ROI Fund™

ANNUAL REPORT 2017

As at December 31, 2017

ROI Capital™

roicapital.ca

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March 22, 2018

The accompanying financial statements have been prepared and approved by Return On Innovation Advisors Ltd., the manager of the Fund. The Fund's manager is responsible for the information and representations contained in these financial statements.

Return On Innovation Advisors Ltd. maintains appropriate processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) and include certain amounts that are based on estimates and judgments. The significant accounting policies, which management believes are appropriate for the Fund, are described in note 4 to the financial statements.

PricewaterhouseCoopers LLP is the external auditor of the Fund. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the financial statements. Their report is set out on the next page.

Wilfred Vos
President

Return On Innovation Advisors Ltd.

David Dundas
Chief Financial Officer

Return On Innovation Advisors Ltd.

To the Shareholders of
Return On Innovation Fund Inc. Series I, II, III and Series IV
(Collectively the Funds)

We have audited the accompanying financial statements of each of the Funds, which comprise the statements of financial position as at December 31, 2017 and 2016 and the statements of comprehensive income (loss), changes in net assets attributable to holders of redeemable shares and cash flows for the years then ended, and the related notes, which comprise 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 the financial statements of each of the Funds 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.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements of each of the Funds based on our audits. We conducted our audits 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 the auditor's 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, the auditor considers 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 in each of our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements of each of the Funds present fairly, in all material respects, the financial position of each of the Funds as at December 31, 2017 and 2016, and the financial performance and cash flows of each of the Funds for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario

March 23, 2018

	December 31 2017	December 31 2016
Assets		
Current assets		
Investments		
Venture investments	19,180,283	10,249,006
Marketable securities	35,970,156	45,175,536
Other securities	1,907,616	2,011,776
Short-term investments	7,953,936	11,105,399
Foreign currencies	–	197,653
Interest and dividends receivable	52,383	70,477
Prepaid insurance	35,561	30,754
HST receivable	2,163	2,860
	65,102,098	68,843,461
Liabilities		
Current Liabilities		
Share redemptions payable	43,932	24,408
Accrued expenses [note 9]	1,123,869	866,354
	1,167,801	890,762
Net assets attributable to holders of redeemable shares [note 8]	63,934,297	67,952,699
Net assets attributable to holders of redeemable shares per class		
Class A, Series I shares	32,052,088	35,660,308
Class A, Series II shares	31,193,731	31,356,321
Class A, Series III shares	688,478	936,070
Net assets attributable to holders of redeemable shares per class per unit		
Class A, Series I shares	7.97	6.92
Class A, Series II shares	7.77	6.76
Class A, Series III shares	8.15	7.08

The accompanying notes are an integral part of these financial statements.

For the year ended December 31

	2017 $	2016 $
Income		
Foreign exchange loss on cash	(44,056)	(30,963)
Gain on investments		
Interest for distribution purposes – non venture investments	111,575	678,865
Interest for distribution purposes – venture investments	–	244,655
Dividends	916,398	716,345
Fee income from venture investments [note 4]	–	5,877
Net realized gain	3,002,493	935,838
Net change in unrealized appreciation	10,301,518	4,447,833
Net gain on investments	14,331,984	7,029,413
Total income (net)	14,287,928	6,998,450
Expenses		
Advisor fees [note 9]	712,853	818,423
Audit fees	63,213	71,489
Commission financing fees [note 8]	803,881	1,001,725
Custodian fees	36,972	50,170
Directors and officers fees	102,523	89,535
Independent review committee fees	20,743	12,801
Legal fees	44,725	29,885
Management fees [note 9]	1,782,133	2,046,057
Other expenses [note 12]	498,211	210,968
Shareholder reporting costs	102,658	144,846
Sponsor fees [note 9]	178,213	204,606
Trailing commissions [note 8]	339,371	374,519
Transfer agent and fund administration	689,081	714,007
Foreign withholding taxes	24,069	37,182
Total Expenses	5,398,646	5,806,213
Increase in net assets attributable to holders of redeemable shares	8,889,282	1,192,237
Increase in net assets attributable to holders of redeemable shares per series [note 11]		
Increase in net assets attributable to Class A, Series I shares	4,561,603	642,947
Increase in net assets attributable to Class A, Series I shares per share	1.03	0.11
Increase in net assets attributable to Class A, Series II shares	4,221,931	534,020
Increase in net assets attributable to Class A, Series II shares per share	1.00	0.11
Increase in net assets attributable to Class A, Series III shares	105,748	15,270
Increase in net assets attributable to Class A, Series III shares per share	1.04	0.10

The accompanying notes are an integral part of these financial statements.

For the year ended December 31

	2017 $	2016 $
Net assets attributable to holders of redeemable shares at beginning of the year		
Class A, Series I shares	35,660,308	45,842,186
Class A, Series II shares	31,356,321	37,499,841
Class A, Series III shares	936,070	1,395,460
	67,952,699	84,737,487
Increase in net assets attributable to holders of redeemable shares		
Class A, Series I shares	4,561,603	642,947
Class A, Series II shares	4,221,931	534,020
Class A, Series III shares	105,748	15,270
	8,889,282	1,192,237
Redemption of redeemable Class A shares		
Class A, Series I shares	(8,169,823)	(10,824,825)
Class A, Series II shares	(4,384,521)	(6,677,540)
Class A, Series III shares	(353,340)	(474,660)
	(12,907,684)	(17,977,025)
Net assets attributable to holders of redeemable shares at end of the year		
Class A, Series I shares	32,052,088	35,660,308
Class A, Series II shares	31,193,731	31,356,321
Class A, Series III shares	688,478	936,070
	63,934,297	67,952,699

The accompanying notes are an integral part of these financial statements.

For the year ended December 31

	2017 $	2016 $
Cash provided by (used in)		
Operating activities		
Increase in net assets attributable to holders of redeemable shares	8,889,282	1,192,237
Non-cash items		
Foreign exchange loss on cash	44,056	30,963
Net realized gain on sale of investments	(3,002,493)	(935,838)
Net change in unrealized appreciation on investments	(10,301,518)	(4,447,833)
Net change in non-cash balances related to operations	271,499	370,153
Proceeds from the sale of marketable securities	13,321,107	9,016,910
Proceeds from the sale of short-term investments	17,164,147	27,615,198
Proceeds from the sale of other securities	–	21,215,000
Proceeds from the sale and principal repayment of venture investments	350,609	4,838,193
Purchase of marketable securities	–	(4,993,189)
Purchase of short-term investments	(14,002,126)	(34,073,883)
Purchase of other securities	–	(2,040,098)
	12,734,563	17,787,813
Financing activities		
Redemption of redeemable units Class A shares	(12,888,160)	(18,101,149)
	(12,888,160)	(18,101,149)
Foreign exchange loss on cash	(44,056)	(30,963)
Decrease in cash during the year	(153,597)	(313,336)
Cash and foreign currencies – beginning of year	197,653	541,952
Cash and foreign currencies – end of year	–	197,653
Supplemental cash flow information included in cash flows from operating activities		
Interest paid	34	181
Interest received	122,197	919,762
Dividends received, net of withholding taxes	933,866	843,769

The accompanying notes are an integral part of these financial statements

As at December 31, 2017

Number of shares/units		Maturity Date	Average Cost $	Fair value $
Marketable Securities				
Equities				
50,000	Apple Inc.		4,502,507	10,601,836
470,978	iShares S&P/TSX 60 Index ETF		8,780,838	11,374,120
550,000	iShares S&P/TSX Capped REIT Index ETF		9,556,164	9,163,000
176,000	iShares Core Canadian Short Term Bond Index ETF		4,992,983	4,831,200
Total Equities – 56.26%			27,832,492	35,970,156
Total Marketable Securities – 56.26%			27,832,492	35,970,156
Other Securities				
Convertible Unsecured Subordinated Debentures				
1,500,000	Dorel Industries, 5.50%	30/11/19	2,040,098	1,907,616
Total Other Securities – 2.98%			2,040,098	1,907,616

