

# 2018 Annual Management Report of Fund Performance

for the year ended December 31, 2018

VentureLink Innovation Fund Inc.



**VENTURELINK**  
FUNDS

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling 1-800-253-1043, by writing to us at VL Advisors Inc., 3 Church Street, Suite 602, Toronto, ON M5E 1M2 or by visiting our website at [www.venturelinkfunds.com](http://www.venturelinkfunds.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Securityholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or semi-annual portfolio disclosure.

# VENTURELINK INNOVATION FUND INC.

*Management Report of Fund Performance for the year ended December 31, 2018*

## INVESTMENT OBJECTIVE AND STRATEGIES

The Fund's objective is to realize long-term capital appreciation by making debt and equity investments in a diversified portfolio of small and medium sized eligible Ontario businesses.

The Fund's strategy for 2019 will be to invest in and support existing portfolio companies with a view to realization in the period from 2019 to 2020. The Fund will not pursue investment opportunities outside the existing portfolio.

In addition to supporting its existing portfolio of growing Ontario businesses, the Fund invests a portion of the portfolio in eligible reserves.

## RISKS

The Fund is suitable for investors with a longer-term investment focus and higher risk tolerance as discussed in the Fund's annual information form. The market value of the three largest investments represents approximately 43% of the net asset value of the Fund.

The Fund is being managed to preserve liquidity while working with portfolio companies to create successful exits before December 2020. This management process will reduce the number of portfolio holdings from the current level of thirteen private holdings and result in an increase to overall portfolio concentration.

## RESULTS OF OPERATIONS (in \$000's except per share numbers)

The net asset value of the Fund at the end of the 2018 fiscal year was \$38,622. There were 549,127 Class A Shares, Series I, 357,065 Class A Shares, Series II, 2,396,254 Class A Shares, Series III, 1,042,656 Class A Shares, Series IV, and 64,269 Class A Shares, Series VI outstanding.

### **Income**

The Fund had total income of \$(223) in 2018 compared to \$15,451 in 2017, a decrease of \$15,674. This decrease is related to realized and unrealized gains on investments and reserves of \$(2,237) in 2018 versus \$14,658 in 2017.

### **Expenses**

Operating expenses were \$2,411 in 2018 compared to \$6,115 in 2017, a decrease of \$3,704 or 61%. This decrease is principally related to a decrease in performance fee and Class P dividend expense to \$(443) in 2018 from \$2,457 in 2017 for a total change of \$2,900. The remaining decrease is related to in the weighted average net asset value of the Fund during 2018 compared to 2017.

### **Class A Shares**

Net redemptions of Class A Shares during the year were \$11,272.

### **New investments**

The Fund made no venture investments during the year.

### **Realizations**

The Fund realized cash proceeds totaling \$10,442 from the sale of securities of the following venture investments for a net realized loss of \$3,081:

- 2621281 Ontario Inc., (renamed SCI Ltd, cost \$1,156)
- Brandimensions Inc., cost \$2,000
- Coventree Inc., cost \$2,034
- DCR Strategies Inc., cost \$125
- Marquest Inc., cost \$2,727
- Performance Plants Inc., cost \$500
- SCI Ltd., cost \$10,160
- Smart Energy Inc., cost \$2,427

In addition, the company received promissory notes of \$7,606 from the acquiror of SCI Ltd. (2621281 Ontario Inc.) as partial consideration from the sale.

# VENTURELINK INNOVATION FUND INC.

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The portfolio holdings continue to reflect the Fund's objective of investing in a diversified portfolio mezzanine debt and equity investments. However, concentration is increasing significantly as the orderly wind up the investment portfolio progresses.

## **Fund performance**

Fund performance, on a per share basis, varied from a loss of \$0.52 for Series I to a loss of \$0.61 for Series IV. The loss was primarily related to the Fund operating expenses for the year.

