ROMSPEN
MORTGAGE
INVESTMENT
FUND

ANNUAL
REPORT
2016

50 YEARS

Back in 1966, as a small offshoot of the Toronto-based Spencer Romberg law firm, an informal consortia of law partners and their colleagues began making mortgage loans to clients who, for whatever reason, were unable to source funds from traditional lenders. Over time, this service grew. Eventually it became necessary for two young lawyers, Sheldon Esbin and Arthur Resnick, to stop practicing law altogether and begin the full-time management of increasingly larger loans, by then involving hundreds of syndicated investors. Then, in 2006, these large syndicates were formally organized into a single fund which became the Romspen Mortgage Investment Fund. With continued careful guidance, Romspen has developed from these modest beginnings into a fully integrated North American lending platform with a mortgage portfolio in excess of $1.7 billion today.

Our Business

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 with a portfolio in excess of $1.7 billion. Our investors are high net worth individuals, foundations, endowments and pension plans.

The Fund's investment mandate is focused on capital preservation, strong absolute returns and performance consistency.

We originate, own and service short-term first mortgages tailored to specific borrower requirements. Loans are conservatively underwritten and we keep to a limited, but diversified, pool of mortgages to maintain a "high-touch" approach to investing.

Romspen has had 20 consecutive years of positive net investor returns (7.4% – 10.6%) with positive returns each and every month.

Romspen Business Principles

Investor Value

Our primary objective is to protect unitholder capital while providing a safe and consistent strong absolute cash return.

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

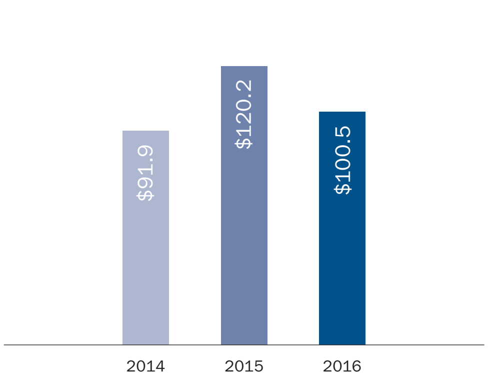
As managers, it is our responsibility to identify and manage the risk inherent with the mortgage portfolio. Rigorous property and borrower due diligence is fundamental to our lending decisions. Diversification by borrower, geography, property type and size is a deliberate strategy to smooth the effect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

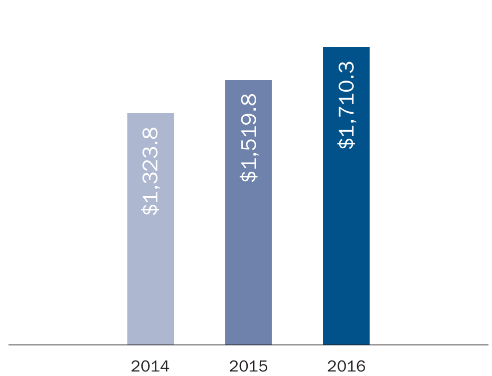
Key Metrics

Net Earnings ($ millions)



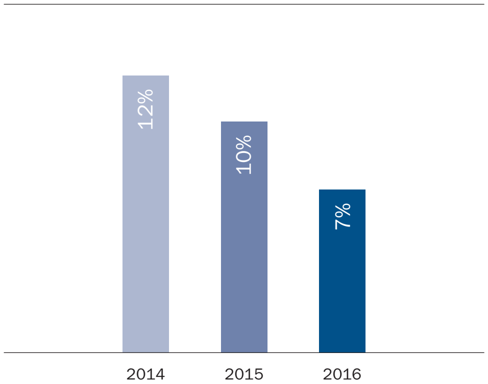
Solid net earnings

Investment Portfolio ($ millions)



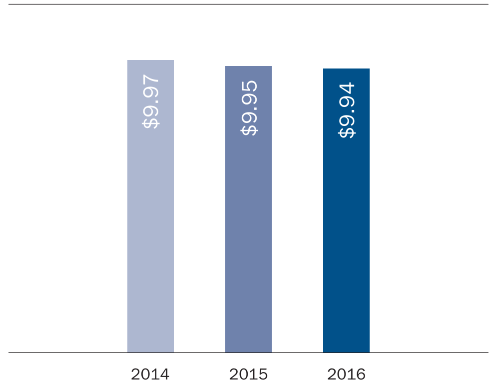
Strong portfolio growth

Net Leverage (% of investment portfolio)



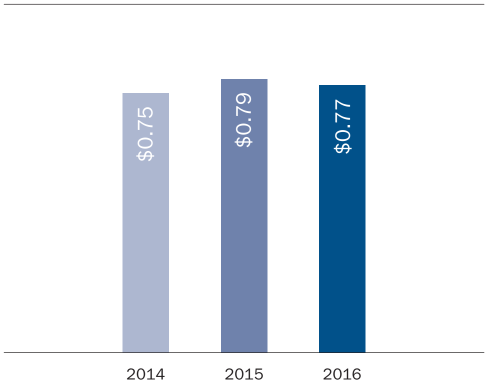
Low financial leverage

Unitholder Value* ($/unit)



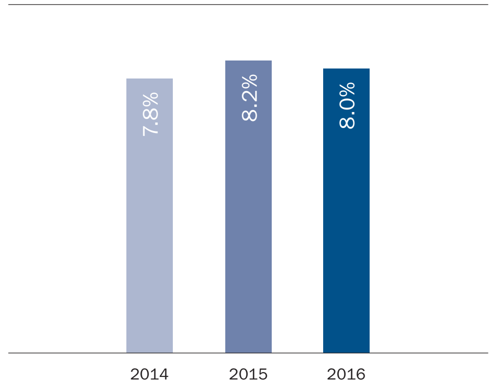
Solid unit value

Unitholder Distributions ($/unit)



Strong distributions

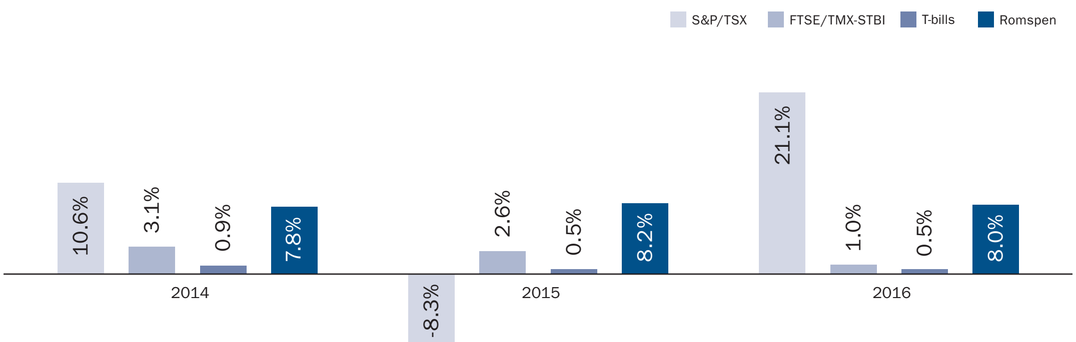
Unitholder Returns (net annual compounded %)



Strong returns

* Unitholder value equals NAV (net asset value) adjusted for material unrealized foreign exchange gains

Comparative Performance
Annual % Return



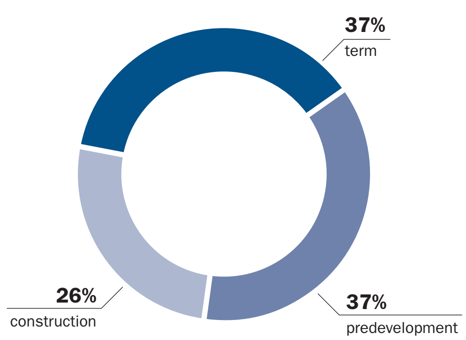
Solid outperformance

3 Year Accumulated Compounded Returns*		
	Romspen	26%
	S&P/TSX	23%
	FTSE/TMX-STBI	7%
	T-bills	2%

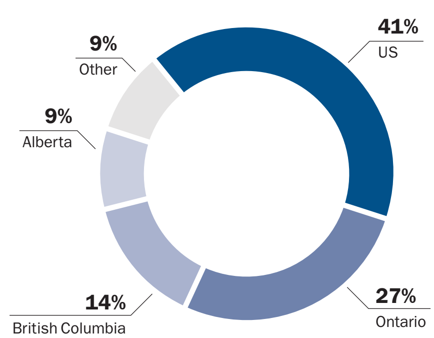
* Romspen returns are net; comparative benchmarks are gross returns

Investment Portfolio Profile
As of December 31, 2016

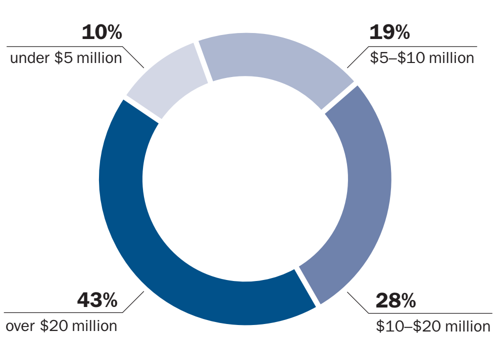
By Type



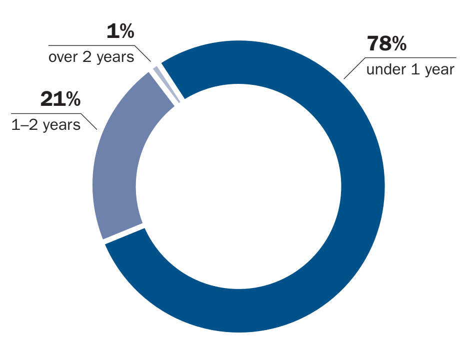
By Geography



By Amount



By Maturity



Well diversified portfolio

Dear Fellow Investors:

As the firm completed its 50th year in business, it is gratifying to look at a history of strong growth, broad diversification across North America and a solid and consistent investment track record. For 2016, Romspen Mortgage Investment Fund (the "Fund") returned 8.0% net, reflecting both a strong absolute return and continued significant comparative outperformance against the major fixed income benchmarks. While slightly below last year, it was achieved in a year with significant geopolitical events, a continuously competitive lending environment and persistent record-low interest rates.