Par Value $ (or number of shares)		Average Cost $	Fair Value $
Venture Investments			
Consumer Services			
50,729	Toronto Waterfront Studios Inc., – Class A common shares	14,033,539	19,180,283
Total Venture Investments – 30.00%		14,033,539	19,180,283
Short-term Investments			
7,948,371	CIBC Mellon Trust Demand Deposit,variable rate	7,948,371	7,949,784
3,314	BNY Mellon US$ Deposit Trust Reserve, variable rate	4,473	4,152
Total short-term Investments – 12.44%		7,952,844	7,953,936
Total Investments – 101.68%		51,858,973	65,011,991
Transaction Costs included in Securities Cost		(16,481)	–
Total Portfolio		51,842,492	65,011,991
Liabilities, Net of Other Assets – (1.68%)			(1,077,694)
Net assets attributable to holders of redeemable units			63,934,297

	December 31 2017	December 31 2016
Assets		
Current assets		
Investments		
Marketable securities	–	3,411
Other securities	23,845,982	43,874,906
Short-term investments	20,024,749	3,010,868
Cash	–	265,700
Interest and dividends receivable	469,263	374,871
Prepaid insurance	23,992	21,699
	44,363,986	47,551,455
Liabilities		
Current Liabilities		
Bank overdraft	4,681	–
Share redemptions payable	6,471	4,738
Securities purchased payable	1,750,000	–
Accrued expenses [note 9]	713,622	533,264
	2,474,774	538,002
Net assets attributable to holders of redeemable shares [note 8]	41,889,212	47,013,453
Net assets attributable to holders of redeemable shares	41,889,212	47,013,453
Net assets attributable to holders of redeemable shares per unit	8.95	9.48

The accompanying notes are an integral part of these financial statements.

For the year ended December 31

	2017 $	2016 $
Income		
Gain on investments		
Interest for distribution purposes – non venture investments	1,708,925	2,143,589
Interest for distribution purposes – venture investments	–	111,418
Fee income from venture investments	–	4,170
Net realized loss	(1,471,743)	(919)
Change in unrealized appreciation (depreciation)	896,179	(742,302)
Net gain on investments	1,133,361	1,515,956
Total income (net)	1,133,361	1,515,956
Expenses		
Advisor fees [note 9]	503,216	548,072
Audit fees	41,992	36,123
Commission financing fees [note 8]	1,014,779	1,096,525
Custodian fees	28,235	42,160
Directors and officers fees	67,984	54,277
Independent review committee fees	20,741	9,314
Legal fees	4,400	7,591
Management fees [note 9]	1,157,393	1,260,563
Other expenses [note 12]	318,949	149,030
Shareholder reporting costs	63,738	78,062
Sponsor fees [note 9]	125,803	137,018
Trailing commissions [note 8]	12,529	–
Transfer agent and fund administration	268,387	232,093
Total expenses	3,628,146	3,650,828
Decrease in net assets attributable to holders of redeemable shares	(2,494,785)	(2,134,872)
Decrease in net assets attributable to holders of redeemable shares per series [note 11]		
Decrease in net assets attributable to Class A, Series IV shares	(2,494,785)	(2,134,872)
Decrease in net asset value per Class A, Series IV share	(0.52)	(0.43)

The accompanying notes are an integral part of these financial statements.

For the year ended December 31

	2017 $	2016 $
Net assets attributable to holders of redeemable shares at beginning of the year		
Class A, Series IV shares	47,013,453	49,749,466
Decrease in net assets attributable to holders of redeemable shares		
Class A, Series IV shares	(2,494,785)	(2,134,872)
Redeemable shares transactions		
Redemption of redeemable Class A, Series IV shares	(2,629,456)	(601,141)
Net assets attributable to holders of redeemable shares at end of the year		
Class A, Series IV shares	41,889,212	47,013,453

The accompanying notes are an integral part of these financial statements.

For the year ended December 31

	2017 $	2016 $
Cash provided by (used in)		
Operating activities		
Decrease in net assets attributable to holders of redeemable units	(2,494,785)	(2,134,872)
Non-cash items		
Net realized loss on sale of investments	1,471,743	4,716
Net change in unrealized (appreciation) depreciation on investments	(896,179)	742,302
Net change in non-cash balances related to operations	83,673	159,763
Interest received in kind	(114,992)	(1,013,496)
Proceeds from the sale of short-term investments	27,116,724	24,279,783
Proceeds from the sale of other securities	42,446,089	23,024,435
Proceeds from the sale and principal repayment of venture investments	–	1,670,090
Purchase of short-term investments	(44,115,041)	(24,663,832)
Purchase of other securities	(21,139,890)	(21,205,962)
Purchase of venture investments	–	–
	2,357,342	862,927
Financing activities		
Redemption of redeemable units Class A, Series IV shares	(2,627,723)	(599,417)
	(2,627,723)	(599,417)
Increase/(decrease) in cash during the year	(270,381)	263,510
Cash – beginning of year	265,700	2,190
Cash(bank overdraft) – end of year	(4,681)	265,700
Supplemental cash flow information:		
Interest paid	79	312
Interest received	2,055,508	1,194,236

The accompanying notes are an integral part of these financial statements

As at December 31, 2017

Par Value $ (or number of shares)		Maturity Date	Average Cost $	Fair Value $
Other Securities				
Convertible Unsecured Subordinated Debentures				
1,750,000	AG Growth International Inc., 4.50%	31/12/22	1,750,000	1,750,000
623,000	Atrium Mortgage, 5.50%	30/09/21	631,635	636,706
1,342,000	Chemtrade Logistics Income Fund, 5.25%	30/06/21	1,376,427	1,379,576
1,500,000	Crombie REIT, Series 'E', 5.25%	31/03/21	1,595,310	1,548,750
251,000	First Capital Realty Inc., 4.45%	28/02/20	257,664	253,510
2,439,000	Element Fleet Management Corp., 4.25%	30/06/20	2,423,380	2,432,903
1,500,000	Exchange Income Corp., 5.25%	31/12/22	1,500,000	1,491,000
1,550,000	Just Energy Group Inc., 6.75%	31/12/21	1,541,724	1,550,000
8,717,000	Morguard REIT, 4.50%	31/12/21	8,801,387	8,847,754
429,000	Northwest Healthcare Properties REIT, Series 'C', 7.25%	31/10/19	438,931	442,943
749,000	Northwest Healthcare Properties REIT, Series 'F', 5.250%	31/12/21	755,877	777,200
2,682,000	Smart REIT, 5.500%	30/06/20	2,656,056	2,735,640
Total Other Securities – 56.93%			23,728,391	23,845,982
Short-term Investment				
20,021,079	CIBC Mellon Trust Demand Deposit, variable rate		20,021,080	20,024,749
Total Short-Term Investment – 47.80%			20,021,080	20,024,749
Total Investments – 104.73%			43,749,471	43,870,731
Transaction Costs included in Securities Cost			(4,384)	–
Total Portfolio			43,745,087	
Liabilities, Net of Other Assets – (4.73%)				(1,981,519)
Net assets attributable to holders of redeemable shares				41,889,212

December 31, 2017

1. GENERAL INFORMATION

Return On Innovation Fund Inc. ("ROI Fund Inc.") was incorporated under the laws of Canada by Articles of Incorporation dated October 28, 2002. ROI Fund Inc. commenced active operations in December 2002 on the initial issue of its Class A Shares. Three series of Class A Shares of ROI Fund Inc. were offered for sale at a price of $10 per share until March 3, 2003 and continuously thereafter at the net asset value ("NAV") per Class A Share for the applicable series. On December 17, 2008, the Articles of incorporation of ROI Fund Inc. were amended to provide additional Class A Shares – Series IV with an initial net asset value of $10.