## RECENT DEVELOPMENTS

### **Fund Liquidity and investment concentration**

The Fund has approx. 45% of its assets in cash. As the orderly wind up of the Fund takes place, the concentration of the investment portfolio is increasing. The three largest investments of the Fund have a total value equal to 43% of net asset value.

The current plan for the operation of the Fund is to manage the existing portfolio with a view towards exiting all or at least most of its investment portfolio by December 2019 followed by an orderly wind up of the Fund in 2020.

In order to manage fund liquidity until such time as the Fund realizes upon its venture investments, the Fund's prospectus provides the Fund with the discretion to halt redemptions in a given financial year once redemptions have reached an aggregate value of 20% of the net asset value of the Fund on the last day of the preceding financial year. On January 11, 2019, the Fund capped redemptions at approximately \$8.2 million, an amount in excess of 20% of the net asset value of the fund as of December 31, 2018.

## RELATED PARTY TRANSACTIONS

### **Manager**

The Manager and Investment Advisor and Sponsor are deemed to be related parties and earned \$1,405 from the Fund. This amount represents fees for management, investment advisor and sponsor services. The Fund recovered \$443 of performance fees in the year, and made payments of \$505, resulting in an ending accrual of \$1,300. In addition, the Fund incurred dividend expense of \$1,877 in connection with the issuance of dividends on Class P shares held by VL Holdings LP, the 100% shareholder of the Manager and Investment Advisor. Accrued performance fees will be payable to the Manager in future periods if certain criteria are achieved.

# VENTURELINK INNOVATION FUND INC.

Management Report of Fund Performance for the year ended December 31, 2018

## FINANCIAL HIGHLIGHTS

The Fund's Net Assets per Share tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for each of the past five years.

The Ratios & Supplemental Data shown below are based on net asset value.

THE FUND'S NET ASSETS PER SHARE (\$)<sup>(1)(2)\*</sup>

CLASS A, SERIES I SHARES Commencement of operations September 10, 2010	Dec. 31 2018	Dec. 31 2017	Dec. 31 2016	Dec. 31 2015	Dec. 31 2014
<b>Net assets at the beginning of year<sup>(3)</sup></b>	10.34	8.37	8.07	8.63	8.56
<b>Increase (decrease) from operations:</b>					
Total revenue	0.51	0.15	0.13	0.22	0.14
Total expenses (excluding distributions)	(0.47)	(1.05)	(0.74)	(0.56)	(0.58)
Realized gains (losses) for the year	(0.77)	3.23	0.66	0.56	-
Unrealized gains (losses) for the year	0.21	(0.38)	0.27	(0.78)	0.52
<b>Total increase (decrease) from operations<sup>(3)</sup></b>	<b>(0.52)</b>	<b>1.95</b>	<b>0.32</b>	<b>(0.56)</b>	<b>0.08</b>
<b>Distributions:</b>					
From net investment income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
<b>Total distributions<sup>(3)</sup></b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net assets at the end of the year shown<sup>(3)</sup></b>	<b>9.81</b>	<b>10.34</b>	<b>8.37</b>	<b>8.07</b>	<b>8.63</b>
<b>Ratios and Supplemental Data</b>					
Net asset value (\$000's)	5,395	6,347	5,876	6,431	8,935
Number of shares outstanding (000's)	549	614	702	797	1,035
Portfolio turnover rate (%) <sup>(5)</sup>	18.77	-	2.05	2.98	12.17
Trading expense ratio (%) <sup>(6)</sup>	-	-	0.01	0.01	0.04
Management expense ratio after taxes (%) <sup>(4)</sup>	4.79	11.75	8.87	7.46	7.22
Net assets per share (\$)	9.81	10.34	8.37	8.07	8.63

\*Footnotes for the tables are found at the end of the Financial Highlights section.