The Fund's medium and long-term results also reflected similarly strong return performance. Romspen's five and ten-year cumulative net returns have been 46% and 126% respectively, outpacing the major fixed income benchmarks.

Financial Highlights

For the year ending December 31, 2016, the Fund earned net income of $100.5 million or $0.66 per unit compared to $120.2 million or $0.93 per unit in 2015. Operational earnings this year were higher than in 2015 but were more than offset by a $33 million decline in net income due to unrealized foreign exchange losses as the US dollar depreciated relative to last year. Distributions were $0.77 per unit for 2016 compared to $0.79 per unit for 2015. The compounded monthly net annual return to investors, based on distributions, was 8.0% compared to 8.2% last year. Total provisions for credit losses were increased from $37.3 million to $45.3 million ($0.28 per unit) in the year to maintain a solid margin of safety with a larger portfolio and shift in asset mix. Actual losses of $4.7 million were realized during the year and charged against the provision previously established on these loans.

At December 31, 2016, the net portfolio was $1.7 billion, an increase of 13% compared to 2015. Investors held units totalling $1.6 billion compared to $1.4 billion last year. The Fund's portfolio and earnings remain well diversified by property type, geography, size and currency. Net debt (debt less cash) was $115.6 million compared to last year's net debt of $155.3 million. The weighted average interest rate of the portfolio in 2016 was 11.2% compared to 10.6% in the previous year.

Unitholder value was $9.94 per unit compared to $9.95 per unit in 2015. These fluctuations arise as taxable income differs from accounting income due to differences in the treatment of loss reserves, non-accrued interest and other tax considerations. Approximately 89% of the Fund's foreign exchange exposure is hedged either by the borrowers directly or through forward contracts.

Financial Presentation

Effective January 1, 2016, an amendment was made to the International Financial Reporting Standards by the International Accounting Standards Board, which results in an unconsolidated financial presentation of the Fund that provides limited insight into the true performance of the portfolio. In an effort to continue to provide valuable, transparent and comparable information, a set of combined financial statements, similar to previous reporting, have been included in the Management's Discussion and Analysis ("MD&A", pp. 24-32). It is highly encouraged that these financials in the MD&A be used as the primary reference point.

Economy, Markets & Portfolio

Canadian mortgages and investments represented $1 billion, or 59% of the investment portfolio, with the majority (27%) concentrated in Ontario. Canadian real estate continued to perform well as the low interest rate environment and increased geopolitical risks drove foreign and domestic buyers to seek sources of yield in safe havens regardless of rising prices and the resultant cap rate compression.

In Canada, investors continued to focus on the non-commodity based markets such as Montreal and Toronto but the firming of resource prices may see a return to relatively reasonably priced markets such as Alberta and Saskatchewan. Prices for commercial real estate in Canada remain high while the economy struggles to regain momentum. We remain skeptical of valuations when selecting the projects that we will lend to as we are mindful that elevated prices will not continue unabated.

In Canada, our large relative size is an advantage in allowing us to fund larger loans outside the reach of most, if not all competitors, resulting in more favourable terms and rates. We expect to maintain the majority of the portfolio in Canada given the current opportunity set with a robust and growing pipeline of transactions.

US mortgages represented $720 million, or 41% of the portfolio in 2016 compared to $556 million, or 36% last year. The US portfolio includes 56 loans that are well diversified across 21 states. While real estate prices have risen, the regulatory climate has dampened the ability of banks to lend to eager buyers despite the low interest rate environment. This has served to extend a mature real estate cycle and prevent excess capital from chasing real estate, at any price, as was the case before the financial crisis. Credit conditions have improved in the US such that we are seeing the return of lending activities at a few regional-centre banks. The US environment continues to be attractive for capital deployment due to the large number of good quality projects and borrowers, many of whom contact us as a result of our strong reputation for providing customized lending solutions established over the past few years.

Non-performing loans totalled 23% of the portfolio. The rates at which we lend are predicated on the expectation that some percentage of mortgages in the portfolio will become non-compliant despite our rigorous underwriting process. It is simply a feature of the unique niche in which we lend and does not necessarily lead to realized losses. Non-compliant loans typically result in extended terms, foregone interest and increased administration to achieve successful outcomes, but not usually losses of principal outside of what we normally provide for. In the past decade, since the Fund's inception, realized loan losses have amounted to $21 million on over $4.5 billion of invested capital, or about 0.5%, a percentage that has remained relatively stable over time. Managing these non-compliant mortgages effectively is an important aspect in preserving capital and generating strong, consistent returns over the long run. Our ability to resolve these challenging loans successfully represents a significant competitive advantage in the industry in which we operate.

Strategy & Investment Approach

The Fund continues to adhere to the same business model that has served us well for over 50 years by concentrating on first mortgage loans on commercial and industrial properties in Canada and increasingly, in the US. Our mandate remains focused on capital preservation, absolute returns and consistent performance. We strive to deliver positive returns to our clients despite the geopolitical or economic climate or the performance of equity and fixed income markets. The success associated with an unwavering adherence to our business model, combined with consistent risk management, focused execution and long-term thinking has resulted in rates of return that exceed most traditional investment benchmarks over both short and long periods of time. The benefit of our approach is further illustrated by an unbroken positive performance track record over the past 20 years both on a monthly and annual basis. A detailed profile of this performance is presented at the end of this report (pp. 50-51).

In the next section of this report, we provide some sample mortgage investments to further illustrate how our investment process, discussed above, is reflected in actual transactions we finance.

Strong Investment Track Record Continues

The Fund's 8.0% net return significantly outperformed T-bills (0.5%) and FTSE/TMX Short-term Bond Index ("FTSE/TMX-STBI") (1.0%), but trailed the S&P/TSX (21.1%) during 2016. Looking at long-term performance over the past ten years to December 31, 2016, the Fund significantly outperformed all benchmarks with cumulative net returns of 126%; compared to 13% for T-bills; 42% for the FTSE/TMX-STBI; and 59% for the S&P/TSX. Viewed simplistically, a $10.00 investment in January 2007 would have returned $12.60 to an investor in the Fund compared to only $1.30 in T-bills; $4.20 in the FTSE/TMX-STBI; and $5.90 in the S&P/TSX.

Furthermore, the Fund has achieved these results consistently with positive returns each month over the past ten years, highlighting its conservative investing strategy through an uncertain and challenging economic cycle. In practice, we principally concentrate on making the correct decisions to ensure strong long-term performance of the portfolio and do not focus on short-term yearly results.

Outlook

2016 continued to see divergence in performance of the Canadian and US economies, which we expect to continue through 2017. On most economic metrics the US economy continues to build momentum whereas the Canadian economy exhibits sluggish economic performance.

The Canadian economy showed some signs of improvement as the transition from a strong reliance on commodities in favour of non-commodity exports such as services and tourism continued. The improvement of global commodity prices served to improve business confidence in the resource sector and strengthening oil prices provided a more positive backdrop for oil producers. As a result, the economic imbalance between the economies of oil dependent provinces such as Alberta and Saskatchewan and the other provinces should begin to narrow. Despite an improving economic outlook, the Canadian economy is still operating below capacity and remains vulnerable to protectionist trade policies from the new Trump administration. In this scenario the Bank of Canada is unlikely to raise interest rates much in the near to medium term.

The US economy, buoyed by nearly full employment and rising consumer and business confidence, displayed enough signs of inflationary growth that the Federal Reserve raised interest rates in December and further normalization of rates is expected during 2017. Many of the policies of the new Trump administration to reduce regulation, cut taxes and increase infrastructure spending could further stoke inflationary pressures and higher rates. However, broad structural challenges, such as an aging population, the displacement of labour due to technology and the global savings glut, will act as somewhat of a counterbalance and subdue rates.

Global equity markets have performed well in 2016 and are vulnerable to disappointment from geopolitical shocks on multiple fronts, as well as stretched valuations in the context of a higher interest rate environment. Increased volatility and foreign demand for safe haven assets will likely support continued demand for North American real estate despite the maturity of the cycle and relatively high valuations.

The environment for the type of lending we do remains very positive given the lack of comparably scaled competitors and institutional restrictions. In this economic environment, we expect to deploy capital in a manner that will yield risk adjusted returns consistent with those of the past few years.

We are pleased with the performance of the Fund in 2016 and the unbroken record of consistent positive returns as well as the protection of investor capital we have achieved. The Fund is well positioned to weather market volatility and political uncertainties going forward. As we embark on our next 50 years, we thank our investors for their ongoing trust in us, our borrowers for their support, and our team of professionals for their dedication and hard work.

