

Financial Statements of

**VENATOR ALTERNATIVE
INCOME FUND**

(Formerly Venator Income Fund)

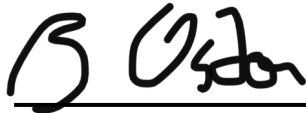
June 30, 2020 (Unaudited)

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited interim financial statements have been prepared by **Venator Capital Management Ltd.**, as manager of the Venator Alternative Income Fund (the “Fund”) and approved by VCM’s board of directors. The manager is responsible for the integrity, objectivity and reliability of the data presented. This responsibility includes selecting appropriate accounting principles and making judgements and estimates consistent with *International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”)*; including International Accounting Standard (“IAS”) 34, “*Interim Financial Reporting*”. The manager is also responsible for the development of internal controls over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced, and the safeguarding of all assets of the Funds.

The board of directors of VCM, is responsible for reviewing and approving the financial statements and overseeing management’s performance of its financial reporting responsibilities.

On behalf of VCM, manager of the Funds



Brandon Osten
Chief Executive Office
August 19, 2020



Susan Naylor
Chief Executive Office
August 19, 2020

VENATOR ALTERNATIVE INCOME FUND (FORMERLY VENATOR INCOME FUND)


Statements of Financial Position

June 30, 2020, with comparative information for December 31, 2019 (Unaudited)

	June 30, 2020	December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 101,101	\$ 30,649
Investments owned, at fair value (Cost:\$82,133,433 - 2019:\$73,700,596)	78,556,268	73,862,212
Prepaid expenses	6,877	181
Interest receivable	957,668	874,676
Dividends receivable	25,214	-
Subscriptions receivable	40,664	-
Other assets	-	3,806
Receivable for investment sold	-	5,030
	<u>79,687,792</u>	<u>74,776,554</u>
LIABILITIES		
Current liabilities		
Due to broker	18,245,379	5,709,598
Accounts payable and accrued liabilities	43,340	172,207
Performance fees payable (note 4)	3,975	604,074
Management fees payable (note 4)	53,081	63,737
Distributions payable	22,989	88,546
Payable for investment purchased	668,838	170,505
Redemptions payable	764,633	1,107,741
Unrealized loss on forward contracts	18,070	-
	<u>19,820,305</u>	<u>7,916,408</u>
Net assets attributable to holders of redeemable units	<u>\$ 59,867,487</u>	<u>\$ 66,860,146</u>
Net assets attributable to holders of redeemable units per class		
Class A	\$ 3,693,624	\$ 3,684,386
Class C	-	7,702,234
Class D	18,185	-
Class F	56,155,678	55,473,526
	<u>\$ 59,867,487</u>	<u>\$ 66,860,146</u>
Number of redeemable units outstanding (note 6)		
Class A	735,625.13	646,820.22
Class C	-	1,365,838.23
Class D	4,076.22	-
Class F	9,935,015.44	8,724,470.92
Net assets attributable to holders of redeemable units per unit		
Class A	\$ 5.02	\$ 5.70
Class C	-	5.64
Class D	4.46	-
Class F	5.65	6.36

See accompanying notes to financial statements.

Approved on behalf of the Trust:

 Trustee

Venator Capital Management Ltd.

VENATOR ALTERNATIVE INCOME FUND (FORMERLY VENATOR INCOME FUND)

Statements of Comprehensive (loss) Income

Period ended June 30, 2020, with comparative information for 2019 (Unaudited)

	2020	2019
Income		
Interest income for distribution purposes	\$ 2,632,455	\$ 2,236,525
Dividends	87,691	101,525
Realized (loss) gain on sale of investments, including foreign exchange adjustments	(4,233,203)	3,300,951
Net change in unrealized depreciation in value of investments	(3,757,637)	(350,745)
Other income	138	—
	<u>(5,270,556)</u>	<u>5,288,256</u>
Expenses		
Management fees (note 4)	357,218	397,926
Interest and borrowing fees	218,278	805,427
Operating costs	57,930	34,545
Audit fees	20,330	12,359
Withholding taxes	15,657	14,983
Commissions and other portfolio transaction costs (note 2)	5,073	900
Performance fee (note 4)	3,974	443,169
	<u>678,460</u>	<u>1,709,309</u>
(Decrease) increase in net assets attributable to holders of redeemable units	\$ <u>(5,949,016)</u>	\$ <u>3,578,947</u>
(Decrease) increase in net assets attributable to holders of redeemable units per class (note 12):		
Class A	\$ (420,373)	\$ 206,651
Class C	—	364,818
Class D	(1,815)	—
Class F	<u>(5,526,828)</u>	<u>3,007,478</u>
	\$ <u>(5,949,016)</u>	\$ <u>3,578,947</u>
(Decrease) increase in net assets attributable to holders of redeemable units per unit (note 12):		
Class A	\$ (0.57)	\$ 0.30
Class C	—	0.31
Class D	(0.45)	—
Class F	(0.56)	0.36

VENATOR ALTERNATIVE INCOME FUND (FORMERLY VENATOR INCOME FUND)

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units Period ended June 30, 2020, with comparative information for 2019 (Unaudited)

	Net assets attributable to holders of redeemable units, beginning of period	Proceeds from redeemable units issued ⁽¹⁾	Redemption of redeemable units ⁽¹⁾	Decrease in net assets attributable to holders of redeemable units	Distributions paid to holders of redeemable units	Reinvestment of distributions to holders of redeemable units	Net assets attributable to holders of redeemable units, end of period
June 30, 2020							
Class A	\$ 3,684,386	\$ 873,839	\$ (427,349)	\$ (420,373)	\$ (88,760)	\$ 71,881	\$ 3,693,624
Class C	7,702,234	–	(7,702,234)	–	–	–	–
Class D	–	20,000	–	(1,815)	(322)	322	18,185
Class F	55,473,526	11,750,068	(5,434,342)	(5,526,828)	(1,184,886)	1,078,140	56,155,678
	<u>\$ 66,860,146</u>	<u>\$ 12,643,907</u>	<u>\$ (13,563,925)</u>	<u>\$ (5,949,016)</u>	<u>\$ (1,273,968)</u>	<u>\$ 1,150,343</u>	<u>\$ 59,867,487</u>

⁽¹⁾Total proceeds from redeemable units relating to switch-in and redemptions of redeemable units relating to switch-out for the period ended June 30, 2020 were \$7,915,789 and \$(7,915,789), respectively.

