ROMSPEN

mortgage investment fund

2010 Annual Report

Contents

Romspen Business & Principles

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 approximately 10% and performance consistency. Our investors are high net-worth individuals, foundations, endowments and pension plans. Through disciplined investing we have generated consistent returns of approximately 10% annually for our investors. Romspen's management is guided by the following operating principles in the conduct of its business.

investor value – Our primary objective is to protect unitholder capital while providing a safe and consistent cash return that targets an absolute yield of 10%.

commitment – Managers should be owners. As such, we have committed a significant portion of our net worth to the Fund and as a management group, are the largest investor in the Fund.

partnership – We work collaboratively with our borrowers and syndication partners to ensure mutual success, even during difficult and unforeseen circumstances.

long-term perspective – While we don't choose to own property, we make lending decisions on the assumption we would be comfortable owning a property for the value of the mortgage. Our intention is to achieve consistent long-term returns through mortgage lending by applying proven strategies for financial and real estate management.

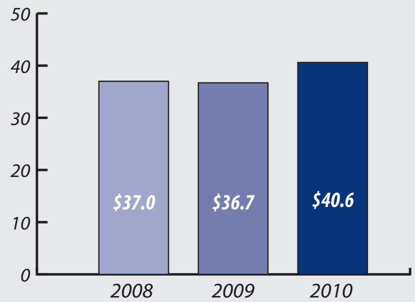
risk management – As managers, it is our responsibility to identify and manage the risk inherent with the mortgage portfolio. Rigorous property and borrower due diligence is fundamental to our lending decisions. Diversification by borrower, geography, property type and size is a deliberate strategy to smooth the effect of the business cycle over the long term.

responsibility – It is our responsibility to provide forthright reporting to our unitholders at all times. We will communicate fully and promptly about problems and opportunities facing the Fund.

Romspen Mortgage Investment Fund – 2010 Highlights

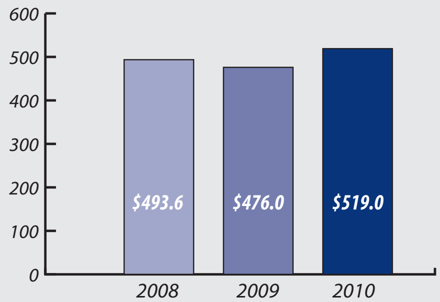
Key Metrics

Net Earnings
($ millions)



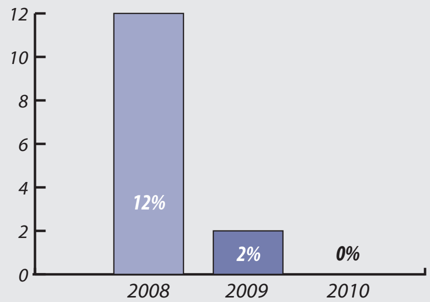
Strong net earnings

Mortgage Portfolio
($ millions)



Steady fund portfolio

Net Leverage
(% mortgage portfolio)

