Romspen Mortgage Investment Fund

Annual Report 2017

Our Business

Romspen has a long-term track record of successful mortgage investing. With its origins in the mid-1960s, Romspen is one of the largest non-bank commercial/industrial mortgage lenders in Canada with a portfolio in excess of $2 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 yields (7.4% - 10.6%)[1] with positive returns each and every month.

[1] Yield/return, as used herein, is calculated based on net compounded monthly cash distributions to unitholders, based on a $10.00/unit subscription price without any adjustment for unit gains/losses on sale/redemption.

Cover: Miami Beach skyline and coastline with L'Atelier condominium development under construction

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

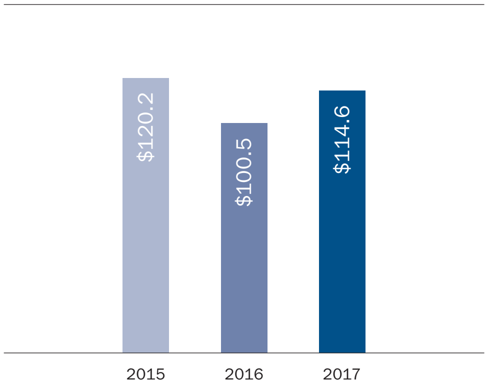
As managers, it is our responsibility to identify and manage the risk inherent with the mortgage portfolio. Rigorous property and borrower due diligence is fundamental to our lending decisions. Diversification by borrower, geography, property type and size is a deliberate strategy to smooth the effect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

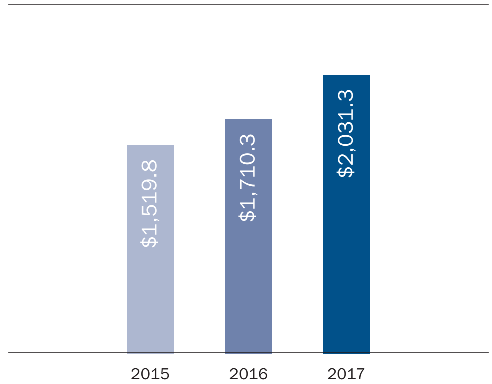
Key Metrics

Net Earnings ($ millions)



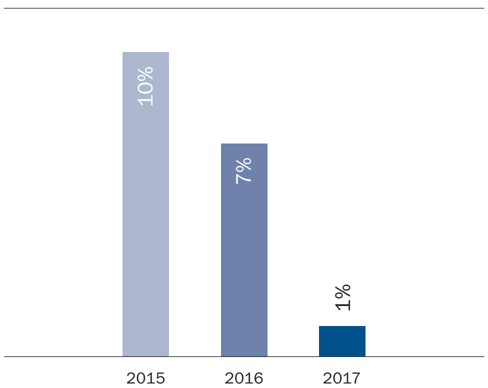
Solid net earnings

Net Investment Portfolio ($ millions)



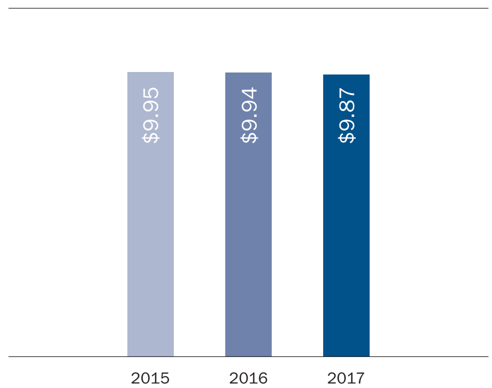
Strong portfolio growth

Net Leverage (% of investment portfolio)



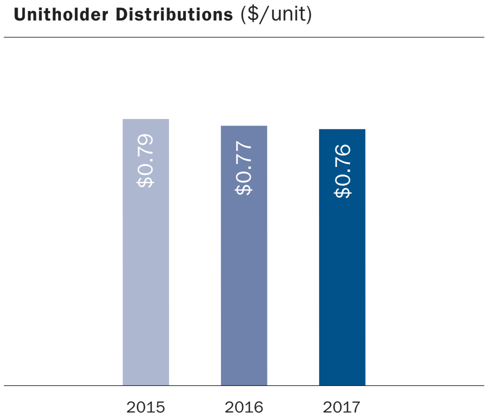
Low financial leverage

Fair Market Value ($/unit)



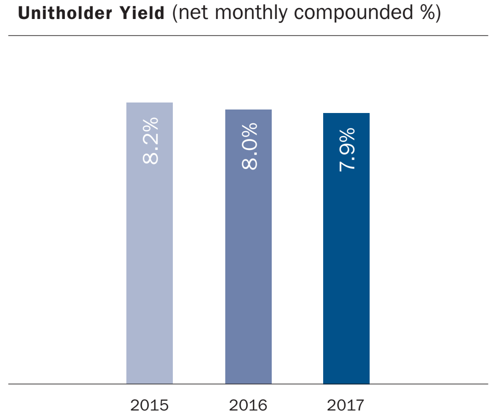
Slight FMV decline

Unitholder Distributions ($/unit)



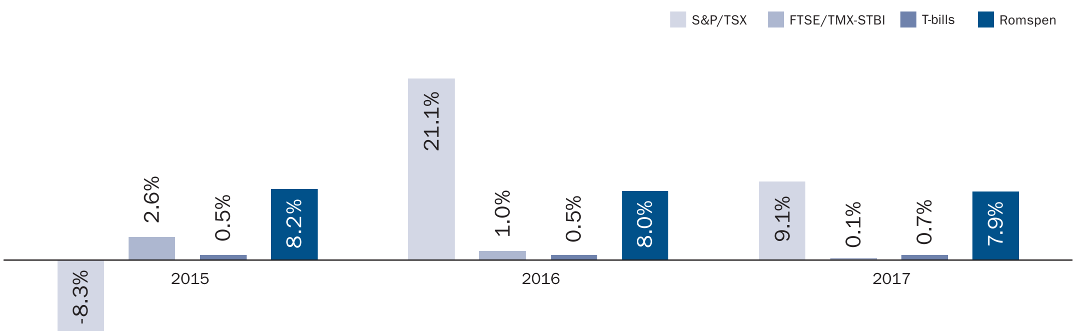
Steady distributions

Unitholder Yield (net monthly compounded %)



Strong absolute yield

Comparative Performance
Annual % Yield



Solid outperformance

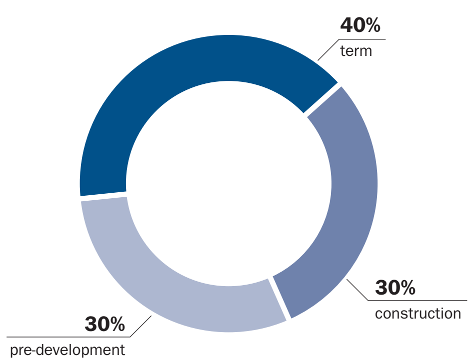
3 Year Accumulated Compounded Yield*

Romspen	26%
S&P/TSX	21%
FTSE/TMX-STBI	4%
T-bills	2%

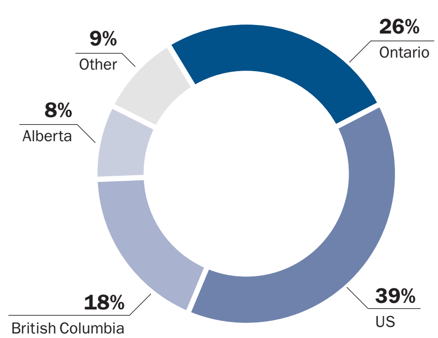
* Romspen yields are net; comparative benchmarks are gross returns

Investment Portfolio Profile
As of December 31, 2017

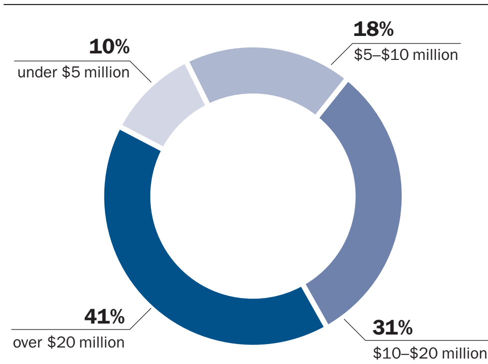
By Type



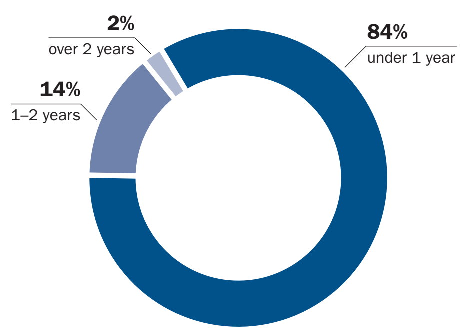
By Geography



By Amount



By Maturity



Well diversified portfolio

Dear Fellow Investors:

As we completed our 51st 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 2017, Romspen Mortgage Investment Fund (the "Fund") had a net yield of 7.9%, 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 of significant geopolitical events, a competitive lending backdrop and a low interest rate environment.

