VENATOR
CAPITAL MANAGEMENT LTD.

LOONIE TUNES II

September was an uneventful month for the Founders Fund, which experienced a small 1.3% gain from August, below the strong figures posted by the other markets we track. This brings the Founders Fund's NAV to $15.62, up 17.3% year-to-date and up 45% over the past 12 months. The Fund has been more-or-less flat over the past four months, which is reflective of our investment philosophy of being fully invested on the "long" side at all times, while using short selling only to the extent that we are trying to hedge those positions that we believe are subject to market/industry risk. Our low relative weight in junior resources, which allowed us to sidestep the weakness in the Canadian small-cap sector last month, held back our performance this month relative to the strong performance of the TSX. It's also worth noting that small-caps continue to underperform the large caps as uncertain and volatile markets have put a premium on liquidity. In fact, the Russell 2000 and Canadian Small-Cap indices are up only 3% and 2% YTD (respectively), and both are up 11% over the past twelve months.

While we already discussed the potential of a par Loonie in our May review, it's worth a moment of reflection in recognition of it actually getting above par. We continue to watch this development closely in terms of our investment strategy. As a reminder, we do hedge our US dollar denominated positions, but do not hedge against the US business exposure of our Canadian positions. That being said, we do remain concerned for the Canadian economy in that the Loonie's march to par is more a reflection of the Greenback's decline than that anything great that has been happening up here. Yes, we are resource-rich, but our costs are escalating and the strength of the Loonie is taking away the revenue gains our resource producers would hope for out of current strong commodity prices. Add to that a weakening retail picture that is about to get a whole lot weaker -- we are concerned over whether some of our "standard products" companies (such as cars, sporting goods, books and anything that can be purchased over the internet) can handle prices that will probably have to drop 10%-15% from current levels versus their escalating cost structures. We understand most of them have been getting the benefits of lower import prices, but have not been passing them through to the Canadian consumer. Meanwhile, the Canadian auto-parts industry suffered a severe blow when the new UAW contract offered some major cost concessions to US auto manufacturers in exchange for job creation measures south of the border, a bargaining point for the unions that the stronger Loonie made possible. We remain concerned that the stronger Loonie relative to the Greenback is going to bring about quite a bit of pain in retail and manufacturing, without the associated gains (thanks to lower currency adjusted revenues for resource companies and higher costs).

Finally, I would like to introduce our newest addition, Stephen Andersons, who comes to us from Cormark Securities where he was the co-Head of Research. Stephen and I worked together at Cormark (then called Sprott Securities) finding undiscovered companies in the US. Stephen and I operate along a similar wavelength and his stockpicking style fits perfectly with the Venator philosophy. Stephen is especially astute at discovering value stocks with growth potential. After decompressing for a few months in Australia and the Caribbean, a recharged Stephen will be starting with us on January 1, 2008.

Thank you for your support,

Brandon Osten
President, Venator Capital Management