	Net assets attributable to holders of redeemable units, beginning of period	Proceeds from redeemable units issued	Redemption of redeemable units	Increase in net assets attributable to holders of redeemable units	Distributions paid to holders of redeemable units	Reinvestment of distributions to holders of redeemable units	Net assets attributable to holders of redeemable units, end of period
June 30, 2019							
Class A	\$ 3,741,151	\$ 150,000	\$ (139,288)	\$ 206,651	\$ (83,336)	\$ 61,310	\$ 3,936,488
Class C	6,528,509	–	(149,999)	364,818	(140,830)	140,830	6,743,328
Class F	49,384,111	4,448,198	(2,573,166)	3,007,478	(1,005,114)	928,635	54,190,142
	<u>\$ 59,653,771</u>	<u>\$ 4,598,198</u>	<u>\$ (2,862,453)</u>	<u>\$ 3,578,947</u>	<u>\$ (1,229,280)</u>	<u>\$ 1,130,775</u>	<u>\$ 64,869,958</u>

VENATOR ALTERNATIVE INCOME FUND (FORMERLY VENATOR INCOME FUND)

Statements of Cash Flows

Period ended June 30, 2020, with comparative information for 2019 (Unaudited)

	2020	2019
Cash provided by (used in):		
Operating Activities		
(Decrease) increase in net assets attributable to holders of redeemable units	\$ (5,949,016)	\$ 3,578,947
Adjustments for non-cash items		
Net realized loss (gain) on sale of investments, including foreign exchange adjustments	4,233,203	(3,300,951)
Change in unrealized depreciation in value of investments	3,757,637	350,745
Change in non-cash balances		
Increase in prepaid expenses	(6,696)	(2,175)
(Increase) decrease in interest receivable	(82,992)	62,351
Increase in dividends receivable	(25,214)	-
Decrease in other assets	3,806	-
Decrease in receivable for investment sold	5,030	-
Increase (decrease) in due to broker	12,535,781	(6,076,437)
Decrease in accounts payable and accrued liabilities	(128,867)	(40,170)
(Decrease) increase in performance fees payable	(600,099)	443,169
(Decrease) increase in management fees payable	(10,656)	4,422
Decrease in distributions payable	(65,557)	(2,201)
Increase in payable for investment purchased	498,333	-
Proceeds from sale of investments	67,513,233	42,763,921
Purchase of investments	(78,444,425)	(41,207,559)
Cash provided by (used in) operating activities	<u>3,233,501</u>	<u>(3,425,938)</u>
Financing Activities		
Proceeds from redeemable units issued	4,687,454	4,598,198
Redemption of redeemable units	(5,991,244)	(3,536,359)
Distributions paid to holders of redeemable units, net of reinvested distributions	(123,625)	(98,505)
Cash (used in) provided by financing activities	<u>(1,427,415)</u>	<u>963,334</u>
Increase (decrease) in cash and cash equivalents during the period	1,806,086	(2,462,604)
Foreign exchange (loss) gain on cash	(1,735,634)	2,412,096
Cash and cash equivalents, beginning of period	30,649	97,772
Cash and cash equivalents, end of period	<u>\$ 101,101</u>	<u>\$ 47,264</u>
Supplemental information*		
Interest paid	\$ 308,997	\$ 826,422
Interest received	2,549,463	2,298,876
Dividends received, net of withholding taxes	46,819	86,296

*Included as a part of cash flows from operating activities

VENATOR ALTERNATIVE INCOME FUND (FORMERLY VENATOR INCOME FUND)

Schedule of Investment Portfolio As at June 30, 2020 (Unaudited)