Financial Highlights

For the year ended December 31, 2017, the Fund earned net income of $114.6 million or $0.61 per unit compared to $100.5 million or $0.66 per unit in 2016. Operational earnings were 14% higher than in 2016 due to growth in the overall mortgage portfolio but were partially offset by lower face interest rates (60 basis points) and a $17.9 million increase in the Fund's provision for losses. Distributions were $0.76 per unit for 2017 compared to $0.77 per unit for 2016. The compounded monthly net yield to investors was 7.9% compared to 8.0% last year. Total provisions for credit losses were increased from $45.3 million to $63.2 million ($0.30 per unit) in the year to maintain a solid margin of safety. Actual losses of $2.0 million, across nine mortgages, were realized during the year and charged against the provision previously established on these properties.

At December 31, 2017, the net portfolio (167 mortgages and investments) was $2.0 billion, an increase of 19% compared to 2016. Investors held units totalling $2.1 billion compared to $1.6 billion last year. The Fund's portfolio and earnings remain well diversified by property type, geography, size and currency. Net bank debt (debt less cash) was $10.1 million compared to net debt of $115.6 million in 2016. The weighted average interest rate of the portfolio in 2017 was 10.6% compared to 11.2% in the previous year.

Fair Market Value ("FMV") was $9.87 per unit compared to $9.94 per unit in 2016. 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. In 2017, FMV was pushed downwards due to a further depreciation of the US dollar. Approximately 80% 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, which results in an unconsolidated financial presentation of the Fund that provides limited insight into the true performance of the portfolio. To provide useful, 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. 24-34). It is highly encouraged that these financial statements in the MD&A be used as the primary reference point. We have established a US subsidiary, Romspen US Mortgage Limited Partnership, to isolate holdings of new US mortgages going forward, which is now shown as a separate line item on the balance sheet.

Economy, Markets & Portfolio

Canadian mortgages and investments represented $1.3 billion, or 61% of the investment portfolio compared to $1.0 billion or 59% in 2016, with the largest concentration (26%) in Ontario.

Canadian Commercial Real Estate ("CRE"), supported by a strong economy, continues to see record highs despite an extended nine year run and the outlook remains positive as demand from domestic and foreign investors for "safe haven assets" remains high. Capital is flowing towards urban areas, particularly Vancouver, Toronto and Montreal, as are people.

While expectations for continued gains in CRE returns remain high among institutional and individual investors, we remain cautious regarding valuations in an environment where an over-supply of capital is trying to find a home. We are usually skeptical regarding the valuations of projects that borrowers provide, especially in the current environment, and routinely revise estimates downward in accordance with our risk management policies and years of experience. In Canada we are seeing increasing deal flow as the competitive environment has eased somewhat making it easier to deploy capital domestically than in recent years.

US mortgages and investments represented $815 million (US $645 million), or 39% of the portfolio in 2017 compared to $720 million (US $547 million), or 41% last year. The US portfolio includes 65 loans that are well diversified across 17 states, principally New York, Florida, Texas, California, and Hawaii. Prices for CRE across all categories in the US have increased during 2017 reflecting a strengthening economy. While we are seeing some increased competition for lending opportunities in the US, the sheer size of the market, our established national reputation for service and ability to deploy large loans quickly mean that the opportunity set remains both large and diverse by project type and geography.

Non-performing loans totalled 23% of the portfolio, down slightly from last year. The rates at which we lend are predicated on the expectation that some percentage of the portfolio will become non-compliant despite our rigorous underwriting process. It is simply a feature of the unique niche in which we operate 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 beyond our normal provisions. In the past decade, realized loan losses have amounted to $21.6 million on $5.2 billion of invested capital, or about 0.4%, a percentage that has remained relatively stable over time. Managing non-compliant mortgages effectively is an important aspect in preserving capital, and generating strong, consistent returns over the long term. Our ability to successfully resolve the challenges of non-compliant loans is a significant competitive advantage in the industry and represents a core operational capability within our business model.

Strategy & Investment Approach

In a world of constant change and seemingly endless new investment product "solutions" our strategy and investment approach have remained consistent for more than 50 years. We provide first mortgages on commercial and industrial properties in North America. Over the years, we have developed and refined a risk management matrix that we apply assiduously across all loans regardless of project type or geography. Our mandate has always been, and continues to be, focused on capital preservation, delivering strong absolute returns and consistent performance regardless of the prevailing economic or market conditions. The consistent stream of positive returns delivered to investors over short time frames, and monthly over more than 20 years, is convincing evidence of the success of remaining faithful to our strategy and executing it consistently and well. A detailed profile of this performance is presented at the end of this report (pp. 54-55). In the next section of this report, we profile some recent case studies from our portfolio to further illustrate how our investment process is reflected in the properties we finance and provide more insight into our investment process.

Strong Investment Track Record Continues

The Fund's 7.9% net yield significantly outperformed T-bills (0.7%), and the FTSE/TMX Short-term Bond Index ("FTSE/TMX-STBI") (0.1%) but trailed the S&P/TSX (9.1%) during 2017. Looking at long-term performance over the past ten years to December 31, 2017, the Fund significantly outperformed all benchmarks with a cumulative net yield of 121%; compared to 9% for T-bills; 36% for the FTSE/TMX-STBI and 58% for the S&P/TSX. Viewed simplistically, a $10.00 investment in January 2008 would have returned $12.10 to an investor in the Fund compared to only $0.90 in T-bills; $3.60 in the FTSE/TMX-STBI; and $5.80 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. 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

2017 saw the beginning of a synchronized global expansion largely due to highly accommodative monetary policies and supportive fiscal policies of past years. Central banks are now in the early phases of tightening monetary policy as the possibility of inflation now appears on the horizon.

The Canadian economy is in the midst of the third longest economic expansion in its history supported by greater economic diversity than ever before. Wage and income growth support continued consumer spending; industrial capacity is at a 10-year high; and business spending and commodity prices are recovering. We are, however, acutely aware of the uncertainty around the policies of the current US administration – whether trade, NAFTA, tax and regulatory matters, that are difficult to gauge, and will create uncertainty for the Canadian economy this year and beyond. In the face of mounting inflationary pressures, we expect the Bank of Canada will no longer be able to put a hold on monetary policy.

The US economy has steadily firmed with the lowest unemployment rate in 17 years, increasing wage gains, strengthening corporate earnings – supported by tax cuts, and growth and housing that have largely recovered across most regions. The Federal Reserve, under new leadership early in 2018, will lean toward increasing rates during 2018 and beyond.

Equity markets globally are expensive and valuations across many asset classes are stretched. Simultaneously, central banks face the delicate process of unwinding an unprecedented level of monetary stimulus that was put in place following the credit crisis. Markets are vulnerable to any missteps during the unwinding process and numerous potential exogenous shocks which will lead to greater market volatility as risky assets are repriced. CRE in both Canada and the US is expensive by historical standards, however the outlook for both markets remains positive in the face of continued demand for "safe haven" assets from domestic and foreign investors, alike.

There has been an appreciable increase in Canadian commercial lending opportunities as overly aggressive lending practices in certain segments have abated somewhat from past years. The vast US market, despite a slight increase in competition, still provides more opportunities to deploy capital than we can address. Higher interest rates in both countries should not have an appreciable impact on our business as competition for capital and the ability to deploy capital quickly, rather than changes in short term rates, are the main determinants of rates for our loans.

We are pleased with the returns of the Fund in 2017 and the continuation of the Fund's enviable track record. We anticipate 2018 will see similar results to those provided in recent years. We appreciate and sincerely value your continued trust and support.

