

Financial Statements of

**VENATOR ALTERNATIVE INCOME FUND**

And Independent Auditor's Report thereon

Years ended December 31, 2023 and 2022



**KPMG LLP**

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**INDEPENDENT AUDITOR'S REPORT**

To the Unitholders of Venator Alternative Income Fund

***Opinion***

We have audited the financial statements of Venator Alternative Income Fund (the Fund), which comprise:

- the statements of financial position as at December 31, 2023 and December 31, 2022
- the statements of comprehensive income (loss) for the years then ended
- the statements of changes in net assets attributable to holders of redeemable units for the years then ended
- the statements of cash flows for the years then ended
- and notes to the financial statements, including a summary of material accounting policy information

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2023 and December 31, 2022, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

***Basis for Opinion***

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



### ***Other Information***

Management is responsible for the other information. Other information comprises:

- the information included in the Management Report of Fund Performance filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information or appears to be materially misstated.

We obtained the Management Report of Fund Performance filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.



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We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P', with a small upward tick at the end.

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada

March 25, 2024

# VENATOR ALTERNATIVE INCOME FUND

## Statements of Financial Position As at December 31

	2023	2022
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 103,117	\$ 147,259
Investments owned, at fair value (Cost:\$59,799,151 - 2022:\$62,380,315) (note 9)	59,046,866	59,340,495
Interest receivable	1,177,696	973,333
Dividends receivable	-	91,056
Receivables for investment sold	-	84,497
Other assets	2,642	-
Subscriptions receivable	75,000	-
	<u>60,405,321</u>	<u>60,636,640</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Due to broker	3,464,319	11,311,595
Accounts payable and accrued liabilities	267,575	249,888
Management fees payable (note 4)	48,463	45,107
Distributions payable	-	102
Redemptions payable	23,100	12,500
	<u>3,803,457</u>	<u>11,619,192</u>
<b>Net assets attributable to holders of redeemable units</b>	<u>\$ 56,601,864</u>	<u>\$ 49,017,448</u>
<b>Net assets attributable to holders of redeemable units per Series:</b>		
Series A	\$ 1,487,003	\$ 1,624,867
Series F	<u>55,114,861</u>	<u>47,392,581</u>
	<u>\$ 56,601,864</u>	<u>\$ 49,017,448</u>
<b>Number of redeemable units outstanding (note 5):</b>		
Series A	293,380.77	339,847.14
Series F	9,632,351.38	8,922,388.81
<b>Net assets attributable to holders of redeemable units per unit:</b>		
Series A	\$ 5.07	\$ 4.78
Series F	5.72	5.31

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

Approved on behalf of the Trust:

  
\_\_\_\_\_  
Trustee  
Venator Capital Management Ltd.

# VENATOR ALTERNATIVE INCOME FUND

## Statements of Comprehensive Income (Loss)

Years ended December 31

	2023	2022
<b>Income</b>		
Interest income for distribution purposes	\$ 5,117,270	\$ 4,535,719
Dividends	373,939	427,490
Realized gain (loss) on sale of investments, including foreign exchange adjustments	1,757,842	(9,549,973)
Net change in unrealized appreciation/depreciation in value of investments	2,279,414	(4,011,621)
Other income	3,604	267
	<u>9,532,069</u>	<u>(8,598,118)</u>
<b>Expenses</b>		
Interest and borrowing fees	2,652,725	1,474,232
Management fees (note 4)	620,673	710,472
Operating costs	148,592	123,231
Audit fees	46,997	46,997
Withholding taxes	22,932	10,226
Legal fees	21,331	42,595
Commissions and other portfolio transaction costs (note 2)	4,465	18,199
	<u>3,517,715</u>	<u>2,425,952</u>
<b>Increase (decrease) in net assets attributable to holders of redeemable units</b>	<u>\$ 6,014,354</u>	<u>\$ (11,024,070)</u>
<b>Increase (decrease) in net assets attributable to holders of redeemable units per Series (note 10):</b>		
Series A	\$ 159,008	\$ (395,631)
Series D	-	(1,077)
Series F	5,855,346	(10,627,362)
	<u>\$ 6,014,354</u>	<u>\$ (11,024,070)</u>
<b>Increase (decrease) in net assets attributable to holders of redeemable units per unit (note 10):</b>		
Series A	\$ 0.51	\$ (1.00)
Series D	-	(0.22)
Series F	0.62	(1.04)