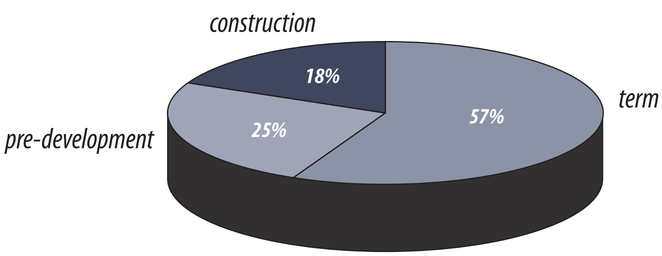


Low financial leverage

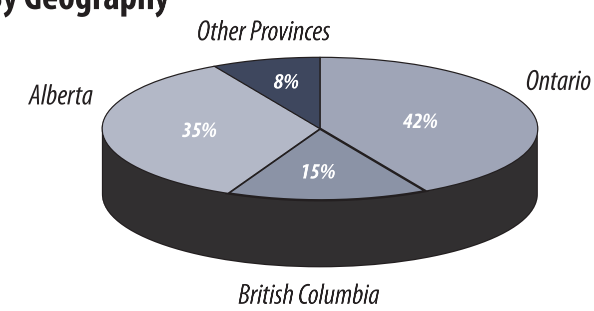
Mortgage Portfolio Profile

As of December 31, 2010

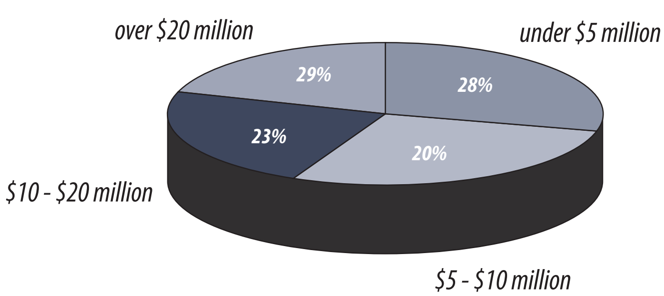
By Type



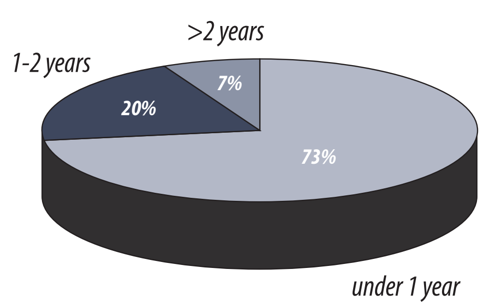
By Geography



By Amount

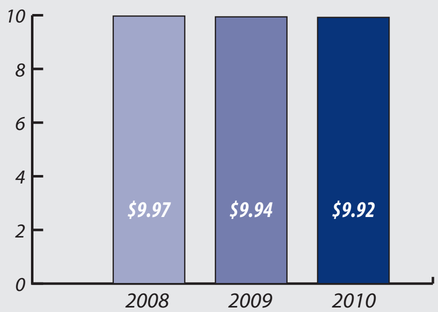


By Maturity



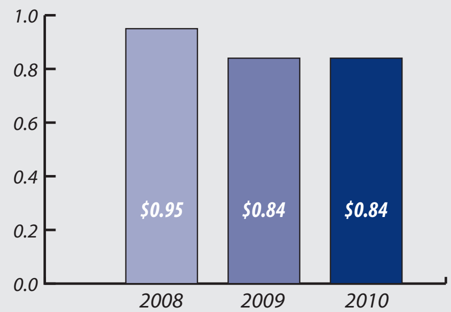
The mortgage portfolio remains well diversified but has shifted more towards term mortgages & Western Canada.

Unitholder Value
($/unit)



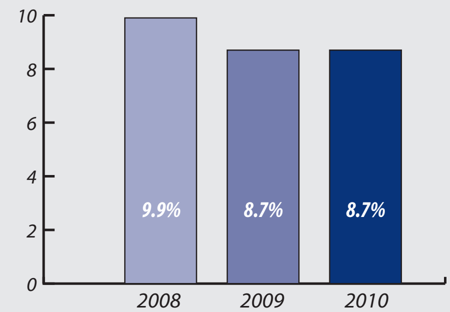
Stable unit value

Unitholder Distributions
($/unit)



Solid distributions

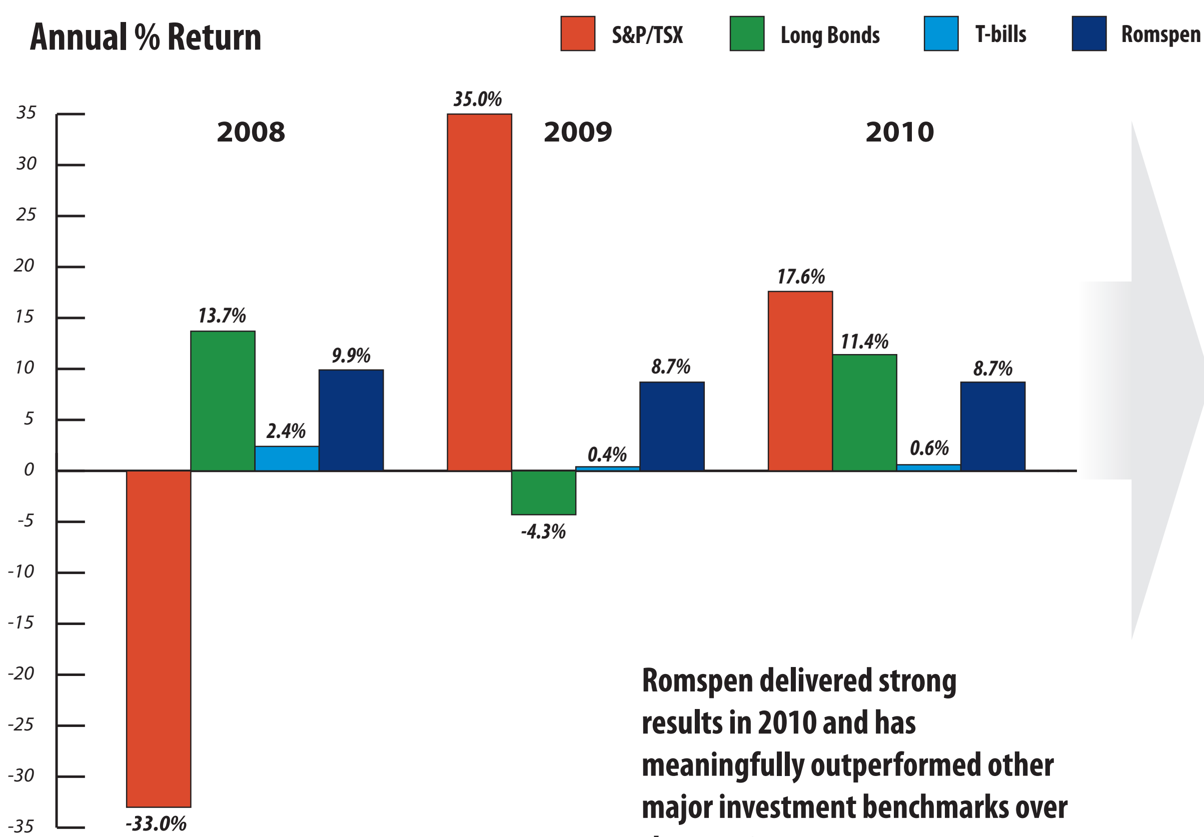
Unitholder Returns
(net annual compounded %)



Strong returns

Comparative Performance

Annual % Return



Romspen delivered strong results in 2010 and has meaningfully outperformed other major investment benchmarks over the past 3 years.

3 Year Accumulated Compounded Return

Romspen	30%
Long Bonds	21%
S&P/TSX	6%
T-bills	3%

Source: Statistics Canada, Bank of Canada, RMIF Annual Reports

Trustees' Letter

Dear Fellow Investors:

As economic headwinds continued to linger throughout 2010, Romspen again delivered solid results, with investor returns equal to 2009. Although economic conditions improved, they remained challenging throughout the year, marked by the tendency for the real estate market recovery to lag that of broader economic indicators; record low interest rates; and improved, yet constrained, credit from traditional lenders. While economic conditions didn't get worse in 2010, the improvements were only modest and largely influenced by government intervention. Even though our performance was at the low end of our historical range, we continued to outperform most other fixed income alternatives in the lowest interest rate environment most investors can remember over their lifetimes. Looking at long term performance, which is what really matters, Romspen has delivered exceptional results, with substantial outperformance against all other asset classes.