Respectfully submitted,

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

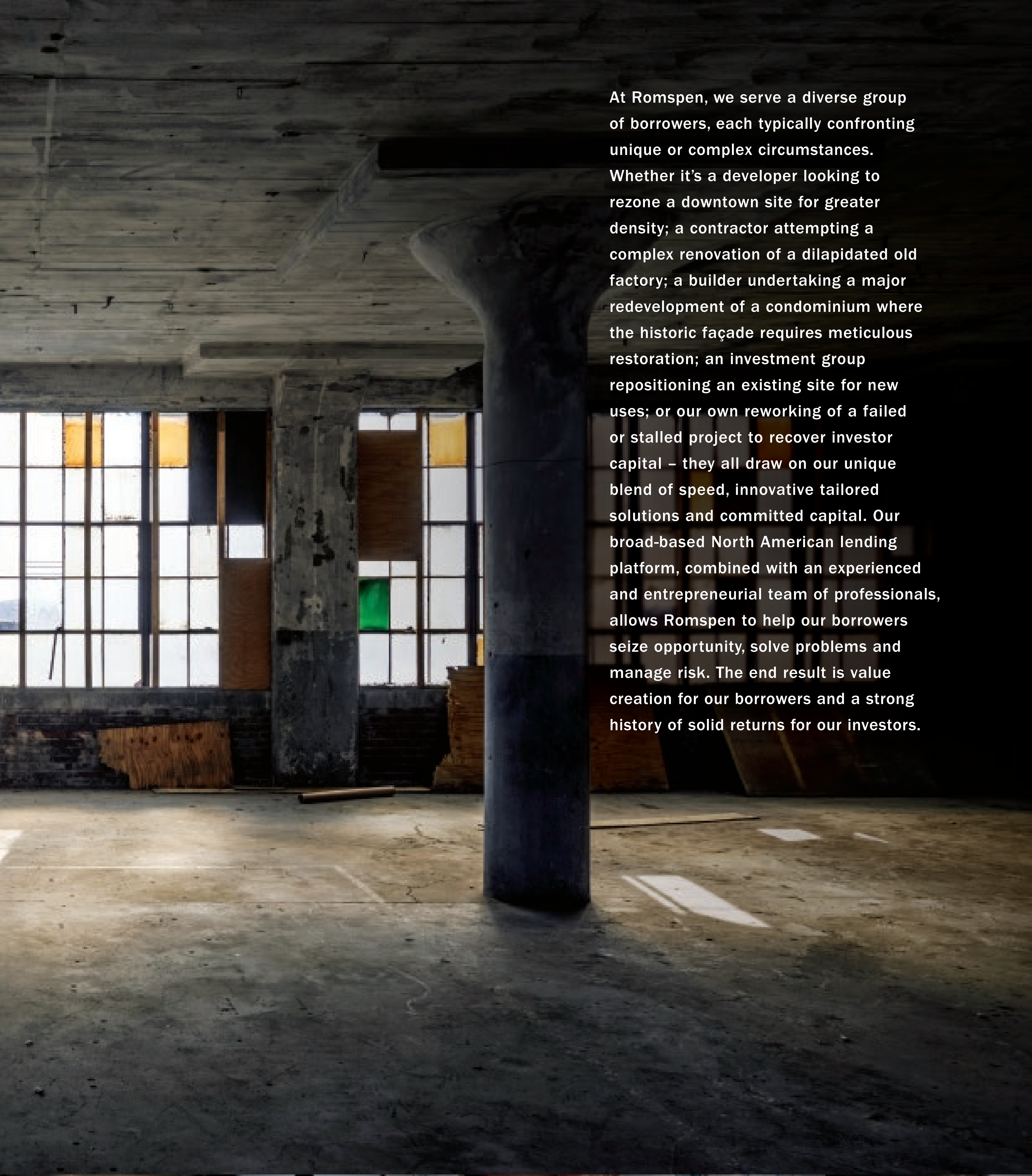
Trustees of the Fund
April 20, 2018

REDEVELOPMENT
REPOSITIONING
REZONING
RE-ENGINEERING
RENOVATION
RESTORATION
REWORKING
REMEDIATION
REFINANCING

Main: interior pre-construction of former Sherwin Williams Paint factory, Philadelphia
Bottom: various stages of pre-construction condition/activity related to the site

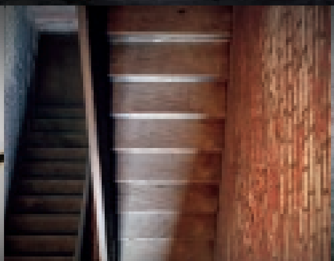






At Romspen, we serve a diverse group of borrowers, each typically confronting unique or complex circumstances. Whether it's a developer looking to rezone a downtown site for greater density; a contractor attempting a complex renovation of a dilapidated old factory; a builder undertaking a major redevelopment of a condominium where the historic façade requires meticulous restoration; an investment group repositioning an existing site for new uses; or our own reworking of a failed or stalled project to recover investor capital – they all draw on our unique blend of speed, innovative tailored solutions and committed capital. Our broad-based North American lending platform, combined with an experienced and entrepreneurial team of professionals, allows Romspen to help our borrowers seize opportunity, solve problems and manage risk. The end result is value creation for our borrowers and a strong history of solid returns for our investors.





Originally constructed almost a century ago, and most recently used by the Sherwin Williams Paint Company to manufacture paint brushes, this factory complex had been vacant for over ten years and was in a somewhat dilapidated state when discovered by our borrower. Comprising five buildings on just over an acre of property, the location (right foreground) is well situated between Philadelphia's CBD just to the north and the growing Naval Yards development just to the south, making it ideal for a multi-family property development. The site will be redeveloped into 151 high-end rental units comprising approximately 147,000 square feet. While the location is attractive, it is an extremely involved project requiring environmental remediation to address the removal of asbestos and underground storage tanks, extensive restoration to preserve the attractive exterior building aesthetics, and complex re-engineering to build additional levels above the existing structures. Romspen provided a US$26 million mortgage to assist with the acquisition of the property and finance the construction.

Philade


elphia

MASERATI
89 AVENUE ROAD
HOTEL 89
Toron

Built in 1952 on a site just over a quarter of an acre and operating as a Howard Johnson's Hotel in Toronto's prime Yorkville neighbourhood, this property was ideal for a higher and better use. Romspen provided the borrower with a $16.5 million mortgage to help acquire the property. The borrower intends to seek approval to reposition and rezone the property from an eight-storey hotel to a 20-storey mixed-use commercial, hotel and residential complex, more than doubling the current square footage. In the meantime, the property continues to operate as a hotel, generating sufficient cash flow to service our mortgage.

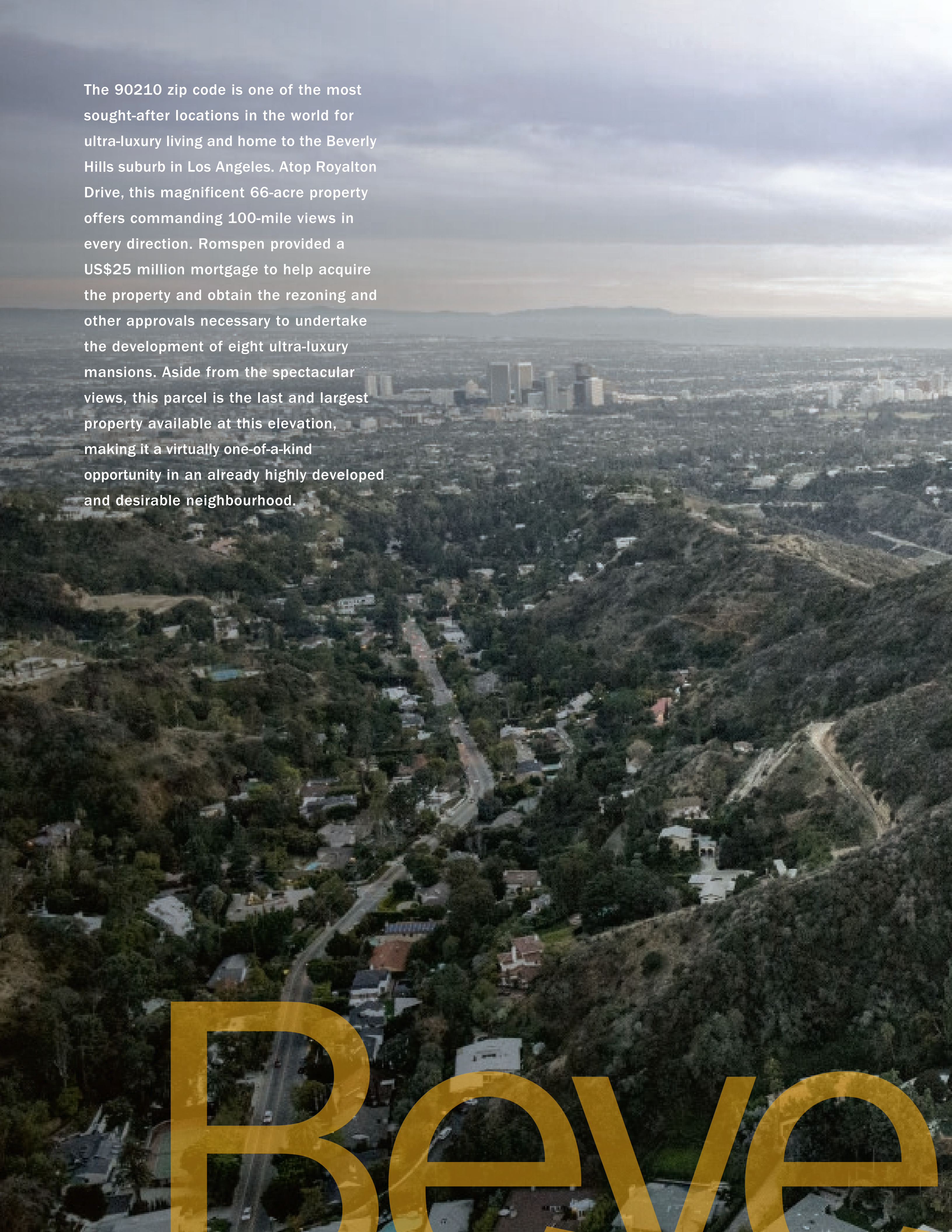
Although still under construction, L'Atelier, a small ultra-luxury condominium development situated on a prime corner site at Collins Avenue and 69th Street and fronting directly on Miami Beach, is already a huge success, being virtually fully sold. Romspen provided the developers with a US$57 million construction loan for this 25-unit luxury development, which includes: an interior design collaboration among Holly Hunt, Enzo Enea and Antonio Lupi; robotic parking; two swimming pools; and multiple engineered 16-foot terraces for each unit to fully capture panoramic views of the coast and the Miami skyline; as well as a long list of every other amenity one could imagine. The one-acre site was formerly the Golden Sands Hotel, designed by Norman Giller in 1951 and central to the famous Rat Pack days of Frank Sinatra and friends, adding both allure and importance to the property. Restoration and preservation of the existing historic street façade (inset above) was a zoning requirement that added considerable cost and complexity to the project, involving over 100,000 photographs to ensure absolute authenticity in every minute detail.