# VENATOR ALTERNATIVE INCOME FUND

## Statements of Changes in Net Assets Attributable to Holders of Redeemable Units Years ended December 31

	Net assets attributable to holders of redeemable units, beginning of year	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 year
<b>2023</b>							
Series A	\$ 1,624,867	\$ –	\$ (270,656)	\$ 159,008	\$ (69,097)	\$ 42,881	\$ 1,487,003
Series F	47,392,581	9,503,800	(7,478,026)	5,855,346	(2,090,835)	1,931,995	55,114,861
	<u>\$ 49,017,448</u>	<u>\$ 9,503,800</u>	<u>\$ (7,748,682)</u>	<u>\$ 6,014,354</u>	<u>\$ (2,159,932)</u>	<u>\$ 1,974,876</u>	<u>\$ 56,601,864</u>

\* Total proceeds from redeemable units relating to switch-ins and redemptions of redeemable units relating to switch-outs for the year ended December 31, 2023 were \$nil and \$nil, respectively.

	Net assets attributable to holders of redeemable units, beginning of year	Proceeds from redeemable units issued**	Redemption of redeemable units**	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 year
<b>2022</b>							
Series A	\$ 3,044,166	\$ 143,770	\$ (1,138,043)	\$ (395,631)	\$ (87,372)	\$ 57,977	\$ 1,624,867
Series D	25,233	–	(24,156)	(1,077)	(287)	287	–
Series F	73,600,492	5,502,515	(20,870,400)	(10,627,362)	(2,231,771)	2,019,107	47,392,581
	<u>\$ 76,669,891</u>	<u>\$ 5,646,285</u>	<u>\$ (22,032,599)</u>	<u>\$ (11,024,070)</u>	<u>\$ (2,319,430)</u>	<u>\$ 2,077,371</u>	<u>\$ 49,017,448</u>

\*\* Total proceeds from redeemable units relating to switch-ins and redemptions of redeemable units relating to switch-outs for the year ended December 31, 2022 were \$754,266 and \$(754,266), respectively.

# VENATOR ALTERNATIVE INCOME FUND

## Statements of Cash Flows Years ended December 31

	2023	2022
<b>Cash provided by (used in):</b>		
<b>Operating Activities</b>		
Increase (decrease) in net assets attributable to holders of redeemable units	\$ 6,014,354	\$ (11,024,070)
Adjustments for non-cash items		
Net realized (gain) loss on sale of investments, including foreign exchange adjustments	(1,757,842)	9,549,973
Change in unrealized appreciation/depreciation in value of investments	(2,279,414)	4,011,621
Change in non-cash balances		
Increase in interest receivable	(204,363)	(307,400)
Decrease (increase) in dividends receivable	91,056	(5,855)
Decrease (increase) in receivable for investment sold	84,497	(84,497)
Increase in other assets	(2,642)	-
Decrease in prepaid expenses	-	418
Decrease in due to broker	(7,847,276)	(28,065,803)
Increase in accounts payable and accrued liabilities	17,687	126,801
Increase (decrease) in management fees payable	3,356	(23,409)
Decrease in distributions payable	(102)	(435,600)
Decrease in payable for investment purchased	-	(199,205)
Decrease in performance fees payable	-	(754,837)
Proceeds from sale of investments	55,014,426	126,021,048
Purchase of investments	(51,669,707)	(77,526,640)
Cash (used in) provided by operating activities	<u>(2,535,970)</u>	<u>21,282,545</u>
<b>Financing Activities</b>		
Proceeds from redeemable units issued	9,428,800	4,892,019
Amount paid on redemption of redeemable units	(7,738,082)	(21,388,333)
Distributions paid to holders of redeemable units, net of reinvested distributions	(185,056)	(242,059)
Cash provided by (used in) financing activities	<u>1,505,662</u>	<u>(16,738,373)</u>
(Decrease) increase in cash and cash equivalents during the year	(1,030,308)	4,544,172
Foreign exchange gain (loss) on cash	986,166	(4,566,918)
Cash and cash equivalents, beginning of year	147,259	170,005
<b>Cash and cash equivalents, end of year</b>	<u>\$ 103,117</u>	<u>\$ 147,259</u>
<b>Supplemental information*</b>		
Interest paid	\$ 2,641,353	\$ 1,321,603
Interest received	4,912,907	4,228,319
Dividends received, net of withholding taxes	442,063	411,409