Number of shares/units/ par value	Investments owned	Average cost	Fair value	% of net asset value
Canadian equity				
80,800	Canaccord Genuity Group Inc. Preferred Shares 5.75%	\$ 1,297,485	\$ 1,135,240	1.90
Canadian fixed income				
2,001,000	Canaccord Genuity Group Inc. 6.25% 31DEC23	1,969,342	2,021,010	3.38
1,024,000	Cargojet Inc. 5.75% 30APR25	991,728	1,029,632	1.72
1,372,000	Chemtrade Logistics Income Fund 4.75% 31MAY24	1,238,048	1,015,006	1.70
1,418,000	Chemtrade Logistics Income Fund 5%, 31AUG23	1,394,728	1,205,158	2.01
592,000	Chorus Aviation Inc. 5.75% 31DEC24	561,744	449,920	0.75
2,109,000	Liquor Stores NA Ltd. 4.70% 31JAN22	2,019,551	2,014,095	3.36
1,562,000	NorthWest Healthcare Properties Real Estate Investment Trust 5.25%, 31JUL21	1,604,082	1,577,620	2.64
2,065,000	NorthWest Healthcare Properties Real Estate Investment Trust 5.50% 31DEC23	2,086,167	2,070,163	3.46
1,500,000	NuVista Energy Ltd. 6.50% 02MAR23	1,475,625	1,031,685	1.72
1,565,000	Osisko Gold Royalties Ltd. 4% 31DEC22	1,618,185	1,585,971	2.65
347,000	Premium Brands Holdings Corp. 4.60% 31DEC23	350,470	357,410	0.60
1,334,300	Tidewater Midstream and Infrastructure Ltd. 5.50% 30SEP24	1,312,054	1,067,307	1.78
		<u>16,621,724</u>	<u>15,424,977</u>	<u>25.77</u>
U.S. equities				
22,300	Fortress Transportation & Infrastructure Investors LLC Preferred Shares 8.25%	672,291	580,815	0.97
68,300	WESCO International Inc. Preferred Shares 10.625%	2,488,921	2,466,107	4.12
		<u>3,161,212</u>	<u>3,046,922</u>	<u>5.09</u>
U.S. fixed income				
1,500,000	8x8 Inc. 0.50% 01FEB24	1,825,193	1,835,512	3.07
1,550,000	Air Canada 4% 01JUL25	2,218,954	2,294,977	3.83
2,000,000	Air Canada 7.75% 15APR21	2,750,467	2,721,311	4.55
2,000,000	Air Transport Services Group Inc. 1.125%, 15OCT24	2,395,365	2,574,160	4.30
1,000,000	Atlas Air Worldwide Holdings Inc. 1.875% 01JUN24	1,175,606	1,319,687	2.20
1,500,000	Avaya Holdings Corp. 2.25% 15JUN23	1,707,721	1,680,772	2.81
2,000,000	Carvana Co. 8.875% 01OCT23	2,794,046	2,744,376	4.58
2,500,000	CEC Entertainment Inc. 8% 15FEB22	3,397,580	273,423	0.46
500,000	Century Aluminum Co. 7.50%, 01JUN21	647,518	648,414	1.08
1,000,000	Coeur Mining Inc. 5.875% 01JUN24	1,314,444	1,315,304	2.20
1,500,000	Core & Main Holdings LP 8.625% 15SEP24	2,023,474	2,045,518	3.42
2,000,000	CVR Energy Inc. 5.25% 15FEB25	1,911,461	2,496,882	4.17
791,000	Eldorado Gold Corp. 9.50% 01JUN24	1,131,421	1,162,962	1.94
2,000,000	First Quantum Minerals Ltd. 7.25% 01APR23	2,689,691	2,615,986	4.37
1,500,000	Fortress Transportation & Infrastructure Investors LLC 6.75% 15MAR22	1,983,107	1,967,933	3.29
1,000,000	Frontera Energy Corp. 9.70% 25JUN23	1,407,473	1,114,878	1.86
1,000,000	Guess? Inc. 2% 15APR24	898,430	916,780	1.53

VENATOR ALTERNATIVE INCOME FUND (FORMERLY VENATOR INCOME FUND)

Schedule of Investment Portfolio (continued) As at June 30, 2020 (Unaudited)

Number of shares/units/ par value	Investments owned	Average cost	Fair value	% of net asset value
U.S. fixed income				
1,500,000	Ligand Pharmaceuticals Inc. 0.75% 15MAY23	\$ 1,779,076	\$ 1,778,841	2.97
1,000,000	Live Nation Entertainment Inc. 2% 15FEB25	1,276,048	1,171,339	1.96
1,054,000	Mainstreet Health Investments Inc. 5%, 31JAN22	1,122,154	1,076,266	1.80
1,000,000	Marriott Vacations Worldwide Corp. 1.50% 15SEP22	1,254,485	1,251,641	2.09
150,000	Nathan's Famous Inc. 6.625% 01NOV25	195,540	207,493	0.35
1,500,000	Navistar International Corp. 6.625% 01NOV25	1,796,628	1,940,342	3.24
2,000,000	Par Petroleum LLC / Par Petroleum Finance Corp. 7.75% 15DEC25	2,398,680	2,368,302	3.96
2,000,000	Pluralsight Inc. 0.375% 01MAR24	2,369,818	2,404,436	4.02
1,000,000	RHP Hotel Properties LP / RHP Finance Corp. 5% 15APR23	1,304,664	1,289,191	2.15
1,000,000	Splunk Inc. 1.125% 15JUN27	1,349,000	1,452,734	2.43
2,000,000	Tesla Inc. 5.30% 15AUG25	2,332,078	2,727,738	4.56
1,000,000	Tidewater Inc. 8% 01AUG22	1,363,478	1,234,853	2.06
3,000,000	Uber Technologies Inc. 8% 01NOV26	4,173,291	4,168,151	6.96
2,000,000	Vonage Holdings Corp. 1.75% 01JUN24	2,422,220	2,501,675	4.18
1,550,000	Warrior Met Coal Inc. 8% 01NOV24	2,128,999	2,091,860	3.49
1,099,000	Williams Scotsman International Inc. 7.875% 15DEC22	1,514,902	1,555,392	2.60
		<u>61,053,012</u>	<u>58,949,129</u>	<u>98.48</u>
	Total investments owned	82,133,433	78,556,268	131.24
	Commissions and other portfolio transaction costs	(19,351)	—	—
	Net investments owned	<u>\$ 82,114,082</u>	78,556,268	131.24
	Unrealized loss, foreign exchange forward contracts (Schedule 1)		(18,070)	(0.03)
	Other liabilities, net		<u>(18,670,711)</u>	<u>(31.21)</u>
	Net Assets Attributable to Holders of Redeemable Units		<u>\$ 59,867,487</u>	<u>100.00</u>

