

ALL THAT GLITTERS IS PYRITE

The Bull Market that began in the fall of last year continued through the first quarter of this year and our Funds were fortunate to participate. Considering the relatively low net equity weightings of our funds, we are pleased with their strong start to the year. Many of you may have noticed that after a number of years of commodity-influenced outperformance, the Canadian markets have been material underperformers over the past several months. Our funds have always had a good mix of foreign and domestic securities so we are not terribly concerned with this recent dichotomy, and we are happy to continue to provide a diversification tool to our clients looking for non-resource, non-domestic, non-index type investments.

Instrument (Inception)	March's Return	Year-to-Date	Compound Growth
Venator Founders Fund (March 2006)	4.2%	19.0%	12.7%
Venator Income Fund (August 2008)	1.5%	7.9%	15.7%
Venator Catalyst Fund (January 2008)	1.0%	4.2%	11.9%
TSX Composite (March 2006)	-2.1%	3.9%	3.9%
Russell 2000 (March 2006)	2.8%	12.7%	3.6%
S&P Toronto Small Cap (March 2006)	-5.8%	5.0%	2.1%
S&P 500 (March 2006)	2.9%	12.2%	3.8%

Speaking of resources, several weeks ago I made my first ever pilgrimage to Timmins, Ontario to visit an underground gold mine. This was quite the experience and I would highly recommend that anyone interested in investing in mining in general and gold in particular make such a trip if they are given the chance.

After a quick flight up north, we were bussed out to the mine site for a brief safety chat before receiving our overalls, gloves and those cool helmets with the lights on top, which actually comes in quite handy in some dark areas underground. Once we were suited up, it was time to drop down the mine shaft. Just so you are aware, an 800 meter trip underground in an open concept unlit elevator with over a dozen other people would not be a positive experience for the claustrophobic, but for the rest of us it lasted several minutes.



Once you get off the elevator, you are actually quite impressed with how spacious and well lit some of the areas of the mine are. Some areas are better lit than others, but all areas have 20 foot "ceilings" and are wide enough to drive the neat 10-seater you can see in the background of the picture to the left. However, as you leave the well lit elevator loading area, the ride gets progressively less smooth. I was very impressed with the scope of the underground operation. There seemed to be miles of caverns down there, and we were on only one of several

levels. Now for the money shot of the underground experience. We actually stopped in several good prospective areas of the mine to see what all the fuss was about. Red rock is good (otherwise known as porphyry rock), quartz is good (white and black rock), and shiny stuff is good. That being said, the shiny stuff you see in the rock I am holding on the right is actually pyrite (aka fools gold) which is worthless. The dull darker yellow stuff is either rust or gold. I actually took a few samples of "higher grade" ore home with me (probably worth about \$20.00 if I could separate it and melt it down, but I am not very good at working with acids, which we will get to in a minute). The other surprising development was just how brittle the rock actually was. Despite all the diamond drilling and blasting, we were able to chip off material chunks of the wall with simple rock hammers (yes, like the one in Shawshank Redemption, see below).



Upon our return above ground, we got to see the cables that pulled our elevator up and the cables that support the lifting of the ore out of the mine (about the width of a baseball bat handle and barrel respectively). After a quick snack, we were off to the processing facility.



To be clear, the processing facility was for a different nearby mine, but I was assured it was pretty much the same operation that I could have expected from the mine we had just visited. The map of the facility indicated the tailing pond (no swimming allowed), and the acres of forest to be clear cut to expand the pond. There were several huge tanks to hold the water and chemical solutions involved in the separation of gold from the ore, and finally the magical area where the separated gold gets poured into gold bars.

So off we went to the facilities where we were greeted by two massive "tumblers" that took already crushed rock (think wood chip size) and ground it into dust. The dust then went through a vat of cyanide to separate the gold from the ore, and then another vat of carbon solution to separate the gold from the cyanide. At this point the gold is ready to be poured into a brick the size of, well ... a brick.

Unfortunately, we didn't get to see an actual brick of gold being poured. As it turns out, miles of underground caverns, acres of clear cut forest, two massive rock tumblers, vats of chemicals, and hundreds of millions of invested dollars doesn't quite get you to one gold brick per day in an industry where if you can pull a marble sized amount of gold out of a house sized chunk of ore, you have a pretty decent grade mine.

I am trying to be open minded about the whole experience. The skeptic in me says this is an outrageous amount of effort for a near useless metal (from a practical standpoint), that, due to the advent of electronic asset storage, has outlived its usefulness in human society. Furthermore, after all is said and done, the gold will go from the pour to the Brinks truck and finally to a vault where it will be accounted for so other marginally-productive members of society (the financial services community) can trade derivatives on it until the end of history.

On the other hand, if we are willing to put this much capital and effort behind a process designed to put out three bricks worth of this shiny yellow metal per week, the resulting product must be very valuable to someone. After all, economics is, if nothing else, all about supply and demand; so who am I to argue? That I get more value out of my \$700 iPad than I would get out of an ounce of gold worth twice as much is a matter of personal preference I suppose.

As usual, it always comes back to Apple with us (still our largest holding)!

Thank you for your continued support,



Brandon Osten, CFA
President, Venator Capital Management Ltd.

PS. You may have noticed that you received this email from Susan Naylor. Susan joined us last week from the prestigious firm of Early & Retirement where, after a year of relaxation she decided that she was looking for a more hectic daytime schedule. Prior to the summer of last year, Susan, a Chartered Accountant by training, worked at Northwater Capital Management as VP Finance for 10 years, and prior to that was the CFO of Laketon Investment Management, and before that was the Controller for Sceptre Investment Counsel. So basically, we really punched above our weight class in landing Susan to handle the finances of our little operation. In the coming months we anticipate transferring the Chief Compliance Officer role (pending regulatory approval) to Susan in addition to her current duties.

This is intended for informational purposes and should not be construed as a solicitation for investment in any of Venator's Funds. The Funds may only be purchased by Accredited investors with a medium-to-high risk tolerance seeking long-term capital gains. Read the Offering Memoranda in full before making any investment decisions. Prospective investors should inform themselves as to the legal requirements for the purchase of shares. All stated Venator returns are net of fees. It is important to note that past performance should not be taken as an indicator of future performance.