



Venator Founders Alternative Fund

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

December 31, 2021

This Annual Management Report of Fund Performance (“MRFP”) contains financial highlights but does not contain the complete annual financial statements of the investment fund. You can obtain a free copy of the annual Financial Statements at your request, by calling Venator Capital Management Ltd. directly at 416-934-7994; by writing to us at Venator Capital Management Ltd., 2 Bloor Street West, Suite 901, Toronto, ON, M4W 3E2; by email to info@venator.ca; or by visiting our website at www.venator.ca/resources or the SEDAR website at www.sedar.com.

Unitholders may also contact us or visit our website to obtain a copy of the Fund’s proxy voting policies and procedures, proxy voting disclosure record, and Fund-related quarterly disclosure at no cost.

This Annual Management Report of Fund Performance represents management’s view of the significant factors and developments affecting the investment fund’s performance and outlook until December 31, 2021.

Please refer to the Fund’s Simplified Prospectus, Fund Facts and the December 31, 2021, audited annual Financial Statements for more information.

Caution regarding forward-looking statements

This report may contain forward-looking statements about the Fund, including its strategy, expected performance and condition. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates”, or negative versions thereof and of similar expressions.

In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future fund action, is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risk, uncertainties and assumptions about the Fund and economic factors.

Forward-looking statements are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied in any forward-looking statements made by the Fund. Any number of important factors could contribute to these differences, including, but not limited to, general economic, political and market factors, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.

Please note that the afore-mentioned list of important factors is not exhaustive. We encourage you to consider these and other factors carefully before making any investment decisions and urge you to avoid placing undue reliance on forward-looking statements. The forward-looking information contained in this report is current only as of the date of this report. Further, you should be aware that the Fund has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise, prior to the release of the next Management Report of Fund Performance.

Management Discussion of Fund Performance

The management discussion of fund performance presents the view of the portfolio management team concerning significant factors and developments that have affected the Fund's performance and outlook.

Please read the caution on the preceding page regarding forward-looking statements.

Investment Objectives and strategies

The investment objective of the Fund is to provide long-term capital growth through fundamental securities selection by taking both long and short investment positions in equity, debt and derivative securities and through strategic trading.

The Manager intends to focus on, but is not limited to, long positions in the following general areas: (i) issuers that are not well followed by the investment community and are trading at price to earnings ratios, price to sales ratios and/or price to cash flow ratios that do not reflect their earnings and/or cash flow growth rates; (ii) issuers that are showing profitability ratios well below their potential and where a plan to increase efficiencies exist or is expected to be implemented in the near future; (iii) issuers with track records of profitable operations and strong balance sheets, and which are trading below their intrinsic or fair values; (iv) securities of companies involved in corporate restructurings, mergers, acquisitions and spin-offs; (v) securities of distressed and bankrupt companies; (vi) high yield instruments; and (vii) option derivatives.

In selecting short sale candidates, the Manager expects to focus on, but is not limited to, options in indices to reduce beta (expand) companies that are experiencing deteriorating business and industry conditions, have leveraged and/or cash poor balance sheets and/or are facing capital expenditure requirements in excess of their internal cash generation abilities and/or companies that are trading above their intrinsic or fair value. Certain short sales may be initiated solely to hedge market exposure or currency exposure. This may include securities in issuers such as borrowers of foreign currencies, index-tracking securities or large capitalization stocks that serve as a barometer to sectors where the Manager is looking to decrease the Fund's overall and/or net market exposure.

The Manager may engage in special situations trading from time to time, including investing in event driven situations such as private placements, initial public offerings, convertible debt and equity offerings, corporate restructurings, mergers, acquisitions and spin-offs, hostile takeovers or bankruptcies.

The fundamental investment objective of the Fund will not change without consent of a majority of voting unitholders of the Fund.

Exemptions from National Instrument 81-102

The Fund is subject to certain restrictions and practices contained in securities legislation, including National Instrument 81-102 ("NI 81-102"), which are designed, in part, to ensure that the investments of mutual funds are diversified and relatively liquid and to ensure the proper administration of mutual funds. We intend to manage the Fund in accordance with these restrictions and practices or to obtain relief from the securities regulatory authorities before implementing any variations. The following provides a description of the exemptions that the Fund has obtained from the provisions of NI 81-102, and/or a description of the general investment activity.