**VENATOR ALTERNATIVE INCOME FUND
(FORMERLY VENATOR INCOME FUND)**

**Schedule of Investment Portfolio (continued)
As at June 30, 2020 (Unaudited)**

Schedule 1 - Foreign Exchange Forward Contracts

Settlement Date	Currency Sold	Currency Bought	Counterparty	Forward Rates	Contract Price	Fair Value	Unrealized Loss
July 31, 2020	USD	CAD	Bank of Nova Scotia	1.361395	\$ (35,378,200)	\$ (35,396,270)	\$ (18,070)
Total unrealized loss on foreign exchange forward contracts							\$ (18,070)

VENATOR ALTERNATIVE INCOME FUND

(FORMERLY VENATOR INCOME FUND)

Notes to Financial Statements

June 30, 2020 (Unaudited)

Venator Alternative Income Fund (formerly Venator Income Fund) (the "Trust") is a trust created under the laws of the Province of Ontario pursuant to a Declaration of Trust dated July 30, 2008 as amended and restated as at January 8, 2020, the Trust Indenture. The Trust commenced active operations on August 1, 2008. Effective January 24, 2020, the Trust began issuing units on a continuing basis by way of prospectus. Venator Capital Management Ltd., a corporation incorporated under the laws of the Province of Ontario, is the manager (the "Manager") and trustee of the Trust. The registered office of the Trust is 2 Bloor Street West, Suite 901, Toronto, Ontario M4W 3E2.

The investment objective of the Trust is to provide long-term capital growth through fundamental securities selection focusing on established North American listed companies. In order to meet its investment objective, the Trust will invest in a portfolio of securities that generally have yields in excess of 4%. The Trust may take both long and short positions in equity, debt and derivative securities.

The success of the Trust depends on the continued services of the Manager and will be influenced by a number of risk factors associated with investments in equities, options and other instruments and the use of leverage, including derivative hedge risk, market liquidity, short sales, portfolio turnover, foreign currency exposure, foreign market exposure and interest rate fluctuations.

1. Basis of presentation:

These financial statements have been prepared on a historical cost basis, except for financial assets and financial liabilities at fair value through profit or loss ("FVTPL"), which are presented at fair value. The policies applied in these interim financial statements are based on International Financial Reporting Standards and International Accounting Standard 34, Interim Financial Reporting (together "IFRS") issued and outstanding as at August 19, 2020, which is the date on which the interim financial statements were authorized for issue by the Manager. These interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2019 which have been prepared in accordance with IFRS. The financial statements are presented in Canadian dollar, which is the Trust's functional currency.

VENATOR ALTERNATIVE INCOME FUND

(FORMERLY VENATOR INCOME FUND)

Notes to Financial Statements (continued)

June 30, 2020 (Unaudited)

2. Significant accounting policies:

(a) Use of estimates:

The preparation of financial statements in accordance with IFRS requires management to use accounting estimates. It also requires management to exercise its judgment in the process of applying the Trust's accounting policies. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

(b) Valuation of financial assets and financial liabilities:

The fair value of financial assets and financial liabilities traded in active markets (such as publicly traded derivatives and trading securities) is based on quoted market prices. In accordance with the provisions of the Trust's Simplified Prospectus, investment positions are valued based on the last traded market price for the purpose of determining the net asset per unit for subscriptions and redemptions. For financial reporting purposes, the Trust uses the last traded market price for both financial assets and financial liabilities 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 the specific facts and circumstances. When the Trust holds derivatives with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies this bid or asking price to the net open position, as appropriate.

The fair value of financial assets and financial liabilities that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Trust uses a variety of methods and makes assumptions that are based on market conditions existing at each statements of financial position date. Valuation techniques used include the use of comparable recent arm's-length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

VENATOR ALTERNATIVE INCOME FUND

(FORMERLY VENATOR INCOME FUND)

Notes to Financial Statements (continued)

June 30, 2020 (Unaudited)

2. Significant accounting policies (continued):

Due to broker, accounts payable and accrued liabilities, performance fee payable, management fees payable, distributions payable, payable for investments purchased and redemptions payable are classified as financial liabilities and reported at amortized cost.

Financial liabilities are generally settled within three months of issuance. Other assets and liabilities are short-term in nature, and are carried at amortized cost, which approximates fair value.

(c) Classification:

The Trust classifies its investments in debt and equity securities as financial assets and financial liabilities at FVTPL.

The Trust classifies its investments at FVTPL based on the Trust's business model for managing those financial assets in accordance with the Trust's documented investment strategy. The portfolio of investments is managed and performance is evaluated on a fair value basis and the portfolio of investments is neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. The Trust is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions.

Other financial assets including prepaid expenses, interest receivable, dividends receivable and subscriptions receivable are classified and subsequently measured at amortized cost and recorded at cost or amortized cost. A financial asset is classified as subsequently measured at amortized cost only if both of the following criteria are met:

- (i) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows, and
- (ii) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

VENATOR ALTERNATIVE INCOME FUND

(FORMERLY VENATOR INCOME FUND)

Notes to Financial Statements (continued)

June 30, 2020 (Unaudited)

2. Significant accounting policies (continued):

(d) Offsetting financial instruments:

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. In the normal course of business, the Trust may enter into various master netting agreements or similar agreements that do not meet the criteria for offsetting in the statements of financial position but still allow for the related amounts to be offset in certain circumstances, such as bankruptcy or termination of the contracts.

(e) Forward foreign currency contracts

The Trust may also enter into forward exchange contracts to hedge against fluctuations in foreign exchange rates. These contracts are valued as the difference between the contractual forward foreign exchange rates and the close forward rate for currency held or sold short at the reporting date. The unrealized gains or losses on the contracts are included in the statements of financial position. Realized gains and losses and changes in unrealized gains and losses are included in the statements of comprehensive income.