Based on the requirements of National Instrument 81-106 ("NI 81-106"), since Series I, II, III and Series IV have separate portfolios of assets, they are considered separate investment funds for the purposes of NI 81-106. As a result, separate financial statements for Series I, II, III and for Series IV have been provided within the statements of the ROI Fund Inc. The Class A Shares, Series I, II, III and Series IV are collectively referred to as the Funds. If ROI Fund Inc. cannot satisfy its obligations related to an individual Series, it may be required to satisfy them using assets attributable to other series. ROI Fund Inc. is registered as a labour-sponsored investment fund corporation under the Community Small Business Investment Funds Act (Ontario) (the "Ontario Act") and is a prescribed labour-sponsored venture capital corporation under the Income Tax Act (Canada) (the "Tax Act").

ROI Fund Inc. is taxable as a mutual fund corporation under the Tax Act and *Corporations Tax Act* (Ontario). The Funds make investments in eligible Canadian businesses ("venture investments") as defined in the Tax Act and Ontario Act.

In March 2013, the Federal Minister of Finance announced that the 15% federal tax credit available for investments in labour-sponsored venture capital corporations would be phased out in stages to 0% after 2016. It remained at 15% for 2014, was reduced to 10% for 2015, was reduced to 5% for 2016 and nil thereafter. Similarly, there is no provincial tax credit available for investments in labour-sponsored venture capital corporations. The Fund is no longer accepting subscriptions.

The sponsor of ROI Fund Inc. is ACTRA Toronto Performers (the "Sponsor"). The Manager of the Funds is Return On Innovation Advisors Ltd., (the "Manager").

ROI Fund Inc.'s principal office is located at 43 Front Street East, Suite 301, Toronto, Ontario M5E 1B3.

2. INVESTMENT OBJECTIVES AND STRATEGY OF THE FUNDS

The Funds' investment objectives are to provide investors with yield as well as long-term capital gains by making debt and equity investments in a diversified portfolio of small and medium sized eligible businesses. The objectives of Series I, II and III of the Funds are to realize long-term capital appreciation on part of its investment portfolio, and current yield and early return of capital on remainder of its investment portfolio. The objective of Series IV is to realize a current yield and early return of capital on the investment portfolio

The Funds may focus on the manufacturing, health services and financial services sectors and on hospitality and other businesses. The Funds' will seek to invest in mature, stable business with cash flow or near-term cash flow and established customer bases.

3. BASIS OF PRESENTATION

These financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB). These financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities including derivative financial instruments, at fair value through profit or loss.

These financial statements were authorized for issue by the Manager on March 23, 2017.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Funds are as follows:

Financial Instruments

The Funds' financial instruments consist primarily of cash, short term investments, marketable securities, venture investments, other securities, interest and dividends receivable, payable for investments purchased, share redemptions payable and accrued expenses. The Funds recognize financial instruments at fair value upon initial recognition. Regular purchase and sales of financial assets are recognized at their trade date.

The Funds have adopted the Investment Entity Amendments to IFRS 10, Consolidated Financial Statements and have determined that they meet the definition of an 'investment entity'. An investment entity is an entity that: obtains funds from one or more investors for the purpose of providing them with investment management services, commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both, and measures and evaluates the performance of substantially all of its investments on a fair value basis. The Funds' investments may also include associates and joint ventures which are designated at fair value through profit and loss (FVTPL).

The Funds non-derivative investments are designated at FVTPL and are measured at fair value.

As the Class B founder shares are the most subordinate class of shares of ROI Fund Inc., the Funds' shares have been classified as financial liabilities presented at the value of the net assets attributable to holders of redeemable shares ('net assets') to which shareholders are entitled. The Funds' obligation for net assets attributable to holders of redeemable shares is presented at the redemption amounts.

All other financial assets and liabilities are carried at amortized cost, which approximates fair value due to their short-term nature.

The Funds' accounting policies for measuring the fair value of its investments and derivatives are identical to those used in measuring its NAV for transactions with shareholders.

Fair Value Measurement
Marketable securities are recorded at fair value, established as the last market price for the security on the recognized exchange on which they are principally traded where the last traded price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on specific facts and circumstances. Where securities are not traded on that date or where the last traded price is not within the bid-ask spread, a valuation adjustment may be applied by the Manager acting in good faith.

Investments that are not publicly traded or other assets for which no public market exists are valued at estimated fair value. The process of valuing private investments for which no published market or market observable factors exist is subject to inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for those investments. These differences could be material to the fair value of the investments.

Securities and other assets for which market quotations are, in the opinion of the Manager, inaccurate, unreliable, not reflective of all available material information or not readily available are valued at their fair value, as determined by the Manager. Fair value presents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The valuation procedures relating to private company investments include preparation by management, on at least a quarterly basis, of a comprehensive valuation report.

Investment Transactions, Income Recognition and Transaction Costs
Regular purchases and sales of financial assets are recognized on their trade date.

Realized gains and losses from the sales of investments and net change in unrealized appreciation (depreciation) in the value of investments are calculated with reference to the average cost of the related investments, which excludes brokerage commissions, other trading expenses and any premiums paid, or discounts received on the purchase of fixed income securities.

Transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities by the Fund are recognized in the Statements of Comprehensive Income (Loss) as they arise.

Interest for Distribution Purposes
Interest for distribution purposes is shown on the Statements of Comprehensive Income (Loss) and represents the coupon interest on debt instruments accounted for on an accrual basis. Interest receivable is shown separately in the Statements of Financial Position based on the debt instruments' stated rates of interest. The Funds do not amortize premiums paid or discounts received on the purchase of debt securities.

Other Income
Dividends are recognized as income on the ex-dividend date and distributions from underlying funds are recorded when declared. Realized gain (loss) on investments and unrealized appreciation (depreciation) of investments are determined on an average cost basis.

Cash
Cash in comprised of deposits with financial institutions.

Impairment of Financial Assets
At each reporting date, the Funds assess whether there is objective evidence that a financial asset at amortized cost is impaired. If such evidence exists, the Funds recognize an impairment loss as the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. Impairment losses on financial assets at amortized cost are reversed in the subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Translation of Foreign Currencies
The Funds' functional currency, as disclosed in note 6, represents the currency that the Manager views to most faithfully represent the economic effects of the Fund's underlying transactions, events and conditions taking into consideration how units are issued or redeemed and how returns are measured. Foreign currency translations are translated into the functional currency using the

exchange rates prevailing at the dates that transactions occur. Foreign currency assets and liabilities denominated in a foreign currency are translated into the functional currency using the exchange rate prevailing at the measurement date.

Valuation of Class and Shares

A net asset value ('NAV') is calculated for the Funds daily. The NAV is computed by calculating the assets and liabilities of the Funds, less the liabilities of the Funds. Other expenses and net gains and losses on investments are allocated to the Funds. A valuation date is each date on which the TSX is open for business. The NAVPU of the class for the purposes of redemption or reinvestments is computed by dividing the NAV of the Funds attributable to the series of the Funds outstanding at such time. Refer to the liquidity risk disclosure in note 6 for additional details.

Increase (decrease) in Net Assets Attributable to Holders of Redeemable Shares per Share

Increase (decrease) in net assets attributable to holders of redeemable shares per share is based on the increase (decrease) in net assets attributable to holders of redeemable Class A shares divided by the weighted average number of such shares outstanding during the year. Refer to note 10 for the calculation.

Income Taxes

ROI Fund Inc. qualifies as a mutual fund corporation under the Tax Act. The Funds are subject to tax at normal corporate rates on net investment income and net taxable capital gains for the year, where applicable. The Funds are also required to file a labour-sponsored venture capital corporation return estimating any tax and penalties payable under the provisions of the Tax Act that apply to the Funds.

The Funds currently incur withholding taxes imposed by certain countries on investment income and capital gains. Such income and gains are recorded on a gross basis and the related withholding taxes are shown as a separate expense in the Statements of Comprehensive Income (Loss).

Offsetting of Financial Assets and Liabilities

Financial assets and liabilities are offset, and the net amount reported in the Statements of Financial Position where the Funds have a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. In all other situations they are presented on a gross basis. In the normal course of business, the Funds may enter into various master netting agreements or other similar arrangements that do not meet the criteria for offsetting in the Statements of Financial Position but still allow for the related amounts to be set-off in certain circumstances, such as bankruptcy or the termination of the contracts.