# VENTURELINK INNOVATION FUND INC.

Management Report of Fund Performance for the year ended December 31, 2018

## FINANCIAL HIGHLIGHTS (cont'd)

THE FUND'S NET ASSETS PER SHARE (\$) <sup>(1)(2)\*</sup>

CLASS A, SERIES II SHARES Commencement of operations September 10, 2010	Dec. 31 2018	Dec. 31 2017	Dec. 31 2016	Dec. 31 2015	Dec. 31 2014
<b>Net assets at the beginning of year</b> <sup>(3)</sup>	9.91	8.07	7.82	8.42	8.39
<b>Increase (decrease) from operations:</b>					
Total revenue	0.48	0.15	0.13	0.18	0.14
Total expenses (excluding distributions)	(0.50)	(1.06)	(0.76)	(0.59)	(0.62)
Realized gains (losses) for the year	(0.74)	3.10	0.64	0.56	-
Unrealized gains (losses) for the year	0.20	(0.37)	0.26	(0.75)	0.51
<b>Total increase (decrease) from operations</b> <sup>(3)</sup>	(0.56)	1.82	0.27	(0.60)	0.03
<b>Distributions:</b>					
From net investment income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
<b>Total distributions</b> <sup>(3)</sup>	-	-	-	-	-
<b>Net assets at the end of the year shown</b> <sup>(3)</sup>	9.35	9.91	8.07	7.82	8.42
<b>Ratios and Supplemental Data</b>					
Net asset value (\$000's)	3,342	4,033	3,654	4,034	5,295
Number of shares outstanding (000's)	357	407	453	516	629
Portfolio turnover rate (%) <sup>(5)</sup>	18.77	-	2.05	2.98	12.17
Trading expense ratio (%) <sup>(6)</sup>	-	-	0.01	0.01	0.04
Management expense ratio after taxes (%) <sup>(4)</sup>	5.35	12.32	9.43	8.03	7.78
Net assets per share (\$)	9.35	9.91	8.07	7.82	8.42

\*Footnotes for the tables are found at the end of the Financial Highlights section.

# VENTURELINK INNOVATION FUND INC.

Management Report of Fund Performance for the year ended December 31, 2018

## FINANCIAL HIGHLIGHTS (cont'd)

THE FUND'S NET ASSETS PER SHARE (\$) <sup>(1)(2)\*</sup>

CLASS A, SERIES III SHARES Commencement of operations September 10, 2010	Dec. 31 2018	Dec. 31 2017	Dec. 31 2016	Dec. 31 2015	Dec. 31 2014
<b>Net assets at the beginning of year<sup>(3)</sup></b>	9.14	7.53	7.38	8.02	8.09
<b>Increase (decrease) from operations:</b>					
Total revenue	0.44	0.13	0.12	0.19	0.12
Total expenses (excluding distributions)	(0.56)	(1.06)	(0.80)	(0.65)	(0.68)
Realized gains (losses) for the year	(0.67)	2.81	0.62	0.53	0.01
Unrealized gains (losses) for the year	0.18	(0.33)	0.25	(0.72)	0.49
<b>Total increase (decrease) from operations<sup>(3)</sup></b>	(0.61)	1.55	0.19	(0.65)	(0.06)
<b>Distributions:</b>					
From net investment income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
<b>Total distributions<sup>(3)</sup></b>	-	-	-	-	-
<b>Net assets at the end of the year shown<sup>(3)</sup></b>	8.53	9.14	7.53	7.38	8.02
<b>Ratios and Supplemental Data</b>					
Net asset value (\$000's)	20,470	28,630	30,111	36,874	49,854
Number of shares outstanding (000's)	2,396	3,131	4,000	4,997	6,213
Portfolio turnover rate (%) <sup>(5)</sup>	18.77	-	2.05	2.98	12.17
Trading expense ratio (%) <sup>(6)</sup>	-	-	0.01	0.01	0.04
Management expense ratio after taxes (%) <sup>(4)</sup>	6.44	13.39	10.49	9.12	8.86
Net assets per share (\$)	8.53	9.14	7.53	7.38	8.02

\*Footnotes for the tables are found at the end of the Financial Highlights section.

