Romspen Mortgage Investment Fund

2012 Annual Report

Contents

Cover image:
Cumberland Street, Toronto

Romspen has a long-term track record of successful mortgage investing. With its origins in the mid-60's, Romspen is one of the largest non-bank commercial/industrial mortgage lenders in Canada. 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. 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 approximately 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 non-institutional investor in the Fund.

Partnership

We work collaboratively with our borrowers and syndication partners to ensure mutual success, even through 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

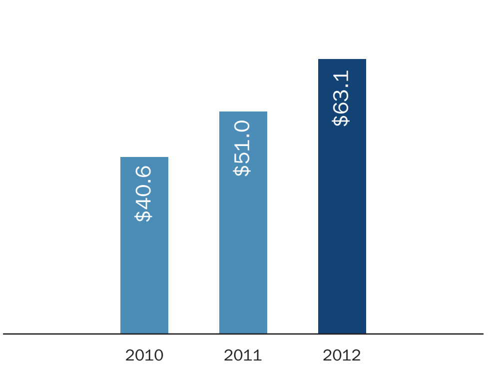
As managers, it is our responsibility to identify and manage the risk inherent with the mortgage portfolio. Rigorous property and borrower due diligence is fundamental to our lending decisions. Diversification by borrower, geography, property type and size is a deliberate strategy to smooth the effect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

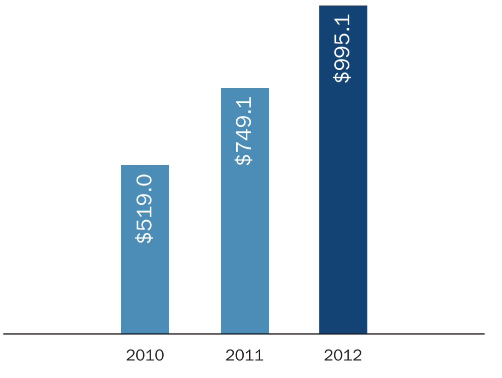
Key Metrics

Net Earnings ($ millions)



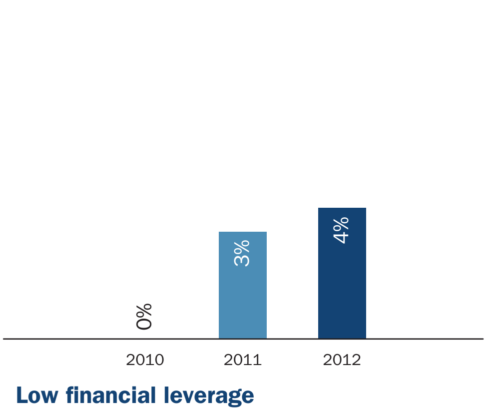
Strong net earnings

Mortgage Portfolio ($ millions)



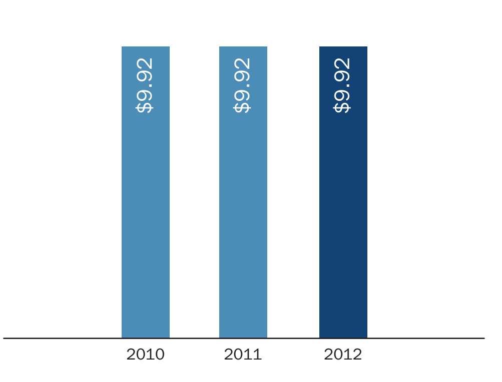
Strong portfolio growth

Net Leverage (% mortgage portfolio)



Low financial leverage

Unitholder Value ($/unit)

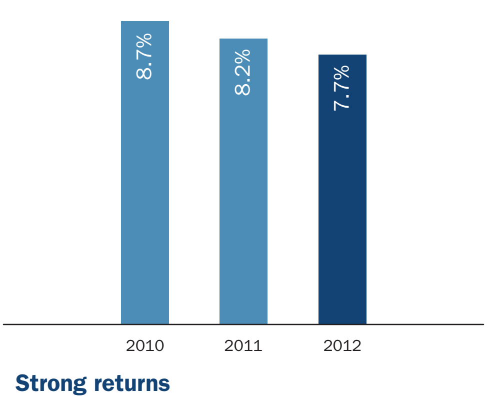


Stable unit value

Unitholder Distributions ($/unit)

Solid distributions

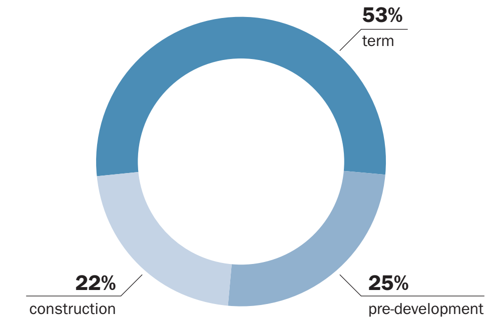
Unitholder Returns (net annual compounded %)