The Fund has obtained the following exemptions from NI 81-102:

- from the following provisions (the "Total Borrowing Limit") of NI 81-102 in order to permit each Fund to borrow up to 100% of the Fund's net asset value ("NAV") under the Cash Currency Hedging Strategy (as defined below),
 - paragraph 2.6(2)(c) of NI 81-102, that provides that an alternative mutual fund may borrow cash or provide a security interest over any of its portfolio assets if the value of cash borrowed, when aggregated with the value of all outstanding borrowing by the fund, does not exceed 50% of the fund's NAV; and
 - section 2.6.2 of NI 81-102, which prohibits an alternative mutual fund from borrowing cash or selling securities short if, immediately after entering into a cash borrowing or short selling transaction, the aggregate value of cash borrowed combined with the aggregate market value of the securities sold short by the fund would exceed 50% of the fund's NAV (collectively, the "Cash Currency Hedging Strategy Relief"); and
- from the following provisions of NI 81-102 (the "Total Borrowing and Short Sales Limit"), in order to permit each Fund to borrow cash or short sell securities under the Leverage Strategies (as defined below), provided that, immediately after entering into a cash borrowing or short selling transaction, the aggregate value of cash borrowed combined with the aggregate market value of the securities sold short by the Fund does not exceed 100% of the Fund's NAV:
 - paragraph 2.6(2)(c) of NI 81-102;
 - subparagraph 2.6.1(1)(c)(v) of NI 81-102 that restricts an alternative mutual fund from selling a security short if, at the time, the aggregate market value of the securities sold short by the fund exceeds 50% of the fund's NAV (the "Short Selling Limit"); and
 - section 2.6.2 of NI 81-102 (collectively, the "Leverage Strategies Relief"); and
- Subsection 9.3(1), to permit the Fund to process orders for its units, as described in the simplified prospectus and Fund Facts, on a weekly basis at their class NAV per unit calculated as at the last Valuation Date of the weekly period in which the purchase order for such units is received (the "Purchase Processing Frequency"); and
- Subsection 10.3(1), to permit the Fund to process redemption orders for its units, as described in the simplified prospectus and Fund Facts on at least 5 business days prior written notice, on a weekly basis, redeeming such units at their class NAV per unit calculated on the last Valuation Date of each weekly period in which the redemption order for such units is processed (the "Redemption Processing Frequency").

Risk

The risks of investing in the Fund remain as outlined in the simplified prospectus. The Fund is suitable for investors looking for a diversified portfolio of both long and short positions in equity, debt and derivative securities to hold as part of portfolio. The Fund is an alternative to traditional equity funds and appropriate for investors with medium risk tolerances, who also have a medium-to-long term time horizon.

Results of operations

The management discussion of Fund performance presents the views of the portfolio management team concerning significant factors and developments that have affected the Fund's performance and

outlook. Please read the caution on the preceding page regarding forward-looking statements.

Performance history for the Fund is not available because the Fund did not begin distributing its securities under a simplified prospectus until June 30, 2021. The underlying benchmark returned 22.3% for the 12-month period ending December 31, 2021. The Fund's benchmark is comprised of a 25% weighting in the S&P 500 total return index, 25% weighting in the S&P/TSX total return index, 25% weighting in the Russell 2000 total return index and a 25% weighting in the S&P Toronto Small Cap total return index.

Market Update

Over the reporting period, the Canadian and US economies saw increased activity as restrictions introduced due to COVID-19 eased to differing levels across North America. The prospects of vaccines, and expectation of emergence from the COVID-19 pandemic has led to increased confidence in a significant recovery. Economic activity across broad sections of the economy began to improve and continues at a significant pace through the first half of 2021. Equity prices remained high as did valuations. The U.S. Federal Reserve (the Fed) remained accommodative keeping interest rates low, supporting the backdrop for continued fund flows into equities.

Recent developments

Looking to 2022, inflationary pressures have continued to escalate, and we expect the Fed to begin tightening, but that a low interest rate environment will persist for some time. We believe the Federal governments will begin to cut stimulus related to Covid as the world continues to emerge from the pandemic and global activity continues to improve to a more "normal" level. We believe these factors will drive increased employment and global economic activity.

As the Fed moves into a tightening cycle and geopolitical risks persist, we expect periods of volatility. However, we do not see the US and Canadian governments moving interest rates significantly higher and expect them to remain below the 50-year historical average of 5.47% (US) and 30-year average of 5.8% (Canada). We believe portions of inflation that are present currently are the result of supply-side bottlenecks, and these will likely ease in the foreseeable future as global economic activity gets back to more normal levels. While there have recently been areas of valuation compression, valuations remain relatively high for the broader markets in part due to the continued accommodative environment. We remain focused on finding exceptional opportunities in the equity markets to invest in trading at relatively modest valuations given our future views of these investments' potential.