Interest in Unconsolidated Structured Entities

The Funds have determined that they meet the definition of an investment entity and as a result measure all investments at FVTPL. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. The Funds have determined that all of the underlying exchange-traded funds in which the Funds invest are unconsolidated structured entities. In making this determination, the Funds evaluated the fact that decision making about the underlying exchange-traded funds' activities is generally not governed by voting or similar rights held by the Funds and other investors in any underlying exchange-traded funds.

The Funds may invest in underlying exchange-traded funds whose investment objectives range from achieving short to long-term income and capital growth potential. The Funds' interest in these securities as at December 31, 2017 and, 2016 are included at their fair value in the Statements of Financial Position, which represent the Funds' exposures in these underlying exchange-traded funds. The Funds do not provide and have not committed to provide any additional significant financial or other support to the underlying exchange-traded funds. The change in fair value of each of the underlying exchange-traded funds during the reporting periods is included in Change in Unrealized Appreciation (Depreciation) in the Statements of Comprehensive Income. Information about the Funds' interests in subsidiaries, associates, joint ventures and structured entities (if any), as at December 31, 2017 and December 31, 2016 are as follows:

ROI Fund – Series I, II, III

As at December 31, 2017

Investments	Principal place of business	Country of incorporation	Nature of Fund's interest	Carrying amount	Nature of project/development	Ownership interest %	Voting rights %	Unfurnished loan commitments
Toronto Waterfront Studios Inc., – Class A common shares	Ontario	Canada	Equity	19,180,283	Film studio and development lands	46.17%	46.17%	–
iShares Canadian Short Term Bond Index ETF	Ontario	Canada	Equity	4,831,200	Exchange traded fund	0.25%	0.25%	–
iShares S&P/TSX Capped REIT Index Fund	Ontario	Canada	Equity	9,163,000	Exchange traded fund	0.66%	0.66%	–
iShares S&P/TSX 60 Index ETF	Ontario	Canada	Equity	11,374,120	Exchange traded fund	0.10%	0.10%	–

ROI Fund – Series I, II, III

As at December 31, 2016

Investments	Principal place of business	Country of incorporation	Nature of Fund's interest	Carrying amount	Nature of project/development	Ownership interest %	Voting rights %	Unfurnished loan commitments
Toronto Waterfront Studios Inc., – Class A common shares	Ontario	Canada	Equity	10,249,006	Film studio and development lands	46.17%	46.17%	–
iShares Canadian Short Term Bond Index ETF	Ontario	Canada	Equity	4,937,680	Exchange traded fund	0.21%	0.21%	–
iShares S&P/TSX Capped REIT Index Fund	Ontario	Canada	Equity	12,000,000	Exchange traded fund	0.86%	0.86%	–
iShares S&P/TSX 60 Index ETF	Ontario	Canada	Equity	15,190,942	Exchange traded fund	0.12%	0.12%	–

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the amounts of income and expense during the reporting period. Actual results could differ from those estimates and those differences could be significant. The most significant estimates are made on the valuation of private investments, which are further discussed in note 6 and 7.

The most significant judgments made in preparing the Funds' financial statements relate to the determination that the Funds are an investment entity, including that their objective and business purpose is to invest in loans or participating interests in real estate assets solely for the purpose of generating investment income and that fair value is the primary measurement attribute to measure and evaluate the performance of substantially all of their investments. Similarly, the Funds are required to make significant judgments about whether or not the business of the Funds are to invest on a total return basis for the purpose of applying the fair value option for financial assets under IAS 39. The most significant judgments made include the determination that certain investments are held-for-trading and that the fair value option can be applied to those which are not.

6. FINANCIAL INSTRUMENTS

Venture investments in private companies consist of convertible debt, mortgages, equity, or equity-equivalent instruments. These investments in private companies are typically illiquid. The Funds seek to reduce the risks typically associated with such investments by diversifying the investment portfolio through investments in eligible companies that are in differing stages of development in a variety of high-growth-potential industries and by working with investee companies through, among other things and providing business advice and other services.

The Funds' activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk (including interest rate risk, currency risk and other price risk) and valuation risk with respect to venture investments. The Manager seeks to minimize potential adverse effects of these risks on the Funds' performance by employing professional experience, daily monitoring of the Funds' positions and market events, by diversifying the investment portfolio within the constraints of the investment objectives and, for venture investments, by structuring investments to provide the Funds with maximum protection in the event of financial problems with the issuer of the security.

Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Funds. Investments in debt instruments and derivatives represent the Funds' main concentration of credit risk. The fair value of debt instruments and derivatives includes consideration of the creditworthiness of the issuer and represents the maximum credit risk exposure of the Funds.

The Funds invest a significant portion of their assets in debt obligations that are unsecured or subordinated to senior creditors. The risks of debt obligations arise from the potential inability of the issuer to make interest payments on or repay the debt securities. The inability of the issuer to meet its obligations will affect the value of the investment and the Funds may suffer a loss. As at December 31, 2017, Series I, II, III had $1,907,616 (December 31, 2016 – $2,011,776) and Series IV had $23,845,982 (December 31, 2016 – $43,874,906) invested in these assets.

All transactions in listed securities are settled upon delivery using approved brokers. The risk of default is related to receivables for investments sold and is considered minimal, as delivery of securities sold is only made once the Funds have received payment. Payment is made on a purchase once the securities have been received by the Funds. Should either party not meet its obligation, the trade will fail.

The credit risk related to interest and dividends receivable is subject to the creditworthiness of the underlying investees. As at December 31, 2017 and December 31, 2016 no allowance for doubtful accounts has been provided for.

If the Funds invest in underlying exchange-traded funds, they are exposed to indirect credit risk in the event that the underlying exchange-traded funds invest in debt securities and derivatives.

As at December 31, 2017 the Funds held other securities with a minimum credit rating of BB (low) (assigned by DBRS) with the exception of AG Growth International Inc. – 4.50%, Atrium Mortgage – 5.50%, Chemtrade Logistics Income Fund – 5.25%, Exchange Income Corp. – 5.25%, Just Energy Group Inc. 6.75%, Morguard REIT – 4.50%, Northwest Healthcare Properties REIT, Series 'C', 7.25% Northwest Healthcare Properties REIT, Series 'F', 5.250%, and Dorel Industries 5.50% which have not been rated.

Liquidity Risk

Liquidity risk is the risk that the Funds will encounter difficulties in meeting their financial obligations. The Funds' exposure to liquidity risk is concentrated in the daily cash redemptions of shares. While the Funds invest a portion of their assets in venture investments, which are considered illiquid, the Funds retain sufficient cash and marketable security positions to maintain liquidity. An illiquid asset is a security or other position that may not be disposed of quickly in the normal course of business. While investments in illiquid assets can present above-average growth opportunities, they can be difficult to value and/or sell at the time and price preferred by the Funds.

The liquidity risk associated with the daily cash redemptions of shares is managed by maintaining an appropriate portion of the Funds' portfolio in cash, marketable securities and short-term investments.

There are certain circumstances in which the Funds may suspend redemptions for substantial periods of time. Furthermore, in any given year, the Funds will not be required to redeem Class A Shares in any financial year having an aggregate redemption value exceeding 20% of the NAV of the Class A Shares calculated as of the last day of the preceding financial year.

ROI Fund Series I, II, III

As at December 31, 2017, these Series held 30.00% (December 31, 2016 – 15.08%) of net assets in venture investments, which are considered illiquid. They also held 68.70% (December 31, 2016 – 83.11%) of net assets in cash, foreign currencies, marketable securities and short-term investments that are traded in active markets and/or can be readily disposed. Other securities are exchange listed securities that are thinly traded. These securities represented 2.98% (December 31, 2016 – 2.96%) of net assets.

The following table summarizes the maturity profile as at December 31, 2017 and December 31, 2016, of financial instruments by contractual maturity or expected cash flow dates for Series I, II, III.