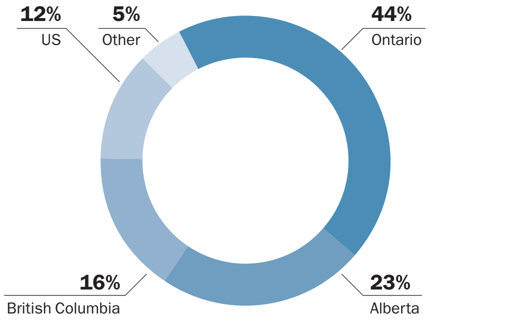
Strong returns

Mortgage Portfolio Profile
As of December 31, 2012

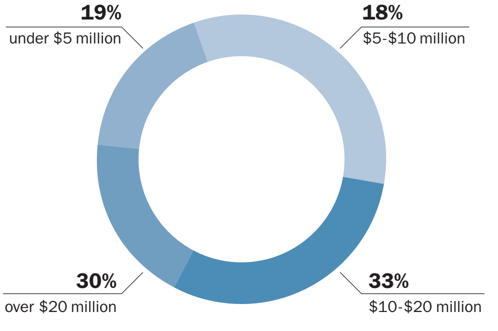
By Type



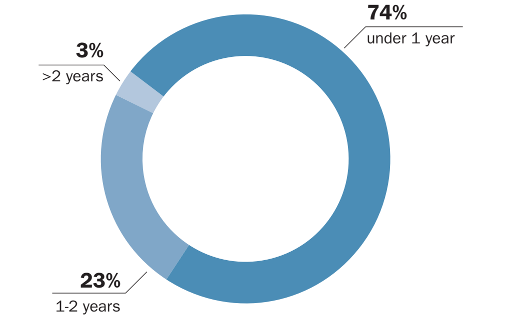
By Geography



By Amount

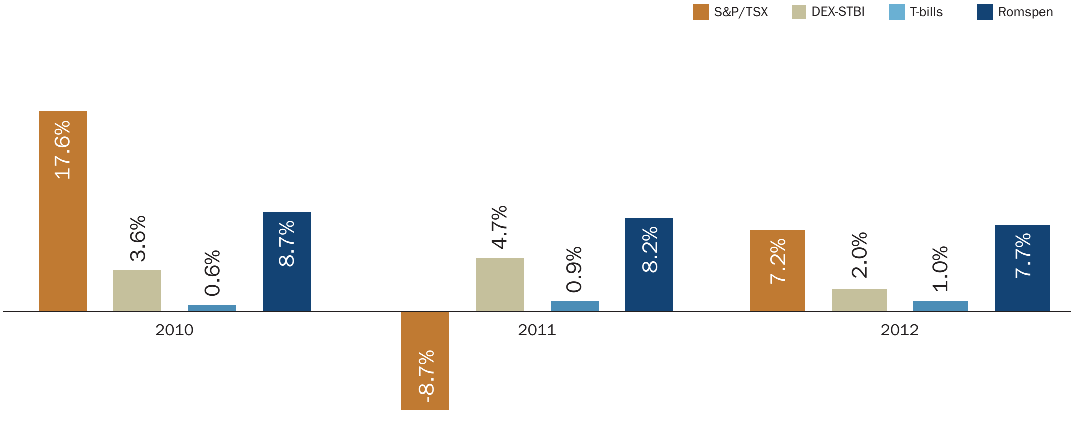


By Maturity



Well diversified portfolio

Comparative Performance
Annual % Return



3 Year Accumulated Compounded Returns[1]

Romspen	27%
S&P/TSX	15%
DEX-STBI	11%
T-bills	3%

Continued strong results in 2012

[1]Romspen returns are net; comparative benchmarks are gross returns | Source: Bank of Canada, RMIF Annual Reports

TRUSTEES' LETTER

Dear Fellow Investors:

Our 2012 net compounded return of 7.7% reflected solid absolute returns as well as outperformance against the major benchmarks. While at the low end of our historical range, and modestly below last year, we are pleased with this performance as it was achieved in a year marked by slowly improving, but still difficult and unresolved economic conditions against a backdrop of generationally low interest rates.

Over the medium and longer term, we have also demonstrated strong absolute returns and comparative outperformance. Romspen's five and ten year cumulative net returns have been 51% and 144% respectively, outpacing the major benchmark asset classes.

Financial Highlights

For the year ending December 31, 2012, Romspen earned net income of $63.1 million or $0.71 per unit compared to $51.0 million or $0.75 per unit in 2011. Investor distributions were $0.74 per unit for 2012 compared to $0.79 per unit for 2011. The compounded monthly net return to investors based on distributions was 7.7% compared to 8.2% last year. The decreased return in 2012 primarily relates to lower portfolio interest rates and non-accrual of certain loans where the timing or collectibility of interest was uncertain. The loss reserve provision was increased from $9.5 million to $12.0 million in the year to maintain a comfortable margin of safety in the context of a larger portfolio. Actual losses of $1.1 million were realized during the year and charged against the provision previously established to deal with these properties.

At December 31, 2012, the net mortgage portfolio was $995.1 million, an increase of 33% compared to 2011. Investors held units totalling $997.2 million compared to $751.9 million last year. Net debt (debt less cash) was $39.1 million compared to last year's net debt of $15.7 million. The weighted average interest rate of the mortgage portfolio decreased marginally from 10.7% in 2011 to 10.6% in 2012.

The net asset value ("NAV") was $9.92 per unit, equal to a year ago. NAV variances arise as taxable income typically exceeds GAAP income due to differences in the treatment of loss reserves and non-accrued interest. To mitigate tax, distributions are largely based on taxable income. Increases in loss reserves and non-accrued interest modestly reduce NAV and are reversed as problem mortgages are worked out.

Economy, Markets & Portfolio

Throughout the year, the Canadian economy has continued to largely move sideways while in the US, both macroeconomic metrics and considerable anecdotal data we observe reflect an economy slowly building expansionary momentum. While these are generally positive signs, much of this improvement is being fuelled by the abnormally low interest rate environment and unprecedented central bank activity, such as quantitative easing. These measures are contributing to economic recovery, but at some point will be withdrawn, and a clearer view of North American economic fundamentals will emerge. We remain skeptical as to how robust the economy will really be, absent these measures, given the numerous structural headwinds in the system. Our short-term lending horizon is a clear advantage given these concerns and uncertainties.

In Canada, the commercial property market continued to show good liquidity and transaction volumes. In general, Romspen experienced a very active funding calendar, particularly in the second half, as traditional institutional financing sources seemed to be less active in general. Within the market, residential and multi-residential activity is moderating; both pricing and transaction volume, largely in response to Federal government measures to rein-in aggressive mortgage lending practices.

In the US, real estate values remain attractive following the credit crisis due to the considerable dislocation that remains within the bank and lending environment as well as stricter compliance requirements imposed under both Basel III and Dodd-Frank Act regulations. US lenders have sharply scaled back mortgage lending and as a result, there remains an imbalance between credit supply and credit demand in the segment of the market we serve. This has created attractive terms, rates and valuation metrics for lending, particularly when coupled with good evidence of economic recovery.

Geographically, the most significant shift was the increased percentage of US mortgages in our portfolio, which increased from 3% to 12% in 2012. US mortgages are a logical extension of our current business in Canada and the two markets share many common elements. As we become more comfortable and as qualified investments become available, Romspen's overall allocation will grow. We could eventually see this market accounting for up to 20% of the total portfolio; the limit we have set for US investments within the Fund.

Having said that, we do not look to target any particular number, but rather are focused on the best opportunities for our investors where they can earn attractive returns with the least risk. By having more options available in similar markets, we have the ability to over-weight markets with attractive fundamentals and under-weight those with less attractive fundamentals. Currently, the US market generally seems to offer a better risk/return trade-off than many Canadian markets and hence our US loan exposure is increasing.

At the end of 2012 the US portfolio was composed of 21 loans, representing $119.2 million, or 12% of the portfolio value. The majority of these loans are concentrated in Illinois, New York and Florida.

We continue to work through certain loans within the portfolio not performing to their terms. Non-compliant loans are part of the natural ebb and flow of the business cycle and a normal part of the lending business for any lender. We are employing a range of approaches in addressing these non-compliant loans and expect the successful resolution of many within the year.

Strategy & Investment Approach

Our investment style and industry expertise along with established deal flow and strong management alignment drives our track record, spanning four decades, of superior performance metrics. Since inception, our mandate has remained unchanged; capital preservation, strong absolute returns and consistency. Our objective is to always make money, regardless of prevailing market conditions.

In the next section of this report we profile a range of mortgage investments we have recently financed. It provides greater specifics around the type, location, borrower and circumstances particular to these investments and collectively represents a cross section of the overall portfolio. Almost every mortgage investment in the Fund has a “story” that requires a unique or tailored financing approach.

Strong Investment Track Record Continues

During 2012, Romspen’s 7.7% net return significantly outperformed T-bills (1.0%), DEX Short-term Bond Index (“DEX-STBI”) (2.0%) and surpassed the S&P/TSX (7.2%).