# VENTURELINK INNOVATION FUND INC.

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## FINANCIAL HIGHLIGHTS (cont'd)

THE FUND'S NET ASSETS PER SHARE (\$) <sup>(1)(2)\*</sup>

<b>CLASS A, SERIES IV SHARES</b>	Dec. 31	Dec. 31	Dec. 31	Dec. 31	Dec. 31
<b>Commencement of operations September 10, 2010</b>	2018	2017	2016	2015	2014
<b>Net assets at the beginning of year</b> <sup>(3)</sup>	9.10	7.50	7.35	8.00	8.07
<b>Increase (decrease) from operations:</b>					
Total revenue	0.44	0.13	0.12	0.20	0.11
Total expenses (excluding distributions)	(0.56)	(1.06)	(0.80)	(0.65)	(0.68)
Realized gains (losses) for the year	(0.67)	2.78	0.63	0.52	0.02
Unrealized gains (losses) for the year	0.18	(0.33)	0.25	(0.72)	0.49
<b>Total increase (decrease) from operations</b> <sup>(3)</sup>	(0.61)	1.52	0.20	(0.65)	(0.06)
<b>Distributions:</b>					
From net investment income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
<b>Total distributions</b> <sup>(3)</sup>	-	-	-	-	-
<b>Net assets at the end of the year shown</b> <sup>(3)</sup>	8.48	9.10	7.50	7.35	8.00
<b>Ratios and Supplemental Data</b>					
Net asset value (\$000's)	8,855	12,838	13,858	17,462	23,948
Number of shares outstanding (000's)	1,043	1,411	1,849	2,375	2,993
Portfolio turnover rate (%) <sup>(5)</sup>	18.77	-	2.05	2.98	12.17
Trading expense ratio (%) <sup>(6)</sup>	-	-	0.01	0.01	0.04
Management expense ratio after taxes (%) <sup>(4)</sup>	6.50	13.45	10.54	9.19	8.92
Net assets per share (\$)	8.48	9.10	7.50	7.35	8.00

\*Footnotes for the tables are found at the end of the Financial Highlights section.

# VENTURELINK INNOVATION FUND INC.

Management Report of Fund Performance for the year ended December 31, 2018

## FINANCIAL HIGHLIGHTS (cont'd)

THE FUND'S NET ASSETS PER SHARE (\$)<sup>(1)(2)\*</sup>

CLASS A, SERIES VI SHARES Commencement of operations September 10, 2010	Dec. 31 2018	Dec. 31 2017	Dec. 31 2016	Dec. 31 2015	Dec. 31 2014
<b>Net assets at the beginning of year<sup>(3)</sup></b>	9.30	7.64	7.47	8.11	8.15
<b>Increase (decrease) from operations:</b>					
Total revenue	0.45	0.14	0.13	0.14	0.10
Total expenses (excluding distributions)	(0.54)	(1.06)	(0.79)	(0.64)	(0.67)
Realized gains (losses) for the year	(0.69)	2.83	0.64	0.55	0.03
Unrealized gains (losses) for the year	0.19	(0.30)	0.25	(0.69)	0.50
<b>Total increase (decrease) from operations<sup>(3)</sup></b>	(0.59)	1.61	0.23	(0.64)	(0.04)
<b>Distributions:</b>					
From net investment income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
<b>Total distributions<sup>(3)</sup></b>	-	-	-	-	-
<b>Net assets at the end of the year shown<sup>(3)</sup></b>	8.70	9.30	7.64	7.47	8.11
<b>Ratios and Supplemental Data</b>					
Net asset value (\$000's)	560	680	709	900	1,083
Number of shares outstanding (000's)	64	73	93	120	134
Portfolio turnover rate (%) <sup>(5)</sup>	18.77	-	2.05	2.98	12.17
Trading expense ratio (%) <sup>(6)</sup>	-	-	0.01	0.01	0.04
Management expense ratio after taxes (%) <sup>(4)</sup>	6.20	13.16	10.24	8.89	8.62
Net assets per share (\$)	8.70	9.30	7.64	7.47	8.11

\*Footnotes for the tables are found at the end of the Financial Highlights section.