					As at December 31, 2017	
	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	No specific date	Total
Assets						
Interest and dividends receivable	52,383	–	–	–	–	52,383
Venture investments	–	–	–	–	19,180,283	19,180,283
Short-term investments	7,953,936	–	–	–	–	7,953,936
Other securities	–	1,907,616	–	–	–	1,907,616
Marketable securities	–	–	–	–	35,970,156	35,970,156
	$ 8,006,319	$ 1,907,616	$ –	$ –	$ 55,150,439	$ 65,064,374
Liabilities						
Accrued expenses	1,123,869	–	–	–	–	1,123,869
Share redemptions payable	43,932	–	–	–	–	43,932
	$ 1,167,801	$ –	$ –	$ –	$ –	$ 1,167,801

					As at December 31, 2016	
	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	No specific date	Total
Assets						
Foreign currencies	–	–	–	–	197,653	197,653
Interest and dividends receivable	70,477	–	–	–	–	70,477
Venture investments	–	–	–	–	10,249,006	10,249,006
Short-term investments	11,105,399	–	–	–	–	11,105,399
Other securities	–	2,011,776	–	–	–	2,011,776
Marketable securities	–	–	–	–	45,175,536	45,175,536
	$ 11,175,876	$ 2,011,776	$ –	$ –	$ 55,622,195	$ 68,809,847
Liabilities						
Accrued expenses	866,354	–	–	–	–	866,354
Share redemptions payable	24,408	–	–	–	–	24,408
	$ 890,762	$ –	$ –	$ –	$ –	$ 890,762

ROI Fund Series IV

As at December 31, 2017 and 2016 this series held no venture investments, which are considered illiquid. It held 47.79% (December 31, 2016 – 6.98%) of net assets in cash and short-term investments that are traded in active markets and/or can be readily disposed. Other securities are exchange-listed securities that are thinly traded. These securities represented 56.93% (December 31, 2016 – 93.32%) of net assets.

The following table summarizes the maturity profile as at December 31, 2017 and December 31, 2016, of financial instruments by contractual maturity or expected cash flow dates for Series IV.

As at December 31, 2017

	Within 1 year $	1 to 3 years $	3 to 5 years $	Over 5 years $	No specific date $	Total $
Assets						
Cash	–	–	–	–	424,236	424,236
Interest and dividends receivable	40,346	–	–	–	–	40,346
Other securities	–	5,864,996	17,980,986	–	–	23,845,982
Short-term investments	20,024,749	–	–	–	–	20,024,749
	$ 20,065,095	$ 5,864,996	$ 17,980,986	$ –	$ 424,236	$ 44,335,313
Liabilities						
Accrued expenses	713,622	–	–	–	–	713,622
Payable for investment purchased	1,750,000	–	–	–	–	1,750,000
Share redemptions payable	6,471	–	–	–	–	6,471
	$ 2,470,093	$ –	$ –	$ –	$ –	$ 2,470,093

As at December 31, 2016

	Within 1 year $	1 to 3 years $	3 to 5 years $	Over 5 years $	No specific date $	Total $
Assets						
Cash	–	–	–	–	265,700	265,700
Interest and dividends receivable	374,871	–	–	–	–	374,871
Other securities	–	39,573,581	4,301,325	–	–	43,874,906
Short-term investments	3,010,868	–	–	–	–	3,010,868
Marketable securities	–	–	–	–	3,411	3,411
	$ 3,385,739	$ 39,573,581	$ 4,301,325	$ –	$ 269,111	$ 47,529,756
Liabilities						
Accrued expenses	533,264	–	–	–	–	533,264
Share redemptions payable	4,738	–	–	–	–	4,738
	$ 538,002	$ –	$ –	$ –	$ –	$ 538,002

Market Risk

Market risk comprises three main components: interest rate risk, foreign currency risk and other price risk.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the future cash flows or the fair values of interest-bearing investments. The Funds' exposure to interest rate risk is concentrated in its investments in debt securities. Short-term investments, cash, and other financial assets and liabilities are short-term in nature and/or non-interest bearing and not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates.

If the Funds invest in underlying exchange-traded funds, they are exposed to indirect interest rate risk to the extent of the interest-bearing financial instruments held by the underlying exchange-traded fund.

ROI Fund Series I, II, III

As at December 31, 2017, had the prevailing interest rates raised or lowered by 1% for all the debt venture investments and other securities, with all other variables held constant, net assets would have decreased or increased, respectively, by approximately $34,237 (December 31, 2016 – $53,314). In practice, the actual results may differ from this sensitivity analysis and the difference could be material. This Series held 12.44% (December 31, 2016 – 16.34%) of its assets in short-term investments that earn a variable rate of interest and 30.00% (December 31, 2016 – 15.08%) in venture investments.

ROI Fund Series IV

As at December 31, 2017, had the prevailing interest rates raised or lowered by 1% for all the debt venture investments and other securities, with all other variables held constant, net assets would have decreased or increased, respectively, by approximately $768,842 (December 31, 2016 – $896,526). In practice, the actual results may differ from this sensitivity analysis and the difference could be material. This Series held 47.80% (December 31, 2016 – 6.40%) of its assets in short-term investments that earn a variable rate of interest and nil% (December 31, 2016 – nil%) in venture investments.

For additional disclosure regarding sensitivity analysis on equity venture investments, refer to note 7.

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises from financial instruments (including cash) that are denominated in a currency other than the Canadian dollar, which represents the functional currency of the Funds. The Funds may enter into foreign exchange contracts for hedging purposes to reduce its foreign currency exposure, or to establish exposure to foreign currencies.

At December 31, 2017, the Funds held cash and securities which are subject to U.S. dollar currency risk as follows: Series I, II, III – $12,509,452 (December 31, 2016 – $15,256,343) and Series IV – $nil (December 31, 2016 – $nil). If the Funds invest in underlying exchange-traded funds, they are exposed to indirect currency risk if the underlying exchange-traded funds invest in financial instruments that are denominated in a currency other than the underlying funds' functional currency.

As at December 31, 2017, if the Canadian dollar had strengthened or weakened by 10% in relation to all currencies, with all other variables held constant, net assets attributable to holders of Series I, II, III shares would have decreased or increased, respectively, by approximately $1,250,945 (December 31, 2016 – $1,525,634). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

Other financial assets (including dividends and interest receivable and receivables for investments and shares sold) and financial liabilities that are denominated in foreign currencies do not expose the Funds to significant currency risk.

As at December 31, 2017, Series IV is not subject to significant currency risk.

Other Price Risk

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. All equity securities present a risk of loss of capital. The Manager moderates this risk through careful selection of securities and other financial instruments within the parameters of the investment strategy. The maximum risk of loss resulting from financial instruments is equivalent to their fair value.

As at December 31, 2017, 56.26% (December 31, 2016 – 66.49%) of Series I, II, III net assets were invested in equities which are actively traded on Canadian and global stock exchanges. Series IV had no investments in actively traded equities. Equities are susceptible to market price risk arising from uncertainties about future prices of those instruments. If equity prices on Canadian and global stock exchanges had increased or decreased by 10% as at the year end, with all other factors remaining constant, Series I, II, III actively traded equities would have increased or decreased by approximately $3,597,016 (December 31, 2016 – $4,517,554). In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

Valuation of Venture Investments

The Fund invests a substantial portion of its net assets in a venture investment. This venture investment does not have an observable market price. The process of valuing investments for which no published market exists is based on inherent uncertainties and will be influenced by the time required to assess the impact of any particular event on value from time to time. The resulting values may differ from values that would have been used had a ready market existed for these investments. This valuation process is subjective to a degree and to the extent that these valuations differ from the amount ultimately realized by the Fund, investors in the Fund may gain a benefit or suffer a loss when they purchase or redeem units.

The total amount of the change in fair value recognized in net assets from operations during the year that was estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates are as follows: Series I, II, III – increased by $8,931,277 (December 31, 2016 – increased by $1,000,239) and Series IV – $nil (December 31, 2016 – decreased by $220,984).