Examining our performance over the past ten years to December 31, 2012, which includes seven years as a Fund and three years as a syndicated mortgage business, Romspen meaningfully outperformed these benchmarks as well with accumulated net returns of 144%; compared to 24% for T-bills; 54% for DEX-STBI and 142% for the S&P/TSX. Said another way, a $10.00 investment in January 2003 would have returned $14.40 to an investor in Romspen compared to only $2.40 in T-bills; $5.40 in DEX-STBI; and $14.20 in the stock market. It should be noted that this understates the differences as Romspen’s returns are “net” and the benchmarks are “gross”. As well, Romspen has shown positive returns each month over the past ten years, underscoring its prudent investment strategy.

These results have been achieved in a reasonably consistent manner in marked contrast to other investment alternatives that have typically exhibited marked volatility. 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 the best outcome over the long term, which is what matters most to us and our investors.

Outlook

While 2012 showed continued improvement, albeit at very low growth rates, the world economy remains mired in numerous unresolved issues. Many of the economic themes we have discussed over the past several years remain intact: over-indebtedness; low growth rates; volatility and many world economies trapped in significant structural shifts and facing difficult macro-economic/social issues. Excessive debt and government spending burden most of the developed world following decades of credit expansion. The consequence of this, which can be observed daily, is a long deleveraging cycle that will continue for many years to come, effectively capping economic momentum. We believe these issues will not resolve easily or soon. In fact, numerous academic studies show that over-indebtedness and its resultant economic impact lead to extended periods of low interest rates and stubbornly low growth.

Interest rates continued to remain at historic lows and we expect low rates will persist longer than many investors expect as the global economy continues to delever. The US Federal Reserve continues to signal that their administered rates will be kept low through 2014. The migration away from “risk-oriented” investments by an aging North American demographic heading into retirement and a chronic global shortage of “safe assets” amplifies this trend. We remain wary of the fact that interest rates are anchored at artificially low levels due to unprecedented central bank monetary support and are mindful that these policies can result in dangerous “value bubbles” in various asset classes.

Our preliminary view for 2013 is similar to what we saw at this time last year – low economic growth, continued low interest rates and strong investor appetite for yield. We expect these factors will form the primary economic backdrop for years to come. As we have reiterated previously, we will not “stretch for yield” but instead remain disciplined in our underwriting standards and focused on safety of principal. At this point, we expect 2013 net returns to be in the 7% to 8% range.

We are proud of our long established track record of consistently delivering steady and predictable returns, particularly during the past five years of market volatility, economic uncertainty and generally poor returns elsewhere in the capital markets. We thank all investors for their continued support and confidence in Romspen.

Respectfully submitted,

Sheldon Esbin	**Mark Hilson**	**Arthur Resnick**	**Wesley Roitman**

Trustees of the Fund

April 5, 2013

Lion's Head Architectural Motif
The Burns Building
Calgary, Alberta

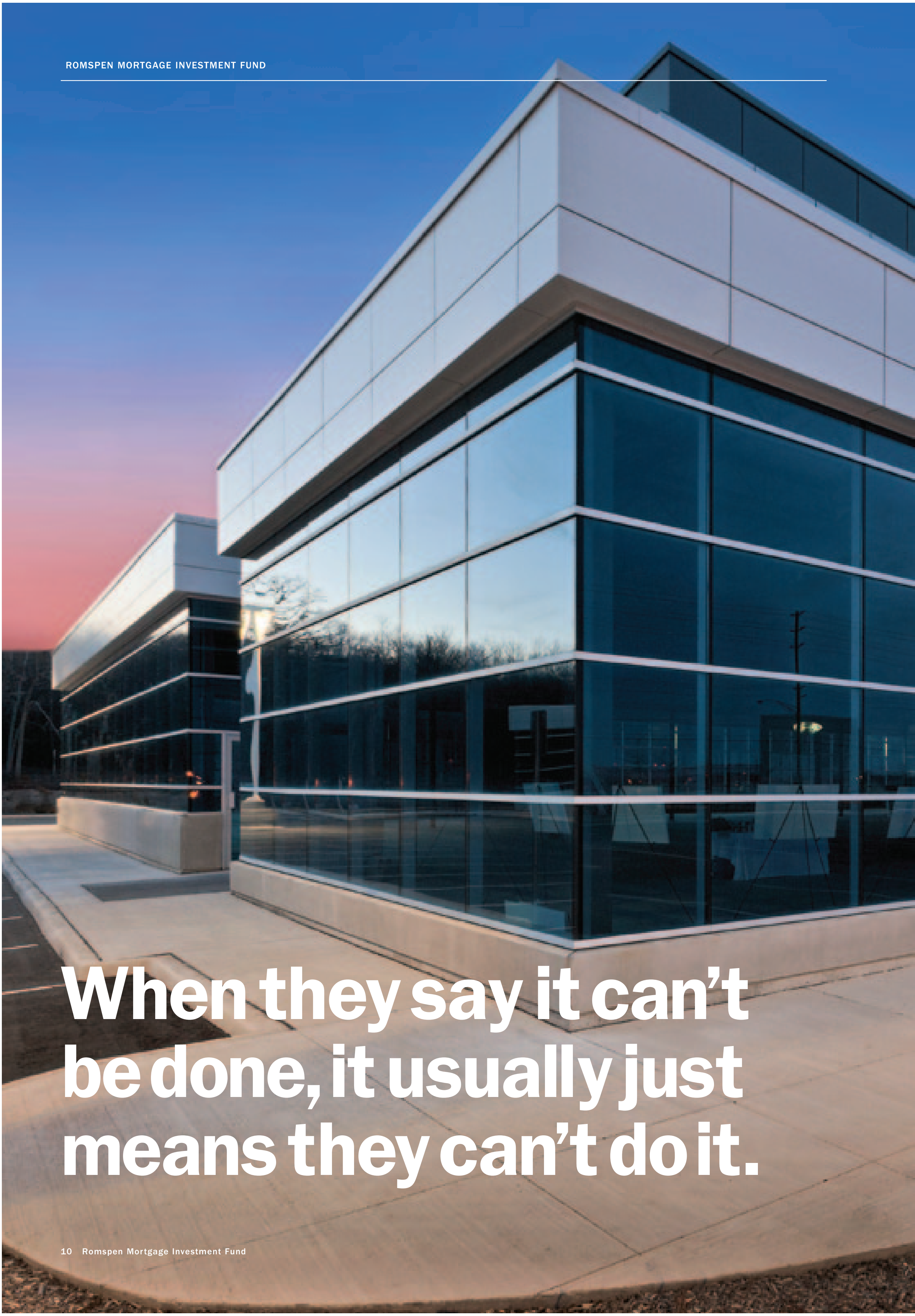
Providing an alternative where often none exists.

It may be a creative or exceptional project that doesn't square with conventional thinking. Or, an opportunity in a new or emerging market that is either underserved or not well followed by traditional lenders. Or, for whatever reason, a situation where the normal credit markets are shut or economic conditions limit the availability of capital. It is in instances like these that Romspen fills the void.