Financial Highlights

For the year ending December 31, 2010, Romspen reported net earnings of $40.6 million or $0.80 per unit compared to $36.7 million or $0.80 per unit in 2009. Investor distributions were maintained at $0.84 per unit for both 2010 and 2009. The compounded monthly net return to investors based on distributions was 8.7% for both years. While net earnings and distributions were steady between 2009 and 2010, taxable earnings decreased resulting in a slight portion of the 2010 distributions being non-taxable. Losses of $5.9 million were realized during the year and charged against the provision previously established to deal with these loans.

At December 31, 2010, the net mortgage portfolio was $519.0 million, an increase of 9% compared to 2009. Investors held units totalling $552.7 million compared to $483.1 million last year. Net debt (debt less cash) was reduced to nil with a positive cash balance of $15.7 million, compared to last year's net debt level of $9.7 million. The weighted average interest rate of the mortgage portfolio decreased throughout the year from 12.2% in 2009 to 11.5% in 2010.

Portfolio Performance

As 2010 began, the mortgage portfolio initially contracted in response to a flood of repayments driven by an opening up of traditional credit markets that had remained virtually closed throughout the credit crisis. This left the Fund in a cash positive position during many months early in the year which was a drag on investor returns as excess cash earns no return. As a result, the Fund was briefly closed to new investors as the trustees wanted to minimize any dilution in returns to our existing investors. Continuing into the second half of the year, the pipeline of new financings grew steadily and the mortgage portfolio ended 2010 up 9% compared to 2009. This momentum is continuing into early 2011. Geographically, we saw a slight shift in our business to British Columbia and Alberta, which now accounts for 50% of our portfolio, up from 47% last year, driven by the strong natural resource driven economic growth in that region of the country.

With record low interest rates, rate pressure was seen in all market segments throughout the year and we have responded by adjusting our rates downward to remain competitive. While it is possible to achieve higher rates, at times and in many circumstances, we have deliberately traded-off higher returns for safer, better quality mortgage investments.

As highlighted well in advance to our investors, we did experience some losses throughout the year on four properties, totalling $5.9 million, all of which had been previously reserved for. We understand the reasons for each situation and have corrected the shortcomings that gave rise to the losses.

Within the current portfolio, certain loans are not performing to their terms with extended maturities, delayed payments and the like. We are taking appropriate steps to address these non-compliant loans and many of these situations are working through to resolution. These circumstances are not unusual in our portfolio and non-compliant loans are part of the natural ebb and flow of the business cycle and a normal part of the lending business. Our business model, lending approach and practices are specifically designed to address these circumstances and manage them to successful outcomes.

Superior Investment Track Record

During 2010, Romspen's 8.7% net return meaningfully outperformed T-bills while both long bonds and the S&P/TSX posted better returns as markets continued to recover from the credit crisis.

Over the past three years, Romspen has convincingly outperformed all of the major investment benchmarks. Specifically, for the three-year period ending

December 31, 2010, Romspen has delivered accumulated net returns of 30% compared to 3%, 21% and 6% for T bills, long bonds and the stock market respectively. Said another way, a $10.00 investment in January 2008 would have returned $3.00 to an investor in Romspen compared to only $0.30 in T bills; $2.10 in bonds; and $0.60 in the stock market. Examining our performance over the past 10 years to December 31, 2010, which includes five years as a fund and five years as a syndicated mortgage business, Romspen meaningfully outperformed these same benchmarks as well with accumulated net returns of 155%; compared to 30% for T-bills; 99% for long bonds and 89% for the stock market. Further, Romspen has shown positive investor returns each month over the past 10 years.

These results have been achieved in a reasonably consistent manner in marked contrast to other investment alternatives that have been both volatile and loss-making for many investors. We have delivered this performance without the use of leverage; aggressive lending practices; mezzanine positions; or through hedging and derivative instruments. Instead, we have continued to follow our traditional, disciplined lending practices that reflect our conservative investment strategy. As always, we do not overly focus on the results of any one year's performance but rather concentrate on making the correct decisions to ensure strong performance over the long term, which is what matters most.

Outlook

The world is beginning to emerge from the Great Recession, but only slowly and in our judgment the future will continue to be characterized by volatility and slow, albeit improving growth. Much of the economic improvement to date has been fuelled by extreme policy measures, such as heavy fiscal spending; credit market intervention techniques, such as quantitative easing; and unnaturally low administered interest rate levels by central banks around the world. At this point, it remains unclear to us how close the economy is to self-sustaining economic growth in the absence of such measures and what the future implications of certain of these measures will be.

In the Canadian commercial real estate sector, property values are slowly improving but highly specific as to location and type and with some sectors, such as condominiums in major metropolitan centres, starting to feel over-extended both in terms of supply and price. Transaction activity and liquidity has improved somewhat following the downturn, but still lags what we would consider normal levels.

Interest rates have been on a steady downward trend since the early 80's and have virtually collapsed across the board since the credit crisis began to levels unseen in most of our lifetimes. Investors are starved for quality yield-oriented investments and are much more cautious, if not fearful, of significant commitments to the stock market. An aging demographic in North America, which is already naturally evolving away from "risk-oriented" investments, further exacerbates this dynamic. As such, substantial investor capital, both individual and institutional, has been shifting into fixed income investments of all types, which has put further downward pressure on rates everywhere and across the entire yield spectrum.