Related party transactions

For the year ended December 31, 2021, Venator Capital Management Ltd. was responsible for the day-to-day business operations and affairs of the Fund and, on this basis, was entitled to fees as described under "Management Fees" and "Performance Fees" below.

Management Fees

As a result of providing investment and management services, Venator Capital Management Ltd. receives a management fee calculated and

accrued daily based on the NAV of the class of units of the Fund, plus applicable taxes, payable on the last day of each calendar month

Venator Capital Management Ltd. uses these management fees to pay for sales and trailing commissions to registered dealers on the distribution of the Fund's units, investment advice, as well as general administrative expenses relating to Venator's role as Manager.

The annual management fees and a breakdown of the major services rendered for each series, as a percentage of the management fees paid, are as follows:

As a Percentage of Management Fees			
Class of Units	Annual Mgmt. Fees	Dealer Compensation	General Administration & Investment Advice
Class A	2.00%	50.00%	50.00%
Class F	1.00%	0.00%	100.00%
Class A1	2.00%	50.00%	50.00%
Class F1	1.00%	0.00%	100.00%
Class D	1.50%	33.33%	66.67%

Please Note: There are no management fees paid by the Fund in respect to Class I Units of the Fund. Class I unitholders pay a negotiated fee directly to Venator Capital Management Ltd.

Prior to June, 2021, the Fund invested in units of Venator Founders Fund (the "Underlying Fund"). Management fees were paid by Underlying Fund.

Performance Fees

If the Fund generates a net profit (after payment of all other fees and expenses), the Manager is eligible to receive a performance fee in respect of each class of unit of the Fund on each performance valuation date, based on the amount by which the NAV of a unit of each class on the valuation date exceeds the class high-water mark.

High-water mark means the highest NAV of a unit of such class on any performance valuation date, as adjusted for any distributions declared on such unit from the date of such NAV to the last valuation date in the previous calendar year ("adjusted NAV per unit"). The calculation of the NAV of a unit of a class will therefore exclude the effect of any distribution on units of such class. The performance valuation date means the last valuation date in each calendar year.

In any period in which the performance fee is payable and the NAV per unit of a class exceeds the high-water mark, unitholders of such class will be entitled to, with respect to each unit held of such class, 80% of any increase in adjusted NAV per Unit in excess of the class high-water mark. The Manager will be entitled to 20% of any gains in excess of the high-water mark.

The performance fee will be accrued for each class of units on weekly basis with any such accrued performance fee payable to the Manager on the Performance Valuation Date.

The Manager shall also be entitled to receive a performance fee in respect of units redeemed as if the redemption date were a performance valuation date, with such performance fee to be paid on

or before the 10th business day following the performance valuation date or redemption date, as the case may be. Performance fees are subject to applicable taxes including HST.

Investors in Class I units may negotiate a different performance fee than the one described above, which not exceed the performance fee payable on Class A units, Class D units or Class F units of the Fund.

Other Related Party Transactions

The Manager, its officers and directors invest in units of the Fund from time to time in the normal course of business. All related party transactions with the Manager are based on the applicable NAV per class of unit for each transaction date. As of December 31, 2021, 816,456 Units were held by the Manager and unitholders related to the Manager, totaling approximately 30.81% of the Fund’s NAV.

Independent Review Committee

Venator appointed an Independent Review Committee (“IRC”) consisting of three independent members, which was established under the Canadian Securities Administrators’ National Instrument 81-107 (the “Instrument”). The IRC’s mandate is to review and provide input on the Manager’s written policies and procedures that

pertain to conflict of interest matters with respect to the funds managed by Venator.

The Fund receives standing instructions (the “SI”) from the IRC. The SI constitutes a written approval or recommendation from the IRC that permits the Manager to proceed with specific action(s) set out in the SI on an ongoing basis. The SI is designed to ensure that the Manager’s actions are carried out in accordance with the law, the instrument and the Manager’s policies and procedures in order to achieve a fair and reasonable result for the Fund. The SI outlines actions related to (a) Fees and Expenses, (b) Trade Allocations, (c) Broker Selection, (d) Portfolio Pricing Issues, amongst other things. The Manager must provide the IRC with a written report summarizing each instance where the Manager has relied on the SI. For the period ended December 31, 2021, the IRC did not provide any recommendations to the Manager.