Valuation Processes

The Manager is responsible for determining recurring fair value measurements included in the financial statements, including fair value of the Level 3 investment. The Manager prepares a valuation for the investment at least quarterly; however, any new information that may impact the valuation of investment is addressed when known.

The Level 3 investment in the Fund is an equity security. The equity security is comprised of income producing commercial private real estate and commercial development private real estate.

The following is a summary by investment type of the valuation techniques and key inputs used by the Manager.

Investment type	Valuation method	Inputs
Equity	Discounted Cash Flow	Risk premium Risk free rate Timing of free cash flows attributable to equity holders
	Direct Comparison	Recent market sales of comparable assets

The yield to maturity method applies an appropriate discount rate to all future cash flows of a security. The discount rate is comprised of a risk-free rate plus a risk premium. The risk premium associated with a security is security specific and is determined mainly by the credit quality of the investment.

The discounted cash flow method applies an appropriate discount rate to the expected future value of the completed development (on a direct income capitalization or realizable value basis). The discount rate is determined by analyzing the risk to completion which, amongst other measures, involves analysis of the current progress, loan-to-value and time to delivery of the future development. The direct comparison method involves analysis of recent similar transactions, adjusted for any differences, to determine the current net realizable value of an asset.

Investments in Equity Securities:

Series I, II, III

As at December 31, 2017 and December 31, 2016, had the inputs used in the valuation of Toronto Waterfront Studios Inc., Class A common shares increased by 1%, the value of the investment would have decreased by approximately $2,196,216 (December 31, 2016 – $1,903,387). Also, had the inputs used in the valuation of this investment decreased by 1%, the value of this investment would have increased by approximately $ 2,781,873 (December 31, 2016 – $2,489,044). In practice, the actual results may differ from the above approximate amounts and the differences could be material. The key input used in the valuation as at December 31, 2017 is a discount rate of 12.00% (December 31, 2016 – 12.00%). The risk free rate used is based on the Government of Canada 5 year bond yield. As at December 31, 2017 this rate was 1.86%.

Investment Portfolio Concentration (%)

Series I, II, III

The Fund's investment portfolio is concentrated in the following segments as at

	December 31, 2017	December 31, 2016
MARKETABLE SECURITIES		
Equities	**56.26%**	66.49%
OTHER SECURITIES		
Convertible Unsecured Subordinated Debentures	**2.98%**	2.96%
VENTURE INVESTMENTS		
Consumer Services	**30.00%**	15.08%
SHORT TERM INVESTMENTS	12.44%	16.34%
LIABILITIES, NET OF OTHER ASSETS	(1.68)%	(0.87)%
	100.00%	100.00%

Investment Portfolio Concentration (%)

Series IV

The Fund's investment portfolio is concentrated in the following segments as at

	December 31 2017	December 31 2016
MARKETABLE SECURITIES		
Equities	–	0.01%
OTHER SECURITIES		
Convertible Unsecured Subordinated Debentures	56.93%	93.32%
SHORT-TERM INVESTMENTS	47.80%	6.40%
LIABILITIES, NET OF OTHER ASSETS	(4.73%)	0.27%
	100.00%	**100.00%**

7. FAIR VALUE HIERARCHY

The Funds provide disclosures about the inputs to fair value measurement, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can assess at the measurement date;

Level 2 Inputs other than quoted prices included within Level 1that are observable for the asset or liability either directly or indirectly; and

Level 3 Inputs that are unobservable for the asset and liability.

If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement.

The following tables illustrate the classification of the Funds' financial instruments carried at fair value within the hierarchy as at December 31, 2017 and December 31, 2016:

ROI Fund Series I, II, III	**Assets at fair value as at December 31, 2017**			
	Level 1	**Level 2**	**Level 3**	**Total**
Marketable securities	35,970,156	–	–	35,970,156
Other securities	–	1,907,616	–	1,907,616
Short-term investments	–	7,953,936	–	7,953,936
Venture investments	–	–	19,180,283	19,180,283
	$35,970,156	**$9,861,552**	**$19,180,283**	**$65,011,991**

ROI Fund Series I, II, III	**Assets at fair value as at December 31, 2016**			
	Level 1	**Level 2**	**Level 3**	**Total**
Marketable securities	45,175,536	–	–	45,175,536
Other securities	–	2,011,776	–	2,011,776
Short-term investments	–	11,105,399	–	11,105,399
Venture investments	–	–	10,249,006	10,249,006
	$45,175,536	**$13,117,175**	**$10,249,006**	**$68,541,717**

ROI Fund Series IV

	Assets at fair value as at December 31, 2017			
	Level 1 $	**Level 2** $	**Level 3** $	**Total** $
Short-term investments	–	20,024,749	–	20,024,749
Other securities	–	23,845,982	–	23,845,982
	$–	$43,870,731	$–	$43,870,731

ROI Fund Series IV

	Assets at fair value as at December 31, 2016			
	Level 1 $	**Level 2** $	**Level 3** $	**Total** $
Marketable securities	3,411	–	–	3,411
Short-term investments	–	3,010,868	–	3,010,868
Other securities	–	43,874,906	–	43,874,906
	$3,411	$46,885,774	$–	$46,889,185

All fair value measurements above are recurring. Fair values are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is reclassified as Level 3. The Funds' policy is to recognize transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer. There were no transfers between levels during the year ended December 31, 2017 and December 31, 2016.

Marketable Securities

The Funds' marketable securities are classified as Level 1 when the security is actively traded and/or a reliable quote is available. Marketable securities include publicly traded equities and investments in mutual funds.

Other Securities

The investments in convertible unsecured subordinated debentures are classified as Level 2. These are exchange-listed securities that are thinly traded.

Short-term Investments

The Funds' short-term investments are classified as Level 2 as they represent overnight cash deposits and are considered equivalent to cash, measured at amortized cost.

Venture Investments

The Funds' venture investments are classified as Level 3 as the determination of fair value requires significant unobservable inputs, and the application of valuation techniques. Venture investments include investments that are not publicly traded or other assets for which no public market exists.

The following is a reconciliation of level 3 fair value measurements for the year ended December 31, 2017 and December 31, 2016:

ROI Fund Series I, II, III — *For the year ended December 31, 2017*

Fair value measurements using level 3 inputs

	Investments
Balance at December 31, 2016	10,249,006
Purchases	–
Sales and principal payments	(350,609)
Realized gain	350,609
Change in unrealized gains	8,931,277
Balance at December 31, 2017	**19,180,283**

The change in unrealized gains recorded in the statement of comprehensive income (loss) for the year related to private investments which continue to be held at December 31, 2017 is $8,931,277.

ROI Fund Series I, II, III — *For the year ended December 31, 2016*

Fair value measurements using level 3 inputs

	Venture Investments
Balance at December 31, 2015	35,020,201
Purchases	–
Sales and principal payments	(26,053,193)
Realized gain	281,759
Change in unrealized gains	1,000,239
Balance at December 31, 2016	10,249,006

The change in unrealized gains recorded in the statement of comprehensive income (loss) for the year related to private investments which continue to be held at December 31, 2016 is $1,464,144.

ROI Fund Series IV — *For the year ended December 31, 2017*

There were no level 3 investments in the Fund during the year ended December 31, 2017.

ROI Fund Series IV — *For the year ended December 31, 2016*

Fair value measurements using level 3 inputs

	Venture investments
Balance at December 31, 2015	15,170,984
Purchases	–
Sales and principal repayments	(15,105,090)
Realized loss	155,090
Change in unrealized gains	(220,984)
Balance at December 31, 2016	–

The change in unrealized gains/losses recorded in the statement of comprehensive income (loss) for the year related to private investments which continue to be held at December 31, 2016 is $nil.

8. NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS

The net assets attributable to holders of redeemable units of each series represent the issued share capital and cumulative retained earnings (deficit) of the series. The following is a description of the authorized share capital, the differences between the series available and a description of the distribution costs associated with the shares. The Funds are no longer accepting new subscriptions.

Authorized share capital

Unlimited number of Class A Shares, discretionary dividend entitlement, voting, restrictions on transfer and redemption, redeemable at the net asset value less any redemption fee, entitled to elect one of seven directors.