Our preliminary view for 2011 is guided by the market economics and trends outlined earlier – low growth, benign inflation, rock-bottom interest rates and strong investor appetite for yield. In this context, we are projecting a compounded net return for 2011 of slightly more than 8%. While modestly lower than 2010, it matches our investor distributions to the realities and dynamics of the marketplace in which we operate.

We are pleased with the Fund's performance over 2010, particularly in light of the still tepid economic circumstances and record low interest rates across the globe. On behalf of everyone at Romspen, we thank you for your continued confidence and support and look forward to 2011 with optimism.

Respectfully submitted,

Sheldon	Mark	Arthur	Wesley
Esbin	Hilson	Resnick	Roitman

Trustees of the Fund
April 29, 2011

Management’s Discussion & Analysis

Responsibility Of Management

This Management’s Discussion and Analysis (“MD&A”) for the Romspen Mortgage Investment Fund (the “Fund”) should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2010 included herein and the audited financial statements and MD&A for the year ended December 31, 2009. Investment in the Fund is subject to certain risks and uncertainties described in the Fund’s Offering Memorandum, which should be read in conjunction with this MD&A. These documents are available on our website at: www.romspen.com.

Management is responsible for the information disclosed in this MD&A. The Fund has in place appropriate procedures, systems and controls to ensure such information is materially complete and reliable. In addition, the Fund’s trustees have reviewed and approved the MD&A and the financial statements for the years ended December 31, 2009 and December 31, 2010.

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

Forward-Looking Statements

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

Forward-looking statements include, but are not limited to: business objectives and targets; Fund strategies; operations; anticipated financial results and the outlook for the Fund, its industry, and the Canadian economy. These statements regarding future performance are “financial outlooks” within the meaning of National Instrument 52-102. Forward-looking statements are typically identified by words such as “believe”, “expect”, “anticipate”, “estimate”, “plan”, “may” and “could” or other similar expressions. By their very nature, these statements require us to make assumptions and are subject to inherent risks and uncertainties, general and specific, which may cause actual results to differ materially from the expectations expressed in the forward-looking statements. These risks and uncertainties include, but are not limited to: global capital market activity; changes in government monetary and economic policies; changes in interest rates; inflation levels and general economic conditions; legislative and regulatory developments; competition and technological change. 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 Novermber 24, 2009.

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

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

Mortgage Portfolio

On December 31, 2010, the Fund's mortgage portfolio (the "Portfolio"), net of the loan loss provision, was $519.0 million compared with $476.0 million at December 31, 2009. This represents an increase of 9.0% or $43.0 million. The portfolio held 106 mortgages compared to 107 at the same time last year.

Approximately 94% of the Portfolio was invested in first mortgages at December 31, 2010 compared to 95% a year ago.

The weighted average interest rate of the Portfolio decreased to 11.5% at the end of the fourth quarter versus 12.2% as December 31, 2009. While we continued to focus on safety of principal, new mortgages have been executed with lower interest rates because of more relaxed credit markets after a year of tight conditions.

Approximately 73% of the portfolio's mortgage investments mature within one year (December 31, 2009 - 91%) and 93% mature within two years (December 31, 2009 - 100%). 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. We believe this flexibility is far more important in our market niche than securing long-term fixed interest rates.

As of December 31, 2010, approximately 42% of our mortgage investments were in Ontario compared to 45% one year ago. As of December 31, 2010, approximately 51% of the Portfolio was invested in Western Canada, and 7% in other provinces. 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 December 31, 2010 were $3.9 million, which represented 0.7% of the original cost of the Fund's mortgage investments or $0.07 per unit outstanding as at December 31, 2010. During 2010, the Fund realized $5.9 million of losses on the Portfolio that were fully reserved for in the previous year. 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 year ended December 31, 2010 were $46.6 million compared to $48.5 million in the previous year. This slight decrease reflects a similar reduction in net mortgage investments because of the decreased size of the portfolio during the first eight months of the year as well as a steady decrease in the weighted average interest rate on the portfolio during the year.

In contrast, net earnings for the year ended December 31, 2010 grew 11% to $40.6 million compared to $36.7 million in the prior year. This increase reflects decreased interest costs on the line of credit and a reduction in reserve expense compared to 2009. Basic weighted average earnings per unit for the year ended December 31, 2010 were $0.80, the same as 2009.

For the year ended December 31, 2010, the Fund distributed $42.5 million or $0.84 per unit versus $38.4 million or $0.84 per unit for the period ended December 31, 2009. The simple and compounded net yield to unitholders for the twelve-month period ended December 31, 2010 was 8.4%[1] and 8.7%[1] respectively.

Provisions for losses on mortgage value reflected a decrease of $5.9 million in 2010 compared to an increase of $2.5 million in 2009 while realized losses were $5.9 million in 2010 compared to $0.5 million in the prior year.

Management fees payable to the Fund Manager and other general and administrative expenses of the Fund were $5.2 million for the year ended December 31, 2010 compared to $5.4 million in the prior year.

Total revenues for the quarter ended December 31, 2010 were $12.5 million compared with $11.5 million for the quarter ended December 31, 2009. This increase is attributable to a larger portfolio in the last quarter of 2010, partly offset by lower overall interest rates on the portfolio.

Net earnings after all expenses for the fourth quarter were $11.0 million compared to $9.0 million for the quarter ended December 31, 2009. Basic weighted average earnings per unit for the three months ended December 31, 2010 of $0.20 was higher than the comparable 2009 amount of $0.19 per unit.