As at June 30, 2020, the Trust had one open forward contract, maturing July 31, 2020, with Bank of Nova Scotia to sell \$26,000,000 USD for Canadian dollars at an exchange rate of \$1.361395.

(f) Recognition/derecognition:

The Trust recognizes financial assets or financial liabilities on the trade date at fair value - the date it commits to purchase or sell short the instruments. From this date, any gains and losses arising from changes in fair value of the assets or liabilities are recognized in the statements of comprehensive (loss) income. Transaction costs are recognized directly in the statements of comprehensive (loss) income for financial assets and liabilities at FVTPL and are included in the initial fair value for financial assets and financial liabilities and amortized cost.

Other financial assets are derecognized and only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. The Trust derecognizes financial liabilities when, and only when, the Trust's obligations are discharged, cancelled or expired.

VENATOR ALTERNATIVE INCOME FUND

(FORMERLY VENATOR INCOME FUND)

Notes to Financial Statements (continued)

June 30, 2020 (Unaudited)

2. Significant accounting policies (continued):

(g) Investment transactions and revenue recognition:

Investment transactions are accounted for on a trade date basis and gains and losses from investment transactions are accounted for on the trade date. Interest income is accrued daily and dividend income is recognized on the ex-dividend date.

The interest income for distribution purposes shown on the statements of comprehensive (loss) income represents the coupon interest received by the Trust accounted for on an accrual basis. The Trust does not amortize premiums paid or discounts received on the purchase of fixed income securities, except for zero coupon bonds, which are amortized on a straight-line basis.

Realized (loss) gain on sale of investments, including foreign exchange adjustments, and unrealized depreciation in value of investments are determined on an average cost basis. Average cost does not include amortization of premiums or discounts on fixed income securities with the exception of zero coupon bonds.

(h) Withholding tax expense:

The Trust generally incurs 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 (loss) income.

(i) Due to broker:

The Trust has a prime brokerage agreement with its broker to carry its accounts as a customer. The broker has custody of the Trust's securities.

Due to broker is a margin account representing cash loans with brokers that are secured by the underlying investments owned by the Trust.

(j) Commissions and other portfolio transaction costs:

Transaction costs, such as brokerage commissions incurred in the purchase and sale of portfolio securities and other trade execution costs paid to external third parties, such as stamp duties and exchange fees, are recognized as expenses in the statements of comprehensive (loss) income based on the trade date.

VENATOR ALTERNATIVE INCOME FUND

(FORMERLY VENATOR INCOME FUND)

Notes to Financial Statements (continued)

June 30, 2020 (Unaudited)

2. Significant accounting policies (continued):

(k) Fair value hierarchy:

Investments measured at fair value are classified into one of three fair value hierarchy levels, based on the lowest level input that is significant to the fair value measurement in its entirety. The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The hierarchy of inputs is summarized below:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities. An active market is one in which transactions for the assets occur with sufficient frequency and volume to provide pricing information on an ongoing basis;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Refer to note 10 for fair value measurement analysis.

(l) Translation of foreign currency:

The functional and presentation currency of the Trust is the Canadian dollar. The fair value of foreign investments and other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at 4:00 p.m. Eastern Standard Time, the closing rate, on each valuation day. Purchases and sales of foreign securities denominated in foreign currencies and the related income are translated into Canadian dollars at rates of exchange prevailing on the respective dates of such transactions. Unrealized foreign currencies are recognized in the statements of comprehensive (loss) income through net change in unrealized appreciation (depreciation) in value of investments. All other gains and losses related to foreign exchange translations are recognized in the statements of comprehensive (loss) income through net realized gain (loss) on sale of investments, including foreign exchange adjustments.

VENATOR ALTERNATIVE INCOME FUND

(FORMERLY VENATOR INCOME FUND)

Notes to Financial Statements (continued)

June 30, 2020 (Unaudited)

2. Significant accounting policies (continued):

(m) Cash and cash equivalents:

Cash and cash equivalents include cash in hand and deposits held with banks.

(n) Interest and borrowing fees:

As a result of taking both long and short positions, the Trust incurs both interest expense and borrowing fees. While the use of borrowed funds can substantially improve the return on invested capital, its use may also increase the adverse impact to which the investment portfolio of the Trust may be subjected by increasing the Trust's exposure to capital risk and higher current expenses.

(o) Taxation of the Trust:

The Trust qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada) (the "Income Tax Act") and, accordingly, is not subject to tax on its net taxable income, including net realized capital gains, which is paid or payable to its unitholders as at the end of the tax year. However, such part of the Trust's net income and net realized capital gains that is not paid or payable is subject to income taxes. It is the intention of the Trust to distribute all of its income and sufficient net realized capital gains so that the Trust will not be subject to income tax.

Non-capital losses are available to be carried forward for 20 years and applied against future taxable income. Capital losses for income tax purposes may be carried forward indefinitely and applied against future capital gains.

(p) Net assets attributable to holders of redeemable units per unit:

The net assets attributable to holders of redeemable units per unit is calculated by dividing the net assets attributable to holders of redeemable units of a particular class of units by the total number of units of that particular class outstanding at the end of the period.

VENATOR ALTERNATIVE INCOME FUND

(FORMERLY VENATOR INCOME FUND)

Notes to Financial Statements (continued)

June 30, 2020 (Unaudited)

2. Significant accounting policies (continued):

(q) Unit valuation:

The net assets of a particular class of units are computed by calculating the value of that class' proportionate share of the assets and liabilities of the Trust common to all classes less the liabilities of the Trust attributable only to that class. Expenses directly attributable to a class are charged directly to that class. Income, realized and unrealized gains and losses from investment transactions and other expenses are allocated proportionately to each class based upon the relative net assets of each class.