Respectfully submitted,

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

Trustees of the Fund
April 10, 2017

CAPITAL PRESERVATION

STRONG ABSOLUTE RETURNS

PERFORMANCE CONSISTENCY

Since inception, our mandate has remained unchanged and focused on capital preservation, strong absolute returns and performance consistency. Our objective is to make money for our investors on a consistent basis, regardless of prevailing market conditions. The Fund follows a focused business model concentrated on first mortgage lending to commercial and industrial properties in North America. Our investment style and industry expertise, along with established deal flow and strong management alignment drives our track record, spanning five decades of superior performance metrics.

A large concentration of Romspen loans today is in the New York/New Jersey metropolitan core depicted in the background photo.

Even though the Richmond/Vancouver area is broadly known as the most expensive real estate market in Canada, this opportunity proved economically attractive. When a large Canadian bank backed away from a financing commitment, for reasons unrelated to the merits of the project, Romspen stepped into the breach with speed and flexibility. This prime 1.7 acre redevelopment site, located in close proximity to the Vancouver International Airport and SkyTrain, is slated for two class A commercial condominium towers and a hotel, collectively totalling 240,000 square feet. With the Vancouver/Richmond area serving as a key trade gateway, this development will provide a convenient nexus for, and cater to, the growing influence of Asia-Pacific commerce. Romspen's $52 million construction facility on Phase One is well supported by the experienced developer's equity investment as well as significant presale commitments.

50

RICHMOND, BRITISH COLUMBIA

INTERNATIONAL TRADE CENTRE

Spectacularly located, this remarkable 4 acre site in mid-town Atlanta is approved for three large-scale commercial, residential, hotel towers ranging from 38 to 60 stories and comprising over one million square feet. Romspen provided a US$19.4 million facility to refinance existing debt and to fund predevelopment costs associated with this project. This proverbial "hole in the donut" location is surrounded by modern high-rise office towers and is ripe for development into a mixed-use complex. With access to the area provided by the Downtown Connector (Expressway Interstates 75 and 85), this development will provide a full ensuite of facilities that fit a socio-economic demographic suited to millennials looking for a live/work/play environment.

ATLANTA, GEORGIA

ATLANTA ARTS CENTER DISTRICT

50

NAPA VALLEY, CALIFORNIA

STANLY RANCH

Situated a short 45 minutes north of San Francisco, this 95 acre parcel of land with its gently rolling hills and lush vineyards in Napa Valley will soon be redeveloped into Stanly Ranch Resort. The resort, consisting of a 135-room hotel and spa, 70 estate homes, resort villas and a 40,000 square foot winery, will be sensitively integrated into this stunning landscape. Romspen provided a US$30 million predevelopment mortgage to an experienced resort developer to begin this project. The proximity to the high-end socio-economic demographic in San Francisco that this resort will appeal to, combined with the extraordinarily difficult land entitlement process in Napa Valley, makes this site highly attractive.

Romspen provided a US$50 million mortgage to refinance this massive 13.5 acre site in Queens, New York that has been occupied by Elmhurst Dairy since the 1930's. This sub-market within Queens is in the transitional phase of historically industrial uses moving to modern commercial and low-rise residential developments. As such, property values are expected to increase as these higher-value developments accelerate. Romspen's loan assisted with refinancing/transitioning the existing operating company debt to a development loan to facilitate decommissioning the dairy operations and repurposing the property into 1.6 million square feet of commercial and residential space.

QUEENS, NEW YORK

ELMHURST DAIRY

Situated just 60 miles east of San Francisco, Mountain House is a master-planned community comprising almost 5,000 acres and is slated for almost 16,000 homes. This high-end development is principally populated with executives and engineers of the growing California high-tech community. With major backing by CalPERS, Lehman Brothers and several large-scale home developers, construction and infrastructure development began in 2000. The 2007-2009 credit crisis slowed the development and sidelined a 303 acre sub-development within the project, known as College Park, which was financed by Lehman Brothers. Romspen provided a US$25.8 million mortgage to an original joint venture partner within the Lehman consortia to purchase College Park from the liquidation of the Lehman estate. The site is zoned for 942 residential homes which will be "re-packaged" into smaller parcels and sold to builders.

50

SAN JOSE, CALIFORNIA

MOUNTAIN HOUSE

Romspen assisted a long-standing client with a $42.6 million second mortgage to acquire this well-known major Toronto shopping mall which was part of a distress disposition from an international real estate firm. Anchored by The Bay and including more than 97 other retailers/service providers, this 750,000 square foot mall is an iconic shopping destination in Toronto. While a second mortgage is highly unusual for us to even consider, the excellent asset quality, location, cash flow characteristics, significant surplus development lands, and associated additional collateral security make it a strong investment. As such, on an overall basis, the collateral package met our loan-to-value parameters.

50

TORONTO, ONTARIO

WOODBINE CENTRE

50

CÔTE SAINT-LUC, QUEBEC

CAVENDISH APARTMENTS

Romspen provided a $20 million mortgage to a prominent Montreal developer to acquire and finance construction of an energy efficient mixed-use property featuring 90 upscale condo-style residential rental units as well as some ground-floor commercial units. Located in the heart of the affluent Côte Saint-Luc neighbourhood, this property is 10 minutes away from downtown Montreal and is conveniently located to the Cavendish shopping mall as well as the amenity-rich, Pierre Elliott Trudeau Park. The project is expected to be delivered in August 2017, and 30% has already been leased to residential tenants.

Responsibility of Management

This Management's Discussion and Analysis ("MD&A") for Romspen Mortgage Investment Fund ("the Fund") should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2016 included herein and the audited financial statements and MD&A for the year ended December 31, 2015. 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 year ended December 31, 2016.

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

Forward-Looking Statements

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

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

The preceding list is not exhaustive of possible factors. These and other factors should be considered carefully and readers are cautioned not to place undue reliance on these forward-looking statements. The Fund does not undertake to update any forward-looking statements, whether written or verbal, that may be made from time to time by it or on its behalf except as required by securities laws.

Non-IFRS Financial Measures

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

Introduction

The Fund is an unincorporated closed-end investment trust established under the laws of the Province of Ontario pursuant to a trust indenture dated as at May 20, 2005. The Fund is a non-bank lender providing and investing primarily in short and medium-term commercial mortgages. The Fund is the sole limited partner in 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 and syndicator for the Partnership. Romspen also acts as administrator of the Fund's affairs. Romspen and its principals, through predecessor companies, have been in the business of mortgage origination, servicing and syndication since 1966.

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

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

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

Portfolio

As of December 31, 2016, the Fund's mortgage and investment portfolio (the "Portfolio"), net of fair value provisions, was $1.7 billion compared with $1.5 billion at December 31, 2015. This increase of $191 million or 13% reflects the increased activity in mortgage markets supported by a strong inflow of investor capital. The Portfolio included 155 mortgages and investments compared to 153 at the same time last year.

Approximately 94% of the Portfolio was invested in first mortgages at December 31, 2016 (December 31, 2015 – 96%). The weighted average interest rate of the Portfolio increased to 11.2% compared to 10.6% a year ago. The higher weighted average interest rate was mainly driven by recent US loans with higher overall rates.

The Portfolio continues to consist mainly of short-term mortgages to third parties and mortgages to the Fund's investment subsidiaries. Approximately 78% of the Portfolio's investments mature within one year (December 31, 2015 – 82%) and 99% mature within two years (December 31, 2015 – 99%). In addition, all of our mortgages are open for repayment prior to maturity. The short-term nature of the Fund's portfolio permits opportunities to continually and rapidly evolve the Portfolio in response to changes in the real estate and credit markets. The Fund Manager believes this flexibility is far more important in our market niche than securing long-term fixed interest rates.

As of December 31, 2016, approximately 27% of our investments were in Ontario, compared to 34% a year ago. Approximately 23% of the Portfolio was invested in Western Canada, 9% in other provinces and 41% in the US. The Fund Manager believes this broad level of North American 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, 2016 were $45.3 million, which represented 3% of the original cost of the Fund's investments or $0.28 per unit outstanding as at December 31, 2016. During 2016, the Fund realized $4.7 million of losses in 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 portfolio. 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.

Financial Presentation

An amendment was made to IFRS 10, IFRS 12 and IAS 28 – applying consolidation exception, which is effective for annual periods beginning January 1, 2016. This amendment results in an unconsolidated financial presentation of the Portfolio that provides limited insight into the true performance of the Fund. In an effort to continue to provide valuable, transparent and comparable information, a set of combined financial statements are provided in the following pages, consistent with past reporting practices. It is highly encouraged that the following financials in the MD&A be used as the primary reference point.