For the three-month period ended December 31, 2010, the Fund distributed $11.4 million or $0.21 per unit, versus $10.1 million, or $0.21 per unit for the three months ended December 31, 2009. Detailed financial information by quarter for 2010 is outlined in the chart below:

Quarterly Financial Information 2010
($ in millions, except per unit amounts)

	Dec. 31	Sept. 30	Jun. 30	Mar. 31
Total revenue	$ 12.5	$ 11.2	$ 11.1	$ 11.8
Interest expense and deferred financing costs	0.2	0.4	0.1	0.1
Net interest income	12.3	10.8	11.0	11.7
Management fees and other expenses	1.4	1.3	1.2	1.3
Fair value provision on mortgage portfolio and losses	0.0	0.0	0.0	0.0
Net earnings	10.9	9.5	9.8	10.4
Per unit - net earnings	$ 0.20	$ 0.19	$ 0.20	$ 0.21
- distributions	0.21	0.21	0.21	0.21
Trailing 12 month compounded net return	8.7%	8.7%	8.7%	8.7%
Revolving loan net of cash as a percentage of net mortgages[2]	0%	4%	0%	0%

[1, 2] These are non-GAAP financial measures (see "Non-GAAP Financial Measures").

Balance Sheet Highlights

Total assets as of December 31, 2010 were $567.0 million compared to $498.3 million a year ago. Total assets are comprised primarily of mortgages recorded at fair market value and accrued interest receivable on those mortgages. In addition, the Fund had $15.7 million of excess cash at year end.

Total liabilities, excluding units submitted for redemption, as of December 31, 2010 were $14.4 million compared with $15.1 million a year earlier. Liabilities at year end were comprised of $8.6 million in accounts payable and distributions payable to unitholders, $0.8 million of deferred revenue, and $5.0 million of prepaid unitholder capital. Net debt (debt less cash) stood at nil with a positive cash position of $15.7 million (3.0% of mortgage portfolio) at year end versus net debt of $9.7 million (2.0% of mortgage portfolio) last year. The revolving loan facility bears interest at the greater of 6.25% and TD Bank prime plus 4% and is secured by all assets of the Partnership and a pledge of all Partnership units held by the Fund.

Unitholders' equity, including units submitted for redemption, as of December 31, 2010 was $552.7 million compared with $483.1 million as of December 31, 2009. The $69.4 million increase reflects the net excess of unit issuances over redemptions during the year. There was a total of 55,687,187 units outstanding on December 31, 2010 compared to 48,581,891 on December 31, 2009. There are no options or other commitments to issue additional units.

Liquidity And Capital Resources

Pursuant to the Fund's trust indenture, at least 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 leveraged as of December 31, 2010 with a positive cash balance totalling approximately 3%[3] of the book value of mortgages held by the Fund compared to 2%[3] net borrowings as of December 31, 2009.

During the year ended December 31, 2010 proceeds from the issuance of units, net of redemptions and costs, were $71.3 million compared to $40.7 million during the same period in 2009. Nearly all of the 2010 increase came in the second half of the year as the Fund was closed to new investments early in the year in an effort to decrease its excess cash balance and minimize any dilution of returns to existing unitholders.

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 expect near term growth in the mortgage portfolio to outstrip our funding capability based on current resources. 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 while funding fees are split equally between Romspen and the Fund. 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.

[3] These are non-GAAP financial measures (see "Non-GAAP Financial Measures").

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 year 2010 proved to be a year of greater stability after the depths of a global economic downturn that negatively affected credit, liquidity and real estate values across the country. While challenging business conditions persisted, Romspen continued to follow its conservative strategy to deliver positive results.

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. The Fund took over certain properties from defaulting creditors during the year as earlier steps to remedy performace deficiencies proved unsuccessful. Rather than sell these properties at a loss during a cyclical low in the real estate market, the Fund will continue to develop them and may ultimately realize gains in a future year. While we believe our current loss reserves are adequate to deal with non-performing loans, we will continue to add to these reserves in 2011 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.

Through the first quarter of 2011, interest rates continue to be near historical lows. We expect this to continue, resulting in new mortgage investments being written at lower interest rates compared to investments made during the past two years that are now maturing. After unprecedented policy measures to stabilize the economy, property values appear to be slowly improving; a sign that typically lags the upturn in broader economic indicators. We expect the current condition of low growth, low interest rates, and low inflation to persist. Furthermore, investors' increased focus on yield-oriented products, combined with the desire of governments to maintain a low rate policy to rebuild economic stability and promote growth, will help cap interest rate upside in the current economy.

Given our view of market economics and trends outlined earlier, we are expecting a compounded net return for 2011 of just slightly more than 8%. This reflects the realities of the current economic environment that exist today. In this context, we view an 8% net return as very solid given the relatively low risk of the underlying asset class being commercial first mortgages.

Consolidated Financial Statements

Romspen Mortgage Investment Fund

Year ended December 31, 2010

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INDEPENDENT AUDITORS' REPORT

To the Unitholders of Romspen Mortgage Investment Fund

We have audited the accompanying consolidated financial statements of Romspen Mortgage Investment Fund, which comprise the consolidated balance sheet as at December 31, 2010, the consolidated statements of earnings, unitholders' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Romspen Mortgage Investment Fund as at December 31, 2010, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

April 1, 2011
Toronto, Canada

Romspen Mortgage Investment Fund

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

December 31, 2010, with comparative figures for 2009

	2010	2009
Assets		
Cash	$ 14,046	$ 300
Restricted cash (note 5)	1,627	-
Accrued interest receivable	32,298	21,961
Mortgage investments (note 4)	518,951	475,955
Other assets	93	43
	$ 567,015	$ 498,259
Liabilities and Unitholders' Equity		
Liabilities:		
Revolving loan facility (note 6)	$ –	$ 10,000
Accounts payable and accrued liabilities (note 11(e))	4,663	572
Deferred revenue (note 11(f))	792	921
Prepaid unit capital	5,000	230
Unitholders' distributions payable	3,898	3,401
	14,353	15,124
Units submitted for redemption (note 7)	2,255	2,185
Unitholders' equity (note 7)	550,407	480,950
Commitments and contingent liabilities (note 12)		
	$ 567,015	$ 498,259
Net asset value per unit (note 8)	$ 9.92	$ 9.94

See accompanying notes to consolidated financial statements.