Miami


Vanco

This almost half-acre property enjoys a prominent corner location at the intersection of Robson and Cardero Streets in west Vancouver, with a high walkability index. Given the soaring land values and shortage of housing options in Vancouver, this low-rise commercial site represents a prime opportunity for redevelopment as a mixed-use project with greater density. Romspen provided the borrower with a $48 million mortgage, representing just over half the acquisition cost, to complete the purchase. Based on other recent nearby projects, the borrower expects to increase the site density to 160,000 square feet of buildable area, representing an eightfold density improvement and adding considerable value to the property.

The 90210 zip code is one of the most sought-after locations in the world for ultra-luxury living and home to the Beverly Hills suburb in Los Angeles. Atop Royalton Drive, this magnificent 66-acre property offers commanding 100-mile views in every direction. Romspen provided a US$25 million mortgage to help acquire the property and obtain the rezoning and other approvals necessary to undertake the development of eight ultra-luxury mansions. Aside from the spectacular views, this parcel is the last and largest property available at this elevation, making it a virtually one-of-a-kind opportunity in an already highly developed and desirable neighbourhood.




rlyHills


Abbots

Sometimes borrowers' plans don't work out for any number of reasons, from changes in prevailing economic conditions to unforeseen site conditions and cost overruns. This can result in Romspen needing to take over a project and rework the development to protect or recover our investment. Falconridge, located in Abbotsford British Columbia, is one such project. We originally lent $27.9 million in late 2007 and subsequently took over the project in 2009 due to: cost overruns; poor execution on construction infrastructure work by the borrower; adverse economic circumstances arising from the credit crisis; and site conditions that proved much more complex than first envisioned. Despite a stunning site (90 acres) and location, meeting these challenges proved formidable and time-consuming, even with our experience and track record. Correcting the initial infrastructure deficiencies; rezoning the property for townhomes instead of single-family housing; up-zoning the density; and re-engineering road and utility development costs as well as building design specifications that allowed for economical construction on a 35-degree mountainside slope – all of these added cost and time to an already difficult set of circumstances. With these issues now addressed – and with the passage of time, which has resulted in increased demand and price appreciation – we are no longer looking at just a recovery of capital, but rather, a healthy profit when fully complete.

Romspen provided this experienced Montreal developer with a $22.5 million construction mortgage to refinance an existing construction facility from a big six Canadian chartered bank. Even though our rates were significantly higher than the bank's, the developer preferred to work with Romspen because of our high level of service and quick turnaround time on construction draws. The developer's calculus showed that our loan structure would meaningfully compress the time frame for completing construction and also lower material costs, more than offsetting the higher interest rate and thereby improving overall project economics. This well located three-quarter-acre site, in the heart of the upscale Côte Saint-Luc suburb of Montreal, will be developed into 10 townhomes and 112 rental units with high-end finishes.


ntreal

Responsibility of Management

This Management's Discussion and Analysis ("MD&A") for Romspen Mortgage Investment Fund (the "Fund") should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2017 included herein and the audited financial statements and MD&A for the year ended December 31, 2016. 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: 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, 2017.

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, 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 of possible factors is not exhaustive. 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-term 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 ("SIFTs") (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: 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, 2017, the Fund's mortgage and investment portfolio (the "Portfolio"), net of fair value provisions, was $2.0 billion compared to $1.7 billion at December 31, 2016. This increase of $0.3 billion or 19% reflects the increased activity in mortgage markets, supported by a strong inflow of investor capital. The Portfolio included 167 mortgages and investments compared to 155 at the same time last year.

Approximately 95% of the Portfolio was invested in first mortgages at December 31, 2017 (December 31, 2016 – 94%). The weighted average interest rate of the Portfolio decreased to 10.6% compared to 11.2% a year ago. The lower weighted average interest rate was mainly driven by the inclusion of new Canadian loans with lower overall rates.

The Portfolio continues to consist mainly of short-term mortgages to third parties and mortgages to the Fund's investment subsidiaries. Approximately 84% of the Portfolio's investments mature within one year (December 31, 2016 – 78%) and 98% mature within two years (December 31, 2016 – 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, 2017, approximately 26% of our investments were in Ontario compared to 27% a year ago. Approximately 26% of the Portfolio was invested in Western Canada, 9% in other provinces and 39% 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, 2017 were $63.2 million, which represented 3% of the original cost of the Fund's investments or $0.30 per unit outstanding as at December 31, 2017. During 2017, the Fund realized $2.0 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 historical 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, 2017, with comparative figures for 2016

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)	2017	2016
Assets		
Cash	$ 81,443	$ 40,139
Accrued interest receivable	65,930	64,665
Mortgage investments	1,578,378	1,414,008
Investment in subsidiaries	316,551	296,308
Investment in US Mortgage Limited Partnership	147,107	–
Other assets	4,146	4,404
	$ 2,193,555	$ 1,819,524
Liabilities and Unitholders' Equity		
Revolving loan facility	$ 91,579	$ 155,753
Accounts payable and accrued liabilities	2,437	1,562
Unrealized loss on foreign exchange forward contracts	(2,342)	6,247
Deferred revenue	–	–
Prepaid unit capital	6,165	9,320
Unitholders' distributions payable	14,759	11,451
	112,598	184,333
Units submitted for redemption	10,898	42,448
Unitholders' equity	2,070,059	1,592,743
	$ 2,193,555	$ 1,819,524

Combined Statement of Earnings

For the year ended December 31, 2017, with comparative figures for 2016

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)		2017		2016
Revenue				
Mortgage interest	$	157,450	$	142,621
Income from investment in US Mortgage Limited Partnership		4,435		–
Other		7,124		6,021
Realized gain (loss) on foreign exchange		13,168		970
Unrealized gain (loss) on foreign exchange		(21,359)		(11,718)
		160,818		137,894
Expenses				
Management fees		18,875		16,759
Interest		5,926		6,153
Change in fair value of mortgage investments and investments in subsidiaries		17,900		8,005
Realized loss on mortgage investments		2,045		4,704
Other (gains) losses		(710)		(79)
Audit fees		215		215
Legal fees		98		53
Other		1,831		1,607
		46,180		37,417
Net earnings	$	114,638	$	100,477
Net earnings per unit	$	0.61	$	0.66
Weighted average number of units issued and outstanding		186,611,520		151,559,973