Through a multi-disciplinary process that relies on a combination of deep analytics and experienced instinct, Romspen is able to properly evaluate the merits of a real estate project, and step up when others cannot or will not. This has enabled us to capitalize on opportunities where creativity, speed or flexibility of execution is of critical importance to capture value.

Bold ideas require vision. And more often than not, financing.

By early autumn 2011, the renowned Deerhurst Resort in Muskoka had just finished hosting the most recent G8 Summit. Shortly thereafter, long-time client, Skyline International, approached Romspen with their plan to buy the resort and implement an ambitious and innovative repositioning concept. Originally comprising 760 acres, 400 hotel rooms and two golf courses, Skyline's vision for Deerhurst encompassed a multi-pronged redevelopment of the resort into sports villas, golf course-fronting estate homes and waterfront condos. Romspen structured a $21 million acquisition facility to help Skyline initiate and execute its bold plan, which is now well advanced and selling briskly.



When they say it can't be done, it usually just means they can't do it.

In the middle of 2010, Carttera, a boutique real estate fund backed by major Canadian pension funds, identified an attractive acquisition opportunity. Unfortunately, it was also in the middle of the recent financial crisis and few lenders were willing to fund. The project was further complicated by several re-zoning challenges that needed to be addressed before the 21-acre, shuttered industrial site with prominent frontage on the QEW could be redeveloped into a 250,000 square-foot office complex. In choppy financial markets, when other lenders had all but closed, Romspen funded the project with a $30 million acquisition and construction loan. Shortly thereafter, Romspen and Carttera teamed up again for an innovative high-end luxury condo development in Oakville, where Romspen provided $30 million in construction financing.

Opportunity is often simply a matter of seeing it first.

Large oil and gas projects in Northern Alberta were fuelling a growing need for industrial space to accommodate the burgeoning ancillary support industry. A private, family-owned developer saw an opportunity for a large-scale industrial park in Spruce Grove, Alberta. Romspen supported the project through a $15 million loan that helped make the first major building an 11,000 square-foot reality. Today, additional structures are now being erected in the 850,000 square-foot, 95-acre project.

Unions. Materials. Zoning. Do you really want to worry about financing, too?

At the tail end of the financial crisis, when incumbent lenders would not extend credit for subsequent phases of a Brampton subdivision, Georgian Group turned to Romspen. Romspen's underwriting team quickly assessed the market conditions, competitive pricing and project cost estimates for the 72-home, 35-acre River's Edge project and gave the green light. With Romspen advancing $29 million, Georgian was able to seamlessly build-out the subdivision, avoid delays and reassure their customers. Some two years later, the project is 90% sold.

Unlocking value often requires special keys.

The owner of the Burns Building, a 74,000 square-foot, historically designated commercial office building in downtown Calgary, had become enmeshed in a complex and long-running shareholder dispute. This ultimately proved an impediment to realizing full value on the property. In 2012, Romspen provided both strategic guidance and a $7.5 million bridge loan facility to the owner to resolve the various disputes and complete a buy-sell arrangement with other parties. This freed the owner to then sell the property to Allied Properties REIT, resulting in a significant gain on the property.

Opportunities aren't always where you look, but they're never where you don't.

When NCN Financial, a private US lender, had short-term funding needs in early 2012, Romspen was able to assist by purchasing two performing mortgage loans from their portfolio. Totalling $6.4 million, they were acquired at a meaningful discount. The two newly built retail/commercial properties, one in Denver, Colorado (pictured) and the other in Rock Hill, South Carolina, collectively represented 37,000 square feet of well-tenanted space with attractive loan metrics that met Romspen's underwriting standards.

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 audited financial statements and notes thereto for the year ended December 31, 2012 included herein and the audited financial statements and MD&A for the year ended December 31, 2011. 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, 2011 and December 31, 2012.

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 unit holder capital.

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

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

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

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

Mortgage Portfolio

On December 31, 2012, the Fund's mortgage portfolio (the "Portfolio"), net of the loan loss provision, was $995.1 million compared with $749.1 million at December 31, 2011. This represents an increase of 33% or $246.0 million. The Portfolio held 132 mortgages compared to 134 at the same time last year.

Approximately 95% of the Portfolio was invested in first mortgages at December 31, 2012, the same as a year ago. The weighted average interest rate of the Portfolio decreased to 10.6% at the end of the fourth quarter versus 10.7% as of December 31, 2011. Lower Portfolio interest rates reflect the continued downward rate pressures across the yield curve.

Approximately 73% of the Portfolio's mortgage investments mature within one year (December 31, 2011 - 59%) and 97% mature within two years (December 31, 2011 - 95%). In addition, all of our mortgages are open for repayment prior to maturity. The short-term nature of the Portfolio provides us with continual opportunity to assess and evolve the Portfolio in response to changes in real estate and credit market conditions. We view this flexibility to be of far greater importance in our market segment than securing long-term fixed interest rates.

As of December 31, 2012, approximately 44% of our mortgage investments were in Ontario compared to 41% a year ago. Approximately 39% of the Portfolio was invested in Western Canada and 5% in other Canadian locations, while US locations accounted for 12%. This broad diversification adds stability to the Fund's performance by reducing dependency on the economic activity and business cycles in any given geographic region or sector of the economy. Total fair value provisions (loss reserve) as of December 31, 2012 were $12 million, which represented 1.2% of the original cost of the Fund's mortgage investments or $0.12 per unit outstanding as at December 31, 2012. During 2012, the Fund realized $1.1 million of losses on the Portfolio that were fully reserved for in previous years. The establishment of the fair value provision is based on facts and interpretation of circumstances relating to the Fund's mortgage investments. Thus, it is a complex and dynamic process influenced by many factors. The provision relies on the judgment and opinions of individuals on historic trends, prevailing legal, economic, and regulatory trends and on expectations of future developments. The process of determining the provision necessarily involves risk that the actual outcome will deviate, perhaps substantially, from the best estimates made. The fair value provision will continue to be reviewed by the Fund Manager and the Fund's trustees on a regular basis and, if appropriate, will be adjusted.

Income Statement Highlights

Total revenues for the year ended December 31, 2012 were $76.8 million compared to $64.3 million in the previous year, representing a 19% increase. This strong growth reflects the increase in the volume of loans underwritten in the year, offset, in part, by a modest decrease in portfolio interest rates and the non-accrual of certain loans where collectibility or timing were uncertain.

Similarly, net earnings for the year ended December 31, 2012, grew 24% to $63.1 million compared to $51.0 million in the prior year. This increase reflects the Portfolio growth, principally offset by non-accrual of certain loans noted above. Basic weighted average earnings per unit for the year ended December 31, 2012 were $0.71 compared to $0.75 for 2011.

For the year ended December 31, 2012, the Fund distributed $65.5 million or $0.74 per unit versus $53.3 million or $0.79 per unit for the period ended December 31, 2011. The simple and compounded net yield to unitholders for the twelve-month period ended December 31, 2012 was 7.4%[1] and 7.7%[1] respectively.