\*Included as a part of cash flows from operating activities



# VENATOR ALTERNATIVE INCOME FUND

## Schedule of Investment Portfolio

As at December 31, 2023

Number of shares/units	Investments owned	Average cost	Fair value	% of net asset value
<b>Canadian fixed income</b>				
1,000,000	Chemtrade Logistics Income Fund 7% 30JUN28	\$ 1,000,000	\$ 980,100	1.73
1,500,000	Cineplex Inc. 7.50% 26FEB26	1,473,750	1,514,370	2.68
2,500,000	Dye & Durham Ltd. 3.75% 01MAR2026	2,533,677	1,875,000	3.31
1,402,000	Extencicare Inc. 5% 30APR2025	1,442,167	1,373,960	2.43
1,500,000	NFI Group Inc. 5% 15JAN2027	1,489,592	1,303,500	2.30
1,100,000	NorthWest Healthcare Properties Real Estate Investment Trust 10% 31MAR2025	1,089,532	1,099,340	1.94
1,137,000	NorthWest Healthcare Properties Real Estate Investment Trust 6.25% 31AUG27	942,497	918,696	1.62
1,481,000	NorthWest Healthcare Properties Real Estate Investment Trust 7.75% 30APR28	1,481,000	1,214,420	2.15
1,000,000	PRO Real Estate Investment Trust 8% 30JUN28	999,333	920,000	1.63
1,199,000	StorageVault Canada Inc/Alberta 5.75% 31JAN26	1,160,998	1,157,035	2.04
300	Tidewater Midstream and Infrastructure Ltd. 5.50% 30SEP2024	295	296	0.00
1,500,000	Well Health Technologies Corp. 5.50% 31DEC26	1,368,764	1,383,750	2.44
		<u>14,981,605</u>	<u>13,740,467</u>	<u>24.27</u>
<b>U.S. equities</b>				
50,000	Constellation Acquisition Corp I	630,836	729,549	1.29
47,000	Harrow Health Inc. Preferred Shares 11.875%	1,583,126	1,601,178	2.83
		<u>2,213,962</u>	<u>2,330,727</u>	<u>4.12</u>
<b>U.S. fixed income</b>				
1,500,000	Alteryx Inc. 8.75% 15MAR28	2,009,541	2,108,509	3.73
1,500,000	Beazer Homes USA Inc. 7.25% 15OCT29	1,911,614	2,005,948	3.54
2,000,000	BlueLinx Holdings Inc. 6% 15NOV29	2,159,986	2,471,301	4.37
1,500,000	Bristow Group Inc. 6.875% 01MAR28	1,907,913	1,913,035	3.38
2,000,000	Nimbus LLC / GGSI Sellco LL 5.75% 15MAY26	2,491,419	2,573,874	4.55
1,500,000	Chegg Inc. 0.125% 15MAR25	1,785,930	1,825,608	3.23
1,000,000	Cracker Barrel Old Country Store Inc. 0.625% 15JUN26	1,133,780	1,155,394	2.04
1,500,000	CryoPort Inc. 0.75% 01DEC26	1,593,452	1,605,674	2.84
1,000,000	DISH Network Corp. 11.75% 15NOV27	1,365,550	1,378,589	2.44
1,000,000	Diversified Healthcare Trust 0% 15JAN26	1,063,798	1,084,855	1.92
750,000	ERO Copper Corp. 6.50% 15FEB30	845,264	878,320	1.55
1,500,000	G-III Apparel Group Ltd. 7.875% 15AUG25	1,923,715	2,009,791	3.55
1,500,000	Hughes Satellite Systems Corp. 5.25% 01AUG26	1,804,305	1,762,008	3.11
1,000,000	MPT Operating Partnership LP / MPT Finance Corp. 5% 15OCT27	1,118,691	1,083,390	1.91
2,000,000	Porch Group Inc. 6.75% 01OCT28	1,732,606	1,564,733	2.76
1,000,000	RingCentral Inc. 8.50% 15AUG30	1,362,273	1,357,040	2.40
2,500,000	Telesat Canada / Telesat LLC 6.50% 15OCT2027	2,902,206	1,567,308	2.77

