

B.E.S.T. Total Return Fund Inc. (the “Fund”)

Management Report of Fund Performance

For the six-month period ended February 28, 2018

INTRODUCTORY NOTE

This annual management report of fund performance (“MRFP”) contains financial highlights but does not contain the complete annual financial statements of the investment fund. The semi-annual financial statements are included in the Fund’s Semi-Annual Report for the period ended February 28, 2018, of which this MRFP forms a part. You can get a copy of the semi-annual financial statements at your request, and at no cost, by calling 1-800-795-BEST (2378), by writing to us at 181 Bay Street, Suite 810, Toronto, Ontario, M5J 2T3, or on SEDAR at www.sedar.com.

Shareholders may also contact us using one of these methods to request a copy of the Fund’s proxy voting policies and procedures and its proxy voting disclosure record.

FORWARD LOOKING STATEMENTS

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund actions. The words “anticipate”, “could”, “should”, “may”, “expect”, “believe”, “plan”, “intends”, “estimate”, “forecast”, “objective”, “would”; and similar expressions are intended to identify forward-looking statements.

Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors. It is not possible to guarantee that future performance, predictions, forecasts, projections or other forward looking statements will be achieved. Factors such as economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings or catastrophic events could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made by the Fund.

The above list of important factors that may affect future results is not exhaustive. Please consider these and other pertinent factors before making any investment decisions and do not place undue reliance on forward-looking statements. All opinions contained in forward-looking statements are subject to change without notice.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objectives and Strategies

The Fund is registered as a Labour Sponsored Venture Capital Corporation under the *Income Tax Act* (Canada) and a Labour Sponsored Investment Fund under the *Community Small Business Investments Funds Act* (Ontario). The Fund's primary objective is to generate interest and dividend income as well as long-term capital appreciation by investing in a diversified portfolio of small and medium-sized private and public companies. The Fund invests in convertible debentures and mezzanine debt as well as equity securities such as common shares and preferred shares of companies that, in the Fund's opinion, have the greatest potential to achieve the Fund's objectives. The Fund intends to maintain a focus in both geographic and sector diversification by investing across Canada in businesses that have the ability to generate sustainable positive cash flow and have attractive growth prospects, and by considering investments in traditional industries such as service, distribution and manufacturing as well as in technology and special situations such as turnarounds. The investment horizon for each investment, from investment to exit, is expected to be five to seven years, subject to the characteristics of each individual investment.

All investments must meet the eligibility requirements as defined in the *Income Tax Act* (Ontario) and the *Income Tax Act* (Canada) and as further described in the Fund's prospectus.

Risk

There is no change in the suitability for investment from that stated in the Fund's prospectus.

General

The business of the Fund is making investments in small to medium-sized eligible businesses, many of which have limited operating history. These investments may require a number of years in order to mature and generate the returns expected by the Fund and investors. The Fund requires a greater commitment to the initial analysis, post investment monitoring and support relative to the amount of capital invested, than the investments of other mutual funds. The cost to determine the value of the Fund's investments for which no published market exists is greater than the valuation costs for mutual funds invested primarily in public companies and consequently the operating expenses of the Fund are higher than those of other mutual funds. The Ontario government no longer offers provincial tax credits to investors. The federal government may also not be offering tax credits to investors (see "Recent Developments" below). The Fund's ability to raise capital to fulfill its investment objectives and support the existing portfolio may be impaired if the Fund cannot offer tax credits for new subscriptions of the Fund.

Valuation

The Fund estimates the fair value of its investments for which there is no published market. The valuation process is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments. To the extent that these valuations are too high, a new shareholder investment will provide a benefit to existing investors; similarly, to the extent these valuations are too low, existing investors will suffer a dilution in the value of their shares. Venture capital investing carries the risk of having illiquid investments in the portfolio along with the risk of finding suitable investments meeting the Fund's investment criteria. The process of valuing venture investments for which no published market exists is subject to inherent uncertainties and the resulting values may differ from values which would have been used had a ready market existed for those investments. This is the valuation risk as described in the Fund's financial statements. Other risks associated with the Fund are market risk, which includes currency risk, interest rate risk, liquidity risk, and credit risk.