# VENTURELINK INNOVATION FUND INC.

*Management Report of Fund Performance for the year ended December 31, 2018*

## FINANCIAL HIGHLIGHTS (cont'd)

- (1) This information is derived from the Fund's audited annual financial statements.
- (2) The following classes of shares of the Fund commenced operations:

Class A, Series I shares	September 10, 2010
Class A, Series II shares	September 10, 2010
Class A, Series III shares	September 10, 2010
Class A, Series IV shares	September 10, 2010
Class A, Series VI shares	September 10, 2010
- (3) Net assets per share and distributions per share are based on the actual number of shares outstanding for the relevant class on the relevant date. The increase (decrease) in net assets from operations per share is based on the weighted average number of shares outstanding for the relevant class over the financial year.
- (4) Management expense ratio is calculated based on expenses charged directly to the Fund plus, if applicable, expenses of the underlying funds, calculated on a weighted average basis based on the percentage weighting of each underlying fund and is expressed as an annualized percentage of average daily net asset value for the year.
- (5) 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 of the securities in its portfolio once in the course of the fiscal 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 higher turnover rate and the performance of a Fund. Portfolio turnover rate is calculated by dividing the lesser of the cost of purchases and the proceeds of sales of portfolio securities for the year, excluding cash and short-term investments maturing in less than one year and the value of any securities acquired as a result of merger, by the average of the monthly fair value of investments during the year.
- (6) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value of the Fund during the year.

# VENTURELINK INNOVATION FUND INC.

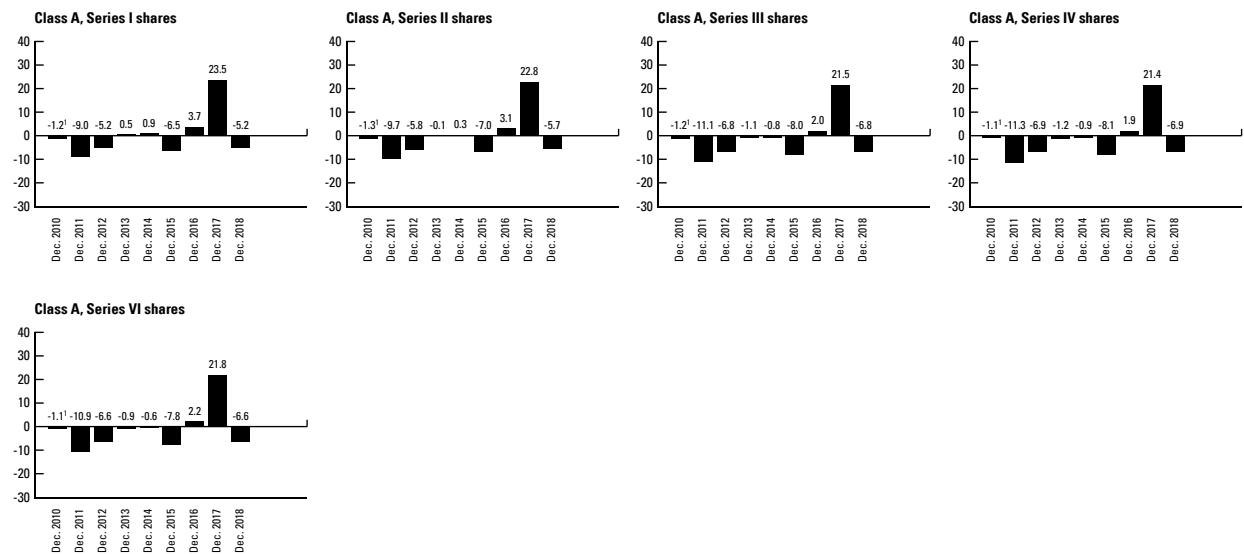
Management Report of Fund Performance for the year ended December 31, 2018

## PAST PERFORMANCE

This section describes how the Fund has performed in the past. Past returns do not indicate how the Fund will perform in the future. The information shown assumes that dividends paid by the Fund in the years shown were reinvested in additional shares of the relevant classes of the Fund. In addition, the information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance.