Combined Balance Sheet

For the year ended December 31, 2016, with comparative figures for 2015

Below is the combined balance sheet of the Fund and its wholly owned subsidiary, Romspen Mortgage Limited Partnership:

In thousands of dollars, except per unit amounts, unless otherwise noted	2016	2015
Assets		
Cash	$ 40,139	$ 12,833
Accrued interest receivable	64,665	49,392
Mortgage investments	1,414,008	1,339,939
Investment in subsidiaries	296,308	179,811
Other assets	4,404	3,878
	$ 1,819,524	$ 1,585,853
Liabilities and Unitholders' Equity		
Revolving loan facility	$ 155,753	$ 168,088
Accounts payable and accrued liabilities	1,562	1,526
Unrealized loss on foreign exchange forward contracts	6,247	10,750
Deferred revenue	–	67
Prepaid unit capital	9,320	9,060
Unitholders' distributions payable	11,451	8,237
	184,333	197,728
Units submitted for redemption	42,448	7,230
Unitholders' equity	1,592,743	1,380,895
	$ 1,819,524	$ 1,585,853

Combined Statement of Earnings

For the year ended December 31, 2016, with comparative figures for 2015

Below is the combined statement of earnings of the Fund and its wholly owned subsidiary, Romspen Mortgage Limited Partnership:

In thousands of dollars, except per unit amounts, unless otherwise noted		2016		2015
Revenue				
Mortgage interest	$	142,621	$	133,908
Other		6,021		1,566
Realized gain (loss) on foreign exchange		970		(1,887)
Unrealized gain (loss) on foreign exchange		(11,718)		21,560
		137,894		155,147
Expenses				
Management fees		16,759		14,717
Interest		6,153		5,056
Change in fair value of mortgage investments and investments in subsidiaries		8,005		10,872
Realized loss on mortgage investments		4,704		3,044
Other (gains) losses		(79)		(471)
Audit fees		215		197
Legal fees		53		91
Other		1,607		1,453
		37,417		34,959
Net earnings	$	100,477	$	120,188
Net earnings per unit	$	0.66	$	0.93
Weighted average number of units issued and outstanding		151,559,973		129,100,461

Combined Statement of Unitholders' Equity

For the year ended December 31, 2016, with comparative figures for 2015

Below is the combined statement of unitholders' equity of the Fund and its wholly owned subsidiary, Romspen Mortgage Limited Partnership:

In thousands of dollars, except per unit amounts, unless otherwise noted		2016		2015
Unit capital				
Balance, beginning of year	$	1,367,339	$	1,175,114
Proceeds from issuance of units, net of redemptions		263,284		164,547
Penalties on redemptions		4		2
Decrease (increase) in units submitted for redemption		(35,218)		27,676
Balance, end of year	$	1,595,409	$	1,367,339
Cumulative earnings				
Balance, beginning of year	$	565,747	$	445,559
Net earnings		100,477		120,188
Balance, end of year	$	666,224	$	565,747
Cumulative distributions to unitholders				
Balance, beginning of year	$	(552,191)	$	(450,297)
Distributions to unitholders		(116,699)		(101,894)
Balance, end of year	$	(668,890)	$	(552,191)
Unitholders' equity	$	1,592,743	$	1,380,895
Units issued and outstanding, excluding units submitted for redemption		159,309,728		136,559,760

Combined Cash Flow Statement

For the year ended December 31, 2016, with comparative figures for 2015

Below is the combined cash flow statement of the Fund and its wholly owned subsidiary, Romspen Mortgage Limited Partnership:

In thousands of dollars, except per unit amounts, unless otherwise noted		2016		2015
Cash provided by (used in)				
Operations:				
Net earnings	$	100,477	$	120,188
Items not affecting cash:				
Amortization of revolving loan facility financing costs		354		507
Change in fair value of mortgage investments and investments in subsidiaries		8,005		10,872
Realized loss on mortgage investments		4,704		3,044
Unrealized (gain) loss on foreign exchange		11,718		(21,560)
Amortization of discount		(137)		925
Other (gains) losses		(79)		(471)
Change in non-cash operating items:				
Accrued interest receivable		(12,704)		(5,178)
Other assets		(801)		(649)
Accounts payable and accrued liabilities and unitholder distributions payable		3,250		513
Deferred revenue		(67)		(145)
		114,720		108,046
Financing				
Proceeds from issuance of units, net of redemptions and reinvested funds		204,520		114,403
Penalties on redemptions		4		2
Prepaid unit capital		260		8,880
Change in revolving loan facility		(3,575)		(15,777)
Distributions to unitholders, net of reinvested funds		(57,935)		(51,750)
		143,274		55,758
Investments				
Funding of mortgage investments		(752,795)		(690,816)
Discharge of mortgage investments		543,849		531,912
Net funding of investment in subsidiaries		(21,742)		(6,839)
		(230,688)		(165,743)
Increase (decrease) in cash and restricted cash		27,306		(1,939)
Cash and restricted cash, beginning of year		12,833		14,772
Cash and restricted cash, end of year	$	40,139	$	12,833

Quarterly Financial Information 2016

Detailed financial information by quarter for 2016 is outlined in the chart below:

$ in millions, except per unit amounts

	Dec. 31	Sept. 30	Jun. 30	Mar. 31
Total revenue excluding realized foreign exchange gain (loss)	$ 39.6	$ 39.3	$ 32.8	$ 36.9
Unrealized foreign exchange gain (loss)	(5.7)	–	(2.8)	(3.2)
Realized foreign exchange gain (loss)	(1.9)	(0.3)	5.0	(1.8)
Interest expense and deferred financing costs	1.8	1.7	1.3	1.4
Net interest income	30.2	37.3	33.7	30.5
Management fees and other expenses	5.0	4.7	4.5	4.4
Fair value provision on investment portfolio and losses	1.0	2.0	3.8	1.2
Realized losses on investment portfolio	–	3.3	0.3	1.1
Other losses	0.1	0.1	0.1	(0.4)
Net earnings	24.1	27.2	25.0	24.2
Per unit – net earnings	$ 0.15	$ 0.18	$ 0.17	$ 0.17
– distributions	$ 0.20	$ 0.19	$ 0.19	$ 0.19
Trailing 12 month compounded return [1]	8.0%	7.9%	8.1%	8.1%
Revolving loan net of cash as a percentage of net mortgages [1]	7%	7%	13%	9%

Income Statement Highlights

Total revenues for the year ended December 31, 2016 were $137.9 million compared to $155.1 million in the previous year, an 11% decrease. Current year revenues are lower because of the inclusion of unrealized foreign exchange losses from the decline of the US dollar, which was at a peak last year.

Similarly, net earnings for the year ended December 31, 2016 were lower at $100.5 million compared to $120.2 million for the prior year. This decrease is largely due to the foreign exchange losses noted above, which was slightly offset by the decrease in reserve expense compared to 2015. The basic weighted average earnings per unit for the year were $0.66 per unit, compared to $0.93 last year.

For the year ended December 31, 2016, the Fund distributed $116.7 million or $0.77 per unit versus $101.9 million or $0.79 per unit for the period ended December 31, 2015. The simple and compounded net yield to unitholders for the twelve month period ended December 31, 2016 were 7.7%[1] and 8.0%[1] respectively.

Provisions for losses on the Portfolio value reflected an increase of $8.0 million in 2016 while realized losses were $4.7 million in 2016 compared to $3.0 million in the prior year. Management and other fees payable to the Fund Manager and other general and administrative expenses of the Fund were $18.6 million for the year ended December 31, 2016 compared to $16.5 million in the prior year. These expenses were higher than the previous year and reflect the larger Portfolio value.

Total revenues for the quarter ended December 31, 2016 were $32.0 million compared with $41.4 million for the comparative year ago period, and are attributable to unrealized foreign exchange losses in the last quarter of 2016.

Net earnings after all expenses for the fourth quarter were $24.1 million compared to $31.2 million for the quarter ended December 31, 2015. Basic weighted average earnings per unit for the three months ended December 31, 2016 were $0.15 compared to $0.23 in the prior year.

Management fees payable to the Fund Manager and other general and administrative expenses of the Fund were $5.0 million for the quarter, the same as last year.

For the three-month period ended December 31, 2016, the Fund distributed $32.2 million or $0.20 per unit, versus $25.7 million or $0.19 per unit in the prior year.

Balance Sheet Highlights

Total assets as of December 31, 2016 were $1.8 billion compared to $1.6 billion a year ago. Under IFRS, mortgages

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

that are owed from subsidiary companies holding foreclosed properties have been reclassified from mortgage investments to investment in subsidiaries. Total assets are comprised primarily of mortgages recorded at fair market value, investments in subsidiaries, and accrued interest receivable. In addition, the Fund had $40.1 million of excess cash at year end.

Total liabilities excluding units submitted for redemption as of December 31, 2016 were $184.3 million compared with $197.7 million a year earlier. Liabilities at year end were comprised mainly of a $155.8 million line of credit, and $13.0 million in accounts payable and distributions payable to unitholders. Drawings under the revolving loan facility, together with net cash proceeds of the Unit Offering, are used to increase the Portfolio. The revolving loan facility bears interest not exceeding prime plus 1.0% and is secured by all assets of the Partnership and a pledge of all Partnership units held by the Fund. Net debt (debt less unrestricted cash) stood at $115.6 million (7% of the Portfolio) at year end versus $155.3 million (10% of the Portfolio) a year ago.

Unitholders' equity plus units submitted for redemption as of December 31, 2016 were $1.6 billion compared with $1.4 billion as of December 31, 2015. The increase is primarily from proceeds of issuances of $338.0 million in excess of redemptions of $74.7 million during the previous 12 months. There were a total of 163,581,841 units outstanding on December 31, 2016 compared to 137,286,096 on December 31, 2015. There are no options or other commitments to issue additional units.

Liquidity and Capital Resources

Pursuant to the trust indenture, 100% of the Fund's net taxable earnings are intended to be distributed to unitholders. This means that growth in the 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. As of December 31, 2016 borrowings net of cash totalled approximately 7%[2] of the book value of investments held by the Fund compared to 10%[2] net borrowings as of December 31, 2015.

During the year ended December 31, 2016, proceeds from the issuance of units, net of redemptions and costs, were $263.3 million compared to $164.5 million during the same period in 2015.

The Fund's mortgages are largely short-term in nature with the result that continual repayment by borrowers of existing mortgages creates liquidity for new mortgage investments. We expect next year's growth in the 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 mortgage manager for the Partnership and administrator for the Fund. The trustees of the Fund are all principals of Romspen. In consideration for its mortgage origination and capital raising services, Romspen receives a fee equal to 1% per annum, calculated daily and paid monthly, of the total of all mortgage investments plus the fair value of any non-mortgage investments. Romspen also receives all lender, broker, origination, commitment, renewal, extension, discharge, participation, and other administrative fees charged to borrowers. In addition, the Partnership has granted to Romspen the option to purchase any mortgage investment held by the Partnership for a purchase price equal to the principal amount of such mortgage plus any accrued interest.