Approved by the Trustees:

"Wesley Roitman" Trustee

"Mark Hilson" Trustee

Romspen Mortgage Investment Fund

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

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Revenue:		
Mortgage interest	$ 45,529	$ 48,345
Other	1,117	192
	46,646	48,537
Expenses:		
Management fees (note 11(a))	4,920	4,964
Interest	743	3,403
Unrealized loss (gain) in value of mortgage investments	(5,909)	2,500
Realized loss on mortgage investments	5,939	513
Audit fees	75	92
Legal fees	94	94
Other	138	246
	6,000	11,812
Net earnings	$ 40,646	$ 36,725
Net earnings per unit (note 8)	$ 0.801	$ 0.802
Weighted average number of units issued and outstanding (note 8)	50,728,232	45,801,234

See accompanying notes to consolidated financial statements.

Romspen Mortgage Investment Fund

Consolidated Statement of Unitholders' Equity
(In thousands of dollars, except per unit amounts, unless otherwise noted)

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Unit capital:		
Balance, beginning of year	$ 483,644	$ 406,154
Proceeds from issuance of units, net of redemptions (note 7)	71,309	40,711
Penalties on redemptions	60	37
Reduction (increase) units submitted for redemption (note 7)	(70)	36,742
Balance, end of year	$ 554,943	$ 483,644
Cumulative earnings:		
Balance, beginning of year	$ 121,501	$ 84,776
Net earnings	40,646	36,725
Balance, end of year	$ 162,147	$ 121,501
Cumulative distributions to unitholders:		
Balance, beginning of year	$ (124,195)	$ (85,807)
Distributions to unitholders (note 9)	(42,488)	(38,388)
Balance, end of year	$ (166,683)	$ (124,195)
Unitholders' equity	$ 550,407	$ 480,950
Units issued and outstanding, excluding units submitted for redemption (note 8)	55,461,687	48,362,142

See accompanying notes to consolidated financial statements.

Romspen Mortgage Investment Fund

Consolidated Statement of Cash Flows
(In thousands of dollars, except per unit amounts, unless otherwise noted)

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Cash provided by (used in):		
Operations:		
Net earnings	$ 40,646	$ 36,725
Items not affecting cash:		
Amortization of revolving loan facility financing costs	129	162
Unrealized loss (gain) in value of mortgage investments	(5,909)	2,500
Realized loss on mortgage investments	5,939	513
Change in non-cash operating items:		
Accrued interest receivable	(10,337)	(8,821)
Other assets	(179)	20
Accounts payable and accrued liabilities and unitholders' distributions payable	4,588	401
Deferred revenue	(129)	921
	34,748	32,421
Financing:		
Proceeds from issuance of units, net redemptions	71,346	40,711
Penalties on redemptions	23	37
Prepaid unit capital	4,770	230
Change in revolving loan facility	(10,000)	(69,000)
Distributions to unitholders	(42,488)	(38,103)
	23,651	(66,125)
Investments:		
Funding of mortgages	(254,444)	(127,493)
Discharge of mortgages	211,418	142,087
	(43,026)	14,594
Increase (decrease) in cash and restricted cash	15,373	(19,110)
Cash and restricted cash, beginning of year	300	19,410
Cash and restricted cash, end of year	$ 15,673	$ 300
Supplemental cash flow information: Interest paid	$ 614	$ 3,241

See accompanying notes to consolidated financial statements.

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

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

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

1. Basis of presentation:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The consolidated financial statements include the accounts of the Fund and the Partnership.

2. Significant accounting policies:

(a) Mortgage investments:

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

(b) Revenue recognition:

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

2. Significant accounting policies (continued):

(c) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. The 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. Credit markets, equity markets and consumer spending are factors in the uncertainty inherent in such estimates and assumptions. Accordingly, by their nature, estimates of fair value are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated fair value could change by a material amount.

(d) Net earnings per unit:

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

(e) Prepaid unit capital:

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

2. Significant accounting policies (continued):

(f) Financial instruments - recognition and measurement:

The Canadian Institute of Chartered Accountants' ("CICA") Handbook 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 standard, the Fund has classified its financial assets as one of the following: held-to-maturity; loans and receivables; held-for-trading or available-for-sale. All financial liabilities must be classified as: held-for-trading or other financial liabilities. The Fund's designations are as follows:

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

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

3. Accounting changes:

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

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

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

4. Mortgage investments:

The following is a summary of the mortgages:

	2010			2009
	Number of mortgages making up balance	Original cost	Fair value	Fair value
First mortgages	98	$ 490,007	$ 487,360	$ 453,213
Second mortgages	8	32,798	31,591	22,742
	106	$ 522,805	$ 518,951	$ 475,955

The following is a summary of the original cost of mortgages segmented by interest rate at December 31, 2010:

Interest rates	2010	2009
Less than 10.00%	$ 94,198	$ 25,403
10.01% - 11.00%	102,412	128,064
11.01% - 12.00%	182,933	149,186
12.01% - 20.00%	139,545	180,639
Over 20.00%	3,717	2,425
	$ 522,805	$ 485,717

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

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

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

4. Mortgage investments (continued):

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

A reconciliation of Level 3 assets for the year ended December 31 is as follows:

	2010	2009
Mortgage investment balance, beginning of year	$ 475,955	$ 493,562
Funding of mortgage investments	254,444	123,780
Discharge of mortgage investments	(211,418)	(138,374)
Unrealized gain (loss) in the value of mortgage investments	5,909	(2,500)
Realized loss on mortgage investments	(5,939)	(513)
Mortgage investment balance, end of year	$ 518,951	$ 475,955

The mortgages are secured by real property and other security, bear interest at a weighted average rate of 11.51% at December 31, 2010 (2009 - 12.23%) and mature between 2011 and 2014.

