consolidated Financial Statements (continued)

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

Nine months ended September 30, 2009 and 2008

#### 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 Fund commencing on January 1, 2008. The required note disclosure is set out in note 13 to these financial statements.

#### 4. Mortgage investments:

The following is a summary of the 107 mortgages held as at September 30, 2009:

			September 30, 2009	December 31, 2008
	Number of mortgages making up balance	Original cost	Fair value	Fair value
First mortgages	98	\$ 461,878	\$ 453,707	\$ 474,088
Second mortgages	9	24,287	22,758	19,474
	107	\$ 486,165	\$ 476,465	\$ 493,562

The following is a summary of the original cost of mortgages segmented by interest rate at September 30, 2009:

Interest rates	September 30, 2009	December 31, 2008
9.00% - 10.00%	\$ 10,434	\$ 33,799
10.01% - 11.00%	117,963	133,525
11.01% - 12.00%	223,399	268,493
12.01% - 20.00%	131,944	62,583
Over 20.00%	2,425	2,425
	\$ 486,165	\$ 500,825

The mortgages are secured by real property and other security, bear interest at a weighted average rate of 12.25% at September 30, 2009 (December 31, 2008 – 11.87%) and mature between 2009 and 2012.

# Romspen Mortgage Investment Fund

## Notes to Interim Consolidated Financial Statements (continued)

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

Nine months ended September 30, 2009 and 2008

### 4. Mortgage investments (continued):

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

Where appropriate, management makes specific provisions for loan losses.

Principal repayments based on contractual maturity dates are as follows:

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Year ending December 31:

2009	\$ 376,360
2010	114,321
2011	10,144

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\$ 500,825

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

In 2008, the Partnership subscribed for all of the outstanding shares of Splash Canyon Inc. ("SCI"), a newly incorporated company. Subsequently, SCI acquired a recreational trailer and water park facility located near Barrie, Ontario. SCI has continued to develop the property with the investment of additional funds of \$2,207, which has been advanced from the Fund. At September 30, 2008, a mortgage to SCI for \$6,007 is included in the mortgage investments.

In 2009, the Partnership also subscribed for a portion of the shares of 1460518 Alberta Ltd. ("Albertaco"), a newly incorporated company. Subsequently, Albertaco acquired the 51<sup>st</sup> Avenue Business Centre in Edmonton, Alberta which is forecasted to have construction completed at the end of 2009. Albertaco has continued to develop the property with the investment of additional funds of \$2,282, which has been advanced from the Fund. As at September 30, 2008, a mortgage to Albertaco for \$9,453 is included in the mortgage investments.

## Romspen Mortgage Investment Fund

### Notes to Interim Consolidated Financial Statements (continued)

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

Nine months ended September 30, 2009 and 2008

#### 5. Revolving loan facility:

The Partnership has entered into a revolving loan facility in the maximum amount of \$70,000, of which approximately \$32,000 (December 31, 2008 - \$21,000) is available and \$38,000 has been drawn as at September 30, 2009 (December 31, 2008 - \$79,000). Interest on the loan is charged at the greater of 8% and the TD Canada Trust Bank prime rate plus 5%. The minimum and maximum amounts drawn under the revolving loan facility during the nine months ended September 30, 2009 were \$38,000 and \$79,000 (2008 - \$20,000 and \$102,000), respectively. The loan is secured by all assets of the Partnership and a pledge of all Partnership units held by the Fund. The loan matures on June 1, 2010.

	September 30, 2009	December 31, 2008
Carrying value of revolving loan facility	\$ 38,000	\$ 79,000
Revolving loan facility financing costs, net of accumulated amortization of \$137 (December 31, 2008 - \$146)	(67)	(104)
	<u>\$ 37,933</u>	<u>\$ 78,896</u>

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

#### 6. Unitholders' equity:

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

As at September 30, 2009, unitholders representing approximately 130,436 units have requested redemption of their units, the redemption of which is subject to the above restrictions. These units have been reclassified 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.

## Romspen Mortgage Investment Fund

### Notes to Interim Consolidated Financial Statements (continued)

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

Nine months ended September 30, 2009 and 2008

#### 6. Unitholders' equity (continued):

(a) The following units are issued and outstanding:

	Nine months ended September 30,			
	2009		2008	
	Units	Amount	Units	Amount
Balance, beginning of period	44,519,786	\$ 445,081	33,195,610	\$ 331,840
New units issued	3,458,165	34,582	9,734,476	97,345
New units issued under distribution reinvestment plan	849,034	8,490	855,463	8,554
Units redeemed	(2,900,361)	(28,925)	(780,924)	(7,810)
Balance, end of period	45,926,624	\$ 459,228	43,004,625	\$ 429,929

During the normal course of business, the Fund receives unit issuance and redemption requests from the investors. In the first nine months of 2009, the Fund issued 4,307,199 units for \$43,072 and redeemed 2,900,361 units for \$28,925 in accordance with its policies.

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

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

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

#### 7. 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 45,798,688 as at September 30, 2009 (year ended December 31, 2008 – 40,615,348).

Net earnings per unit has been computed using the weighted average number of units outstanding of 45,038,794 for the nine months ended September 30, 2009 (September 30, 2008 – 38,221,548).

