VENATOR
CAPITAL MANAGEMENT LTD.

YEAR TWO STARTS WELL TOO

The Founders Fund started year two with an estimated gain of 3.2% (estimated closing unit price of $14.50), leaving the Fund up an estimated 8.8% year-to-date, and 43.3% in the past twelve months. March's relative strength can be traced directly to some spectacular earnings reports from several of our larger positions including previously disclosed Hammond Power (which reported Q4 earnings of $0.36 vs. our $0.18 expectation) and Neo Materials (reported $0.11 vs. a $0.07 consensus expectation). Overall, we were disappointed only once during the Q1 earnings season, however, the early month turbulence made markets not particularly receptive to our companies' reports which is why, for example, Hammond Power only gained modestly after reporting a 100% sequential growth rate in earnings; still at less than 10x our expected 2007 EPS number we believe there is considerable upside left for our largest position.

We are skipping our usual monthly commentary in order to inform you of some changes on our Offering Memorandum (the rules governing the management of the fund). After a year of managing the assets of the Founders Fund, we are starting to discover how some of the restrictions put on the Fund may be detrimental going forward, and have rectified the situation with these latest revisions. Below we have outlined the changes and the rationale behind them. However, to be fair, we will waiving the mandatory 12 month hold period for the month of April so that anyone who is uncomfortable with the changes can sell their units.

Previously the Offering Memorandum stated:

It is the intention of the General Partner that the Fund will be "capped" at $100 million, and that it will be the only fund run by Venator Capital Management Ltd. that will be permitted to initiate positions in opportunities with a market capitalization below $100 million.

We have changed the language so it now reads:

It is the intention of the General Partner that the Fund will be "capped" at $100 million, and that once total assets managed by the Investment Advisor exceed $100 million, the Fund will have priority status over other Funds run by the Investment Advisor in initiating positions in "micro-cap" investments (market capitalization below $100 million).

We have made this change for several reasons:

- Firstly, in the course of looking for new potential investments we have come across potential candidates that would not be appropriate for the Founders Fund, which is focused on capital gains, but may be appropriate for future funds such as a dividend/income fund.
- It also occurred to us that situations could arise where we would like to get "actively involved in an investment situation" but where the relatively small Venator Founders Fund could not acquire enough shares to become influential (i.e. more than 10% of total shares outstanding) without overexposing the fund to that particular investment. In such a scenario it would benefit the Founders Fund and any larger future funds to "pool their resources" in order to gain a higher level of control (i.e. percentage ownership) over such a situation.
- Furthermore, we have also looked at several situations where companies have needed to raise money on very favorable financing terms, but where the Founders Fund was too small to take on the entire deal without overexposing the fund. In such situations, a

pooling of resources would also allow the Fund to have increased influence over such situations.

It is our belief that by giving the Founders Fund preferred status on small caps (i.e. a right of first refusal on small cap opportunities), but by allowing future funds to participate in “special situations”, we will be better positioned to take advantage of these “special situations” going forward, which will be beneficial to all unitholders.

Previously the Fund limited its long weighting to 100% of Net Asset Value; we have changed this to allow the fund to invest up to 110% of Net Asset Value (NAV) on the long side. When the fund is 100% invested on the “long” side and 20%-40% invested on the “short” side of the portfolio, any upward move in our short positions takes our long portfolio “offside” as NAV is reduced while long investments remain static. Previously, this meant that we needed to sell long positions to get the long side of the portfolio back in-line with a lower NAV. This change allows us to avoid this “forced selling”.

Previously the fund had established exposure limits on long investments of 15% at cost and 25% at market, and limits on short positions of 10% at cost and 15% at market; we have eliminated the “at cost” restrictions and left only the “at market” restrictions in place. The problem with this rule is that it eliminated the potential for us to “average down” on larger positions. While this situation has not yet come up, we could envision a future situation where this could be an appropriate investment strategy. Furthermore, the rule could be easily circumvented by selling out a position and then repurchasing it at a future date (subjecting the fund to excessive trading commissions). In other words, the restriction was nonsensical and that is why we have gotten rid of it. Rest assured the fund continues to be run in the “spirit” of the original rule and we currently have no positions in excess of 15% of NAV.

We continue to be optimistic with regard to the outlook for the Fund, despite our caution regarding the markets in general. The Fund continues to be largely invested in “value” stocks, with a 30% short position paired against our growth and resource positions. We remain of the view that the sub-prime issues in the U.S. will spread to other areas of the economy; that junior resource stocks in Canada will experience a negative revaluation as implied discount rates increase dramatically from today’s “near government bond” levels; that valuations are being artificially pumped up by the proliferation of ETFs, and that many of the valuations we are seeing today are too dependant on takeover speculation (whether corporate or private equity).

WE HAVE RECENTLY MAILED OUT YOUR 2006 TAX FORMS, IF YOU HAVE NOT RECEIVED THESE BY THIS FRIDAY, PLEASE LET ME KNOW.

As Always, Thank you for your support,

Brandon Osten, CFA
President, Venator Capital Management Ltd.