## Year-by-Year Returns

The following charts show the Fund's annual performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. In percentage terms, the charts show how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year.



<sup>1</sup> 2010 return is for the period from September 10, 2010 to December 31, 2010.

Returns for years up to December 31, 2012 are calculated using Canadian GAAP while returns for years thereafter are calculated using IFRS.

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## Annual Compound Returns

The following table shows the Fund's annual compound returns for each year indicated, compared to the S&P/TSX Venture Composite Index.

S&P/TSX Venture Composite Index is an index intended as a broad market indicator for the TSX Venture Exchange, which lists Canadian companies that do not meet the criteria to be listed on the Toronto Stock Exchange. These companies tend to be earlier stage and may be technology focused providing a benchmark for a maturing venture capital portfolio.

	<b>One Year (%)</b>	<b>Three Years (%)</b>	<b>Five Years (%)</b>	<b>Since Inception (%)</b>
Class A, Series I shares	(5.2)	6.7	2.8	(0.2)
S&P/TSX Venture Composite Index	(34.5)	(2.0)	(9.8)	(12.0)
Class A, Series II shares	(5.7)	6.1	2.2	(0.8)
S&P/TSX Venture Composite Index	(34.5)	(2.0)	(9.8)	(12.0)
Class A, Series III shares	(6.8)	4.9	1.1	(1.9)
S&P/TSX Venture Composite Index	(34.5)	(2.0)	(9.8)	(12.0)
Class A, Series IV shares	(6.9)	4.9	1.0	(2.0)
S&P/TSX Venture Composite Index	(34.5)	(2.0)	(9.8)	(12.0)
Class A, Series VI shares	(6.6)	5.2	1.3	(1.7)
S&P/TSX Venture Composite Index	(34.5)	(2.0)	(9.8)	(12.0)

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## SUMMARY OF INVESTMENT PORTFOLIO as at December 31, 2018

<b>Industry Sector</b>	<b>Number of Companies</b>	<b>Cost (in \$000's)</b>	<b>Fair Value (in \$000's)</b>	<b>% of Cost</b>	<b>% of FV</b>
<b>Sector</b>					
Financial Services	2	4,455	352	14.5	1.8
Biotechnology	1	-	-	-	-
Information Technology	8	26,235	19,708	85.5	98.2
	11	30,690	20,060	100.0	100.0

<b>Stage of Development</b>	<b>Number of Companies</b>	<b>Cost (in \$000's)</b>	<b>Fair Value (in \$000's)</b>	<b>% of Cost</b>	<b>% of FV</b>
<b>Investment Stage</b>					
Early	5	14,905	7,406	48.6	36.9
Later	6	15,785	12,654	51.4	63.1
	11	30,690	20,060	100.0	100.0

<b>Investments</b>	<b>Cost (in \$000's)</b>	<b>Fair Value (in \$000's)</b>
Venture Investments	30,690	20,060
Underlying Funds	17,692	13,409
	48,382	33,469

# VENTURELINK INNOVATION FUND INC.

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## SUMMARY OF INVESTMENT PORTFOLIO as at December 31, 2018 (cont'd)

### Top Venture Investment Holdings (as at December 31, 2018)\*

DCR Strategies Inc.  
Embotics Corp.  
Futurestate IT Inc.  
MMB Research Inc.  
Peraso Technologies Inc.  
Pitchpoint Solutions Inc.  
Upsight Inc.  
SCI Ltd.  
WF Fund III Limited Partnership  
WireE Holdings International Inc.

\*This includes the ten venture investments that continue to be carried at greater than nominal cost or market value.

The summary of investment may change due to ongoing portfolio transactions of the Fund and updates will be available on an annual basis.

### A NOTE ON FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective," and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-

looking statement made by the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchanges rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.