Provisions for losses on the mortgage portfolio value reflected an increase of $2.5 million in 2012 while realized losses were $1.1 million in 2012 compared to $0.3 million in the prior year. Management and other fees payable to the Fund Manager and other general and administrative expenses of the Fund were $9.2 million for the year ended December 31, 2012 compared to $7.3 million in the prior year reflecting the increased size of the Portfolio.

Total revenues for the quarter ended December 31, 2012 were $22.3 million compared with $17.6 million for the comparative year ago period and are attributable to a larger portfolio in the last quarter of 2012.

Net earnings after all expenses for the fourth quarter were $17.3 million compared to $13.3 million for the quarter ended December 31, 2011. Basic weighted average earnings per unit for the three months ended December 31, 2012 of $0.17 compared to $0.18 per unit in the prior year.

For the three-month period ended December 31, 2012, the Fund distributed $17.8 million or $0.18 per unit, versus $14.2 million or $0.19 per unit for the three months ended December 31, 2011.

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

Detailed financial information by quarter for 2012 is outlined in the chart below.

QUARTERLY FINANCIAL INFORMATION 2012

$ in millions, except per unit amounts

	DEC. 31	SEPT. 30	JUN. 30	MAR. 31
Total revenue	$ 22.3	$ 20.5	$ 17.3	$16.6
Interest expense and deferred financing costs	0.3	0.2	0.1	0.0
Net interest income	22.0	20.3	17.2	16.6
Management fees and other expenses	2.7	2.4	2.1	2.0
Fair value provision on mortgage portfolio and losses	2.0	1.6	0.0	0.0
Net earnings	17.3	16.3	15.1	14.6
Per unit - net earnings	$ 0.17	$ 0.18	$ 0.18	$ 0.18
- distributions	0.18	0.18	0.19	0.19
Trailing 12 month compounded return	7.7%	7.8%	8.0%	8.1%
Revolving loan net of cash as a percentage of net mortgages[2]	4%	1%	4%	-5%

Balance Sheet Highlights

Total assets as of December 31, 2012 were $1,051.3 million compared to $787.5 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 $6.9 million of excess cash at year end.

Total liabilities, excluding units submitted for redemption, as of December 31, 2012 were $54.2 million compared with $35.6 million a year earlier. Liabilities at year end were comprised primarily of $46.0 million of revolving debt, $7.6 million in accounts payable and distributions payable to unitholders, and $0.4 million of prepaid unitholder capital. Net debt (debt less cash) stood at $39.1 million (4%[2] of mortgage portfolio) at year end versus net debt of $15.7 million (2%[2] of mortgage portfolio) last year. The revolving loan facility bears interest of prime rate plus 2% 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, 2012 was $997.2 million compared with $751.9 million as of December 31, 2011. The $245.3 million increase reflects the net excess of unit issuance over redemptions during the year. There were a total of 100,559,826 units outstanding on December 31, 2012 compared to 75,817,488 on December 31, 2011. There are no options or other commitments to issue additional units.

The net asset value (NAV) of the Fund remains unchanged from a year ago at $9.92 per unit as of December 31, 2012. This figure fluctuates based on the difference between GAAP net income from the financial statements and taxable income upon which distributions are made to investors. In past years, NAV has decreased because the Fund has stopped accruing interest on certain loans and because loss reserves were increased. In the future, these activities may cause NAV to further decrease in the short term but there may also be a reversing trend once loss reserves are used and loans with stopped accruals are divested from the Portfolio.

Liquidity And Capital Resources

Pursuant to the Fund's trust indenture, the Fund's net earnings are usually distributed annually to unitholders. As such, growth in the mortgage portfolio can only be achieved through increases in 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 December 31, 2012 with borrowings net of cash totalling approximately 4%[2] of the book value of mortgages held by the Fund compared to 2%[2] net borrowings as of December 31, 2011.

During the year ended December 31, 2012 proceeds from the issuance of units net of redemptions and costs were $247.6 million compared to $201.4 million during the same period in 2011. The large increase in new investor funds stems from the Fund's strong relative out-performance compared to other investment alternatives.

The Fund's mortgages are largely short-term in nature with the result that continual repayment by borrowers of existing mortgage investments creates liquidity for new mortgage investments. We expect next year's growth in the mortgage portfolio to outstrip our funding capability based on current resources. As such, 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 the Fund Manager for the Partnership and is the 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

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

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 for purposes of managing both risk and liquidity. The Partnership's interests in such syndications rank either *pari passu* with, or in priority to, the related party investors.

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

Risk Management

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

Outlook

Though 2012 was characterized by slow and steady growth, abnormally low interest rates and inflated government spending buoyed the fundamentals of the underlying economy. Much of the economic improvements to-date resulted from a strong dose of accommodative monetary policies and aggressive fiscal interventions, underscoring the inherent risks and softness in the underlying economy. Volatility, slow growth, and deleveraging continue to be the hallmarks of this decade and will take years to work themselves out of the current environment.

Global economic uncertainty persists and while Canada remains in a stronger position than most countries, its economy is exposed to what we consider a pervasive global issue. This uncertainty continues to drive investors towards more conservative investments. Investors' increased focus on yield-oriented investments, combined with the desire of governments to maintain a low rate policy to rebuild economic stability, reduce unemployment and promote growth, will maintain a cap on any interest rate upside in the current economy. We expect no near-term change in this trend for interest rates, resulting in new mortgage investments being written at slightly lower interest rates compared to investments made in the past that are now maturing.

Within this environment, Romspen will continue to follow its conservative strategy to deliver strong results, albeit below our long-term average. Rather than stretch for higher returns by assuming greater risk than we are comfortable with, we will continue to maintain a prudent underwriting stance. Romspen continues to balance and rebalance its portfolio by adapting to market conditions in order to maximize revenues. We expect favourable lending conditions to persist in the US market for some time as a result of continued credit dislocation following the credit crisis and stricter compliance requirements on US institutions. These factors have resulted in numerous attractive lending opportunities and as such, we expect Romspen's participation in this market will increase somewhat going forward. Property values across markets appear to be slowly improving; a sign that typically lags the upturn in broader economic indicators. We are ever mindful, however, that the abnormally low interest rate environment has the potential to inflate asset prices above their intrinsic value and are monitoring both markets and property types with this in mind. The improvement, however, is certainly lending support to various initiatives that we have been taking over the past while to address non-compliant loans within the Portfolio. We expect resolution of a number of these loans over the next year.

Given our view of the economic factors and trends discussed, we are expecting a compound net return for 2013 in the range of 7% to 8%, consistent with last year. We view our return expectations for 2013 as both realistic and attractive, particularly in light of the low risk nature of the underlying asset class being commercial first mortgages and the continued low interest rate environment in Canada and globally.

