

Annual Management Report of Fund Performance ROI Fund Inc. – Series IV



As at December 31, 2018

This annual Management Report of Fund Performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You may obtain a copy of the annual financial statements at your request, and at no cost, by calling 1-866-764-3863, by writing to us at 43 Front Street East, Suite 301, Toronto, Ontario M5E 1B3, or by visiting our website at www.roicapital.ca or SEDAR at www.sedar.com.

Security holders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures or proxy voting disclosure record.

Every effort has been made to ensure that the information contained in this report is accurate as of December 31, 2018; however, the Fund cannot guarantee the accuracy or the completeness of this material. Please refer to the Fund's Prospectus and audited annual financial statements for more information.



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Investment Objective

The ROI Fund's investment objective is 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 as required to meet the pacing requirements of the Fund. The ROI Fund also invests a certain portion of its assets in "reserves" that has the meaning ascribed thereto in the Federal Tax Act and the Ontario Act, which for each series of shares includes Canadian dollars in cash or on deposit with qualified Canadian financial institutions, debt obligations of or guaranteed by the Canadian federal government, debt obligations of provincial and municipal governments, Crown corporations, corporations, and trusts listed on prescribed stock exchanges, guaranteed investment certificates issued by Canadian trust companies, and qualified investment contracts.

Investment Strategy

To seek to achieve its investment objective, the ROI Fund endeavors to: (i) invest a minimum of 60% of the capital raised from the sale of Class A Shares in a diversified portfolio of businesses; and (ii) invest the balance of the net proceeds in reserves such as short-term government debt and corporate debt obligations. Although Class A Shares, Series IV – Private Placements will not invest in publicly-traded equity securities, it may acquire such securities as a result of in-kind payments of interest and capital on permitted debt obligations. As the Return On Innovation Advisors Ltd. (the "Manager") believes that a critical component of portfolio risk management is diversification, the ROI Fund will diversify its investments. In all cases, the ROI Fund will seek to invest in companies with established products, customers, distribution channels and who have demonstrated solid financial results as evidenced

by historical cash flow, or the clear ability to generate cash flow in the near-term. The ROI Fund will not invest in speculative business models, early stage high-tech businesses or start-ups.

Risks

The Fund's venture investments are primarily subordinated, secured debentures. The fair value of these securities is influenced by interest rates. As such, interest rate risk will always be a factor in this Fund. As at December 31, 2018 there were no venture investments in the Fund.

Credit risk remains a factor as the venture investments, when made, are made in small to medium sized private businesses and are generally subordinated to senior lenders.

There are risks associated with investing in these debentures. A long-term investment horizon is recommended when investing in the Fund.

Investments are made with the expectation that they will be held to maturity. This diminishes the impact of economic cycles and market volatility.

The Fund does not invest in publicly traded equity securities and does not have exposure to foreign securities. The Class A Shares are speculative in nature and an investment in Class A Shares is appropriate only for investors who are prepared to hold their investment in the Fund for a long period of time and who have the capacity to absorb a loss of some or all of their investment.

Valuation

The Fund estimates the fair value of its assets for which there is no published market. The valuation process is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments. Measurement of fair value on an ongoing basis involves considerable judgment. Estimated fair value is determined using appropriate valuation methodology after

considering: the history and nature of the business; operating results and financial conditions; independent valuations of the business; contractual rights relating to the investment; public or private market comparable transactions and results multiples, where applicable, and other pertinent considerations. As at December 31, 2018, there were no assets held for which there is not a published market.

For further discussion on risk issues please see the notes to the financial statements.

Results of Operations

The portfolio advisor of the Fund is Return On Innovation Advisors Ltd. The commentary that follows provides a summary of the results of operations for the period ended December 31, 2018.

Financial Performance

Total net asset at December 31, 2018 were \$24,592,261, down from \$41,889,212 at the prior year end.

During the year ended December 31, 2018, Series IV (the “Fund”) had redemptions of \$15,698,412 and a decrease in net assets from operations of \$1,598,539. The Fund is no longer accepting new subscriptions.