Redemptions

Many investors are now eligible to redeem their shares of the Fund without having to repay the tax credits which were offered upon the initial purchase. An increase in the rate of redemption activity may result in a tightening of the Fund's cash resources available to fund redemptions. The Fund may limit the aggregate redemptions of Class A Shares in any year to 20% of the Net Asset Value of the Fund as of the last day of the preceding financial year. Accordingly, investors may not be able to redeem their Class A Shares on demand. The Fund is entitled to suspend the right of Class A Shareholders to redeem Class A Shares and/or delay the date for payment of the redemption amounts. The majority of the Fund's investments are in private companies which are illiquid assets and as such, the Fund may not be able to exit such investments on favourable terms to satisfy redemption requests.

Liquidity

The Fund is primarily invested in a portfolio of private small and medium sized businesses. Investments of this kind, by their nature, involve a longer investment time horizon than that of many other investments. Management expects the economy and financial markets will continue to provide challenges for these small private companies and may result in the Fund not being able to exit these investments at valuations and over time horizons which would normally be expected for investments in larger more liquid companies.

Recent Developments

Proposed Fee Changes

At a meeting of the shareholders of the Fund on February 28, 2018, the Class A and Class B shareholders approved a proposal by the Manager to amend the annual Management Fee, Investment Advisory Fee and the Performance Fee, if any, payable by the Fund to the Manager.

The changes to the Performance Fee are subject to the approval of the Ontario Securities Commission (the “OSC”). If the changes to the Performance Fee are approved by the OSC, the Manager intends to implement all the fee changes as set out in the table below.

Fee Changes	Proposed Fee	Current Fee
<u>Management Fee</u> This fee will be reduced to 1.0% of the Class A Share net asset value (“NAV”) regardless of the amount to NAV amount	1.0% per annum of the Class A Share NAV	1.50% of Class A Share NAV up to \$100 million; 1.25% Class A Share NAV in excess of \$100 million
<u>Investment Advisory Fee</u> This fee will be reduced to 1% of the Class A Share NAV regardless of the amount of NAV	1.0% per annum of the Class A Share NAV	2.00% Class A Share NAV up to \$100 million; 1.75% of Class A Share NAV in excess of \$100 million

The Performance Fee will be changed in two ways on a go-forward basis commencing on September 1, 2018, the anticipated effective date of the Fee Changes. First, the hurdle rates of return that must be realized on the Fund’s eligible investments before a Performance Fee is payable will be reduced. Second, the Fund’s preferred return on each eligible investment will be reduced to 6% from 12%. The Investment Advisor will be entitled to all gains and income earned from each particular eligible investment in excess of the 6% compounded annual rate of return contemplated above, up to and including an amount representing an 8% compounded annual rate of return from the particular eligible investment. The effect of these changes is that the Investment Advisor could earn a Performance Fee based on lower rates of return. These changes could increase the amount of the Performance Fee over time.

The proposed changes will apply to the Performance Fee calculation on and after September 1, 2018. The current Performance Fee hurdles and thresholds will continue to apply prior to that date and will be carried forward. These changes are fully detail in the Fund’s Management Proxy Circular dated January 31, 2018.

The federal government announced on March 21, 2013 that the 15% federal tax credit available for investments in Labour Sponsored Venture Capital Corporations (LSVCC) would be phased out in stages to 0% after 2016.

IFRS 9, Financial Instruments

The final version of IFRS 9, Financial Instruments, was issued by the IASB in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a model for classification and measurement, a single, forward-looking “expected loss” impairment model and a substantially reformed approach to hedge accounting. The new single, principle based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity’s own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, however is available for early adoption. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. The standard’s requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity’s ordinary activities. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

Related Party Transactions

The Manager and The Christian Labour Association of Canada, The International Federation of Professional and Technical Engineers – Local 160 and The International Federation of Professional and Technical Engineers – Local 164 (the “Sponsors”) are deemed to be related parties of the Fund. Please refer to the section titled “Management Fees” which outlines the fees paid to these related parties during the year.

John Richardson, the Chief Executive Officer of the Fund, is a director, officer and indirectly controls the Manager. As at February 28, 2018 John Richardson owned 100.00% of the outstanding Class C Shares of the Fund.

John Richardson is a director and officer of B.E.S.T. Capital Administration Inc., which provides storage and facilities to the Fund.

Results of Operations

Financial Results

The Fund reported an overall increase in net assets per Class A Share of \$0.17 as the price per Class A Share increased from \$11.48 at August 31, 2017 to \$11.65 at February 28, 2018. This represents an increase of approximately 1.50%. The increase is due to the net gain on investments reported by the Fund during the period.