(r) (Decrease) increase in net assets attributable to holders of redeemable units per unit:

(Decrease) increase in net assets attributable to holders of redeemable units per unit is based on the (decrease) increase in net assets attributable to holders of redeemable units attributed to each class of units, divided by the weighted average number of units outstanding of that class during the period. Refer to note 12 for the calculation.

(s) Classification of redeemable units issued by the Trust:

The Trust's units do not meet the criteria in IAS 32, Financial Instruments - Presentation, for classification as equity due to multiple classes with different rights and, therefore, have been classified as financial liabilities.

3. Critical accounting estimates and judgments:

The preparation of financial statements requires management to use judgments in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that the Trust has made in preparing the financial statements:

Classification and measurement of investments:

In classifying and measuring financial instruments held by the Trust, the Manager is required to make significant judgments about whether or not the business of the Trust is to manage its portfolio of investments and evaluate performance on a fair value basis and that the portfolio of investments is neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. The most significant judgments made include assessing and determining the appropriate business model that enables the decision that the Trust's investments are classified as FVTPL.

VENATOR ALTERNATIVE INCOME FUND

(FORMERLY VENATOR INCOME FUND)

Notes to Financial Statements (continued)

June 30, 2020 (Unaudited)

4. Related party transactions:

(a) Management fees:

The Trust pays a annually management fee to the Manager equal to: (i) 1/12 of 2% of the net asset value of the Class A units; (ii) 1/12 of 1.5% of the net asset value of Class D units; and (iii) 1/12 of 1% of the net asset value of the Class F units, plus applicable taxes. Management fees on Class I units are negotiated and paid directly by the investor. The management fee is calculated and payable monthly based on the net asset value of each class as at the last business day of each month and is paid at the beginning of the following month.

The Manager will pay, with respect to the Class A and Class D units, and out of its management fee, a annually service fee to participating registered dealers whose clients hold Class A or Class D units. The service fee is payable quarterly to a maximum of 1% per annum of the net asset value of the Class A and 0.5% of the net asset value of the Class D units held by clients of the applicable dealer.

Management fees for the period to June 30, 2020 were \$357,218 (June 30, 2019 - \$397,926) with \$53,081 payable as at June 30, 2020 (December 31, 2019 - \$63,737).

(b) Performance fee:

The Trust pays a performance fee to the Manager on each Class A, Class D and Class F unit outstanding on the last business day of the period based on the amount by which the net asset value per unit on such date plus the aggregate amount of all distributions declared on such unit ("Adjusted NAV per Unit") exceeds an annualized current year return of 5% over the previous High Water Mark for such unit ("Threshold Rate"), plus applicable taxes. The High Water Mark is defined as the greater of the purchase price of such unit or the Adjusted NAV per Unit after the last date on which a performance fee was paid. In any period in which a performance fee is payable, the Manager will be paid: (i) all of the increase in Adjusted NAV per Unit between the Threshold Rate and the Threshold Rate plus 0.5%; and (ii) 10% of any gains in excess of the Threshold Rate plus 0.5%. Investor in Class I Units may negotiate a different performance fee.

Performance fees for the period to June 30, 2020 were \$3,974 (June 30, 2019 - \$443,169) with \$3,975 payable as at June 30, 2020 (December 31, 2019 - \$604,074).

Directors and employees of the Manager own units of the Trust representing 14.0% (December 31, 2019 - 15.0%) of the units outstanding.

VENATOR ALTERNATIVE INCOME FUND

(FORMERLY VENATOR INCOME FUND)

Notes to Financial Statements (continued)

June 30, 2020 (Unaudited)

5. Unitholder's deposit:

Unitholder's deposit relates to cash received in advance of the issuance of the Trust units.

6. Redeemable units of the Trust:

The Trust is permitted to issue an unlimited number of classes of units and an unlimited number of units of each class. The Trust has designated Class A units, Class D units, Class F units, and Class I units, issuable in series, each of which represents an equal, undivided, beneficial interest in the net asset value of the Trust. Each unit of each class entitles the holder to one vote and to participate equally with respect to any and all distributions made by the Trust. Redeemable units of a series/class may be consolidated and/or redesignated by the Manager. As at June 30, 2020, Class A, Class D and Class F units have been issued.

Unitholders may request that such units be redeemed on the last business day of each semi-monthly period (the "Redemption Date") at their net asset value per unit on such date provided that the request for redemption is submitted at least 7 business days prior to such Redemption Date.

The Manager has the sole discretion to accept or reject redemption requests and intends to accept redemption requests in circumstances where it would not be prejudicial to the Trust. Capital gains, which may arise upon the sale of securities in connection with redemptions of units, will be allocated to the redeeming unitholders.