Redemptions continued to be high, but not unexpected. Investors cannot redeem units without penalty for eight years. Once the eight-year hold period is finished, they may redeem units without penalty. The high levels of redemptions reflect the end of the holding periods and consequent redemptions. The Fund continues to hold ample liquid portfolio to manage the liquidity requirements relating to these redemptions.

Investment Performance

For the year ended December 31, 2018, the Fund returned (5.68%). Please refer to the past

performance section for additional performance information.

Since December 31, 2017, the Fund had a decrease in net assets attributable to holders of redeemable shares of \$1,598,539. The decrease was composed of a \$547,240 loss from operations and \$1,051,299 in realized and unrealized losses on investments. The realized and unrealized losses on investments are made up of \$68,155 in net realized losses on investments and a \$983,144 net change in unrealized losses.

The Fund invests in TSX listed debentures. The market purchase price may be lower or higher than the par value. Typically, a debenture will mature or be repaid early by the issuer at par and the Fund will experience a gain or a loss on its investment if it purchased the debentures at a discount or a premium to par respectively. The Fund will also receive interest on its investment. The income from the issuer offsets this anticipated loss on the investment as the market price gravitates towards par.

The Manager of the Fund evaluates the coupon and the yield to maturity in assessing the likelihood that the Fund will generate a net gain by investing in the debenture and receiving the interest income and the potential gain or loss. It is the long-term view that the interest income will be higher than any realized or unrealized gains on the debenture portfolio on the assumption that none of the issuers default on their debenture commitments.

The realized and unrealized losses during the year can be attributed to a couple of factors. The first is that the Bank of Canada raised interest rates during the year, resulting in a decline in the trading value of the debenture portfolio. The second is that the Fund’s debentures have generally been purchased at par or a premium to par. As the debentures approach their maturity date their prices are declining if the current price

is above par (and will continue to decline until they reach par by their maturity date). The biggest impact on the portfolio involved the Fund's largest investment – Morguard Real Estate Investment Trust 4.50% Convertible Unsecured Subordinated Debentures that mature on December 31, 2021. The yield to maturity on the debentures rose to 5.98% from 4.09% during the year. As the yield to maturity went up and the price came down the Fund incurred a \$479,435 unrealized loss or a 5.4% drop in value. This was about half of the Fund's unrealized loss during the year.

The Fund receives an anticipated net rate of return equal to the yield to maturity on the portfolio. The current weighted average yield to maturity for the liquid portfolio is 6.61% up from 5.02% at December 31, 2017. The market for the debenture portfolio is currently stable with the majority of the debentures trading at or close to par with a small risk premium over Government of Canada bonds. The Modified Duration of the debenture portfolio declined year over year from 3.22 years to 2.50 years reducing interest rate risk within the securities portfolio should interest rates continue to rise in the future.

As mentioned previously, during the year the Bank of Canada has continued to raise interest rates. Higher interest rates tend to translate into lower debenture values although, higher interest rates tend to reduce the risk premium for riskier debentures since overall economic activity is strong. The two factors tend to be negatively correlated and provide some price stability.

Investment Activity

At December 31, 2018 and 2017, the Fund had no venture investments remaining.

In the liquid portfolio, at December 31, 2017 the Fund held \$23,845,982 in convertible unsecured subordinated debentures 56.93% of the Fund) and \$20,024,749 in short-term investments 47.80% of

the Fund). At December 31, 2018 the Fund held \$21,522,722 in convertible unsecured subordinated debentures 87.52% of the Fund) and \$3,314,374 in short-term investments 13.48% of the Fund)

As at January 1, 2018 the Fund had invested \$5,951,806 in the following debentures, Northwest REIT 5.25%, SMART REIT 5.5%, First Capital Realty 4.45%, Crombie Real Estate REIT 5.25% and Atrium Mortgage 5.5%. During the period all these securities were sold in the secondary market by the Fund. During the period the Fund added approximately \$2,500,000 to the existing holdings in the Fund including Exchange Income Corp 5.25%, Chemtrade Logistics Income Fund 5.25%, Element Fleet Management Corp 4.25% and Just Energy Group Inc. 6.75%.