Unlimited number of Class B Shares, issuable only to the Sponsor of the Fund, no dividend entitlement, voting, entitled to elect six of seven directors.

Series

The Class A Shares were available in four series. The series all have the same rights and privileges; the differences among the series are the distribution costs of the Funds' shares – the sales commissions and commission financing fees paid to dealers. In addition, the investment strategy for Class A shares, Series IV differs from that of the other three series. Series IV may not invest in publicly traded equity securities.

Distribution costs

Sales commissions

The Funds did not pay sales commissions. The Manager (on behalf of the Funds) paid a sales commission to dealers on the sale of Class A Shares (if applicable, the Funds would reimburse the Manager by way of commission financing fees) or the investors would pay the sales commissions. The sales commissions were as follows:

Class A Shares, Series I: 10% of the original issue price, paid by the Manager;

Class A Shares, Series II: 6% of the original issue price, paid by the Manager;

Class A Shares, Series III: Up to 2% of the original issue price, may be paid by the investor;

Class A Shares, Series IV under option I: 10% of the original issue price, paid by the Manager;

Class A Shares, Series IV under option II: 6% of the original issue price, may be paid by the Manager; and

Class A Shares, Series IV under option III: 2% of the original issue price, paid by the investor.

Commission financing fees

ROI Fund Series I, II, III

As of January 1, 2004, the Funds pay the Manager an annual base commission financing fee of (a) 1.25% of the original purchase price of Class A Shares, Series I for up to eight years following the sale of each Class A Share, Series I and (b) 0.75% of the original purchase price of each Class A Share, Series II for up to eight years following the sale of each Class A Share, Series II, provided that, in the case of (a) and (b) above, the shares remain issued and unredeemed, and such fee ceases for any such shares retained for more than eight years. This fee is contingent upon continued management services.

ROI Fund Series IV

As of December 17, 2008, the Funds pay the Manager an annual base commission financing fee of 1.5% of the original purchase price of each Class A Share, Series IV for up to eight years following the sale of each Class A Share, Series IV, provided that, in the case of the above, the shares remain issued and unredeemed, and such fee ceases for any such shares retained for more than eight years. This fee is contingent upon continued management services.

The Funds pay the Manager an additional commission financing fee equal to 0.40% annually of the net asset value of Series I, II, III and Series IV for services, including arranging financing for the payment of commissions by the Manager to the dealers and for assisting in the administration of sales of Class A Shares. This fee is contingent upon continued management services.

During the year ended December 31, 2017, the Funds incurred commission financing fees in Series I, II, III – $803,881 (December 31,2016 – $1,001,725) and Series IV – $1,014,779 (December 31, 2016 – $1,096,525).

Trailing commissions

Trailing commissions paid by the Funds are as follows:

Class A Shares, Series I: Not paid to dealers until the eighth anniversary of the date of issue of the Series I Shares (thereafter, 0.75% annually of the net asset value of the Series I Shares held by the clients of the sales representatives of the dealers), and is paid by the Fund;

Class A Shares, Series II: 0.75% annually of the net asset value of the Series II Shares held by clients of the sales representatives of the dealers, and is paid by the Fund;

Class A Shares, Series III: 1.25% annually of the net asset value of the Series III Shares held by clients of the sales representatives of the dealers, and is paid by the Fund;

Class A Shares, Series IV – Option I: Not paid to dealers until the eighth anniversary of the date of issue of the Series IV Shares. Thereafter, 0.75% annually of the net asset value of the Series IV Shares held by the clients of the sales representatives of the dealer and is paid by the Fund.

Class A Shares, Series IV – Option II: 0.75% annually, until the eighth anniversary of the date of issue of the Series IV Shares of the net asset value of the Series IV Shares held by the clients of the sales representatives of the dealers is paid by the Manager. Thereafter, 0.75% annually of the net asset value of the Series IV Shares held by the clients of the sales representative of the dealers, and is paid by the Fund; and

Class A Shares, Series IV – Option III: 1.25% annually, until the eighth anniversary of the date of issue of the Series IV Shares of the net asset value of the Series IV Shares held by the clients of the sales representatives of the dealers and is paid by the Manager. Thereafter, 0.75% annually of the net asset value of the Series IV Shares held by the clients of the sales representative of the dealers and is paid by the Fund and 0.50% is paid by the Manager.

During the year ended December 31, 2017, the Fund incurred trailing commissions of: Series I, II, III – $339,371 (December 31, 2016 – $374,519) and Series IV – $12,529 (December 31, 2016 – $nil).

Other costs

In addition to the aforementioned distribution costs, as and when deemed appropriate, the Funds may, subject to compliance with applicable laws, reimburse dealers for a portion of the dealer's cost of producing and distributing sales communications and hosting seminars designed to provide investors with investment information.

Capital Shares

The capital of the Funds is represented by issued redeemable shares with no par value. Shareholders of Class A shares are entitled to distributions, if any, and to payment of a proportionate share based on the Fund's net asset value per share upon redemption. The Funds have no restrictions or specific capital requirements on the subscription and redemption of shares other than the minimum subscription requirements. Capital movements are shown on the statements of changes in net assets. In accordance with its investment strategies and risk management policies, the Funds invest their subscriptions while maintaining sufficient liquidity to meet redemptions.

ISSUED AND OUTSTANDING	At December 31, 2017	At December 31, 2016
CLASS A, SERIES I SHARES		
Balance, beginning of year	5,153,142	6,776,394
Redeemed during the year	(1,133,207)	(1,623,252)
Balance, end of year	**4,019,935**	**5,153,142**
CLASS A, SERIES II SHARES		
Balance, beginning of year	4,637,658	5,662,983
Redeemed during the year	(623,130)	(1,025,325)
Balance, end of year	**4,014,528**	**4,637,658**
CLASS A, SERIES III SHARES		
Balance, beginning of year	132,263	201,904
Redeemed during the year	(47,806)	(69,641)
Balance, end of year	**84,457**	**132,263**
CLASS B SHARES		
Balance, beginning of year	100	100
Balance, end of year	**100**	**100**

ISSUED AND OUTSTANDING	At December 31, 2017	At December 31, 2016
CLASS A, SERIES IV SHARES		
Balance, beginning of year	4,960,895	5,022,602
Redeemed during the year	(280,841)	(61,707)
Balance, end of year	**4,680,054**	**4,960,895**

Redemption of Class A Shares

A shareholder may redeem all or part of the Class A Shares held at the net asset value per Class A Share, subject to certain restrictions. One of these restrictions provides that the Funds are not required to redeem Class A Shares in any financial year having an aggregate redemption value exceeding 20% of the net asset value of the Class A Shares calculated as at the last day of the preceding fiscal year.

Class A Shares, Series I: Holders of Class A Shares, Series I purchased on or following September 28, 2012, who request that the ROI Fund redeem shares before the eighth anniversary of their date of issue will be charged a redemption fee payable to the Manager of 12% of the original issue price, which is reduced by 0.5% of the original issue price each year until the eighth anniversary of the date of issue. After the eighth anniversary of the date of issue, there is no redemption fee.

Class A Shares, Series II: Holders of Class A Shares, Series II purchased on or following September 28, 2012, who request that the ROI Fund redeem shares before the eighth anniversary of their date of issue will be charged a redemption fee payable to the Manager of 12% of the original issue price, which is reduced by 0.5% of the original issue price each year until the eighth anniversary of the date of issue. After the eighth anniversary of the date of issue, there is no redemption fee.

Class A Shares, Series III: No redemption fee will be charged.

Class A Shares, Series IV – Holders of Class A Shares, Series IV purchased on or following September 28, 2012 under the Deferred Sales Charge Option I, who request that the ROI Fund redeem shares before the eighth anniversary of their date of issue will be charged a redemption fee payable to the Manager of 12% of the original issue price, which is reduced by 0.5% of the original issue price each year until the eighth anniversary of the date of issue. After the eighth anniversary of the date of issue there is no redemption fee.