Combined Statement of Unitholders' Equity

For the year ended December 31, 2017, with comparative figures for 2016

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)		2017		2016
Unit capital				
Balance, beginning of year	$	1,595,409	$	1,367,339
Issuance of units		562,494		338,023
Redemption of units		(89,322)		(74,739)
Penalties on redemptions		1		4
Decrease (increase) in units submitted for redemption		31,550		(35,218)
Balance, end of year	$	2,100,132	$	1,595,409
Cumulative earnings				
Balance, beginning of year	$	666,224	$	565,747
Net earnings		114,638		100,477
Balance, end of year	$	780,862	$	666,224
Cumulative distributions to unitholders				
Balance, beginning of year	$	(668,890)	$	(552,191)
Distributions to unitholders		(142,045)		(116,699)
Balance, end of year	$	(810,935)	$	(668,890)
Unitholders' equity	$	2,070,059	$	1,592,743
Units issued and outstanding, excluding units submitted for redemption		209,736,945		159,309,728

Combined Cash Flow Statement

For the year ended December 31, 2017, with comparative figures for 2016

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)		2017		2016
Cash provided by (used in):				
Operations				
Net earnings	$	114,638	$	100,477
Items not affecting cash:				
Amortization of revolving loan facility financing costs		747		354
Change in fair value of mortgage investments and investments in subsidiaries		17,900		8,005
Income from investment in Romspen US Mortgage Limited Partnership		(2,988)		–
Realized loss on mortgage investments		2,045		4,704
Unrealized (gain) loss on foreign exchange		21,359		11,718
Amortization of discount		(1,222)		(137)
Other (gains) losses		(710)		(79)
Change in non-cash operating items:				
Accrued interest receivable		(5,738)		(12,704)
Other assets		219		(801)
Accounts payable and accrued liabilities and unitholders' distributions payable		4,185		3,250
Deferred revenue		–		(67)
		150,435		114,720
Financing				
Proceeds from issuance of units		486,437		279,260
Distributions to unitholders, net of reinvested funds		(65,988)		(57,935)
Redemption of units		(89,322)		(74,739)
Penalties on redemptions		1		4
Prepaid unit capital		(3,155)		260
Change in revolving loan facility		(52,054)		(3,575)
		275,919		143,274
Investments				
Funding of mortgage investments		(785,888)		(752,795)
Discharge of mortgage investments		452,030		543,849
Net funding of investment in subsidiaries		(7,037)		(21,742)
Net funding of investment in Romspen US Mortgage Limited Partnership		(44,155)		–
		(385,050)		(230,688)
Increase (decrease) in cash and restricted cash		41,304		27,306
Cash and restricted cash, beginning of year		40,139		12,833
Cash and restricted cash, end of year	$	81,443	$	40,139

Quarterly Financial Information 2017

Detailed financial information by quarter for 2017 is outlined in the chart below:

(In millions of dollars, except per unit amounts)

	Dec. 31	Sept. 30	Jun. 30	Mar. 31
Total revenue excluding unrealized foreign exchange gain (loss)	$ 46.0	$ 42.5	$ 40.5	$ 40.0
Unrealized foreign exchange gain (loss)	(9.3)	(9.7)	(0.7)	(1.7)
Realized foreign exchange gain (loss)	8.8	3.0	0.7	0.7
Interest expense and deferred financing costs	1.6	1.4	1.3	1.6
Net interest income	43.9	34.4	39.2	37.4
Management fees and other expenses	5.1	5.8	5.2	5.0
Fair value provision on investment portfolio and losses	6.9	4.0	4.2	2.8
Realized losses on investment portfolio	1.1	0.8	0.1	–
Other losses (gains)	–	(0.6)	0.3	(0.4)
Net earnings	30.8	24.4	29.4	30.0
Per unit – net earnings	$ 0.17	$ 0.13	$ 0.16	$ 0.18
– distributions	$ 0.21	$ 0.18	$ 0.18	$ 0.19
Trailing 12-month compounded yield [1]	7.9%	7.8%	7.9%	8.0%
Revolving loan net of cash as a percentage of net mortgages [1]	1%	6%	5%	6%

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

Investment in Subsidiaries

The controlled subsidiaries acquire control of properties in order to finish development and divest of the properties with the goal of maximizing return to investors, which may involve, but not specifically require, the advancement of additional funds. These subsidiaries are not consolidated by the Fund and are summarized as follows:

Name	Ownership	Description	Location	Dec. 31, 2017
Guild	100%	Office complex	CA	$ 18,341
Camperdown	100%	Land for residential development	CA	996
Railside	100%	Condominium development	CA	1,850
Aspen Lakes	100%	Residential development	CA	14,627
Almonte	50%	Retail plaza	CA	5,555
Bear Mountain	100%	Office complex	CA	11,827
Falconridge	100%	Residential subdivision	CA	40,287
Beach One	100%	Commercial development	CA	2,055
Medallion	100%	Office complex	CA	238
Planetwide	100%	Land for residential development	CA	4,808
Royal Oaks	100%	Residential subdivision	CA	12,156
Haldimand	100%	Landfill	CA	28,742
High Street	100%	Commercial/Residential	CA	19,897
Egreen	100%	Land for industrial development	CA	1,446
Carolina Golf	100%	Various golf courses	US	52,765
Big Nob	100%	Land for residential development	CA	6,826
RIC (Kash)	100%	Land for residential development	CA	2,186
Midland	100%	Land for residential development	CA	3,217
Kettle Creek	100%	Land for residential development	CA	32,043
Langford Lake	100%	Land for residential development	CA	18,391
Ponderosa	100%	Land for residential development	CA	32,615
Drought	100%	Land for residential development	CA	10,921
Northern Premier	100%	Land for industrial development	CA	12,228
Hampton Circle	100%	Residential construction	CA	5,332
Lincolnwood	100%	Commercial	US	13,172
Cumberland Harbour	100%	Commercial	US	6,310
Southpoint Landing	100%	Residential	CA	1,239
				$ 360,070
		Fair Value Adjustment		(43,519)
				$ 316,551

Income Statement Highlights

Total revenues for the year ended December 31, 2017 were $160.8 million compared to $137.9 million in the prior year, a 17% increase. Current year revenues are higher due to growth in the size of the mortgage portfolio.

Net earnings for the year ended December 31, 2017 were higher at $114.6 million compared to $100.5 million for the prior year. This increase is largely due to the Portfolio growth noted above, partially offset by an increase in unrealized losses on the value of the mortgage portfolio. The basic weighted average earnings per unit for the year were $0.61 per unit compared to $0.66 last year.

For the year ended December 31, 2017, the Fund distributed $142.0 million or $0.76 per unit versus $116.7 million or $0.77 per unit for the period ended December 31, 2016. The simple and compounded net yield to unitholders for the twelve-month period ended December 31, 2017 were 7.6%[2] and 7.9%[2] respectively.

Provisions for losses on the Portfolio value reflected an increase of $17.9 million in 2017 while realized losses were $2.0 million in 2017 compared to $4.7 million in the prior year. Management and other fees payable to the Fund Manager and other general and administrative expenses of the Fund were $21.0 million for the year ended December 31, 2017 compared to $18.6 million in the prior year. These expenses were marginally higher than the previous year and reflect the larger Portfolio value.

Total revenues for the quarter ended December 31, 2017 were $45.6 million compared with $32.0 million for the comparative year ago period and are attributable to growth in the size of the mortgage portfolio.

Net earnings after all expenses for the fourth quarter were $31.0 million compared to $24.1 million for the quarter ended December 31, 2016. Basic weighted average earnings per unit for the three months ended December 31, 2017 were $0.17 compared to $0.15 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, 2017, the Fund distributed $43.0 million or $0.21 per unit, versus $32.2 million or $0.20 per unit for the three months ended December 31, 2016.

Balance Sheet Highlights

Total assets as of December 31, 2017 were $2.2 billion compared to $1.8 billion a year ago. Under IFRS, mortgages 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 $81.4 million of excess cash at year end.

Total liabilities excluding units submitted for redemption as of December 31, 2017 were $112.6 million compared to $184.3 million a year earlier. Liabilities at year end were comprised mainly of a $91.6 million line of credit, and $17.2 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 at a rate 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 bank debt (debt less unrestricted cash) stood at $10.1 million (1% of the Portfolio) at year end versus $115.6 million (7% of the Portfolio) a year ago.

Unitholders' equity plus units submitted for redemption as of December 31, 2017 were $2.1 billion compared to $1.6 billion as of December 31, 2016. The increase is primarily from proceeds of issuances of $562.4 million in excess of redemptions of $89.3 million during the previous 12 months. There were a total of 210,841,104 units outstanding on December 31, 2017 compared to 163,581,841 on December 31, 2016. 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, 2017, borrowings net of cash totalled approximately 1%[2] of the book value of investments held by the Fund compared to 7%[2] as of December 31, 2016.