The unit activity during the periods ended June 30 is as follows:

	Redeemable Units, beginning of period	Redeemable Units Issued	Redemption of Redeemable Units	Reinvestments of Units	Redeemable Units, end of period
June 30, 2020					
Class A	646,820.22	154,475.06	(80,012.24)	14,342.09	735,625.13
Class C	1,365,838.23	—	(1,365,838.23)	—	—
Class D	—	4,000.00	—	76.22	4,076.22
Class F	8,724,470.92	1,902,676.19	(883,049.53)	190,917.86	9,935,015.44
June 30, 2019					
Class A	677,700.12	26,218.74	(24,406.56)	10,784.11	690,296.41
Class C	1,194,299.48	—	(26,951.26)	24,988.77	1,192,336.99
Class F	8,007,370.45	700,121.07	(403,386.69)	145,493.52	8,449,598.35

VENATOR ALTERNATIVE INCOME FUND

(FORMERLY VENATOR INCOME FUND)

Notes to Financial Statements (continued)

June 30, 2020 (Unaudited)

6. Redeemable units of the Trust (continued):

Capital disclosure:

The capital of the Trust is represented by issued and redeemable units. The redeemable units are entitled to distributions, if any, and to payment of a proportionate share based on the Trust's net asset value per unit upon redemption. The Trust has no restrictions or specific capital requirements on the subscriptions and redemptions of units. The relevant movements are shown on the statements of changes in net assets attributable to holders of redeemable units. In accordance with its investment objectives and strategies and the risk management practices outlined in note 9, the Trust endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by short-term borrowings or disposal of investments, where necessary.

7. Distribution policy:

The Manager will allocate and distribute all of the net investment income and net realized gains on investments so that the Trust will not be subject to income taxes under Part 1 of the Income Tax Act. As at June 30, 2020, the Trust intends to pay distributions of \$0.06 per unit (previous month was \$0.06 per unit) to unitholders on a monthly basis within 15 days following the end of each calendar month end.

Unless the unitholder elects to receive cash, all such distributions will be automatically reinvested in additional units at the net asset value per unit and on the date of each distribution, the units will be automatically consolidated into that number of units outstanding immediately prior to the distribution.

8. Expenses:

The Manager has the power to incur and make payments out of the Trust's property for any charges or expenses, which in the opinion of the Manager are necessary or incidental to or proper for carrying out any of the purposes of the Trust Indenture, including without limitation all fees and expenses relating to the management and administration of the Trust. The Trust is responsible for any income or excise taxes and brokerage commissions on portfolio transactions.

VENATOR ALTERNATIVE INCOME FUND

(FORMERLY VENATOR INCOME FUND)

Notes to Financial Statements (continued)

June 30, 2020 (Unaudited)

9. Financial instruments and risk management:

In the normal course of business, the Trust is exposed to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, other price risk and currency risk). The value of investments within the Trust's portfolio can fluctuate on a daily basis as a result of changes in interest rates, economic conditions, the market and company news related to specific securities within the Trust. The level of risk depends on the Trust's investment objective and the types of securities in which it invests.

(a) 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 Trust. It arises principally from debt securities held, and also from cash and cash equivalents and balances due from broker.

All transactions executed by the Trust in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

The Trust's investments in debt instruments, including bonds, represent the main concentration of credit risk. The market value of debt instruments includes consideration of the creditworthiness of the issuer and, accordingly, represents the maximum credit risk exposure of the Trust.

VENATOR ALTERNATIVE INCOME FUND

(FORMERLY VENATOR INCOME FUND)

Notes to Financial Statements (continued)

June 30, 2020 (Unaudited)

9. Financial instruments and risk management (continued):

The Trust has invested in debt securities with the following credit quality, as determined by Moody's Investors Service:

	% of net asset value	
	June 30 2020	December 31 2019
Rating:		
Ba3	4.55	3.79
B1	13.57	13.48
B2	3.49	8.03
B3	13.15	5.76
Caa1	9.78	12.34
Caa1u	–	3.97
Caa2	–	4.8
Caa2u	4.37	–
Not rated	74.33	58.34

(b) Liquidity risk:

Liquidity risk is defined as the risk that the Trust may not be able to settle or meet its obligations on time or at a reasonable price.

The Trust's exposure to liquidity risk is concentrated in the periodic cash redemptions of units. The Trust primarily invests in securities that are traded in active markets and can be readily disposed of. In addition, the Trust generally retains sufficient cash and cash equivalent positions to maintain liquidity.

All financial liabilities of the Trust have a maturity of less than three months.

VENATOR ALTERNATIVE INCOME FUND

(FORMERLY VENATOR INCOME FUND)

Notes to Financial Statements (continued)

June 30, 2020 (Unaudited)

9. Financial instruments and risk management (continued):

(c) Market risk:

(i) Interest rate risk:

Interest rate risk arises when the Trust invests in interest-bearing financial instruments. The Trust is exposed to the risk that the value of such financial instruments will fluctuate due to changes in the prevailing levels of market interest rates.

There is minimal sensitivity to interest rate fluctuations on any cash and cash equivalents invested at short-term market interest rates and fixed-rate instruments held for the periods ended June 30, 2020 and December 31, 2019.

Investments in bonds are fixed-rate instruments with terms to maturity as follows:

	June 30, 2020	December 31, 2019
< - 1 year	\$ 3,369,725	\$ —
1 - 3 years	22,048,547	30,457,346
3 - 5 years	33,796,097	30,352,793
> - 5 years	15,159,737	11,502,798

As at June 30, 2020, should interest rates increase or decrease by 10 basis points with all other variables remaining constant, the increase in net assets for the period would amount to approximately \$253,426 (December 31, 2019 - \$255,234).

VENATOR ALTERNATIVE INCOME FUND

(FORMERLY VENATOR INCOME FUND)

Notes to Financial Statements (continued)

June 30, 2020 (Unaudited)

9. Financial instruments and risk management (continued):

(ii) Other price risk:

Other price risk is the risk that the fair value of financial instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). All investments represent a risk of loss of capital. The Manager aims to moderate this risk through careful selection and diversification of securities and other financial instruments in accordance with the Trust's investment objectives and strategy. Except for written options and securities sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from written options and securities sold short can be unlimited.