Additional information about the IRC is available in the Simplified Prospectus and Annual Information Form for the Fund. IRC members receive fees and reimbursement of expenses for services provided to the Fund.

Past Performance

As the Fund has not distributed its securities under a simplified prospectus for a full year, this information is not available.

Financial highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund’s financial performance for the year ended December 31, 2021 and the past 2 fiscal years. This information is derived from the Fund’s annual audited Financial Statements.

Prior to June, 2021, the Fund’s investing activities were carried out indirectly through its investment in Venator Founders Fund (the “Underlying Fund”). Investment income and expenses, and management fees were recorded in the Underlying Fund. Therefore, revenue and expense items included in the tables below are not directly comparable between periods and have been provided for information only. Data for Management expense ratio, Trading expense ratio and Portfolio Turnover are not presented for this reason.

Class A	2021	2020	2019
Fund’s net assets per unit (Note 1)			
Net assets per unit, beginning of year	17.08	11.50	10.99
Increase (Decrease) from Operations:			
Total revenue	0.03	-	-
Total expenses	(0.59)	(0.03)	(0.02)
Realized Gains (Losses) for the period	8.74	0.85	0.15
Unrealized Gains (Losses) for the period	(7.06)	4.18	0.36
Total Increase (Decrease) from Operations	1.12	5.00	0.49
Distributions to unitholders:			
From Net Investment Income	-	-	-
From Capital Gains	-	-	-
From Dividends	-	-	-
Total Annual Distributions to Unitholders	-	-	-
Net assets per unit as at December 31 (Note 2)	18.20	17.08	11.50
Ratios and supplemental data (Note 3)			
Total net asset value (’000s)	19,515	18,203	14,922
Number of units outstanding (’000s)	1,072	1,065	1,298
Management expense ratio (Note 4)	N/A	N/A	N/A

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Net asset value per unit	18.20	17.08	11.50
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Class A1	2021	2020	2019
Fund's net assets per unit (Note 1)			
Net assets per unit, beginning of year	-		
Increase (Decrease) from Operations:			
Total revenue	0.02		
Total expenses	(0.19)		
Realized Gains (Losses) for the period	(0.21)		
Unrealized Gains (Losses) for the period	0.47		
Total Increase (Decrease) from Operations	0.09		
Distributions to unitholders:			
From Net Investment Income	-		
From Capital Gains	-		
From Dividends	-		
Total Annual Distributions to Unitholders	-		
Net assets per unit as at December 31 (Note 2)	9.80		
Ratios and supplemental data (Note 3)			
Total net asset value ('000s)	547		
Number of units outstanding ('000s)	56		
Management expense ratio (Note 4)	N/A		
Net asset value per unit	9.80		

Class F	2021	2020	2019
Fund's net assets per unit (Note 1)			
Net assets per unit, beginning of year	18.48	12.37	11.73
Increase (Decrease) from Operations:			
Total revenue	0.04	-	-
Total expenses	(0.53)	(0.03)	(0.02)
Realized Gains (Losses) for the period	8.57	0.70	0.16
Unrealized Gains (Losses) for the period	(6.74)	3.16	0.51
Total Increase (Decrease) from Operations	1.34	3.83	0.65
Distributions to unitholders:			
From Net Investment Income	-	-	-
From Capital Gains	-	-	-
From Dividends	-	-	-
Total Annual Distributions to Unitholders	-	-	-
Net assets per unit as at December 31 (Note 2)	19.87	18.48	12.37
Ratios and supplemental data (Note 3)			
Total net asset value ('000s)	5,461	4,807	8,973
Number of units outstanding ('000s)	275	260	726
Management expense ratio (Note 4)	N/A	N/A	N/A
Net asset value per unit	19.87	18.48	12.37

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Class F1	2021	2021	2021
Fund's net assets per unit (Note 1)			
Net assets per unit, beginning of year	-		
Increase (Decrease) from Operations:			
Total revenue	0.02		
Total expenses	(0.11)		
Realized Gains (Losses) for the period	0.01		
Unrealized Gains (Losses) for the period	(0.52)		
Total Increase (Decrease) from Operations	(0.60)		
Distributions to unitholders:			
From Net Investment Income	-		
From Capital Gains	-		
From Dividends	-		
Total Annual Distributions to Unitholders	-		
Net assets per unit as at December 31 (Note 2)	9.79		
Ratios and supplemental data (Note 3)			
Total net asset value ('000s)	820		
Number of units outstanding ('000s)	84		
Management expense ratio (Note 4)	N/A		
Net asset value per unit	9.79		