# VENATOR ALTERNATIVE INCOME FUND

## Schedule of Investment Portfolio (continued)

As at December 31, 2023

Number of shares/units	Investments owned	Average cost	Fair value	% of net asset value
	<b>U.S. fixed income (continued)</b>			
2,000,000	The Chemours Co. 5.75% 15NOV28	\$ 2,435,281	\$ 2,515,457	4.44
2,000,000	The Gap Inc. 3.625% 01OCT29	2,015,200	2,257,890	3.99
2,000,000	Tronox Inc. 4.625% 15MAR29	2,253,275	2,337,197	4.13
2,000,000	Victoria's Secret & Co. 4.625% 15JUL29	2,025,983	2,198,734	3.88
2,500,000	Wayfair Inc. 0.625% 01OCT25	2,534,125	2,993,724	5.29
2,000,000	ZipRecruiter Inc. 5% 15JAN30	2,227,677	2,327,293	4.11
		<u>42,603,584</u>	<u>42,975,672</u>	<u>75.93</u>
	<b>U.S. warrant</b>			
51,506	CEC Brands LLC TBD	\$ —	\$ —	—
	<b>Total investments owned</b>	59,799,151	59,046,866	104.32
	Commissions and other portfolio transaction costs	<u>(1,679)</u>	<u>—</u>	<u>—</u>
	<b>Net investments owned</b>	<u>\$ 59,797,472</u>	59,046,866	104.32
	<b>Other liabilities, net</b>		<u>(2,445,002)</u>	<u>(4.32)</u>
	<b>Net Assets Attributable to Holders of Redeemable Units</b>		<u>\$ 56,601,864</u>	<u>100.00</u>

# VENATOR ALTERNATIVE INCOME FUND

Notes to Financial Statements

December 31, 2023 and 2022

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Venator Alternative 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 "Declaration of Trust"). The Trust commenced active operations on August 1, 2008. 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 "Trustee"). 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.

## 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 financial statements have been prepared in accordance with IFRS Accounting Standards ("IFRS"), as published by the International Accounting Standards Board ("IASB"). The financial statements were authorized for issue by the Manager on March 25, 2024. The financial statements are presented in Canadian dollars, which is the Trust's functional currency.

## 2. Material accounting policy information:

### (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.

# VENATOR ALTERNATIVE INCOME FUND

Notes to Financial Statements (continued)

December 31, 2023 and 2022

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## 2. Material accounting policy information (continued):

### (b) Financial assets and financial liabilities:

#### (i) Valuation:

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.

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

# VENATOR ALTERNATIVE INCOME FUND

Notes to Financial Statements (continued)

December 31, 2023 and 2022

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## 2. Material accounting policy information (continued):

### (ii) 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 interest receivable, dividends receivable, subscriptions receivable and other assets are classified as financial assets and measured at amortized cost. A financial asset is classified and subsequently measured at amortized cost only if both of the following criteria are met:

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

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

### (iii) Recognition/derecognition:

The Trust recognizes regular-way transactions in financial assets or financial liabilities at FVTPL on the trade date which is the date on which the Trust becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognized on the date on which they are originated. Any gains and losses arising from changes in fair value of the financial assets or liabilities are recognized in the statements of comprehensive income (loss). Transaction costs are recognized directly in the statements of comprehensive income (loss) for financial assets and liabilities at FVTPL and are included in the initial fair value for financial assets at financial liabilities at amortized cost.

# VENATOR ALTERNATIVE INCOME FUND

Notes to Financial Statements (continued)

December 31, 2023 and 2022

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## 2. Material accounting policy information (continued):

Financial assets are derecognized when, 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.

### (c) 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.

### (d) 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 (loss).

### (e) 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 income (loss) 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 gain (loss) on sale of investments, including foreign exchange adjustments, and unrealized appreciation (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.