For the Trust, the most significant exposure to other price risk arises from its investment in equity securities. As at June 30, 2020, had the prices on the respective stock exchanges for these securities increased or decreased by 10%, with all other variables held constant, net assets attributable to holders of redeemable units would have increased or decreased by approximately \$418,216 (December 31, 2019 - \$154,928). In practice, the actual trading results may differ and the difference could be material.

(iii) Currency risk:

Currency risk is the risk that financial instruments which are denominated or exchanged in a currency other than the Canadian Dollar ("CAD"), which is the Trust's reporting currency, will fluctuate due to changes in exchange rates.

Currency to which the Trust had material exposure as at June 30, 2020 is as follows:

Currency	Exposure			Impact if CAD strengthened or weakened by 5% in relation to other currencies		
	Monetary	Non-Monetary	Total	Monetary	Non-Monetary	Total
June 30, 2020						
U.S. Dollar	\$ (63,172,152)	\$ 61,996,051	\$ (1,176,101)	\$ (3,158,608)	\$ 3,099,803	\$ (58,805)
% of Net Assets						
Attributable to Holders of Redeemable Units	(105.52)	103.56	(1.96)	(5.28)	5.18	(0.10)

VENATOR ALTERNATIVE INCOME FUND

(FORMERLY VENATOR INCOME FUND)

Notes to Financial Statements (continued)

June 30, 2020 (Unaudited)

9. Financial instruments and risk management (continued):

Currency to which the Trust had material exposure as at December 31, 2019 is as follows:

Currency	Exposure			Impact if CAD strengthened or weakened by 5% in relation to other currencies		
	Monetary	Non-Monetary	Total	Monetary	Non-Monetary	Total
December 31, 2019						
U.S. Dollar	\$ (50,560,103)	\$ 50,756,606	\$ 196,503	\$ (2,528,005)	\$ 2,537,830	\$ 9,825
% of Net Assets						
Attributable to Holders						
of Redeemable Units	(75.62)	75.91	0.29	(3.78)	3.80	0.02

The amounts in the above tables are based on the fair value of the Trust's financial instruments (including cash), as well as the underlying principal amounts of forward currency contracts, as applicable. Other financial assets (including dividends and interest receivable) and financial liabilities that are denominated in foreign currencies do not expose the Trust to significant currency risk.

As at June 30, 2020, if the Canadian dollar had strengthened or weakened by 5% in relation to all material currencies, with all other variables held constant, net assets attributable to holders of redeemable units would have increased or decreased by approximately \$58,805 (December 31, 2019 - \$9,825). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

VENATOR ALTERNATIVE INCOME FUND

(FORMERLY VENATOR INCOME FUND)

Notes to Financial Statements (continued)

June 30, 2020 (Unaudited)

10. Fair value of measurement:

The following is a summary of the inputs used as at June 30, 2020 in valuing the Trust's investments carried at fair values:

	Level 1	Level 2	Level 3	Total
Assets				
Equities	\$ 4,182,162	\$ –	\$ –	4,182,162
Fixed income securities	–	74,374,106	–	74,374,106
	\$ 4,182,162	\$ 74,374,106	\$ –	78,556,268
Liabilities				
Forward contracts	\$ –	\$ 18,070	\$ –	18,070
	\$ –	\$ 18,070	\$ –	18,070

There were no significant transfers between the levels during the period ended June 30, 2019.

The following is a summary of the inputs used as at December 31, 2019 in valuing the Trust's investments carried at fair values:

	Level 1	Level 2	Level 3	Total
Assets				
Equities	\$ 1,549,275	\$ –	\$ –	1,549,275
Fixed income securities	–	72,312,937	–	72,312,937
	\$ 1,549,275	\$ 72,312,937	\$ –	73,862,212

There were no significant transfers between the levels during the year ended December 31, 2019.

11. Indemnification of the Manager:

The Trust, according to the terms of its Trust Indenture, shall indemnify the Manager, the Investment Review Committee, its principals and their respective affiliates from all claims that may arise for: (a) mistakes of judgment or for action or inaction or for losses due to such mistakes, action or inaction so long as they acted honestly and not in bad faith and reasonably believed that their conduct was in the best interests of the Trust; and (b) losses due to mistakes of judgment or the action or omission of any broker or agent of the Manager, selected, engaged or retained by the Manager, its principals or their respective affiliates.

VENATOR ALTERNATIVE INCOME FUND

(FORMERLY VENATOR INCOME FUND)

Notes to Financial Statements (continued)

June 30, 2020 (Unaudited)

12. (Decrease) increase in net assets attributable to holders of redeemable units per unit:

The (decrease) increase in net assets attributable to holders of redeemable units per unit for the periods ended June 30, 2020 and 2019 is calculated as follows:

	(Decrease) increase in net assets attributable to holders of redeemable units per class	Weighted average of redeemable units outstanding during the period	(Decrease) increase in net assets attributable to holders of redeemable units per unit
June 30, 2020			
Class A	\$ (420,373)	737,268	\$ (0.57)
Class D	(1,815)	4,029	(0.45)
Class F	(5,526,828)	9,874,011	(0.56)
<hr/>			
June 30, 2019			
Class A	\$ 206,651	690,189	\$ 0.30
Class C	364,818	1,180,309	0.31
Class F	3,007,478	8,291,023	0.36

13. Offsetting financial instruments:

The Trust has provided the prime broker with a general lien over the financial assets in custody as security for the prime broker's exposures relating to provision of prime broker services to the Trust. The terms under which the general lien is provided are usual and customary for prime broker agreements.

The Trust's arrangement with its broker permits offsetting of amounts receivable and payable in respect of securities purchased or sold in the normal course of business.

14. Income taxes:

As at the year ended December 31, 2019, the Trust has no capital losses carried forward nor non-capital losses carried forward available for income tax purpose.