From time to time, the Partnership may invest in mortgage loans made to borrowers who are related to Romspen or the trustees of the Fund. The Partnership may also invest in mortgages which are syndicated among Romspen, the Fund's trustees, or related parties. These related party transactions are further discussed in the notes to the accompanying 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.

Outlook

The global economy is showing signs of a moderate recovery with deflationary pressures abating in the Eurozone, a slight recovery in oil and other commodity prices, improving business and consumer confidence, and an uptick in exports in response to increased global demand. Monetary policy, however, remains highly stimulative in most economies and growth will be modest, tempered by factors such as aging populations, continued structural adjustment of economies to a lower growth environment and significant geopolitical risks. Political uncertainty will remain high in Europe with several core country elections in 2017 and a rising populist sentiment. The short-term consequences of Brexit to the UK economy have been minimal and negotiations for an exit will likely take years to complete.

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

The Trump administration's approach to trade is unclear and poses a significant potential risk to the fragile recovery of global economies. Global equity prices remain high and appear to have already priced in many positive changes promised, but not yet executed by the Trump administration. Market volatility is likely to return as a consequence of geopolitical shocks.

In the US, business investment is on the rise, capital spending is rebounding modestly and consumer spending, supported by nearly full employment and wage gains, continues to be the engine of growth. The new Administration's proposed reductions in personal and corporate taxes, implementation of infrastructure spending and reduction of the regulatory burden could further stimulate an already strong economy. The Federal Reserve responded to growing inflationary pressures with a rate increase in December and is expected to implement multiple rate increases in 2017. The high US dollar remains a headwind to exports and the anticipated rate increases will lead to an even stronger dollar.

The Canadian economy is expected to show some signs of stronger growth as a result of improving commodity prices, particularly for oil, public infrastructure spending, the strength of the neighbouring US economy and a relatively weak dollar. Activity in resource-related industries appears to have bottomed out and the recent rebound in the number of new drilling rigs, improved capital expenditure plans of oil and gas companies and the resumption of production in the oil sands are all positive developments. A partial rebound in non-resource exports at year end further supported economic growth. The potential for an escalation in cross-border trade disputes with the US represents a notable downside risk for exports and Canadian growth. The renegotiation of NAFTA could result in a trade shock resulting in further depreciation of the Canadian dollar and may necessitate an interest rate cut from the Bank of Canada. Businesses are cautiously optimistic but vulnerable to rising protectionism in the US and the impact of the introduction of countrywide carbon pricing. Consumers remain upbeat but with record levels of indebtedness are unable to ramp up spending. Overall, the economy is improving but excess capacity remains and there is little likelihood that inflationary pressures will force the Bank of Canada to increase interest rates until well into 2018.

In Canada, the housing market is expected to cool and cause a slight drag on the economy in response to lack of affordability in many cities, rising mortgage rates, Federal Government measures to cool the housing market, and the BC and Ontario governments' land transfer tax imposed on foreign buyers. Canadian Commercial Real Estate ("CRE") values remain high by historical standards with industrial real estate benefitting most from an improving manufacturing sector and the rise of online retail.

CRE in the US has experienced significant gains from the recessionary trough fuelled by domestic and foreign buyers alike. Cap rates have compressed as a result of rising prices, however, real estate gains have taken place in the context of lower leverage, stricter underwriting and improving collateral value. Banks are tightening conditions for lending after the Fed advocated more stringent criteria over concerns about rapid price growth of CRE. This, combined with the restraint imposed on banks and large insurers by Dodd-Frank regulations, may cause a mature real estate cycle to lengthen. The risk-retention rules which came into force in December 2016 have also served to reduce CRE funding from CMBS issuance as banks are required to retain 5% of issues on their books, resulting in improved underwriting standards. Lack of construction financing has also limited the ability to bring on new supply to meet strong market demand.

The lending climate in the US remains highly favourable to private lenders who have stepped in to fill the sizable void left by banks and insurance companies. In Canada, private lenders have increasingly become overly aggressive in our market segment as too much capital chases too few opportunities resulting in yields not properly compensating for risk. While still an attractive market, more effort is required to execute loans that fit our strict parameters. The broad range of opportunities in both countries, but particularly the US, will allow us to invest the portfolio in a manner that is consistent with our risk management process and return expectations.

Financial Statements

Romspen Mortgage Investment Fund

Year ended December 31, 2016

Independent Auditors' Report

To the Unitholders of Romspen Mortgage Investment Fund

We have audited the accompanying financial statements of Romspen Mortgage Investment Fund, which comprise the statement of financial position as at December 31, 2016, the statements of comprehensive income, changes in 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 financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of Romspen Mortgage Investment Fund as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 30, 2017
Toronto, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

Statement of Financial Position

In thousands of dollars, except per unit amounts, unless otherwise noted
December 31, 2016, with comparative information for 2015

	2016	2015
Assets		
Cash	$ 9,347	$ 9,158
Investment in Partnership at fair value through profit or loss ("FVTPL") (note 3)	1,647,662	1,397,448
	$ 1,657,009	$ 1,406,606
Liabilities and Unitholders' Equity		
Liabilities:		
Accounts payable and accrued liabilities	$ 1,047	$ 1,179
Prepaid unit capital	9,320	9,060
Unitholders' distributions payable	11,451	8,237
Other liabilities	–	5
	21,818	18,481
Units submitted for redemption (note 5)	42,448	7,230
Unitholders' equity (note 4)	1,592,743	1,380,895
Commitments and contingent liabilities (note 9)		
	$ 1,657,009	$ 1,406,606
Net asset value per unit (note 5)	$ 10.00	$ 10.11

See accompanying notes to financial statements.

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

Statement of Comprehensive Income

In thousands of dollars, except per unit amounts, unless otherwise noted
Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Revenue:		
Realized gain from investment in Partnership at FVTPL (note 3)	$ 126,172	$ 114,888
Unrealized gain (loss) from investment in Partnership at FVTPL (note 3)	(19,723)	10,688
Total revenue	106,449	125,576
Expenses:		
Management fees (note 8(a))	5,530	4,857
Accounting and legal fees	16	31
Other	426	500
Total expenses	5,972	5,388
Net income and comprehensive income	$ 100,477	$ 120,188
Net income and comprehensive income per unit (note 5)	$ 0.66	$ 0.93
Weighted average number of units issued and outstanding (note 5)	151,559,973	129,100,461

See accompanying notes to financial statements.

Statement of Changes in Unitholders' Equity

In thousands of dollars, except per unit amounts, unless otherwise noted
Year ended December 31, 2016, with comparative information for 2015

		2016		2015
Unit capital:				
Balance, beginning of year	$	1,367,339	$	1,175,114
Proceeds from issuance of units, net of redemptions (note 4)		263,284		164,547
Penalties on redemptions		4		2
Decrease (increase) in units submitted for redemption (note 4)		(35,218)		27,676
Balance, end of year	$	1,595,409	$	1,367,339
Cumulative earnings:				
Balance, beginning of year	$	565,747	$	445,559
Net income and comprehensive income		100,477		120,188
Balance, end of year	$	666,224	$	565,747
Cumulative distributions to unitholders:				
Balance, beginning of year	$	(552,191)	$	(450,297)
Distributions to unitholders (note 6)		(116,699)		(101,894)
Balance, end of year	$	(668,890)	$	(552,191)
Unitholders' equity	$	1,592,743	$	1,380,895
Units issued and outstanding, excluding units submitted for redemption (note 5)		159,309,728		136,559,760

See accompanying notes to financial statements.

Statement of Cash Flows

In thousands of dollars, except per unit amounts, unless otherwise noted
Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operations:		
Net income and comprehensive income	$ 100,477	$ 120,188
Items not affecting cash:		
Change in unrealized gain (loss) from investment in Partnership at FVTPL	19,723	(10,688)
Change in non-cash operating items:		
Accounts payable and accrued liabilities and unitholders' distributions payable	3,082	766
Other liabilities	(5)	(1,285)
	123,277	108,981
Financing:		
Proceeds from issuance of units	279,259	170,964
Redemption of units	(74,739)	(56,561)
Penalties on redemptions	4	2
Prepaid unit capital	260	8,880
Distributions to unitholders	(57,935)	(51,750)
	146,849	71,535
Investments:		
Net funding of investment in Partnership at FVTPL	(269,937)	(172,161)
Increase in cash	189	8,355
Cash, beginning of year	9,158	803
Cash, end of year	$ 9,347	$ 9,158

See accompanying notes to 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. The Fund’s registered office is 162 Cumberland Street, Suite 300, Toronto, ON M5R 3N5.

Romspen Investment Corporation (“Romspen”) is the Fund’s mortgage manager and acts as the primary loan originator, underwriter and syndicator for the Partnership.

The Fund commenced operations on January 16, 2006. These financial statements and accompanying footnotes have been authorized for issue by the Trustees of the Fund (the “Trustees”) on March 30, 2017.

1. Basis of presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The financial statements are measured and presented in Canadian dollars; amounts are rounded to the nearest thousand, unless otherwise stated. The financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities at fair value through profit or loss (“FVTPL”) which are presented at fair value.