# VENATOR ALTERNATIVE INCOME FUND

Notes to Financial Statements (continued)

December 31, 2023 and 2022

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## 2. Material accounting policy information (continued):

### (f) 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 income (loss).

### (g) 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.

### (h) 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 income (loss) based on the trade date.

### (i) 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

# VENATOR ALTERNATIVE INCOME FUND

Notes to Financial Statements (continued)

December 31, 2023 and 2022

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## 2. Material accounting policy information (continued):

### (i) Fair value hierarchy (continued):

- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Refer to note 9 for fair value measurement analysis.

### (j) 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 12:00 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. Changes in unrealized appreciation (depreciation) in foreign currencies are recognized in the statements of comprehensive income (loss) 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 income (loss) through realized gain (loss) on sale of investments, including foreign exchange adjustments.

### (k) Cash and cash equivalents:

Cash and cash equivalents include cash in hand and deposits held with banks with original maturities of three months or less.

### (l) 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 incurring higher expenses.



# VENATOR ALTERNATIVE INCOME FUND

Notes to Financial Statements (continued)

December 31, 2023 and 2022

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## 2. Material accounting policy information (continued):

### (m) 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.

### (n) 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 series of units by the total number of units of that particular series outstanding at the end of the year.

### (o) Unit valuation:

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

### (p) Increase (decrease) in net assets attributable to holders of redeemable units per unit:

Increase (decrease) in net assets attributable to holders of redeemable units per unit is based on the increase (decrease) in net assets attributable to holders of redeemable units attributed to each series of units, divided by the weighted average number of units outstanding of that series during the year. Refer to note 10 for the calculation.

# VENATOR ALTERNATIVE INCOME FUND

Notes to Financial Statements (continued)

December 31, 2023 and 2022

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## 2. Material accounting policy information (continued):

(q) 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 series with different rights and, therefore, have been classified as financial liabilities.

(r) Changes in accounting policies:

The Trust adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statements 2) from January 1, 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements.

The amendments require the disclosure of 'material' rather than 'significant' accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

The Manager reviewed the accounting policies and made updates to the information disclosed in Note 2 in certain instances in line with the amendments.

## 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

Notes to Financial Statements (continued)

December 31, 2023 and 2022

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## 4. Related party transactions:

### (a) Management fees:

The management fee paid by the Trust to the Manager is calculated and payable monthly based on the net asset value of each series daily. The monthly management fee for each series is calculated as follows: (i) 1/12 of 2% of the net asset value of the Series A units; (ii) 1/12 of 1.5% of the net asset value of Series D units; and (iii) 1/12 of 1% of the net asset value of the Series F units, plus applicable taxes. Management fees on Series I units are negotiated and paid directly by the investor.

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

Management fees for the year ended December 31, 2023 were \$620,673 (2022 - \$710,472) with \$48,463 payable as at December 31, 2023 (2022 - \$45,107).

### (b) Performance fee:

The Trust pays a performance fee to the Manager on each Series A, Series D and Series 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 performance fee is calculated daily. 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%. Investors in Series I Units may negotiate a different performance fee.

Performance fees for the year ended December 31, 2023 were \$nil (2022 - \$nil) with \$nil payable as at December 31, 2023 (2022 - \$nil).

### (c) Related party unitholders:

Directors and employees of the Manager own units of the Trust representing 18.01% (2022 - 14.00%) of the units outstanding.

# VENATOR ALTERNATIVE INCOME FUND

Notes to Financial Statements (continued)

December 31, 2023 and 2022

## 5. Redeemable units of the Trust:

The Trust is permitted to issue an unlimited number of series of units and an unlimited number of units of each series. The Trust has designated Series A units, Series D units, Series F units, and Series I units, each of which represents an equal, undivided, beneficial interest in the net asset value of the Trust. Each unit of each series 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 may be consolidated and/or redesignated by the Manager. As at December 31, 2023, Series A and Series F units have been issued.