Financial Statements Contents

CONSOLIDATED FINANCIAL STATEMENTS

ROMSPEN MORTGAGE INVESTMENT FUND

Year ended December 31, 2012, with comparative figures for 2011

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, 2012, 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 Consolidated 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 the 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 Romspen Mortgage Investment Fund as at December 31, 2012, 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

March 28, 2013
Toronto, Canada

CONSOLIDATED BALANCE SHEET

December 31, 2012, with comparative figures for 2011

In thousands of dollars, except per unit amounts, unless otherwise noted	2012	2011
ASSETS		
Cash	$ 5,746	$ 4,165
Restricted cash (note 5)	1,183	3,592
Accrued interest receivable	44,635	30,051
Mortgage investments (note 4)	995,082	749,059
Other assets	4,690	630
	$ 1,051,336	$ 787,497
LIABILITIES AND UNITHOLDERS' EQUITY		
Liabilities:		
Revolving loan facility (note 6)	$ 46,000	$ 23,500
Accounts payable and accrued liabilities (note 11(f))	1,570	5,054
Deferred revenue	175	535
Prepaid unit capital	400	1,224
Unitholders' distributions payable	6,033	5,307
	54,178	35,620
Units submitted for redemption (note 7)	4,978	3,122
Unitholders' equity (note 7)	992,180	748,755
Commitments and contingent liabilities (note 12)		
	$ 1,051,336	$ 787,497
Net asset value per unit (note 8)	$ 9.92	$ 9.92

See accompanying notes to consolidated financial statements.

Approved by the Trustees:
"Wesley Roitman" Trustee
"Mark Hilson" Trustee

CONSOLIDATED STATEMENT OF EARNINGS

Year ended December 31, 2012, with comparative figures for 2011

In thousands of dollars, except per unit amounts, unless otherwise noted	2012	2011
REVENUE		
Mortgage interest	$ 72,527	$ 58,484
Other	4,246	5,857
	76,773	64,341
EXPENSES		
Management fees (note 11(a))	8,611	6,464
Interest	627	316
Unrealized loss in value of mortgage investments	2,483	5,667
Realized loss on mortgage investments	1,067	294
Audit fees	124	98
Legal fees	71	79
Other	683	376
	13,666	13,294
Net earnings	$ 63,107	$ 51,047
Net earnings per unit (note 8)	$ 0.71	$ 0.75
Weighted average number of units issued and outstanding (note 8)	88,673,380	67,662,299

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF UNITHOLDERS' EQUITY

Year ended December 31, 2012, with comparative figures for 2011

In thousands of dollars, except per unit amounts, unless otherwise noted	2012	2011
UNIT CAPITAL		
Balance, beginning of year	$ 755,591	$ 554,943
Proceeds from issuance of units, net of redemptions (note 7)	247,627	201,449
Penalties on redemptions	9	66
Increase units submitted for redemption (note 7)	(1,856)	(867)
Balance, end of year	$ 1,001,371	$ 755,591
CUMULATIVE EARNINGS		
Balance, beginning of year	$ 213,194	$ 162,147
Net earnings	63,107	51,047
Balance, end of year	$ 276,301	$ 213,194
CUMULATIVE DISTRIBUTIONS TO UNITHOLDERS		
Balance, beginning of year	$ (220,030)	$ (166,683)
Distributions to unitholders (note 9)	(65,462)	(53,347)
Balance, end of year	$ (285,492)	$ (220,030)
Unitholders' equity	$ 992,180	$ 748,755
Units issued and outstanding, excluding units submitted for redemption (note 8)	100,057,857	75,502,641

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2012, with comparative figures for 2011

In thousands of dollars, except per unit amounts, unless otherwise noted	2012	2011
CASH PROVIDED BY (USED IN)		
Operations:		
Net earnings	$ 63,107	$ 51,047
Items not affecting cash:		
Amortization of revolving loan facility financing costs	196	63
Unrealized loss (gain) in value of mortgage investments	2,483	5,667
Realized loss on mortgage investments	1,067	294
Amortization of discount	(3,289)	(4,872)
Change in non-cash operating items:		
Accrued interest receivable	(14,584)	2,247
Other assets	(3,826)	(600)
Accounts payable and accrued liabilities and unitholders' distributions payable	(2,758)	1,800
Deferred revenue	(360)	(257)
	42,036	55,389
FINANCING		
Proceeds from issuance of units, net redemptions	247,627	201,449
Penalties on redemptions	9	66
Prepaid unit capital	(824)	(3,776)
Change in revolving loan facility	22,070	23,500
Distributions to unitholders	(65,462)	(53,348)
	203,420	167,891
INVESTMENTS		
Funding of mortgages	(525,737)	(461,980)
Discharge of mortgages	279,453	230,784
	(246,284)	(231,196)
Decrease in cash and restricted cash	(828)	(7,916)
Cash and restricted cash, beginning of year	7,757	15,673
Cash and restricted cash, end of year	$ 6,929	$ 7,757
Supplemental cash flow information: Interest paid	$ 627	$ 316

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 Part V of Canadian generally accepted accounting principles. The consolidated financial statements include the accounts of the Fund and the Partnership.

2. Significant accounting policies

A) Mortgage investments In accordance with Accounting Guideline 18, Investment Companies, the Fund's investments are recorded at fair value, as defined by The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3855, Financial Instruments - Recognition and Measurement ("Section 3855"). The unitholders' equity of the Fund for financial reporting purposes is calculated in accordance with Section 3855.

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.

Any unrealized changes in the fair value of mortgage investments are recorded in the consolidated statement of earnings as an unrealized fair value adjustment. A realized change in the fair value of a mortgage as a result of a disposition or repayment is recorded as a realized fair value adjustment.

B) Revenue recognition

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

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

C) Use of estimates The preparation of consolidated 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 consolidated 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 (2.A). 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 issued and outstanding during the year.

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

F) Financial instruments - recognition and measurement Section 3855 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) Mortgage investments are classified as held-for-trading and are measured at fair value.

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

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

3. Future accounting standards issued and not yet adopted

International Financial Reporting Standards ("IFRS"):

In December 2012, the Canadian Accounting Standards Board ("AcSB") extended the deferral of the adoption of IFRS to fiscal years beginning on or after January 1, 2014 for investment companies.

The Fund will adopt IFRS on January 1, 2014. The Fund expects to report its financial results for the year ended December 31, 2014 prepared in accordance with IFRS. The Fund will also provide comparative data on an IFRS basis, including an opening consolidated balance sheet as at January 1, 2013. Further revisions by the AcSB to the IFRS adoption date for investment companies are possible.

The Fund has presently determined that the impact of IFRS will be limited to additional note disclosure and modifications to existing presentation and does not expect that the net earnings will be impacted by the changeover to IFRS. This determination may change as the Fund finalizes its assessment of potential IFRS differences and as new standards are issued by the International Accounting Standards Board prior to the Fund's adoption of IFRS.