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 27) (the “amendments”) became effective for periods beginning January 1, 2016. The amendments clarify that a parent that is an investment entity shall not present consolidated financial statements if it is required to measure all of its subsidiaries at fair value through profit or loss. The Fund implemented these amendments on January 1, 2016. The Trustees concluded that the Fund meets the definition of an investment entity. As a result of implementing the amendments, the Fund accounts for its investment in the Partnership at FVTPL. Before adoption of the amendments, the Fund consolidated the Partnership. In accordance with transitional provisions of the amendments, the Fund has applied the new accounting policy retrospectively and restated the comparative information. The results of operations and the financial position of the Partnership are provided separately in note 3.

2. Significant accounting policies

A) Use of estimates

In preparing these financial statements management has made judgments, estimates, and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year, as well as critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are included in note 3.

B) Net income and comprehensive income per unit

Net income and comprehensive income per unit is computed by dividing net income and comprehensive income for the year by the weighted average number of units issued and outstanding during the year.

C) Prepaid unit capital

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

D) Financial assets and financial liabilities

Financial assets and financial liabilities at FVTPL are initially measured at fair value, with transaction costs recognized in profit or loss. Financial assets and financial liabilities not at FVTPL are initially measured at fair value plus transaction costs that are directly attributable to their acquisition or issue. Other financial assets and financial liabilities are recognized on the date on which they are originated.

Financial assets are derecognized when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership are transferred or in which the Partnership neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset. A liability is derecognized when its contractual obligations are discharged or cancelled, or expired.

E) Current and future accounting changes in accounting policies

Amendments to IAS 1: In 2014, the IASB issued amendments to IAS 1, Presentation of Financial Statements, as part of its major initiative to improve presentation and disclosure in financial reports. There was no significant impact on the Fund’s financial statements as a result of implementation of this amendment.

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

IFRS 9 was published by the IASB in July 2014 and will replace International Accounting Standard ("IAS") 39, Financial Instruments – Presentation. It includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for the annual periods beginning on or after January 1, 2018, with early adoption permitted. The impact of this standard on the Fund has not yet been assessed.

3. Investment in Partnership at FVTPL

The Partnership is a wholly owned investment subsidiary of the Fund, which conducts all the lending activities. The Partnership is not consolidated by the Fund and sections of its results of operations and statement of financial position are provided below:

Statement of financial position:

	2016	2015
Assets		
Cash	$ 30,792	$ 3,675
Accrued interest receivable	64,665	49,392
Mortgage investments (note 3(b))	1,414,008	1,339,939
Investment in subsidiaries (note 3(c))	296,308	179,811
Other assets	4,404	3,883
	$ 1,810,177	$ 1,576,700
Liabilities and Unitholders' Equity		
Liabilities:		
Revolving loan facility (note 3(d))	$ 155,753	$ 168,088
Accounts payable and accrued liabilities	515	347
Unrealized loss on foreign exchange forward contracts (note 3(e))	6,247	10,750
Deferred revenue	–	67
	162,515	179,252
Net assets attributable to unitholders of the Partnership	1,647,662	1,397,448
	$ 1,810,177	$ 1,576,700

Statement of comprehensive income:

	2016	2015
Revenue		
Mortgage interest	$ 142,621	$ 133,908
Other	6,021	1,566
Realized gain (loss) on foreign exchange	970	(1,887)
Unrealized gain (loss) on foreign exchange	(11,718)	21,560
	137,894	155,147
Expenses		
Management fees	11,229	9,860
Interest	6,153	5,056
Change in fair value of mortgage investments and investments in subsidiaries	8,005	10,872
Realized loss on mortgage investments	4,704	3,044
Other gains	(79)	(471)
Audit fees	199	166
Legal fees	53	91
Other	1,181	953
	31,445	29,571
Net income and comprehensive income	$ 106,449	$ 125,576

A) Significant accounting policies of the Partnership

i) Mortgage investments All mortgages have been designated as FVTPL. Mortgage investments are recorded at fair value, with any changes in fair value reflected in the Partnership's statements of earnings, in accordance with IAS 39 and IFRS 13, Fair Value Measurement ("IFRS 13").

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 Partnership's statement of comprehensive income as an unrealized fair value adjustment.

ii) Investments in subsidiaries Entities are formed by the Fund to obtain legal title of the underlying security of an impaired mortgage investment. These entities are considered to be subsidiaries due to the Partnership's control and exposure to variable returns from its involvement in these entities. The Partnership is an investment entity and measures investments in its subsidiaries at FVTPL. The carrying value of the mortgage investment, which comprises principal, accrued interest and a fair value adjustment, if any, is reclassified from mortgage investments to investments in subsidiaries. At each reporting date, the Partnership uses management's best estimates to determine fair value of the subsidiaries (note 3).

iii) Interest income Interest income, funding and participation fees are recognized using the effective interest method ("EIM"). The EIM discounts the estimated future cash receipts through the expected life of the loan and mortgage to its carrying amount.

iv) Use of estimates The mortgage investments are recorded in the Partnership's statement of financial position at fair value. The estimates may include: assumptions regarding local real estate market conditions; interest rates and the availability of credit; cost and terms of financing; the impact of present or future legislation or regulation; prior encumbrances and other factors affecting the mortgage and underlying security of the mortgage investments. Actual results may differ from those estimates.

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.

v) Foreign currency translation Foreign exchange gains and losses on the receipts of payments on mortgage investments are included in realized gain/loss on foreign exchange on the statement of earnings. All unrealized foreign exchange gains and losses on each balance sheet item are included in unrealized foreign exchange gain/loss on the Partnership's statement of comprehensive income.

vi) Financial assets and financial liabilities Financial assets or liabilities at FVTPL are initially recognized on the trade date, which is the date the Partnership becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognized on the date on which they are originated. The Partnership becomes a party to the contractual provisions for the mortgage investments when cash is advanced to the third party borrower.

IAS 39 and IFRS 13 establish standards for recognizing and measuring financial assets and financial liabilities, including non-financial derivatives. In accordance with these standards, the Partnership has classified its financial assets as one of the following: FVTPL or loans and receivables. All financial liabilities must be classified as FVTPL or other financial liabilities. The Partnership's designations are as follows:

A) Mortgage investments are classified as debt instruments and are designated as FVTPL, categorized into Level 3 of the fair value hierarchy.

B) Investments in subsidiaries – entities over which the Partnership has control are designated as FVTPL and categorized into Level 3 of the fair value hierarchy, as permitted by IFRS 10, Investment Entities – Exception to Consolidation.

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

Financial assets classified as FVTPL are carried at fair value on the financial statements of financial position. The net realized and unrealized gains and losses from fair value changes and foreign exchange differences, excluding interest, are recorded in the Partnership's statement of comprehensive income and statement of cash flows.

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

B) Mortgage investments (excluding mortgages to investment subsidiaries)

The following is a summary of the mortgages:

			2016	2015
	Number of mortgages	Original cost	Fair value	Fair value
First mortgages	**123**	**$ 1,353,783**	**$ 1,334,521**	$ 1,288,879
Second mortgages	**5**	**79,487**	**79,487**	51,060
		$ 1,433,270	**$ 1,414,008**	$ 1,339,939

A reconciliation of the mortgage investments for the year ended December 31, 2016 is as follows:

Mortgage investments	2016	2015
Investments balance, beginning of year	**$ 1,339,939**	$ 1,179,711
Funding of mortgage investments	**752,795**	690,816
Discharge of mortgage investments	**(543,849)**	(531,912)
Non-cash transfer to investments in subsidiaries	**(95,764)**	(33,317)
Unrealized loss in the value of investments	**(6,488)**	(2,787)
Realized loss on investments	**(4,704)**	(3,044)
Amortization of discount	**137**	(925)
Foreign currency adjustment on investments	**(28,058)**	41,397
Investments balance, end of year	**$ 1,414,008**	$ 1,339,939

Credit risk arises from the possibility that mortgagors may be unable to fulfill their obligations. In accordance with the Fund's policies, the Partnership 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:

2016 and earlier	**$ 448,953**
2017	**642,776**
2018	**334,988**
2019 and after	**6,553**
	$ 1,433,270

Included in the 2016 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.

C) Investments in subsidiaries

	2016	2015
Investments in subsidiaries at cost	**$ 322,332**	$ 204,318
Fair value adjustment	**(26,024)**	(24,507)
	$ 296,308	$ 179,811

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

A reconciliation of investments in subsidiaries for the year ended December 31, 2016 is as follows:

Investments in subsidiaries	2016	2015
Investments balance, beginning of year	**$ 179,811**	$ 144,106
Funding of investments	**22,773**	12,078
Discharge of investments	**(1,031)**	(5,239)
Non-cash transfer from mortgage investments	**95,764**	33,317
Net unrealized loss in the fair value of investments	**(1,517)**	(8,085)
Foreign currency adjustment on investments	**508**	3,634
Investments balance, end of year	**$ 296,308**	$ 179,811

D) Revolving loan facility

The Partnership entered into a revolving loan facility on July 16, 2012 and it was amended on November 12, 2015 with an increased maximum amount of $298,000 (2015 – $298,000) including borrowings of equivalent amount denominated in US dollars. Approximately $142,247 (2015 – $129,912) is available and $155,753 has been drawn as at December 31, 2016 (2015 – $168,088). Interest on the loan is charged at a maximum of prime rate plus 1.0%. The minimum and maximum amounts drawn under the revolving loan facility during the year ended December 31, 2016 were $92,000 and $228,000 (2015 – $100,000 and $195,000), respectively. The loan is secured by all assets of the Partnership and a pledge of all Partnership units held by the Fund. The loan matures on July 18, 2017.