During the year ended December 31, 2017, proceeds from the issuance of units, net of redemptions and costs, were $473.2 million compared to $263.3 million during the same period in 2016.

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

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 consolidated financial statements.

Risk Management

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

Outlook

The global economy continued to build momentum in the second half of 2017 especially in the G7 countries. Economic slack is diminishing, wages and employment are rising and corporate profits saw the biggest gains since 2010. Central banks are either starting to normalize rates or are pursuing less stimulative monetary policies than historically. The outlook for 2018 appears more positive even though geopolitical risks remain in the form of Brexit, US political instability and protectionist trade policies, the resurgence of populism and China's growing debt.

Equity markets have surged even as the second longest bull market in history is nearly nine years old and remains vulnerable to any number of exogenous shocks.

The Canadian economy is in the midst of the third longest period of economic expansion in history. Despite record levels of debt, consumers continue to be resilient and the economy is more diverse than in the past with technology, services and natural resources driving growth. Commodity prices are improving, oil and gas prices have strengthened while the industry has retooled to reduce costs and Canada's economy is expected to benefit from proximity to a strong US economy. New tariffs on Canadian softwood lumber are having a marginal impact on an increasingly diversified economy in BC and significant changes to NAFTA do not appear to be as immediate or significant as feared.

In Canada, Commercial Real Estate ("CRE") continues to set records and build momentum as Canada is a leading destination for capital, businesses and immigrants. Foreign purchases are expected to continue in 2018 albeit at reduced levels as Chinese capital will be more selective and pension plans continue to allocate additional funds to CRE despite the lateness of the cycle. Rising interest rates and stricter underwriting rules are not expected to materially dampen prices for CRE. Residential real estate will be impacted by OSFI's new rules, which came into effect in January 2018 designed to ensure that borrowers can withstand higher interest rates. Affordability in Toronto and Vancouver is declining and that, combined with the growing influx of new immigrants and retirees choosing to downsize and rent, means that rental housing will be in strong demand. The demand for condos is also expected to remain strong in urban areas where houses are unaffordable.

The US economy exhibited strong growth towards the end of the year. Business surveys are showing some of the best economic conditions and expansion in corporate earnings so far in the eight-year expansion. The consumer, buoyed by the lowest unemployment rate in 17 years and rising wages, continues to be the primary driver of economic growth while managing to maintain the household debt-to-income ratio flat since 2013. As workers have become scarce, businesses are investing in equipment and software to enhance productivity which has the potential to extend the business cycle and moderate inflationary pressures. The Federal Reserve, under new leadership in February 2018, is likely to raise rates in 2018 and into 2019. US trade policies, including both NAFTA and tariff-related policies, are difficult to gauge and will create uncertainty across many industries and regions.

CRE in the US remained strong in most markets and across property types reflecting continued global demand for US assets and strong consumer and corporate confidence. CRE is expected to continue to provide attractive yields even in the face of rate increases. The US housing recovery is underway and increasing prices have served to bolster consumer confidence. Rising house prices have reduced the pool of mortgage holders with negative equity to 5% from a high of 26% in 2009 and higher sales volumes and upward pressure on prices are expected to continue.

Prices for CRE in both Canada and the US are high and markets are, in our opinion, frothy. We continue to be cautious when evaluating lending opportunities to maintain a margin of safety that we deem to be prudent. The competitive landscape in Canada has improved as certain lenders are less active in the commercial lending space and our ability to accommodate large loans continues to set us apart from other non-bank lenders in Canada. In the US, small regional banks have increased their lending activity, however, we find there is reluctance to lend to construction projects or to make large loans. We continue to see a large universe of attractive opportunities to lend in diverse markets. The opportunity to invest capital at attractive rates in both countries should support returns that are similar to those delivered in previous years while still managing risk proactively and within our strict parameters.

Financial Statements

Romspen Mortgage Investment Fund

Year ended December 31, 2017

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, 2017, 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, 2017, 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

April 2, 2018
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, 2017, with comparative information for 2016

		2017		2016
Assets				
Cash	$	6,101	$	9,347
Investment in Romspen Mortgage Limited Partnership (“Partnership”) at fair value through profit or loss (“FVTPL”) (note 3)		2,097,145		1,647,662
	$	2,103,246	$	1,657,009
Liabilities and Unitholders’ Equity				
Liabilities:				
Accounts payable and accrued liabilities	$	1,365	$	1,047
Prepaid unit capital		6,165		9,320
Unitholders’ distributions payable		14,759		11,451
		22,289		21,818
Units submitted for redemption (note 4)		10,898		42,448
Unitholders’ equity (note 4)		2,070,059		1,592,743
Commitments and contingent liabilities (note 9)				
	$	2,103,246	$	1,657,009
Net asset value per unit (note 5)	$	9.87	$	10.00

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, 2017, with comparative information for 2016

		2017		2016
Distributions from Partnership	$	65,988	$	57,936
Increase in net assets of Partnership (note 3)		55,605		48,513
Income from investment in Partnership (note 3)		121,593		106,449
Expenses:				
Management fees (note 8(a))		6,229		5,530
Audit fees		215		200
Legal fees and other		511		242
Total expenses		6,955		5,972
Net income and comprehensive income	$	114,638	$	100,477
Net income and comprehensive income per unit (note 5)	$	0.61	$	0.66
Weighted average number of units issued and outstanding (note 5)		186,611,520		151,559,973

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, 2017, with comparative information for 2016

		2017		2016
Unit capital:				
Balance, beginning of year	$	**1,595,409**	$	1,367,339
Issuance of units (note 4)		**562,494**		338,023
Redemption of units		**(89,322)**		(74,739)
Penalties on redemptions		**1**		4
Decrease (increase) in units submitted for redemption (note 4)		**31,550**		(35,218)
Balance, end of year	$	**2,100,132**	$	1,595,409
Cumulative earnings:				
Balance, beginning of year	$	**666,224**	$	565,747
Net income and comprehensive income		**114,638**		100,477
Balance, end of year	$	**780,862**	$	666,224
Cumulative distributions to unitholders:				
Balance, beginning of year	$	**(668,890)**	$	(552,191)
Distributions to unitholders (note 6)		**(142,045)**		(116,699)
Balance, end of year	$	**(810,935)**	$	(668,890)
Unitholders' equity	$	**2,070,059**	$	1,592,743
Units issued and outstanding, excluding units submitted for redemption (note 5)		**209,736,945**		159,309,728

See accompanying notes to financial statements.

Statement of Cash Flows

(In thousands of dollars)
Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operations:		
Net income and comprehensive income	$ 114,638	$ 100,477
Items not affecting cash:		
Increase in net assets of Partnership (note 3)	(55,605)	(48,513)
Change in non-cash operating items:		
Change in accounts payable and accrued liabilities and unitholders' distributions payable	3,626	3,077
	62,659	55,041
Financing:		
Proceeds from issuance of units	486,437	279,260
Distributions paid to unitholders (note 6)	(65,988)	(57,936)
Redemption of units	(89,322)	(74,739)
Prepaid unit capital	(3,155)	260
Penalties on redemptions	1	4
	327,973	146,849
Investments:		
Funding of investment in Partnership (note 3)	(393,878)	(201,701)
Increase (decrease) in cash	(3,246)	189
Cash, beginning of year	9,347	9,158
Cash, end of year	$ 6,101	$ 9,347

See accompanying notes to financial statements.

Notes to Financial Statements

(In thousands of dollars, except per unit amounts, unless otherwise noted)
Year ended December 31, 2017

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 Partnership's investments include mortgage investments, investment in subsidiaries and investments in Romspen US Mortgage LP ("US Mortgage LP"). 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 notes have been authorized for issue by the trustees of the Fund (the "Trustees") on April 2, 2018.

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.

The Fund accounts for its investment in the Partnership at FVTPL. 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 are 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.

IFRS 9, Financial Instruments ("IFRS 9"), was published by the IASB in July 2014 and will replace IAS 39, Financial Instruments – Presentation ("IAS 39"). 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. It is concluded that there will be no significant impact on the Fund's financial statements as a result of implementation of this amendment.

Notes to Financial Statements

(In thousands of dollars, except per unit amounts, unless otherwise noted)
Year ended December 31, 2017

3. Investment in Partnership at FVTPL

The Partnership is a wholly owned investment subsidiary of the Fund, which conducts all the lending activities.