The Fund reported a net gain on investments of \$351,666 for the six-month period ended February 28, 2018. This compares to a net gain on investments of \$521,777 for the six-month period ended February 28, 2017. The lower net gain in the current period is mainly the result of a realized loss of \$117,252 during the period. The Fund's investment in Roadhouse Holdings Inc. was liquidated during the period. The Fund also reported net change in unrealized appreciation of investments in the amount of \$152,658 during the six-month period ended February 28, 2018 compared to a net unrealized appreciation of \$236,595 in the comparable period last year. The change in unrealized appreciation on investments was primarily the result of the reversal of unrealized depreciation on the sale of the Fund's investment in Roadhouse Holdings Inc. Interest and other income earned by the Fund was up from \$285,590 in the prior year to \$316,260 in the current period. The Fund was able to recognize accrued interest on one investment that was previously not recognized due to the uncertainty about the eventual realization and collection of the interest. The prospects for the company have improved providing greater certainty of collection.

Total expenses before taxes decreased to \$239,039 for the six-month period ended February 28, 2018 compared to \$294,831 for the same period in the prior year. This decrease is due mainly to lower performance fees, transfer and administrative fees and lower legal fees. This was offset by slightly higher audit fees. The Fund reported lower management fees, advisor fees, selling costs and sponsor fees which decreased due to the lower average net asset value attributable to Class A Shares of the Fund during the period. Performance fees of \$59,657 result from the increase in contingent performance fees. There were no performance fees paid or payable during the period from actual realized gains and income recognized by the Fund. Contingent performance fees are based on unrealized gains or gains and income on investments for which the original investment has not been fully recouped as at the end of the period. Excluding performance fees, total expenses before taxes were \$179,382 for the six-month period ended February 28, 2018 compared to total expenses before taxes and performance fees of \$200,527 for the six-month period ended February 28, 2017.

The Fund has recorded a current income tax expense for the six-month period ended February 28, 2018 in the amount of \$39,726 and a deferred income tax expense of \$2,742. The deferred income tax asset arises from the balance of deferred income on venture investments.

During the six-month period ended February 28, 2018, the Fund reported subscriptions of Class A Shares in the amount of \$44,985 compared to \$20,000 in 2017. Redemptions of Class A Shares were \$82,061 during the period compared to \$106,547 during the comparable period in the prior year.

On April 3, 2018, the Fund received the repayment of all outstanding interest and principal on its investment in Optessa Inc. resulting in a net gain to the Fund of \$405,828 or approximately \$0.95 per Class A Share. The Fund had previously not recognized all the accrued interest owed by the company due to significant uncertainty about the ultimate realization of the income.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years.

The Fund's Net Assets per Class A Share ⁽¹⁾

	2018	2017	2016	2015	2014
Net Assets, beginning of the period	\$11.48	\$9.89	\$11.23	\$12.20	\$11.37
Increase (decrease) from operations:					
Total revenues	\$0.73	\$1.23	\$1.25	\$1.37	\$1.71
Total expenses	(\$0.65)	(\$1.31)	(\$0.97)	(\$2.22)	(\$1.35)
Realized gains (losses) for the period	(\$0.27)	(\$0.23)	(\$0.56)	\$0.09	\$0.29
Unrealized gains (losses) for the period	\$0.34	\$1.88	(\$0.91)	(\$0.16)	(\$0.24)
Total increase (decrease) from operations (2)	\$0.15	\$1.57	(\$1.19)	(\$0.92)	\$0.41
Total Distributions	\$0	\$0	\$0	\$0	\$0
Net Assets, end of the period	\$11.65	\$11.48	\$9.89	\$11.23	\$12.20

The Fund's Net Assets per Class C Share ⁽¹⁾

	2018	2017	2016	2015	2014
Net Assets, beginning of the period	\$11.48	\$9.89	\$11.23	\$12.20	\$11.37
Increase (decrease) from operations:					
Total revenues	\$0.73	\$1.23	\$1.25	\$1.37	\$1.71
Total expenses	(\$0.65)	(\$1.29)	(\$1.13)	(\$2.27)	(\$1.41)
Realized gains (losses) for the period	(\$0.27)	(\$0.23)	(\$0.56)	\$0.09	\$0.29
Unrealized gains (losses) for the period	\$0.35	\$1.88	(\$0.91)	(\$0.16)	(\$0.24)
Total increase (decrease) from operations (2)	\$0.16	\$1.59	(\$1.35)	(\$0.97)	\$0.35
Total Distributions	\$0	\$0	\$0	\$0	\$0
Net Assets, end of the period	\$11.65	\$11.48	\$9.89	\$11.23	\$12.20

- (1) The information is provided as at and for the six-month period ended February 28, 2018 and as at and for the years ended August 31 for the years shown. The information presented is based on financial information in accordance with IFRS for the six-month period ended February 28, 2018 and the years ended 2017, 2016 and 2015. Figures for the year ended August 31, 2014 are based on financial information presented in accordance with previous Canadian Generally Accepted Accounting Principles which had no remeasurement difference to IFRS.