# Romspen Mortgage Investment Fund

## Notes to Interim Consolidated Financial Statements (continued)

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

Nine months ended September 30, 2009 and 2008

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### 8. 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, 2009, the Fund declared distributions of \$0.63 (2008 - \$0.73) per unit and a total of \$28,301 (2008 - \$27,878) was distributed to the unitholders.

### 9. Income taxes:

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

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

Under the SIFT Rules, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income and a SIFT will be subject to income taxes on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions paid by a SIFT as returns of capital will not be subject to the income taxes.

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

### 10. Related party transactions and balances:

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

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

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

# Romspen Mortgage Investment Fund

## Notes to Interim Consolidated Financial Statements (continued)

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

Nine months ended September 30, 2009 and 2008

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

mortgage investments and the fair market value of all other non-mortgage investments. For the nine months ended September 30, 2009, the amount was \$3,735 (2008 - \$3,424).

- (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, 2009, this amount was \$2,554 (2008 - \$4,637).
- (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 nine months ended September 30, 2009, the Fund had four (December 31, 2008 - four) mortgages outstanding with an original cost of \$23,041 (December 31, 2008 - \$22,527) including accrued interest of \$1,391 (December 31, 2008 - \$1,393) and fair value of \$22,345 (December 31, 2008 - \$21,831) due from mortgagors in which members of management of Romspen own non-controlling equity interests.

### 11. 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.

# Romspen Mortgage Investment Fund

## Notes to Interim Consolidated Financial Statements (continued)

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

Nine months ended September 30, 2009 and 2008

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### 12. 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.

### 13. Financial instrument risk management:

#### (a) Interest rate risk:

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

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

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

The Fund's debt under the revolving loan facility (note 5) bears interest based on the greater of 8% and the prime rate plus 5%.

As at September 30, 2009, if interest rates on the revolving loan facility had been 100 basis points lower or higher, with all other variables held constant, net income for the year would be affected with a total increase or decrease of \$380. The Fund monitors the financial markets and can adjust the pricing of renewals and new loans when it deems it appropriate.

# Romspen Mortgage Investment Fund

## Notes to Interim Consolidated Financial Statements (continued)

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

Nine months ended September 30, 2009 and 2008

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

(b) Credit risk:

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

- (i) no more than 20% of the Fund's capital may be invested in subordinate mortgages; and
- (ii) no more than 10% of the Fund's capital may be invested in any single mortgage or to any single borrower.

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

- (i) initial terms of 12 to 24 months;
- (ii) loan to value ratios of less than 65% at time of underwriting;
- (iii) significant at-risk capital and/or additional collateral of property owner; and
- (iv) full recourse to property owners supported by personal guarantees.

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

As at September 30, 2009, the Fund has \$2,992 of accrued interest past due on \$180,699 of mortgages which the Fund does not consider impaired. The Fund has reviewed these loans and does not require fair value adjustments given the value of underlying collateral.

# Romspen Mortgage Investment Fund

## Notes to Interim Consolidated Financial Statements (continued)

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

Nine months ended September 30, 2009 and 2008

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### 13. 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. 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 5) matured on May 31, 2008 and was renewed. The new facility matures June 1, 2010 and is subject to an automatic renewal provision that stipulates either party may, not less than 60 days prior to maturity of each year, provide written notice of its termination not to renew.

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, except per unit amounts, unless otherwise noted)

Nine months ended September 30, 2009 and 2008

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### 13. 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. The Fund defines capital as being capital raised by issuing Fund units. It is the Fund's policy to distribute 100% of its taxable income to unitholders, with the result that growth in the mortgage portfolio can only be achieved through the raising of additional equity capital and by utilizing available borrowing capacity.

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

Pursuant to the Fund's investment policies, the Fund may borrow up to 35% of the book value of its mortgages. The primary purpose of the Fund's borrowing strategy is to ensure that unitholders' capital is fully invested. The secondary purpose is to obtain a spread between the interest rates payable under its mortgage investments and its borrowings. As of September 30, 2009, the Fund's borrowings totalled 8% of the book value of its mortgages and the Fund was in compliance with all covenants under its revolving loan facility.

### 14. Exemption from filing:

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

# Trustees & Management

## Romspen Mortgage Investment Fund

Sheldon Esbin  
Trustee

Mark Hilson  
Trustee

Wesley Roitman  
Trustee

Arthur Resnick  
Trustee

## Romspen Investment Corporation

Sheldon Esbin  
Managing General Partner

Mark Hilson  
Managing General Partner

Wesley Roitman  
Managing General Partner

Arthur Resnick  
Managing Partner

Blake Cassidy  
Managing Partner

Arnie Bose  
Vice President, Finance

Bonnie Bowerman  
Vice President, Underwriting

Vitor Fonseca  
Vice President

Mary Gianfriddo  
Vice President, Mortgage Admin.

Joel Mickelson  
Corporate Counsel

Ann Ralston  
Vice President, Investor Relations

Rob Shiller  
Vice President, Origination

# 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.

## Investor Relations Contact

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

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

## Distributions

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

## Auditors

KPMG LLP  
Chartered Accountants

## Legal Counsel

Gardiner Roberts LLP

## Website

[www.romspen.com](http://www.romspen.com)

## 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.

## 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.