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

The costs associated with the establishment of the revolving loan facility are amortized over the two-year initial term of the facility and have been included in other assets for $217 (2015 – $481), net of accumulated amortization of $391 (2015 – $54).

E) Foreign exchange forward contracts

The foreign exchange forward contracts are used to hedge the Fund's exposure to loans denominated in US dollars. The following table sets out the fair values and the notional amount of foreign exchange forward contract derivative assets and liabilities held by the Fund as at December 31, 2016 and 2015:

Foreign exchange loss on forward contracts as at year end:

Expiration date	Currency received to be delivered in US$ (CDN$)	Fair value at foreign exchange	Unrealized loss
2016	**$ 322,179**	**$ 328,426**	**$ (6,247)**
2015	110,350	121,100	(10,750)

The foreign exchange forward contracts are used to hedge the Fund's exposure to loans denominated in US dollars and are classified as held-for-trading.

Included in the Partnership's statement of comprehensive income are unrealized foreign exchange losses on forward contracts, which are economically offset by unrealized gains for a net loss amount of $11,718 (2015 – gain of $21,560) on assets classified as FVTPL.

The realized foreign exchange gain in the Partnership's statements of comprehensive income consists mainly of realized foreign exchange gains of $5,142 (2015 – loss of $8,679) on forward contracts, which are offset by $6,112 (2015 – $6,792) net gains on assets classified as FVTPL and revolving credit facility.

4. 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. These units are classified as equity as they are puttable instruments that entitle the holder to a pro-rata share of the Fund's net assets in the event of the Fund's liquidation. They are in a class of instruments that are subordinate to all other classes of instruments, and have identical features. 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 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 twelve months following the date the discounted redemptions are processed.

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.

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

As at December 31, 2016, unitholders representing approximately 4,272,113 (2015 – 726,336) 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

	2016		2015	
	Units	**Amount**	Units	Amount
Balance, beginning of year	**137,286,096**	**$ 1,374,369**	120,847,181	$ 1,209,822
New units issued	**27,925,894**	**279,259**	17,096,384	170,964
New units issued under distribution reinvestment plan	**5,876,365**	**58,764**	5,014,364	50,144
Units redeemed	**(7,506,514)**	**(74,739)**	(5,671,833)	(56,561)
Proceeds from issuance of units, net of redemptions	**26,295,745**	**263,284**	16,438,915	164,547
Balance, end of year	**163,581,841**	**$ 1,637,653**	137,286,096	$ 1,374,369

During the normal course of business, the Fund receives unit issuance and redemption requests from the investors. In 2016, the Fund received requests for redemption of 11,052,291 units (2015 – 2,895,527) and redeemed 7,506,514 units (2015 – 5,671,833) for $74,739 (2015 – $56,561) 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.

5. Net asset value per unit and net income and comprehensive income 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 159,309,728 as at December 31, 2016 (2015 – 136,559,760).

Net income and comprehensive income per unit have been computed using the weighted average number of units issued and outstanding of 151,559,973 for the year ended December 31, 2016 (2015 – 129,100,461).

6. Distributions

The Fund makes distributions to the unitholders monthly on or about the 15th day of each month. The Fund's trust indenture indicates that the Fund intends to 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, 2016, the Fund declared distributions of $0.77 (2015 – $0.79) per unit and a total of $116,699 (2015 – $101,894) was distributed to the unitholders.

7. Income taxes

The Fund is taxed as a mutual fund trust for income tax purposes. Pursuant to the trust indenture, the Fund intends 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.

8. 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 and the Partnership had the following significant related party transactions:

A) The majority of the trustees of the Fund are owners of Romspen. Under the Mortgage Origination and Capital Raising Agreement, Romspen provides capital raising services to the Fund. Romspen receives fees totalling 0.33% 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, 2016, the amount was $5,530 (2015 – $4,857).

B) Under the Mortgage Origination and Capital Raising Agreement, Romspen provides mortgage origination services to the Partnership. Romspen receives fees totalling 0.67% 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, 2016, the amount was $11,229 (2015 – $9,860).

C) Romspen and related entities also receive certain fees directly from the borrower, generated from the Partnership's 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, 2016, this amount was $26,379 (2015 – $23,387).

D) Several of the Partnership'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 Partnership ranks equally with, or in priority to, other members of the syndicate as to receipt of principal and income. Employees and directors of Romspen, along with related parties, are also permitted to invest in the Fund.

E) As at December 31, 2016, the Partnership had two (2015 – two) investments outstanding with an original cost of $31,391 (2015 – $31,238), including accrued interest of $382 (2015 – $382) and fair value of $22,317 (2015 – $23,559) due from mortgagors and investments in which members of management of Romspen own non-controlling equity interests,

F) Included in the Fund's accounts payable and accrued liabilities is an amount of $101 (2015 – $51) payable to Romspen.

G) Included in the Partnership's accounts payable and accrued liabilities is an amount of $205 (2015 – $105) payable to Romspen.

9. 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. As of December 31, 2016, there were $17,200 of guarantees outstanding (2015 – $15,400).

D) The Partnership has letters of guarantee outstanding at December 31, 2016 of $14,759 (2015 – $22,400).

10. Fair values of financial instruments

IFRS 13 establishes enhanced disclosure requirement for fair value measurements of financial instruments and liquidity risks. A three-level valuation hierarchy is used 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).

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

Fund

The Fund's investment in the Partnership has been classified in Level 2 of the hierarchy.

Fair value of the investment in the Partnership is the amount of net assets attributable to unitholders of the Partnership. The fund routinely redeems and issues the redeemable Partnership units at the amount equal to the proportionate share of net assets of the Partnership at the time of redemption. Accordingly, the carrying amount of net assets attributable to unitholders of the Partnership approximates their fair value.

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

Partnership

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

The Partnership's investments in subsidiaries are measured at fair value using Level 3 unobservable inputs, including comparable market property values, appraisals and discounted cash flows.

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

The fair value of the Partnership's investments in subsidiaries is generally determined using a variety of methodologies, including comparable market property values, market research data, third-party and in-house appraisals, and discounted cash flow analysis, which would include inputs related to discount rates, future cash flows, liquidity, etc.

The fair value of the Partnership's total investments are as follows:

Description	2016	2015
Mortgage investments and investments in subsidiaries, at amortized cost	**$ 1,755,602**	$ 1,557,032
Unrealized fair value adjustment	**(45,286)**	(37,282)
	$ 1,710,316	$ 1,519,750

Description	2016	2015
Mortgage investments	**$ 1,414,008**	$ 1,339,939
Investments in subsidiaries	**296,308**	179,811
	$ 1,710,316	$ 1,519,750

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

Romspen regularly reviews significant unobservable inputs and valuation adjustments and will use market observable data when available. When third-party appraisals are used to measure fair values of its investments in subsidiaries, the Fund will assess the evidence obtained to support valuations that meet the requirements of IFRS.

11. Financial instrument risk management

The Fund is exposed in varying degrees to a variety of risks from its use of financial instruments. The trustees and Romspen discuss the principal risks of the business on a day-to-day basis. The trustees set the policy framework for the implementation of systems to manage, monitor and mitigate identifiable risks. The Fund's risk management objective in relation to these instruments is to protect and minimize volatility to net assets and mitigate financial risks, including credit risk, liquidity risk, market risk (including interest rate risk and currency risk) and capital management risk. Romspen seeks to minimize potential adverse effects of risk by retaining experienced analysts and advisors, monitoring the Partnership's positions, market events and entering into hedge contracts. The types of risks the Fund is exposed to, the source of risk exposure and how each is managed is outlined hereafter:

A) Credit risk

Credit risk is the risk of loss due to a counterparty to a financial instrument failing to discharge their obligations.

Fund

The Fund is exposed to credit risk through its investment in the Partnership.

Partnership

Credit risk arises from mortgage investments held, from investments in subsidiaries and also from foreign exchange forward contracts. The Partnership's sole activity is to discharge their obligations. The Partnership's sole activity is investing in mortgages (note 3) and, therefore, 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 its mortgage investments. Romspen 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 Partnership 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.

Romspen manages counterparty credit risk on foreign exchange forward contracts by dealing with counterparties with high credit ratings.

As at December 31, 2016, the Partnership has $24,718 (2015 – $15,960) of accrued interest past due on $477,315 (2015 – $417,667) 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.

B) Liquidity risk

Liquidity risk is the risk that the Fund or the Partnership will not have sufficient cash to meet its obligations as they become due.

Fund

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.

The Fund is obliged to pay management fees to Romspen, which are funded out of interest income earned from the Partnership.

Partnership

The Partnership 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 Partnership'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 Partnership to obtain financing on favourable terms, or to obtain financing at all.

The Partnership's revolving loan facility (note 3(d)) was renewed and matures on July 18, 2017. If it is not extended at maturity, repayments under the Partnership's portfolio would be utilized to repay the revolving loan facility. The Partnership'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 Partnership is unable to continue to have access to its revolving loan facility, the size of the Partnership's portfolio will decrease and the income historically generated through holding a larger portfolio by utilizing leverage will not be earned.

As at December 31, 2016, the Partnership had not utilized its full leverage availability, being a maximum of 35% of its qualified mortgage investments.

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

C) Market risk

Market risk is the risk that changes in market prices – such as interest rates, foreign exchange rates, equity prices and credit spreads – will affect income or fair value of financial instruments.

Fund

The Fund is exposed to market risk through its investment in the Partnership.