Financial highlights (continued)

Notes

- Net assets per unit is calculated as follows:
 - This information is derived from the Fund's audited annual financial statements
 - Net assets per unit of a class are based on the number of units outstanding for that class at the relevant time. The increase (decrease) from operations per unit of a class is based on the weighted-average number of units outstanding for that class during the year.
 - Distributions per unit of a class are based on the number of units outstanding for the class on the record dates for distributions. Distributions were reinvested in additional units of the Fund.
 - The financial highlights are not intended to act as a continuity of the opening and closing net assets per unit.
- The net assets are calculated in accordance with IFRS.
- This information is presented as of December 31 of the year shown.
- The management expense ratio ("MER") is calculated as the total expenses paid by each class of the Fund, including applicable taxes and excluding margin interest, commissions and other portfolio transaction costs, as an annualized percentage of the daily average NAV of each class of the Fund during the period. In the period a class is established, the MER is annualized.
- The trading expense ratio represents margin interest, borrow fees on investments sold short, total commissions and other portfolio transaction costs expressed as an annualized percentage of the Fund's daily average NAV. The trading expense ratio is calculated at the fund level and applies to all classes of the Fund.
- Portfolio turnover rate is calculated at the fund level based on the lesser of purchases or proceeds of sales of securities for the year, excluding cash, short term notes and bonds having maturity dates at acquisition of one year or less, divided by the average value of the portfolio securities for the year. 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 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 trading 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 fund performance.

Summary of Investment Portfolio (as of December 31, 2021)

The Summary of Investment Portfolio will change due to ongoing portfolio transactions of the Fund. A quarterly update is available - to obtain a copy please consult our website at www.venator.ca/resources; call us at 416.934.7998; or email us at info@venator.ca.

		% of Net Asset Value				% of Net Asset Value	
GEOGRAPHIC ALLOCATION				TOP 25 INVESTMENTS			
Canada		23.0		Red Violet Inc.		5.6	
United States		81.5		ZipRecruiter Inc.		5.3	
PORTFOLIO ALLOCATION				WillScot Corp.		5.2	
Equities		104.0		NorthWest Healthcare Properties Real Estate Invest Trust		5.1	
Options		0.4		Uber Technologies Inc.		4.9	
Warrants		0.0		RingCentral Inc.		4.8	
Fixed Income		0.0		The Lovesac Co.		4.7	
Cash and cash equivalents		0.0		Belden Inc.		4.6	
REGIONAL PORTFOLIO ALLOCATIONS				Skechers U.S.A. Inc.		4.3	
U.S. Equities		82.4		Magna International Inc.		4.0	
Canadian Equities		22.9		OptimizeRx Corp.		3.7	
U.S. Options		0.4		Lowe's Cos Inc.		3.6	
Warrants		0.0		Masonite International Corp.		3.6	
Equities Sold Short		(1.3)		SoFi Technologies Inc.		3.4	
TOTAL NET ASSET VALUE (CAD)				Splunk Inc.		3.2	
				Avaya Holdings Corp.		3.1	
				Skyline Corp.		3.1	
				Caesarstone Sdot-Yam Ltd.		3.1	
				Hardwoods Distribution Inc.		3.0	
				Kaleyra Inc.		3.0	
				Inotiv Inc.		2.8	
				Porch Group Inc.		2.6	
				Nanalysis Scientific Corp.		2.6	
				Levi Strauss & Co.		2.6	
				Copper Mountain Mining Corp.		2.4	
				TOP 25 HOLDINGS (% OF NET ASSET VALUE)		94.3	
SECTOR ALLOCATION							
		% of NAV					
		Long	Short	Net			
Consumer Discretionary		27.3	0.0	27.3			
Consumer Staples		0.0	0.0	0.0			
Energy		0.0	0.0	0.0			
Financials		3.5	-1.3	2.2			
Healthcare		9.1	0.0	9.1			
Industrials		25.4	0.0	25.4			
Technology		20.1	0.0	20.1			
Basic Materials		7.3	0.0	7.3			
Real Estate		6.8	0.0	6.8			
Communication Services		5.3	0.0	5.3			
Utilities		0.0	0.0	0.0			
SPACs		0.9	0.0	0.9			
TOTAL		105.7	-1.3	104.4			