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

Where appropriate, management makes specific provisions for loan losses.

Principal repayments based on contractual maturity dates are as follows:

2011	$ 382,923
2012	106,851
2013	26,204
2014	6,827
	$ 522,805

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

4. Mortgage investments (continued):

In 2009, the Partnership subscribed for a portion of the shares of 1460518 Alberta Ltd. (“Albertaco”), a newly incorporated company. Subsequently, Albertaco acquired the 51st Avenue Business Centre in Edmonton, Alberta, which was nearing the completion of its construction. Albertaco has continued to develop the property with the investment of additional funds of $4,239, which has been advanced from the Fund. As at December 31, 2010, a mortgage to Albertaco for $11,771 is included in the mortgage investments and nil is included in accrued interest receivable.

In 2010, the Partnership subscribed for a portion of the ownership of 2220740 Ontario Inc. (“Lakeshoreco”), a newly incorporated company. Subsequently, Lakeshoreco acquired land in Collingwood, Ontario. Lakeshoreco has invested additional funds of $76, which has been advanced from the Fund. As at December 31, 2010, a mortgage to Lakeshoreco for $701 is included in the mortgage investments and $67 is included in accrued interest receivable.

In 2010, the Partnership subscribed for a portion of the ownership of 3231451 Nova Scotia Ltd. (“Novaco”), a newly incorporated company. Subsequently, Novaco acquired the 24 Harbourside Drive building in Wolfville, Nova Scotia, which recently completed. Novaco has continued to develop the property with the investment of additional funds of $427, which has been advanced from the Fund. As at December 31, 2010, a mortgage to Novaco for $4,894 is included in the mortgage investments and $634 is included in accrued interest receivable.

In 2010, the Partnership subscribed for all of the shares of Aspen Lakes Communities Ltd. (“Aspenco”), a newly incorporated company. Subsequently, Aspenco acquired residential development lots in Blackfalds, Alberta. Aspenco is preparing to develop the property. As at December 31, 2010, a mortgage to Aspenco for $13,722 is included in the mortgage investments and nil is included in accrued interest receivable.

In 2010, the Partnership subscribed for all of the shares of 2241497 Ontario Ltd. (“Almonteco”), a newly incorporated company. Subsequently, Almonteco acquired the 430 Ottawa Street building in Almonte, Ontario, which has ongoing construction and improvements. Almonteco has continued to develop the property with the investment of additional funds of $104, which has been advanced from the Fund. As at December 31, 2010, a mortgage to Almonteco for $4,653 is included in the mortgage investments and $996 is included in accrued interest receivable.

In 2010, the Partnership subscribed for all of the shares of Big Mac Athletic Corp. (“BCco”), a newly incorporated company. Subsequently, BCco acquired an office complex in Langford, British Columbia and the Fund has advanced additional funds of $104. As at December 31, 2010, a mortgage to BCco for $7,339 is included in the mortgage investments and $1,912 is included in accrued interest receivable.

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

4. Mortgage investments (continued):

In 2010, the Partnership also subscribed for all of the shares of Romspen FC Homes Inc. ("FCco"), a newly incorporated company. Subsequently, FCco acquired some residential lots in Abbotsford, British Columbia. FCco is planning to develop residential properties on these lots. As at December 31, 2010, a mortgage to BCco for $2,995 is included in the mortgage investments and $179 is included in accrued interest receivable.

In 2010, the Partnership also acquired waterfront property near Wasaga Beach, Ontario containing a motel held in trust by RIC Management Inc. until a holding company can be set up. As at December 31, 2010, a mortgage to RIC Management Inc. for $1,023 is included in the mortgage investments and $190 is included in accrued interest receivable.

5. Restricted cash:

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

6. Revolving loan facility:

The Partnership has entered into a revolving loan facility on June 1, 2010 in the maximum amount of $60,000 (2009 - $70,000), of which approximately $60,000 (2009 - $60,000) is available and nil has been drawn as at December 31, 2010 (2009 - $10,000). Interest on the loan is charged at the greater of 6.25% and the TD Canada Trust Bank prime rate plus 4%. The minimum and maximum amounts drawn under the revolving loan facility during the year ended December 31, 2010 were nil and $49,200 (2009 - nil and $79,000), respectively. The loan is secured by all assets of the Partnership and a pledge of all Partnership units held by the Fund. The loan matures on June 1, 2011.

	2010	2009
Carrying value of revolving loan facility	$ –	$ 10,000

The costs associated with the establishment of the revolving loan facility are amortized over the one-year initial term of the facility and have been included in other assets for $63 (2009 - $42), net of accumulated amortization of $88 (2009 - $58).

7. Unitholders' equity:

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

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

(a) Discounted redemptions:

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

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

7. Unitholders' equity (continued):

(b) Temporary suspension of redemptions

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

On May 22, 2009, Tendered Units represented in excess of 3% of the total number of units outstanding. In accordance with the Declaration of Trust, the Trustees exercised their discretion to issue a discount redemption notice to Tendering Unitholders citing a discount factor of 25%. No units were redeemed at a discount under the redemption notice.

As at December 31, 2010, unitholders representing approximately 225,500 (2009 - 219,748) units have requested redemption of their units, the redemption of which is subject to the above restrictions. These units have been reclassed to liabilities from unitholders' equity in order to comply with applicable accounting rules. These units, however, continue to have the same rights and no priority over the remaining units. Units submitted for redemption are redeemed at the net asset value.