Schedule of investment:

	2017	2016
Investment balance, beginning of year	$ 1,647,662	$ 1,397,448
Funding of investment in Partnership	393,878	201,701
Increase in net assets of Partnership	55,605	48,513
Investment balance, end of year	$ 2,097,145	$ 1,647,662

The Partnership is not consolidated by the Fund and its statement of financial position and results of operations are provided below:

Statement of financial position:

	2017	2016
Assets		
Cash	$ 75,342	$ 30,792
Accrued interest receivable	65,930	64,665
Mortgage investments (note 3(b))	1,578,378	1,414,008
Investment in subsidiaries (note 3(c))	316,551	296,308
Investment in US Mortgage LP (note 3(d))	147,107	–
Other assets	4,147	4,404
	$ 2,187,455	$ 1,810,177
Liabilities and Unitholders' Equity		
Liabilities:		
Revolving loan facility (note 3(e))	$ 91,579	$ 155,753
Accounts payable and accrued liabilities	1,073	515
Foreign exchange on forward contracts (note 3(f))	(2,342)	6,247
	90,310	162,515
Net assets attributable to unitholders of the Partnership	2,097,145	1,647,662
	$ 2,187,455	$ 1,810,177

Statement of comprehensive income:

	2017	2016
Revenue		
Mortgage interest	$ 157,450	$ 142,621
Income from Investment in US Mortgage LP	4,435	–
Other	7,124	6,021
	169,009	148,642
Expenses		
Management fees (note 8(b))	12,646	11,229
Interest	5,926	6,153
Change in fair value of mortgage investments and investments in subsidiaries	17,900	8,005
Realized loss on mortgage investments	2,045	4,704
Unrealized loss on foreign exchange	21,359	11,718
Realized gain on foreign exchange	(13,168)	(970)
Other gains	(710)	(79)
Legal fees	98	53
Other	1,320	1,380
	47,416	42,193
Net income and comprehensive income	$ 121,593	$ 106,449

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 statement of comprehensive income, 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(c)).

III) Investment in US Mortgage LP The Partnership owns 95.83% of US Mortgage LP as at December 31, 2017. The Partnership does not consolidate US Mortgage LP and accounts for its investment in US Mortgage LP at FVTPL.

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.

IV) 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.

V) 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.

VI) 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 comprehensive income. All unrealized foreign exchange gains and losses on each statement of financial position item are included in unrealized foreign exchange gain/loss on the Partnership's statement of comprehensive income.

VII) 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 and US Mortgage LP are designated as FVTPL and categorized into Level 3 of the fair value hierarchy.

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 statement 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 in investment subsidiaries)

The following is a summary of the mortgages:

	Number of mortgages	Original cost	2017 Fair value	2016 Fair value
First mortgages	121	$ 1,508,413	$ 1,488,446	$ 1,334,521
Second mortgages	8	89,632	89,932	79,487
		$ 1,598,045	$ 1,578,378	$ 1,414,008

A reconciliation of the mortgage investments is as follows:

Mortgage investments	2017	2016
Investments balance, beginning of year	$ 1,414,008	$ 1,339,939
Funding of mortgage investments	785,888	752,795
Discharge of mortgage investments	(457,158)	(543,849)
Non-cash transfer to investments in subsidiaries	(26,053)	(95,764)
Non-cash transfer to investment in US Mortgage LP	(97,907)	–
Unrealized loss in the fair value of investments	(405)	(6,488)
Realized loss on investments	(2,045)	(4,704)
Amortization of discount	1,222	137
Foreign currency adjustment on investments	(39,172)	(28,058)
Investments balance, end of year	$ 1,578,378	$ 1,414,008

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 limiting 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:

2017 and earlier	$ 323,102
2018	987,254
2019	253,433
2020	1,639
2021 and thereafter	32,617
	$ 1,598,045

Included in the 2017 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

	2017	2016
Investments in subsidiaries, at cost	$ 360,070	$ 322,332
Fair value adjustment	(43,519)	(26,024)
	$ 316,551	$ 296,308

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 is as follows:

Investments in subsidiaries	2017	2016
Investments balance, beginning of year	$ 296,308	$ 179,811
Funding of investments	25,427	22,773
Discharge of investments	(18,390)	(1,031)
Non-cash transfer from mortgage investments	26,053	95,764
Net unrealized loss in the fair value of investments	(17,495)	(1,517)
Foreign currency adjustment on investments	4,648	508
Investments balance, end of year	$ 316,551	$ 296,308

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

D) Partnership's investment in US Mortgage LP at FVTPL

The Partnership owns 95.83% of US Mortgage LP at December 31, 2017. US Mortgage LP was formed on January 17, 2017 pursuant to the Delaware Revised Uniform Limited Partnership Act, 6 Delaware Code, Chapter 17 and commenced operations on August 1, 2017. US Mortgage LP conducts its lending activities in the United States with the sole objective to provide stable and secure cash distributions of income, while preserving partners' equity. US Mortgage LP is managed by Romspen US Mortgage GP Inc. (the "General Partner") and Romspen Investment Limited Partnership (the "Manager").

The Partnership provides temporary funding to assist in US Mortgage LP's ability to fund loans. This will be more prominent in the beginning months of US Mortgage LP until it establishes other financing abilities such as a credit facility. These loans are in priority of equity and are arranged to be repaid by the next unit offering date of US Mortgage LP. These loans bear an interest rate of prime plus 1.25% and are paid down in full by the first business day of the following month. As of December 31, 2017, a balance of $17,061 (equivalent of US$13,600) is outstanding and included in Investment balance.

Schedule of investment:

		2017
Investment balance, beginning of year	$	–
Non-cash transfer of mortgages from the Partnership		97,907
Non-cash transfer of interest receivable from the Partnership		1,538
Partnership's share in US Mortgage LP net income		4,435
Dividend received from US Mortgage LP		(1,447)
Funding of investment in Partnership		44,155
Foreign currency adjustment on investment		519
Investment balance, end of year	$	147,107

US Mortgage LP is not consolidated by the Partnership and its statement of financial position and results of operations at 100% are provided below:

Statement of financial position:

December 31, 2017:

		100%
Assets		
Cash, and restricted cash	$	9,207
Mortgage investments		143,562
Accrued interest		2,052
	$	154,821
Liabilities and Partners' Capital		
Liabilities:		
Accounts payable and accrued liabilities	$	375
Due to Partnership		17,061
Prepaid unit capital		627
Mortgage syndication liability		1,255
Distributions payable		3,121
		22,439
Partners' capital		132,382
	$	154,821

Statement of comprehensive income:

Period from January 17, 2017 to December 31, 2017:

		100%
Investment income:		
Interest income	$	5,626
Other		377
		6,003
Expenses:		
Management fees		479
Interest expense on note payable		49
Provision for losses		358
Accounting and legal fees		417
Other		129
		1,432
Net investment income	$	4,571

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

E) 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 (2016 – $298,000) including borrowings of an equivalent amount denominated in US dollars. Approximately $206,421 (2016 – $142,247) is available and $91,579 has been drawn as at December 31, 2017 (2016 – $155,753). 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, 2017 were $73,000 and $154,000 (2016 – $92,000 and $228,000), 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, 2019.

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 $526 (2016 – $217), net of accumulated amortization of $747 (2016 – $391).

F) Foreign exchange forward contracts

The foreign exchange forward contracts are used to hedge the Partnership'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 Partnership as at December 31, 2017 and 2016:

Foreign exchange loss on forward contracts as at year end:

December 31,	Currency received to be delivered in US$ (CDN$)	Fair value at foreign exchange	Unrealized gain (loss)
2017	**$ 377,564**	**$ 375,222**	**$ 2,342**
2016	322,179	328,426	(6,247)

The foreign exchange forward contracts are used to hedge the Partnership'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 $21,359 (2016 – loss of $11,718) on assets classified as FVTPL.

The realized foreign exchange gain in the Partnership's statement of comprehensive income consists mainly of net realized gains of $13,366 (2016 – gain of $5,142) on forward contracts, which are slightly offset by $198 (2016 – $6,112) in net losses on assets classified as FVTPL and the 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:

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

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

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

As at December 31, 2017, unitholders representing approximately 1,104,159 (2016 – 4,272,113) 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

		2017		2016
	Units	Amount	Units	Amount
Balance, beginning of year	163,581,841	$ 1,637,653	137,286,096	$ 1,374,369
New units issued	48,643,670	486,437	27,925,894	279,260
New units issued under distribution reinvestment plan	7,605,731	76,057	5,876,365	58,764
Units redeemed	(8,990,138)	(89,322)	(7,506,514)	(74,739)
Proceeds from issuance of units, net of redemptions	47,259,263	473,172	26,295,745	263,285
Balance, end of year	210,841,104	$ 2,110,825	163,581,841	$ 1,637,654

During the normal course of business, the Fund receives unit issuance and redemption requests from the investors. In 2017, the Fund received requests for redemption of 5,822,130 units (2016 – 11,052,291) and redeemed 8,990,138 units (2016 – 7,506,514) for $89,322 (2016 – $74,739) 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 209,736,945 as at December 31, 2017 (2016 – 159,309,728).