Partnership

Market risk arises on the fair value of the collateral securing any of the Partnership's mortgage investments. Romspen 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 Romspen's lending practices and policies are adjusted when necessary.

i) 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 Partnership'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 mortgages will evolve such that in periods of higher market interest rates, the 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 Partnership's investments are in fixed rate, short-term mortgages. The Partnership generally holds all of its mortgages to maturity. There is no secondary market for the Partnership's mortgages and in syndication transactions; these mortgages are generally traded at face value without regard to changes in market interest rates.

The Partnership's debt under the revolving loan facility (note 3(d)) bears interest not exceeding the prime rate plus 1.0%.

As at December 31, 2016, if interest rates on the revolving loan facility had been 100 points basis lower or higher, with all other variables held constant, net income and comprehensive income for the year would be affected with a total increase or decrease of $1,429 (2015 – $1,471). Romspen monitors the financial markets and can adjust the pricing of renewals and new loans when it deems it appropriate.

ii) Currency risk Currency risk is the risk that the fair value or future cash flows of the Partnership's portfolio will fluctuate based on changes in foreign currency exchange rates. Approximately $659,355 (2015 – $503,196), 39% (2015 – 33%) of the total Fund's investments at year end are denominated in US 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. The Fund reduces currency risk on mortgages by having the Partnership enter into foreign exchange forward contracts and include mortgage contract terms whereby the borrower is responsible for foreign exchange losses.

A weakening of the Canadian dollar against the US dollar by 5% would have resulted in an increase in net asset value of $0.04 (2015 – $0.05), assuming all other variables, including interest rates, remain constant. A strengthening would have resulted in an equal but opposite effect. The Partnership uses foreign exchange forward contracts to manage its exposure to foreign currency risks.

D) Capital management risk

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. The Fund intends to distribute its taxable income to unitholders, with the result that growth in the portfolio can only be achieved through the raising of additional equity capital and by utilizing the Partnership's available borrowing capacity.

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

The Partnership may borrow up to 35% of the book value of its mortgages. The primary purpose of the borrowing strategy is to ensure that the Fund's 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, 2016, the Partnership's borrowings totalled 9% (2015 – 11%) of the book value of its total investments and the Fund was in compliance with all covenants under its revolving loan facility.

12. 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.

Historical Performance Overview

Performance – 20 Years By Month

Romspen has had 20 consecutive years of positive net investor returns (7.4% – 10.6%) with positive returns each and every month.

Year	January	February	March	April	May	June	July	August	September	October	November	December	Annual Compound Net Return
1997	0.89	0.76	0.83	0.83	0.77	0.71	0.87	0.91	0.73	0.87	0.73	0.35	**9.7**
1998	0.92	0.89	0.92	0.77	0.69	0.76	1.02	0.75	0.80	0.93	0.77	0.87	**10.6**
1999	0.77	0.74	0.77	0.84	0.88	0.79	0.89	0.71	0.96	0.74	0.84	0.72	**10.1**
2000	0.87	0.78	0.93	0.74	0.88	0.75	0.81	0.75	0.73	0.79	0.82	0.80	**10.1**
2001	0.91	0.67	0.83	0.69	0.82	0.76	0.82	0.87	0.73	0.92	0.83	0.73	**10.0**
2002	0.88	0.71	0.86	0.86	1.01	0.67	0.94	0.81	0.77	0.76	0.77	1.06	**10.6**
2003	0.84	0.78	0.76	0.70	0.71	0.77	0.83	0.72	0.87	0.76	0.68	0.90	**9.7**
2004	0.67	1.08	0.83	0.88	0.71	1.02	0.76	0.83	0.63	0.62	0.74	0.68	**9.8**
2005	0.65	0.06	0.86	0.58	0.88	1.91	0.57	1.08	0.74	0.74	0.57	0.88	**9.9**
2006	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.90	0.80	0.80	0.80	0.95	**10.3**
2007	0.80	0.80	0.90	0.80	0.80	0.90	0.80	0.80	0.90	0.81	0.80	0.92	**10.5**
2008	0.80	0.80	0.90	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.70	0.70	**9.9**
2009	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	**8.7**
2010	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	**8.7**
2011	0.70	0.60	0.70	0.70	0.60	0.70	0.70	0.60	0.70	0.60	0.60	0.70	**8.2**
2012	0.70	0.60	0.60	0.60	0.70	0.60	0.60	0.60	0.60	0.60	0.60	0.60	**7.7**
2013	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	**7.4**
2014	0.60	0.60	0.60	0.70	0.60	0.60	0.60	0.60	0.60	0.60	0.70	0.70	**7.8**
2015	0.70	0.70	0.60	0.70	0.60	0.60	0.70	0.70	0.70	0.60	0.70	0.60	**8.2**
2016	0.60	0.70	0.60	0.60	0.70	0.60	0.70	0.60	0.60	0.60	0.70	0.70	**8.0**

Source: PricewaterhouseCoopers report, Romspen financial statements, Romspen analysis

3 Yrs	**8.0%**	**5 Yrs**	**7.8%**	**10 Yrs**	**8.5%**	**20 Yrs**	**9.3%**

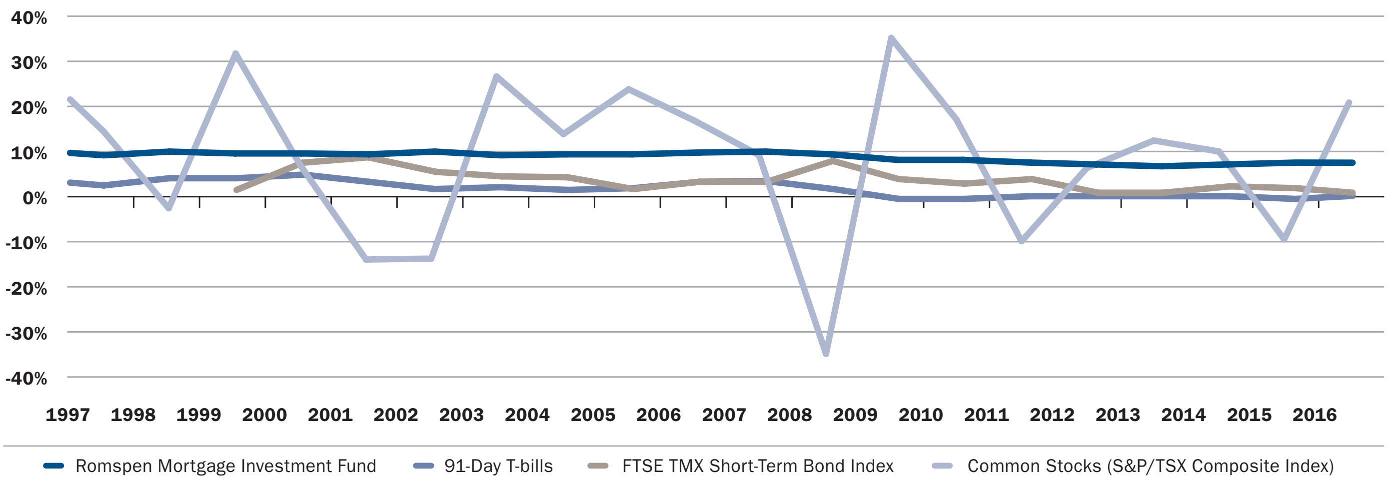
As of December 31, 2016

Notes:

1. Romspen results from January 1997 to January 16, 2006 reflect the pool of individually syndicated mortgages. Net returns are calculated on a cash-on-cash basis. Results from January 16, 2006 to present reflect the Romspen Mortgage Investment Fund, the successor business to the individually syndicated mortgages.

Romspen Total Portfolio Annual % Return Comparison (1997 – 2016)

Romspen has consistently and significantly outperformed stocks, short-term bonds and T-bills with meaningfully less volatility over virtually every time period.



Source: Bank of Canada, PricewaterhouseCoopers report, Romspen annual reports

Notes:

1. Romspen results from January 1997 to January 16, 2006 reflect the pool of individually syndicated mortgages. Net returns are calculated on a cash-on-cash basis. Results from January 16, 2006 to present reflect the Romspen Mortgage Investment Fund, the successor business to the individually syndicated mortgages.

2. DEX Short-Term Bond Index was renamed the FTSE/TMX Short-Term Bond Index. FTSE/TMX-STBI returns are based on 18 years of data due to data restrictions.

3. Romspen returns are net, comparative returns are gross.

Trustees & Management

Romspen's team of investment professionals is led by eight Managing Partners who collectively have over 250 years of finance and real estate experience. The investment team is supported by more than 30 professionals dedicated to the financial control, underwriting, legal and reporting matters of our business. The trustees and management team are collectively the largest non-institutional investor in the Fund. This alignment is central to preserving capital and generating strong consistent returns for all investors.

Romspen Mortgage Investment Fund

Sheldon Esbin
Trustee

Mark Hilson
Trustee

Arthur Resnick
Trustee

Wesley Roitman
Trustee

Romspen Investment Corporation

Sheldon Esbin
Managing General Partner

Mark Hilson
Managing General Partner

Wesley Roitman
Managing General Partner

Blake Cassidy
Managing Partner

Richard Weldon
Managing Partner

Arthur Resnick
Managing Partner

Peter Oelbaum
Managing Partner

Mary Gianfriddo
Managing Partner

Arnie Bose
Vice President, Finance

Bonnie Bowerman
Vice President, Underwriting

Lisa Calandra
Vice President, Investor Relations

Vitor Fonseca
Vice President and Treasurer

Joel Mickelson
Corporate Counsel

Dianna Price
Executive Vice President, Investor Relations

Romspen Investment Corporation FSCO licence #10172, 11600

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 intends to distribute its taxable 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 Monday, June 5, 2017 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

ROMSPEN