Unitholders may request that such units be redeemed on the last business day of each weekly period (the "Redemption Date") at their net asset value per unit on such date provided that the request for redemption is submitted at least 5 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 years ended December 31 is as follows:

	<b>Redeemable units, beginning of year</b>	<b>Redeemable units issued</b>	<b>Redemptions of redeemable units</b>	<b>Reinvestments of units</b>	<b>Redeemable units, end of year</b>
<b>2023</b>					
Series A	339,847.14	–	(55,235.79)	8,769.42	293,380.77
Series F	8,922,388.81	1,731,147.63	(1,374,027.81)	352,842.75	9,632,351.38
<b>2022</b>					
Series A	510,985.10	25,484.58	(207,609.13)	10,986.59	339,847.14
Series D	4,771.25	–	(4,828.27)	57.02	–
Series F	11,289,491.92	947,704.08	(3,665,424.59)	350,617.40	8,922,388.81

# VENATOR ALTERNATIVE INCOME FUND

Notes to Financial Statements (continued)

December 31, 2023 and 2022

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## 5. 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 8, 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.

## 6. 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 December 31, 2023, the Trust intends to pay distributions of \$0.025 per unit (previous month was \$0.025 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 are automatically reinvested in additional units at the net asset value per unit and on the date of each distribution, the units are automatically consolidated into that number of units outstanding immediately prior to the distribution.

## 7. 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 Declaration of Trust, 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

Notes to Financial Statements (continued)

December 31, 2023 and 2022

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## 8. 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 (through the custodian's credit rating) and balances due from broker. The carrying amount of investments and other assets represents the maximum credit risk exposure as at the date of the Statement of Financial Position.

The cash and cash equivalents are held with a major Canadian bank counterparty which is rated AA as at December 31, 2023 (AA - December 31, 2022).

Balances due from brokers represent margin accounts, cash collateral for borrowed securities and sales transactions awaiting settlement. Credit risk relating to unsettled transactions is considered minimal due to the short settlement period involved and the high credit quality of the broker used. The Trust's prime broker was rated AA at December 31, 2023 (AA - December 31, 2022).

The Trust's investments in debt instruments, including the related interest receivable, represent the main concentration of credit risk. The market value of debt instruments includes consideration of the creditworthiness of the issuer.

# VENATOR ALTERNATIVE INCOME FUND

Notes to Financial Statements (continued)

December 31, 2023 and 2022

## 8. Financial instruments and risk management (Continued):

### (a) Credit risk (Continued):

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

	% of net asset value	
	December 31, 2023	December 31, 2022
Rating:		
Ba2	1.91	11.37
Ba3	–	10.41
B1	39.78	23.29
B2	9.66	11.55
B3	3.73	6.58
Caa1	–	4.08
Caa2	–	2.40
Caa3	2.77	–
Not rated	42.35	37.32

### (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

Notes to Financial Statements (continued)

December 31, 2023 and 2022

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## 8. 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 years ended December 31, 2023 and 2022.

Investments in bonds are fixed-rate instruments with terms to maturity at December 31, 2023 and 2022 was as follows:

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	December 31, 2023	December 31, 2022
< 1 year	\$ 296	\$ —
1 - 3 years	23,414,383	8,605,579
3 - 5 years	17,467,737	27,890,880
> 5 years	15,833,723	15,958,667

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As at December 31, 2023, had interest rates increased or decreased by 10 basis points with all other variables remaining constant, the respective decrease or increase in net assets for the year would amount to approximately \$209,409 (2022 - \$223,574).



# VENATOR ALTERNATIVE INCOME FUND

Notes to Financial Statements (continued)

December 31, 2023 and 2022

## 8. 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 December 31, 2023 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 \$233,073 (2022 - \$688,537). 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 December 31, 2023 and 2022 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
<b>December 31, 2023</b>						
U.S. Dollar	\$ (45,361,747)	\$ 45,306,399	\$ (55,348)	\$ (2,268,087)	\$ 2,265,320	\$ (2,767)
% of Net Assets						
Attributable to Holders						
of Redeemable Units	(80.14)	80.04	(0.10)	(4.01)	4.00	(0.01)

# VENATOR ALTERNATIVE INCOME FUND

Notes to Financial Statements (continued)

December 31, 2023 and 2022

## 8. Financial instruments and risk management (Continued):

(iii) Currency risk (continued):