4. Mortgage investments

The following is a summary of the mortgages:

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

			2012	2011
	Number of Mortgages Making Up Balance	Original cost	Fair value	Fair value
First Mortgages	125	$957,887	$949,516	$716,735
Second Mortgages	6	37,748	34,117	26,736
Third Mortgages	1	11,449	11,449	5,588
		$1,007,084	$995,082	$749,059

The following is a summary of the original cost of mortgages segmented by interest rate at December 31, 2012:

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

Interest rates	2012	2011
Less than 10.00%	$ 326,655	$ 289,317
10.01% - 11.00%	262,745	78,630
11.01% - 12.00%	291,406	250,915
12.01% - 20.00%	122,804	137,799
Over 20.00%	3,474	1,918
	$ 1,007,084	$ 758,579

The following is a summary of the original cost of the mortgages segmented by type of project as at December 31, 2012:

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

	2012	2011
Pre-development	$ 253,417	$ 208,275
Construction	219,229	183,719
Term	534,438	366,585
	$ 1,007,084	$ 758,579

The following is a summary of the original cost of the mortgages segmented by geography as at December 31, 2012:

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

	2012	2011
Ontario	$ 440,706	$ 310,088
Alberta	235,732	251,904
British Columbia	156,923	131,764
Other provinces	54,550	43,522
United States	119,173	21,301
	$ 1,007,084	$ 758,579

CICA Handbook Section 3862, Financial Instruments - Disclosures ("Section 3862"), establishes 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 asset or liability that are not based on observable market data (unobservable inputs).

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

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

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

	2012	2011
Mortgage investment balance, beginning of year	**$ 749,059**	$ 518,951
Funding of mortgage investments	**525,737**	461,980
Discharge of mortgage investments	**(279,453)**	(230,784)
Unrealized loss in the value of mortgage investments	**(2,483)**	(5,667)
Realized loss on mortgage investments	**(1,067)**	(294)
Amortization of discount	**3,289**	4,873
Mortgage investment balance, end of year	**$ 995,082**	$ 749,059

The mortgages are secured by real property and other security and bear interest at a weighted average rate of 10.62% at December 31, 2012 (2011 - 10.74%).

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

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

Principal repayments based on contractual maturity dates are as follows:

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

2012 and earlier	**$ 202,044**
2013	**538,072**
2014	**234,693**
2015	**29,823**
2016 and after	**2,452**
	$ 1,007,084

Included in 2012 and earlier category are loans which are past due or on a month-to-month arrangement.

Borrowers have the option to repay principal at any time prior to the maturity date. The properties described below are included in the principal repayments chart above under the 2012 and earlier or 2013 contractual maturity categories.

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

In 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, net of repayments of $8,253 (2011 - $7,430), which has been advanced from the Fund. As at December 31, 2012, a mortgage to Albertaco for $15,424 (2011 - $14,962) is included in the mortgage investments and nil (2011 - 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 $156 (2011 - $105), which has been advanced from the Fund. As at December 31, 2012, a mortgage to Lakeshoreco for $781 (2011 - $730) is included in the mortgage investments and $102 (2011 - $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 was recently completed. Novaco has continued to develop the property with additional investments to date, net of repayments of $959 (2011 - $1,160). As at December 31, 2012, a mortgage to Novaco for $5,426 (2011 - $5,627) is included in the mortgage investments and $280 (2011 - $915) 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 has continued to operate the property and has received back proceeds. Aspenco has continued to develop the property and has received to date proceeds in excess of additional investments of $584 (2011 - ($319)), which has been returned to the Fund. As at December 31, 2012, a mortgage to Aspenco for $13,138 (2011 - $14,041) is included in the mortgage investments and nil (2011 - 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 $751 (2011- $751), which has been advanced from the Fund. As at December 31, 2012, a mortgage to Almonteco for $5,300 (2011 - $5,300) is included in the mortgage investments and nil (2011 - nil) 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. BCco has continued to develop the property with the investment of additional funds, net of repayments of $325 (2011 - $138), which has been advanced from the Fund. As at December 31, 2012, a mortgage to BCco for $7,560 (2011 - $7,373) is included in the mortgage investments and $678 (2011 - $1,912) is included in accrued interest receivable.

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 developing residential properties on these lots with the additional fund of $3,435 (2011 - $1,085), which has been advanced from the Fund. As at December 31, 2012, a mortgage to BCco for $6,430 (2011 - $4,080) is included in the mortgage investments and nil (2011 - nil) 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. RIC Management Inc. is finishing the development of this property with the investment of additional funds of $10 (2011 - nil), which has been advanced from the Fund. As at December 31, 2012, a mortgage to RIC Management Inc. for $961 (2011 - $951) is included in the mortgage investments and $190 (2011 - $190) is included in accrued interest receivable.

In 2011, the Partnership subscribed for all of the shares of 1604954 Alberta Ltd. ("Vistaco"), a newly incorporated company. Subsequently, Vistaco acquired an office complex in Calgary, Alberta. Vistaco is finishing the development of this property with the investment of additional funds of $9,913 (2011 - $6,779), which has been advanced from the Fund. As at December 31, 2012, a mortgage to Vistaco for $44,822 (2011 - $41,897) is included in the mortgage investments and $5,659 (2011 - $4,021) is included in accrued interest receivable. The principal portion includes $7,453 (2011 - $7,453) of accrued interest that was capitalized upon acquisition.

In 2011, the Partnership subscribed for all of the shares of 1411786 Alberta Ltd. ("Balzacco"). Subsequently, Balzacco acquired land in Rocky View, Alberta near Calgary. Balzacco is preparing the property for future development with the investment of additional funds of $77 (2011 - $77), which has been advanced from the Fund. As at December 31, 2012, a mortgage to Balzacco for $2,777 (2011 - $2,777) is included in the mortgage investments and $603 (2011 - $603) is included in accrued interest receivable.

In 2012, the Partnership subscribed for all of the shares of 2270386 Ontario Limited. ("Haldimandco"). Subsequently, Haldimandco acquired a landfill in Cayuga, Ontario. Haldimandco is running the landfill with the investment of additional funds, net of repayments of $4,730, which has been advanced from the Fund. As at December 31, 2012, a mortgage to Haldimandco for $13,866 is included in the mortgage investments and $2,048 is included in accrued interest receivable.

In 2012, the Partnership subscribed for all of the shares of 1593785 Alberta Ltd. ("Greenco"). Subsequently, Greenco acquired industrial land in Langdon, Alberta. Greenco is preparing the property for future development with the investment of additional funds, net of repayments of $58, which has been advanced from the Fund. As at December 31, 2012, a mortgage to Greenco for $1,133 is included in the mortgage investments and $307 is included in accrued interest receivable.

In 2012, the Partnership subscribed for all of the shares of Royal Oaks Home Ltd. ("Royalco"). Subsequently, Royalco acquired some land in Moncton, New Brunswick. Royalco is preparing the property for development with the investment of additional funds, net of repayments of $2,116, which has been advanced from the Fund. As at December 31, 2012, a mortgage to Royalco for $8,468 is included in the mortgage investments and nil is included in accrued interest receivable.