Net income and comprehensive income per unit have been computed using the weighted average number of units issued and outstanding of 186,611,520 for the year ended December 31, 2017 (2016 – 151,559,973).

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, 2017, the Fund declared distributions of $0.76 (2016 – $0.77) per unit and a total of $142,045 (2016 – $116,699) 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 year 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 (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, 2017, the amount was $6,229 (2016 – $5,530).

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, 2017, this amount was $12,646 (2016 – $11,229).

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, 2017, this amount was $30,741 (2016 – $26,379).

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, 2017, the Partnership had two (2016 – two) investments outstanding with an original cost of $30,646 (2016 – $31,391), including accrued interest of $382 (2016 – $382) and fair value of $19,468 (2016 – $22,317) due from mortgagors and investments in which members of management of Romspen own non-controlling equity interests.

F) Included in the Fund and the Partnership's accounts payable and accrued liabilities is an amount of $247 (2016 – $101) 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 mortgages plus accrued interest.

C) The Partnership in certain situations provides guarantees for its subsidiaries. As of December 31, 2017, there were $18,023 in guarantees outstanding (2016 – $17,200).

D) The Partnership has letters of guarantee outstanding at December 31, 2017 of $21,922 (2016 – $14,759).

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

10. Fair values of financial instruments

IFRS 13 establishes enhanced disclosure requirements 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).

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 Partnership's investment in US Mortgage LP is the amount of net assets attributable to the unitholders of US Mortgage LP.

Fair value of the mortgage investments 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 values of mortgages approximate their carrying values given that 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:

	2017	2016
Mortgage investments and investments in subsidiaries, at amortized cost	**$ 1,958,115**	$ 1,755,602
Investment in US Mortgage LP	**147,107**	–
Unrealized fair value adjustment	**(63,186)**	(45,286)
	$ 2,042,036	$ 1,710,316

	2017	2016
Mortgage investments	**$ 1,578,378**	$ 1,414,008
Investments in subsidiaries	**316,551**	296,308
Investment in US Mortgage LP	**147,107**	–
	$ 2,042,036	$ 1,710,316

The fair values of cash, accrued interest receivable, other assets, 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 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 and the US 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 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, 2017, the Partnership has $27,242 (2016 – $24,719) of accrued interest past due on $332,534 (2016 – $382,419) 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, 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(e)) was renewed and matures on July 18, 2019. 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, 2017, the Fund 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 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 Partnership's mortgages will be those with narrower credit spreads, and vice versa in periods of lower market interest rates, compared to other benchmark interest rates.

The majority of the 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(e)) bears interest not exceeding the prime rate plus 1.0%.

As at December 31, 2017, if interest rates on the revolving loan facility had been 100 basis points lower or higher, with all other variables held constant, net earnings for the year would be affected with a total increase or decrease of $1,036 (2016 – $1,429). 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 $809,955 (2016 – $659,355), or 39% (2016 – 39%) of the total Partnership's investments at year end are denominated in US dollars and secured primarily by charges on real estate located in the 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; by including mortgage contract terms whereby the borrower is responsible for foreign exchange losses; and by funding part of the mortgages with a USD loan facility.

A weakening of the Canadian dollar against the US dollar by 5% would have resulted in an increase in net asset value of $0.07 (2016 – $0.04), 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 mortgage investment opportunities than the Fund's near-term capital would be sufficient to fund. In the event the Fund may have surplus equity capital, the Trustees of the Fund have the right to redeem units held by unitholders or to declare a return of capital distribution.

Pursuant to the Fund's investment policies, the Partnership may borrow up to 35% of the book value of its mortgages. The primary purpose of the Fund's borrowing strategy is to ensure that unitholders' capital is fully invested. The secondary purpose is to obtain a spread between the interest rates payable under its mortgage investments and its borrowings. As of December 31, 2017, the Partnership's borrowings totalled 5% (2016 – 9%) 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 its financial statements in SEDAR.

Historical Performance Overview

Performance – 20 Years by Month

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

Year	January	February	March	April	May	June	July	August	September	October	November	December	Monthly Compound Net Yield
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	**9.9**
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**
2017	0.60	0.60	0.70	0.60	0.60	0.60	0.60	0.60	0.60	0.70	0.70	0.70	**7.9**

Source: PricewaterhouseCoopers report, Romspen Annual Reports, Romspen analysis

3 Yrs	8.0%	5 Yrs	7.9%	10 Yrs	8.3%	20 Yrs	9.2%

as of December 31, 2017

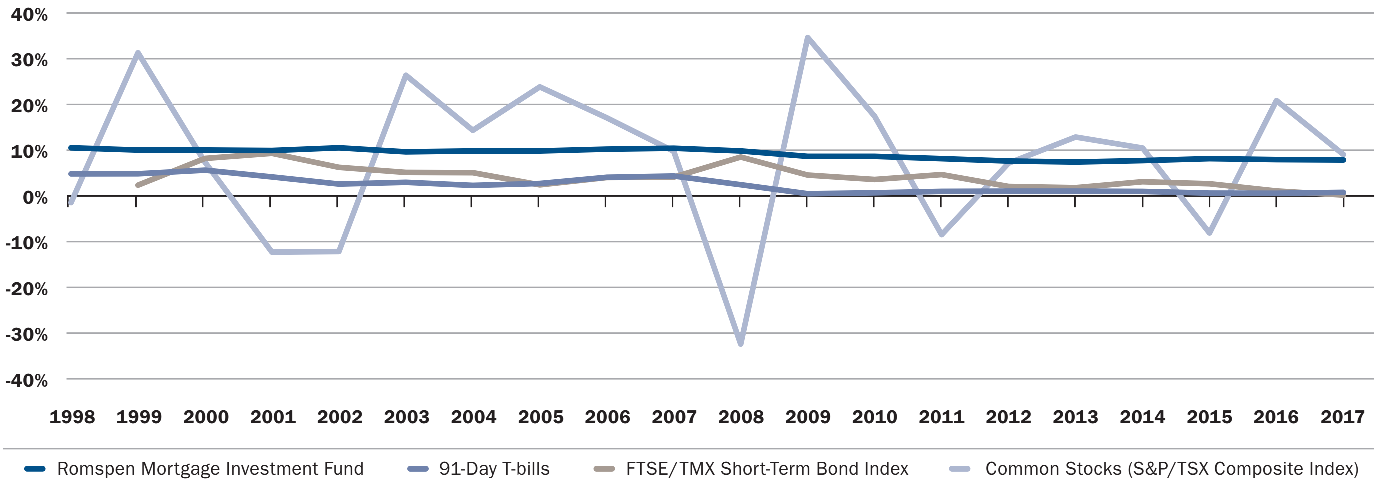
Notes:

1. Romspen results from January 1998 to January 16, 2006 reflect the pool of individually syndicated mortgages. Results from January 16, 2006 to present reflect the Romspen Mortgage Investment Fund, the successor business to the individually syndicated mortgages.

2. Yield/return is calculated based on net compounded monthly cash distributions to unitholders, based on a $10.00/unit subscription price without any adjustment for unit gains/losses on sale/redemption.

Romspen Total Portfolio Annual % Yield Comparison (1998 – 2017)

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



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

Notes:

1. Romspen results from January 1998 to January 16, 2006 reflect the pool of individually syndicated mortgages. 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 19 years of data due to data restrictions.

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

4. Yield/return is calculated based on net compounded monthly cash distributions to unitholders, based on a $10.00/unit subscription price without any adjustment for unit gains/losses on sale/redemption.

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 the management team are collectively the largest non-institutional investor in the Fund. This alignment is essential 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

Derek Jenkin
Partner

Arnie Bose
Senior Vice President, Finance

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 with a means to reinvest cash distributions in new units of the Fund. To participate, registered unitholders should contact Romspen.

Investor Relations Contact

Requests for the Fund's annual report, quarterly reports, or other corporate communications should be directed to:
Investor Relations
Romspen Mortgage Investment Fund
Suite 300, 162 Cumberland Street
Toronto, Ontario M5R 3N5
416-966-1100

Annual General Meeting of Unitholders

Romspen Mortgage Investment Fund's Annual General Meeting of unitholders will be held on Thursday, May 31, 2018, 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

Legal Counsel

Gardiner Roberts LLP

Website

www.romspen.com

Rom


ROMSPEN