Currency	Exposure			Impact if CAD strengthened or weakened by 5% in relation to other currencies		
	Monetary	Non-Monetary	Total	Monetary	Non-Monetary	Total
<b>December 31, 2022</b>						
U.S. Dollar	\$ (49,133,135)	\$ 47,465,610	\$ (1,667,525)	\$ (2,456,657)	\$ 2,373,281	\$ (83,376)
% of Net Assets						
Attributable to Holders						
of Redeemable Units	(100.24)	96.83	(3.41)	(5.01)	4.84	(0.17)

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 December 31, 2023 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 \$2,767 (2022 - \$83,376). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

# VENATOR ALTERNATIVE INCOME FUND

Notes to Financial Statements (continued)

December 31, 2023 and 2022

## 8. Financial instruments and risk management (Continued):

### (d) Concentration risk:

Concentration risk arises because of the concentration exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type. The following table is a summary of the Trust investment portfolio's concentration risk by industry sector:

Market segment	Percentage of net asset value	
	December 31, 2023	December 31, 2022
<b>Investments owned</b>		
Basic Materials	7.7	10.7
Communications	15.1	7.0
Consumer, Discretionary	25.5	31.3
Consumer, Staples	–	–
Energy	3.4	5.4
Financial	–	6.5
Health Care	10.5	9.0
Industrial	10.8	24.0
Real Estate	17.8	16.9
Technology	12.2	4.1
SPACS	1.3	6.3

### (e) Geopolitical risk

Terrorism, war, military confrontations and related geopolitical events (and their aftermath) can lead to increased short-term market volatility and may have adverse long-term effects on the Canadian, U.S., and world economies and markets generally. Likewise, natural and environmental disasters, such as, for example, earthquakes, fires, floods, hurricanes, tsunamis and weather-related phenomena generally, as well as widespread disease and virus epidemics, can be highly disruptive to economies and markets into the medium term, adversely affecting individual companies, sectors, industries, markets, currencies, interest and inflation rates, credit ratings, investor sentiment and other factors impacting the value of the Trust's investments.

# VENATOR ALTERNATIVE INCOME FUND

Notes to Financial Statements (continued)

December 31, 2023 and 2022

## 9. Fair value of measurement:

The following is a summary of the inputs used as at December 31, 2023 in valuing the Trust's investments carried at fair values:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Equities	\$ 2,330,727	\$ –	\$ –	2,330,727
Fixed income securities	1,303,500	55,412,639	–	56,716,139
	\$ 3,634,227	\$ 55,412,639	\$ –	\$ 59,046,866

There were no significant transfers between the levels during the year ended December 31, 2023.

The following is a summary of the inputs used as at December 31, 2022 in valuing the Trust's investments carried at fair values:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Equities	\$ 6,885,369	\$ –	\$ –	6,885,369
Fixed income securities	1,230,000	51,225,126	–	52,455,126
	\$ 8,115,369	\$ 51,225,126	\$ –	\$ 59,340,495

There were no significant transfers between the levels during the year ended December 31, 2022.

## 10. Increase (decrease) in net assets attributable to holders of redeemable units per unit:

The increase (decrease) in net assets attributable to holders of redeemable units per unit for the year ended December 31, 2023 and 2022 is calculated as follows:

	Increase (decrease) in net assets attributable to holders of redeemable units per Series	Weighted average of redeemable units outstanding during the year	Increase (decrease) in net assets attributable to holders of redeemable units per unit
<b>2023</b>			
Series A	\$ 159,008	314,192	\$ 0.51
Series F	5,855,346	9,493,444	0.62
<b>2022</b>			
Series A	\$ (395,631)	395,059	\$ (1.00)
Series D	(1,077)	4,791	(0.22)
Series F	(10,627,362)	10,198,481	(1.04)

# VENATOR ALTERNATIVE INCOME FUND

Notes to Financial Statements (continued)

December 31, 2023 and 2022

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## **11. 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.

## **12. Income taxes:**

As at the tax year ended December 31, 2023, the Trust has no non-capital losses carried forward and has capital losses carried forward in the amount of \$7,941,586 (2022 - \$7,230,443) available for income tax purposes.