In 2012, the Partnership subscribed for all of the shares of Romspen South Street, LLC. ("Southco"). Subsequently, Southco acquired an apartment building in Concord, New Hampshire. Southco is preparing the property for future rental with the investment of additional funds of $20, which has been advanced from the Fund. As at December 31, 2012, a mortgage to Southco for $488 is included in the mortgage investments and $4 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 July 16, 2012 in the maximum amount of $100,000 (2011 - $40,000), of which approximately $54,000 (2011 - $16,500) is available and $46,000 has been drawn as at December 31, 2012 (2011 - $23,500). Interest on the loan is charged at prime rate plus 2%. The minimum and maximum amounts drawn under the revolving loan facility during the year ended December 31, 2012 were nil and $46,000 (2011 - nil and $36,000), respectively. The loan is secured by all assets of the Partnership and a pledge of all Partnership units held by the Fund. The loan matures on July 16, 2013.

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

	2012	2011
Carrying value of revolving loan facility	**$ 46,000**	$ 23,500

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 $430 (2011 - nil), net of accumulated amortization of $196 (2011 - nil).

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:

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

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

As at December 31, 2012, unitholders representing approximately 501,969 (2011 - 314,847) units have requested redemption of their units, the redemption of which is subject to the above restrictions. These units have been reclassed to liabilities from unitholders' equity in order to comply with applicable accounting rules. These units, however, continue to have the same rights and no priority over the remaining units. Units submitted for redemption are redeemed at the net asset value.

A) The following units are issued and outstanding (see chart below)
During the normal course of business, the Fund receives unit issuance and redemption requests from the investors. In 2012, the Fund received requests for redemption of 2,575,594 units (2011 - 2,628,207) and redeemed 2,388,472 units (2011 - 2,540,051) for $23,681 (2011 - $25,219) in accordance with its policies.

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

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

	2012		2011	
	Units	**Amount**	Units	Amount
Balance, beginning of year	**75,817,488**	**$ 758,585**	55,687,187	$ 557,101
New units issued	**24,392,764**	**243,928**	20,768,314	207,683
New units issued under distribution reinvestment plan	**2,738,046**	**27,380**	1,902,038	19,020
Units redeemed	**(2,388,472)**	**(23,681)**	(2,540,051)	(25,219)
Proceeds from issuance of units, net of redemptions	**24,742,338**	**247,627**	20,130,301	201,484
Balance, end of year	**100,559,826**	**$ 1,006,212**	75,817,488	$ 758,585

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 100,057,857 as at December 31, 2012 (2011 - 75,502,641).

Net earnings per unit has been computed using the weighted average number of units issued and outstanding of 88,673,380 for the year ended December 31, 2012 (2011 - 67,662,299).

9. Distributions

The Fund makes distributions to the unitholders monthly on or about the 15th day of each month. At the discretion of the Trustees, the Fund will usually 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, 2012, the Fund declared distributions of $0.74 (2011 - $0.79) per unit and a total of $65,462 (2011 - $53,349) 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 year to such an extent that it will not be liable for income taxes 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 consolidated financial statements, the Fund had the following significant related party transactions:

A) All the trustees of the Fund are owners of Romspen. Under various agreements, Romspen manages all the day-to-day affairs of the Fund and the Partnership. Romspen receives fees totalling 1% per annum, calculated daily and payable monthly, of the principal balance of all mortgage investments and the fair market value of all other non-mortgage investments. For the year ended December 31, 2012, the amount was $8,611 (2011 - $6,464).

B) Romspen also receives 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, 2012, this amount was $12,042 (2011 - $6,096).

C) Romspen charges the Fund for brokering and originating the acquisition of a portfolio of existing loans, calculated as 2% of the loan portfolio. For the year ended December 31, 2012, the amount was $98 (2011 - $1,135).

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

E) For the year ended December 31, 2012, the Fund had five (2011 - six) mortgages outstanding with an original cost of $45,789 (2011 - $36,648), including accrued interest of $3,621 (2011 - $5,669) and fair value of $40,171 (2011 - $31,730) due from mortgagors in which members of management of Romspen own non-controlling equity interests.

F) Included in accounts payable and accrued liabilities is an amount of nil (2011 - $653) payable to Romspen.

G) 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 nil (2011 - $157) and $470 (2011 - $510) 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.

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

D) The Fund has letters of guarantee outstanding at December 31, 2012 of $6,821 (2011 - nil).

13. Fair values of financial instruments

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

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

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 manages this risk by investing primarily in short-term mortgages. The Fund's investment objective is to obtain an acceptable and consistent absolute rate of return that is not related to any market-based interest rate benchmark.

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

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

The Fund's debt under the revolving loan facility (note 6) bears interest based on the prime rate plus 2%.

As at December 31, 2012, if interest rates on the revolving loan facility had been 100 basis points lower or higher, with all other variables held constant, net earnings for the year would be affected with a total increase or decrease of $105 (2011 - $41). The Fund monitors the financial markets and can adjust the pricing of renewals and new loans when it deems it appropriate.

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

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

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

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

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

As at December 31, 2012, the Fund has $14,388 (2011 - $7,778) of accrued interest past due on $513,096 (2011 - $345,670) 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.

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 July 16, 2012 and was renewed. The new facility matures July 16, 2013. 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, 2012, the Fund had not utilized its full leverage availability, being a maximum of 35% of its qualified mortgage investments.

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

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

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

E) Currency risk Currency risk is the risk that the fair value or future cash flows of the Fund's mortgages will fluctuate based on changes in foreign currency exchange rates. Approximately $113,103 (2011 - $20,550), 12% of the total Fund's mortgages at year end, and cash of $402 (2011 - nil) are denominated in United States dollars and secured primarily by charges on real estate located in United States; consequently, the Fund is subject to currency fluctuations that may impact its financial position and results.

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

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

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, 2012, the Fund's borrowings totalled 4.6% (2011 - 3.0%) 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. We have a culture that rewards teamwork, challenges accepted conventions and encourages open and broad discussion of matters affecting our business. The trustees and the management team are the largest non-institutional investor in the Fund and as such our interests are fully aligned with those of our investors.

Romspen Mortgage Investment Fund

Sheldon Esbin
Trustee

Mark Hilson
Trustee

Arthur Resnick
Trustee

Wesley Roitman
Trustee

Romspen Investment Corporation

Sheldon Esbin
Managing General Partner

Mark Hilson
Managing General Partner

Wesley Roitman
Managing General Partner

Blake Cassidy
Managing Partner

Ronald Lloyd
Managing Partner

Arthur Resnick
Managing Partner

Arnie Bose
Vice President, Finance

Bonnie Bowerman
Vice President, Underwriting

Vitor Fonseca
Vice President and Treasurer

Mary Gianfriddo
Vice President, Mortgage Administration

Blair Martin
Senior Vice President, Underwriting

Joel Mickelson
Corporate Counsel

Richard Weldon
Vice President

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UNITHOLDER INFORMATION

Units

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

Distributions

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

Distribution Reinvestment Plan

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

Investor Relations Contact

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

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

Annual General Meeting of Unitholders

Romspen Mortgage Investment Fund's Annual General Meeting of unitholders will be held on Thursday, May 30, 2013 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.

Auditors

KPMG LLP Chartered Accountants

Legal Counsel

Gardiner Roberts LLP

Website

www.romspen.com

ROMSPEN