The income of the Fund is comprised of interest income on other securities in the amount of \$1,290,133. The income from the securities portfolio was down year over year, as the portfolio size has decreased due to redemptions and to ensure there is liquidity on hand for anticipated redemptions. In addition, the size of the securities portfolio has varied during the year as issuers have repaid some outstanding debentures prior to maturity. The Fund receives large inflows of cash from the repaying issuers and it takes time to reinvest that cash into new securities given the liquidity constraints of the debenture market.

Going forward, the portfolio advisor will only consider new venture investments when prudent in order to meet pacing requirements. Generally, available cash will be invested in public securities, which will provide flexibility and liquidity for the Fund in order to fulfill potential redemption requests in the future.

Fees and Expenses

Total expenses (net of the expense recoveries noted below) for the year were \$1,837,373. Total

expenses excluding these expense recoveries were \$2,305,356.

During 2017 and 2018 the expenses of the Fund have been impacted by extraordinary Other expenses and Expense recovery relating to investment level taxes which are outlined under *Investment Pacing Requirements* below. This has caused a dramatic swing in the MER over the two years.

The Fund's management expense ratio ("MER") was 6.12% based on net expenses after expense recoveries and 7.68% excluding the expense recoveries. The comparable MER for the year ended December 31, 2017 was 8.15% on net expenses and 7.43% excluding the other expenses charges. Ignoring the unusual expense charges and recoveries year over year, the MER rose to 7.68% in 2018 from 7.43% in 2017. The MER increase was due to a contractual increase in trailing commissions paid and to the fixed expenses being spread over a declining NAV. These were somewhat offset by a decrease in commission finance fees paid by the Fund.

Recent Developments

Investment Pacing Requirements

The Fund is required to invest a prescribed portion of its assets in eligible venture investments as defined in the Community Small Business Investment Funds Act (Ontario) and the Income Tax Act (Canada). 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 totalling \$318,949) were accrued by the Funds, net of prior year reversals. Investment level taxes relating to the 2016 fiscal year totalling \$110,858 were paid by the Funds in 2017. The Fund returned to compliance in February of 2018. As such, the investment level taxes paid relating to 2016 were rebated to the Funds by the Ministry of Finance. The amounts relating to 2016 and 2017 were recognized as an expense recovery in 2018 in the Statements of Comprehensive Loss.

As at December 31, 2018 the Fund was in compliance with the investment pacing requirement.

Federal Tax Credits

The Government of Ontario ended its involvement with the Labour-Sponsored Investment Fund ("LSIF") tax credit program with the elimination of the provincial tax credit in 2012. The Federal government also ended its involvement in the program with the phase-out of the tax credit after 2016.

Related Party Transactions

The Manager, Advisor and ACTRA Toronto Performers (the "Sponsor") are deemed to be related parties. Please refer to the section titled "Management Fees," which outlines fees paid to these related parties.

Financial Highlights

The following tables show selected key financial information about Series IV of the Fund and are intended to help you understand the series' financial performance.

Class A Series IV Net assets attributable to holders of redeemable shares per share^{1,2,3}

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|-----------|-----------|-----------|-----------|-----------|
| Net assets attributable to holders of redeemable shares, beginning of year | 8.95 | 9.48 | 9.91 | 10.08 | 10.57 |
| Increase (decrease) in net assets attributable to holders of redeemable shares | | | | | |
| Total revenue | 0.38 | 0.36 | 0.45 | 0.57 | 0.62 |
| Total expenses | (0.54) | (0.76) | (0.73) | (0.72) | (0.72) |
| Realized gains (losses) for the year | (0.02) | (0.31) | – | (0.12) | (0.02) |
| Unrealized gains (losses) for the year | (0.29) | 0.19 | (0.15) | 0.09 | (0.07) |
| Increase (decrease) in net assets attributable to holders of redeemable shares² | | | | | |
| | (0.47) | (0.52) | (0.43) | (0.18) | (0.19) |
| Distributions: | | | | | |
| From income (excluding dividends) | – | – | – | – | – |
| From dividends | – | – | – | – | – |
| From capital gains | – | – | – | – | – |
| Return of capital | – | – | – | – | – |
| Total annual distributions² | | | | | |
| | – | – | – | – | – |
| Net assets attributable to holders of redeemable shares | | | | | |
| | 8.44 | 8.95 | 9.48 | 9.91 | 10.08 |
| Ratios and Supplemental Data | | | | | |
| Total net assets attributable to holders of redeemable shares (000's) ³ | 24,592 | 41,889 | 47,013 | 49,749 | 51,058 |
| Number of shares outstanding ³ | 2,912,907 | 4,680,055 | 4,960,895 | 5,022,602 | 5,063,840 |
| Management expense ratio ⁴ | 6.12% | 8.15% | 7.53% | 7.06% | 7.05% |
| Management expense ratio before waivers or absorptions | 6.12% | 8.15% | 7.53% | 7.06% | 7.05% |
| Trading expense ratio ⁵ | – | – | 0.01% | 0.01% | 0.03% |
| Portfolio turnover rate ⁶ | 23.45% | 70.70% | 50.92% | 13.68% | 19.08% |
| Net assets attributable to holders of redeemable shares per share | 8.44 | 8.95 | 9.48 | 9.91 | 10.08 |