Class A Shares, Series IV – Holders of Class A Shares, Series IV purchased on or following September 28, 2012 under the Deferred Sales Charge Option II, who request that the ROI Fund redeem shares before the eighth anniversary of their date of issue will be charged a redemption fee payable to the Manager of 12% of the original issue price, which is reduced by 0.5% of the original issue price each year until the eighth anniversary of the date of issue. After the eighth anniversary of the date of issue there is no redemption fee.

Class A Shares, Series IV – Holders of Class A Shares, Series IV under the Initial Sales Charge Option III will not be charged a redemption fee.

For Class A Shares issued prior to January 1, 2004, the Fund will keep the redemption fee that it receives from the shareholder. For Class A Shares issued after January 1, 2004, the redemption fee will be paid to the Manager by the shareholder.

9. FEES

The Funds' investment activities are managed by Return On Innovation Advisors Ltd., with administration delegated to CIBC Mellon (the Administrator). The Manager is responsible for the organization and creation of the Fund, developing and implementing all aspects of the Funds' sales, marketing, distribution and communications strategies, retaining and supervising service providers, managing the ongoing business of the Fund and provides key management personnel to the Fund. In consideration, the Manager is entitled to receive a management fee based on the average net asset value of Series I, II, III of 2.5% and Series IV of 2.3% calculated daily and payable monthly. During the year ended December 31, 2017, the Series I, II, III incurred management fees of $1,782,133 (December 31, 2016 – $2,046,057) with outstanding fees for the year ended December 31, 2017 $153,506 (December 31, 2016 – $160,649) and Series IV incurred management fees of $1,157,393 (December 31, 2016 – $1,260,563) with outstanding fees for the year ended December 31, 2017 $92,896 (December 31, 2016 – $103,999), included in accrued expenses in the Statements of Financial Position.

The Manager may waive or absorb certain expenses of the Funds. The decision to do so is reviewed annually and determined at the sole discretion of the Manager.

The Manager is responsible for the management of the investment portfolio of the Funds. In consideration, the Manager is paid an annual fee calculated monthly for its services at the annual rate of 1.0% of the net asset value of the Funds. During the year ended December 31, 2017, the Funds incurred investment advisor fees of: Series I, II, III – $712,853 (December 31, 2016 – $818,423) with outstanding fees for the year ended December 31, 2017 $61,403 (December 31, 2016 – $64,260) and Series IV – $503,216 (December 31, 2016 – $548,072) with outstanding fees for the year ended December 31, 2017 $40,390 (December 31, 2016 – $45,217), included in accrued expenses in the Statements of Financial Position.

During the year ended December 2017 and 2016, the Manager did not collect a performance fee because it forfeited its performance fee entitlement by way of an amendment to the management agreement dated October 29, 2010.

Commencing March 1, 2003, the Fund pays the Sponsor an annual fee of 0.25% of the net asset value of the Fund, calculated and paid monthly in arrears. During the year ended December 31, 2017, the Funds incurred Sponsor fees for Series I, II, III of $178,213 (December 31,2016 – $204,606) with outstanding fees for the year ended December 31, 2017 $15,351 (December 31, 2016 – $16,065), included in accrued expenses in the Statements of Financial Position and Series IV of $125,803 (December 31, 2016 – $137,018) with outstanding fees for the year ended December 31, 2017 $10,097 (December 31 2016 – $11,304), included in accrued expenses in the Statements of Financial Position.

10. INCREASE (DECREASE) IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES PER SHARE

For the year ended December 31, 2017	Series I	Series II	Series III
Increase in net assets attributable to holders of redeemable shares	4,561,603	4,221,931	105,748
Weighted average shares outstanding during the year	4,408,499	4,230,358	101,424
Increase in net assets attributable to holders of redeemable shares per share	1.03	1.00	1.04

For the year ended December 31, 2016	Series I	Series II	Series III
Increase in net assets attributable to holders of redeemable shares	642,947	534,020	15,270
Weighted average shares outstanding during the year	5,770,096	5,000,629	156,368
Increase in net assets attributable to holders of redeemable shares per share	0.11	0.11	0.10

For the year ended December 31, 2017	Series IV
Decrease in net assets attributable to holders of redeemable shares	(2,494,785)
Weighted average shares outstanding during the year	4,785,846
Decrease in net assets attributable to holders of redeemable shares per share	(0.52)

For the year ended December 31, 2016	Series IV
Decrease in net assets attributable to holders of redeemable shares	(2,134,872)
Weighted average shares outstanding during the year	4,987,273
Decrease in net assets attributable to holders of redeemable shares per share	(0.43)

11. INCOME TAXES

ROI Fund Inc. is a mutual fund corporation and a prescribed labour-sponsored venture capital corporation under the Income Tax Act (Canada).

Under the Tax Act, no income taxes are payable by the Funds on dividends received from Canadian corporations, and income taxes payable on capital gains will be fully refundable on a formula basis when shares of the Funds are redeemed or capital gains dividends are paid or deemed to be paid by the Funds to its shareholders. The Fund has sufficient expenses to offset income from sources other than dividend and capital gains.

The Funds recover all of their refundable income taxes annually through the deemed payment of a dividend by capitalizing the appropriate amount of their income as paid-up capital pro rata on their Class A shares. As a result, the Funds have determined that it is in substance not taxable on these sources of income and therefore do not record income taxes on them. The Funds did not set up deferred tax assets for the non-capital loss carryforward.

If and to the extent the Funds increase the paid-up capital of the Class A Shares, the holder of the shares will be deemed to have received a dividend and the adjusted cost base of the holder's shares will be increased by the amount of the deemed dividend.

As at December 31, 2017, the Funds had available for deduction against future taxable income, non-capital losses of approximately $50,396,862 and capital losses of $27,578,589. The capital losses may be deducted against future capital gains and have no expiry date. Non-capital losses carried forward will expire, if not applied, as follows: 2026 – $3,945,240; 2027 – $2,560,695; 2028 – $2,824,103; 2029 – $3,194,490; 2030 – $5,433,646; 2031 – $6,232,809; 2032 – $5,127,161; 2033 – $3,556,103; 2034 – $2,421,372; 2035 – $5,188,082; 2036 – $4,963,553 and 2037 – $4,949,608.

12. INVESTMENT PACING REQUIREMENTS

Both the Tax Act and the Ontario Act set investment pacing requirements for the Funds. If the minimum level of qualifying venture investments is not met as at the calendar year end, the Funds may be subject to defined taxes and penalties. As at December 31, 2017 and 2016, the Fund was not in compliance with the investment pacing requirement. As a result, during 2017 net investment level taxes totaling $817,160 (Series I, II, III – $498,211, Series IV – $318,949) have been accrued by the Funds, net of prior year reversals. Investment level taxes relating to the 2016 fiscal year totaling $271,091 (Series I, II, III – $160,233, Series IV – $110,858) were paid by the Funds. The net amounts accrued in 2017 and paid for 2016 are eligible to be rebated to the Fund as the Fund had returned to compliance in the first quarter of 2018.

13. GUARANTEES

Toronto Waterfront – Mortgage

Through its investment in Toronto Waterfront Studios ("Waterfront"), the Fund, with all other shareholders, have pro rata on guaranteed $5,000,000 of a mortgage held in Waterfront. If Waterfront cannot meet its obligation under the mortgage, the Fund could be financially liable for its proportionate ownership of the $5,000,000 (December 31, 2016 – $5,000,000). The maximum potential amount of future payments that the Funds could be required to make under the guarantee is $2,308,500 (December 31, 2016 – $2,308,500). Currently no amount has been recorded in the Statements of Financial Position as the fair value of the guarantee is $nil as at December 31, 2017 and December 31, 2016.

14. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

IFRS 9 – The final version of IFRS 9, Financial Instruments, was issued by the IASB in July 2014 and will replace IAS39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The new single, principle-based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The new standard is not expected to impact the Funds as the Funds have determined that they will continue to value investments at FVTPL under IFRS 9. There will be some enhanced disclosure required on transition to the new standard.

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