(a) The following units are issued and outstanding:

	2010		2009	
	Units	Amount	Units	Amount
Balance, beginning of year	48,581,891	$ 485,792	44,519,786	$ 445,081
New units issued	10,626,666	106,267	6,292,913	62,929
New units issued under distribution reinvestment plan	1,249,694	12,497	1,146,469	11,465
Units redeemed	(4,771,064)	(47,455)	(3,377,277)	(33,683)
Proceeds from issuance of units, net of redemptions	7,105,296	71,309	4,062,105	40,711
Balance, end of year	55,687,187	$ 557,101	48,581,891	$ 485,792

7. Unitholders' equity (continued):

During the normal course of business, the Fund receives unit issuance and redemption requests from the investors. In 2010, the Fund received requests for redemption of 4,778,007 units (2009 - 3,659,957) and redeemed 4,771,064 units (2009 - 3,377,277) for $47,455 (2009 - $33,683) 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.

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

Net asset value per unit is calculated as total assets less total liabilities allocable to outstanding units, excluding units submitted for redemption, of 55,461,687 as at December 31, 2010 (2009 -48,362,142).

Net earnings per unit has been computed using the weighted average number of units issued and outstanding of 50,728,232 for the year ended December 31, 2010 (2009 - 45,801,234).

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 year ended December 31, 2010, the Fund declared distributions of $0.84 (2009 - $0.84) per unit and a total of $42,488 (2009 - $38,388) was distributed to the unitholders.

10. Income taxes:

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

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

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

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

11. Related party transactions and balances:

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

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

(a) All the trustees of the Fund are owners of Romspen. Under various agreements, Romspen manages all the day-to-day affairs of the Fund and the Partnership. Romspen receives fees totalling 1% per annum, calculated daily and payable monthly, of the principal balance of all mortgage investments and the fair market value of all other non-mortgage investments. For the year ended December 31, 2010, the amount was $4,920 (2009 - $4,964).

11. Related party transactions and balances (continued):

(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 year ended December 31, 2010, this amount was $5,463 (2009 - $4,521).

(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 year ended December 31, 2010, the Fund had six (2009 - four) mortgages outstanding with an original cost of $34,222 (2009 - $24,377), including accrued interest of $5,669 (2009 - $1,806) and fair value of $31,915 (2009 - $24,377) due from mortgagors in which members of management of Romspen own non-controlling equity interests.

(e) Included in accounts payable and accrued liabilities is an amount of $2,428 (2009 - $403) payable to Romspen.

(f) At the discretion of Romspen, the Fund participated in 50% of the funding fees received by Romspen on certain mortgage advances. Amounts received during the year amounted to $903 (2009 - nil) and $111 (2009 - nil) was recognized in other revenue.

12. Commitments and contingent liabilities:

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

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

13. Fair values of financial instruments:

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

14. Financial instrument risk management:

(a) Interest rate risk:

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

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

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

The Fund's debt under the revolving loan facility (note 6) bears interest based on the greater of 6.25% and the prime rate plus 4%.

As at December 31, 2010, 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 $87 (2009 - $996). The Fund monitors the financial markets and can adjust the pricing of renewals and new loans when it deems it appropriate.

14. Financial instrument risk management (continued):

(b) Credit risk:

Credit risk is the risk of loss due to borrowers under the Fund's mortgages failing to discharge their obligations. The Fund's sole activity is investing in mortgages (note 4) and, therefore, generally all of its assets are exposed to credit risk. Any instability in the real estate sector and adverse change in economic conditions in Canada could result in declines in the value of real property securing the Fund's mortgage investments. The Fund manages credit risk by adhering to the investment and operating policies, as set out in its Offering Memorandum. This includes the following policies:

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

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

The Fund focuses its investments in the commercial mortgage market segments described in its Offering Memorandum, which includes development mortgages, construction mortgages, term financing mortgages and residential mortgages. These mortgages generally have the following characteristics:

(i) initial terms of 12 to 24 months;

(ii) loan to value ratios of 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 December 31, 2010, the Fund has $5,205 (2009 - $3,964) of accrued interest past due on $290,724 (2009 - $201,791) 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.

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

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

As at December 31, 2010, the Fund had not utilized its full leverage availability, being a maximum of 35% of its qualified mortgage investments.

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

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

14. Financial instrument risk management (continued):

(d) Market risk:

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

(e) Currency risk:

Currency risk is the risk that the fair value or future cash flows of the Fund's mortgages will fluctuate based on changes in foreign currency exchange rates. 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 December 31, 2010, the Fund's borrowings totalled 0% (2009 - 2%) of the book value of its mortgages and the Fund was in compliance with all covenants under its revolving loan facility.

15. Comparative figures:

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

16. 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's management experience in real estate and finance runs long and deep and is our most important asset. The trustees and management team are the largest investor in the Fund and as such our interests are fully aligned with those of our investors.

Romspen Mortgage Investment Fund

Romspen Investment Corporation

Unitholder Information

Units

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

Distributions

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

Distribution Reinvestment Plan

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

Investor Relations Contact

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

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

Auditors

KPMG LLP
Chartered Accountants

Legal Counsel

Gardiner Roberts LLP

Website

www.romspen.com

Annual General Meeting of Unitholders

Romspen Mortgage Investment Fund's Annual General Meeting of unitholders will be held on Wednesday, June 1st, 2011 at 10 a.m. in the Willard Room (mezzanine level) of the InterContinental Toronto Yorkville Hotel at 220 Bloor Street West, Toronto, Ontario.

Duplicate Communication

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

ROMSPEN
mortgage investment fund