1. This information is derived from the Fund's audited annual financial statements, prepared in accordance with International Financial Reporting Standards ("IFRS").

2. The increase (decrease) from operations is based on the weighted average number of shares outstanding during the financial year. Distributions per share are based on the actual number of shares outstanding at the relevant time. This table is not intended to be a reconciliation of beginning to ending net assets per share. Distributions were paid in cash and either received in cash by the shareholder or reinvested in additional shares of the Fund.

3. This information is provided as at December 31 of the year shown.

4. Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the year.

5. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.

6. The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

Advisor, Sponsor and Management Fees

The Manager has been retained by the Fund to manage the Fund's investment portfolio. As compensation for the services to be provided for and on behalf of the Fund by the Manager, the Fund has agreed to pay to the Manager an annual advisor fee of 1.0% of the NAV of the Fund.

The Fund pays the Sponsor (ACTRA Toronto Performers) an annual fee of 0.25% of the NAV of the Fund, calculated and paid monthly in arrears.

The Manager has been retained by the Fund to develop and implement all aspects of the Fund's sales, marketing, distribution and communications strategies; organize the retention and supervision of service providers; develop and refine the investment strategy; and to manage the ongoing business and administrative affairs of the Fund. As compensation for the services, the Fund has agreed to pay to the Manager an annual management fee of 2.3% of the Series IV NAV of the Fund. The major services paid by the management fees by series expressed as an approximate percentage of the management fees are summarized as follows:

| SERIES | IV |
|---------------|-----------|
| Dealer Costs | 11.56% |
| Other Fees* | 88.44% |

* Includes general and administration fees, marketing fees, and profit.

To the extent that management fees did not fully cover the cost of services provided to the Fund, the difference was funded directly by the Manager.

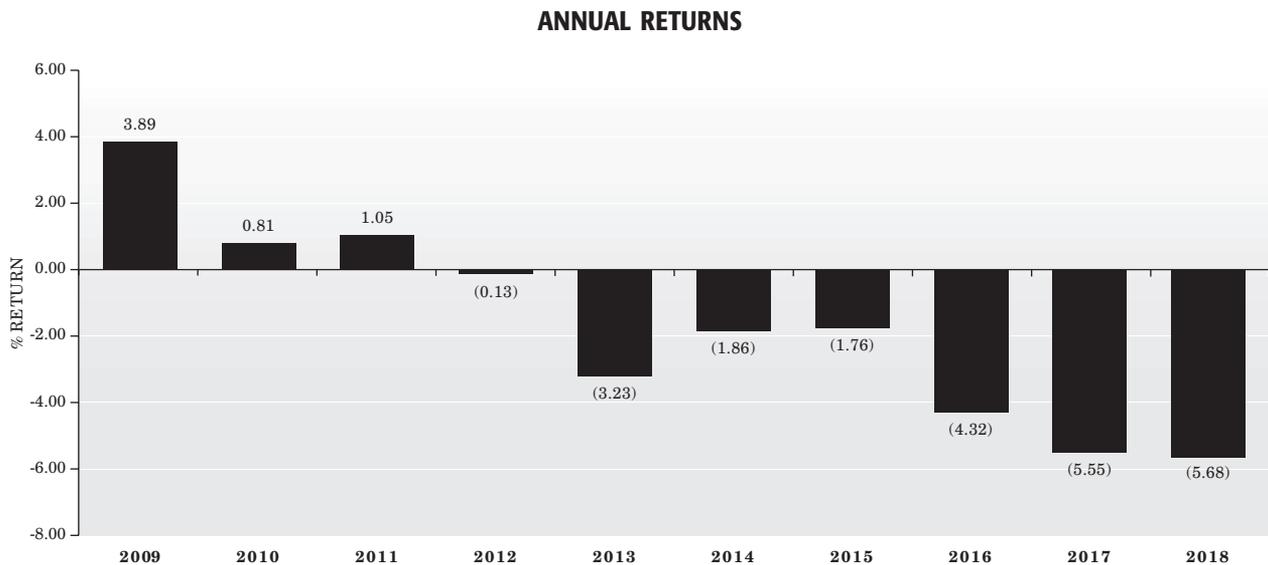
The Manager has also been retained by the Fund to pay sales commissions on behalf of the Fund and provide services in connection therewith. As compensation for these services, the Fund has agreed to pay to the Manager an annual financing fee of 0.4% of the NAV of the Fund, as well as an annual base financing fee equal to the aggregate of 1.5% of the original purchase price of Class A Shares, Series IV (that remain issued and unredeemed, provided that such fee ceases for any such shares retained for more than eight years).

Past Performance

The performance presented below is historical. The past performance information shown includes changes in security value; assumes the reinvestment of all dividends in the periods shown in additional shares of the Fund; and does not take into account sales, redemptions, dividend or optional charges, or income taxes payable by any investor, which would have reduced returns. It is important to note that past performance of the Fund does not represent how well the Fund will perform in the future.

Year-By-Year Returns

The following bar chart shows the Fund's annual performance for each of the years shown and illustrates how the Fund's performance changes year to year. The chart shows in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year.



Annual Compound Returns

The table below summarizes the ROI Fund's historical compound total returns at December 31, 2018. As a basis of comparison, we have provided the returns of the Canadian Investment Funds Standard Committee Retail Venture Capital Index ("CIFSC Retail Venture Capital Index") and the S&P/TSX SmallCap Index as at December 31, 2018. The CIFSC Retail Venture Capital Index is an equally weighted average of mutual funds within the Labour-Sponsored Investment Fund asset class. The S&P TSX SmallCap Index is a portfolio index of the Smallcap market segment of the Canadian equity market.

| COMPOUND RETURNS - % | 5 YEARS | 3 YEARS | 1 YEAR |
|------------------------------|----------------|----------------|---------------|
| Series IV | (3.85)% | (5.19)% | (5.68)% |
| S&P/TSX SmallCap Index | (0.29)% | 5.20% | (18.17)% |
| CIFSC Retail Venture Capital | (4.27)% | (4.98)% | (5.38)% |

Summary of Investment Portfolio as at December 31, 2018

The summary of investment portfolio will change due to ongoing portfolio transactions of the investment fund.

| ASSET MIX | % of Series IV Net Asset Value |
|----------------------------------|---|
| Fixed-income securities | 87.52% |
| Short-term investments | 13.48% |
| Other assets, net of Liabilities | (1.00)% |
| Total | 100.00% |

| TOP 25 HOLDINGS (Note: Fund only has 8 holdings) | % of Series IV Net Asset Value |
|---|---|
| Morguard REIT, 4.50% | 34.03% |
| Just Energy Group Inc., 6.75% | 11.73% |
| Element Fleet Management Corp., 4.25% | 11.71% |
| CIBC Mellon Trust Demand Deposit, variable rate | 13.48% |
| AG Growth International Inc., 4.50% | 10.06% |
| Exchange Income Corp., 5.25% | 9.99% |
| Chemtrade Logistics Income Fund, 5.25% | 8.25% |
| Northwest Healthcare Properties REIT, Series 'C', 7.25% | 1.75% |
| Total holdings as a percentage of net asset attributable to holders of redeemable shares | 101.00% |
| Totoal Fund Net Asset Value | \$24,592,261 |

The most recent annual report or semi-annual report is available at no cost by calling 1-866-764-3863, by writing to us at 43 Front Street East, Suite 301, Toronto, Ontario M5E 1B3 or by visiting our website at www.roicapital.ca.