- (2) *Net assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of shares outstanding over the financial year. As a result, the table is not intended to and will not necessarily reconcile opening and closing net assets.*

Ratios and Supplemental Data

Class A Shares

	2018	2017	2016	2015	2014
Total net asset value (1)	\$793,839	\$820,183	\$886,598	\$1,357,329	\$1,927,166
Number of shares outstanding (1)	70,740	71,435	89,687	120,833	161,656
Management expense ratio (2)	9.71%	11.00%	9.06%	18.53%	10.87%
Management expense ratio before waivers	9.71%	11.00%	9.06%	18.53%	10.87%
Management expense ratio before performance fee	7.28%	7.75%	6.52%	15.77%	7.73%
Trading expense ratio (3)	0%	0%	0%	0%	0%
Portfolio turnover (4)	98.27%	94.19%	122.08%	17.78%	32.46%
Net asset value per share	\$11.65	\$11.48	\$9.89	\$11.23	\$12.20

Class C Shares

	2018	2017	2016	2015	2014
Total net asset value (1)	\$4,200,783	\$4,141,356	\$3,585,719	\$4,074,540	\$4,425,152
Number of shares outstanding (1)	360,698	360,698	362,725	362,725	362,725
Management expense ratio (2)	9.71%	11.00%	10.52%	18.90%	10.79%
Management expense ratio before waivers	9.71%	11.00%	10.52%	18.90%	10.79%
Management expense ratio before performance fee	7.28%	7.75%	7.98%	16.15%	7.65%
Trading expense ratio (3)	0%	0%	0%	0%	0%
Portfolio turnover (4)	98.27%	94.19%	122.08%	17.78%	32.46%
Net asset value per share	\$11.65	\$11.48	\$9.89	\$11.23	\$11.37

(1) *This information is provided as at and for the six-month period ended February 28, 2018 and as at and for the years ended August 31 for the years shown.*

(2) *Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated year and is expressed as an annualized percentage of daily average net asset value during the year.*

(3) *The trading expense ratio represents total commissions and other portfolio transaction costs expressed as a percentage of daily average net asset value during the year.*

(4) *The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser 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 year. The higher a fund's portfolio turnover rate in a year the greater the trading costs payable by the Fund, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.*

Management Fees

Refer to “Proposed Fee Changes” under “Recent Developments” above.

Management Fee

The Fund pays the Manager an annual fee for its performance of administrative services of 1.50% of the aggregate net asset value per share attributable to the Class A Shares on the first \$100 million of the aggregate net asset value per share attributable to the Class A Shares and 1.25% of the aggregate net asset value per share attributable to the Class A Shares in excess of \$100 million. The fee is calculated and paid monthly in arrears. The Manager is also entitled to be reimbursed for certain costs and expenses incurred on behalf of the Fund.

Advisor Fee

The Fund pays the Advisor an annual fee for the performance of investment advisory services of 2% of the aggregate of the net asset value per share attributable to the Class A Shares on the first \$100 million of the aggregate net asset value per share attributable to the Class A Shares and 1.75% of the aggregate net asset value per share attributable to the Class A Shares in excess of \$100 million. The fee is calculated and paid monthly in arrears. The Advisor is also entitled to be reimbursed for certain reasonable costs and expenses.

Sponsorship Fee

The Fund is sponsored jointly by the Christian Labour Association of Canada (“CLAC”), The International Federation of Professional and Technical Engineers – Local 160 and The International Federation of Professional and Technical Engineers – Local 164. CLAC holds all the Class B Shares of the Fund. The Fund pays to each Sponsor an annual fee equal to 0.07% of the aggregate net asset value per share attributable to the Class A Shares of the Fund.

Performance Fee

The Manager and the Advisor are also entitled to a performance fee based on the gains and income earned from each eligible investment. The method of calculating the performance fee is fully described in the prospectus. At the end of the year the Fund may accrue a contingent performance fee. The contingent performance fee is an estimate of the performance fee that would have been payable to the Manager and the Advisor had the Fund’s entire venture portfolio been disposed of and all conditions of payment met on February 28, 2018.

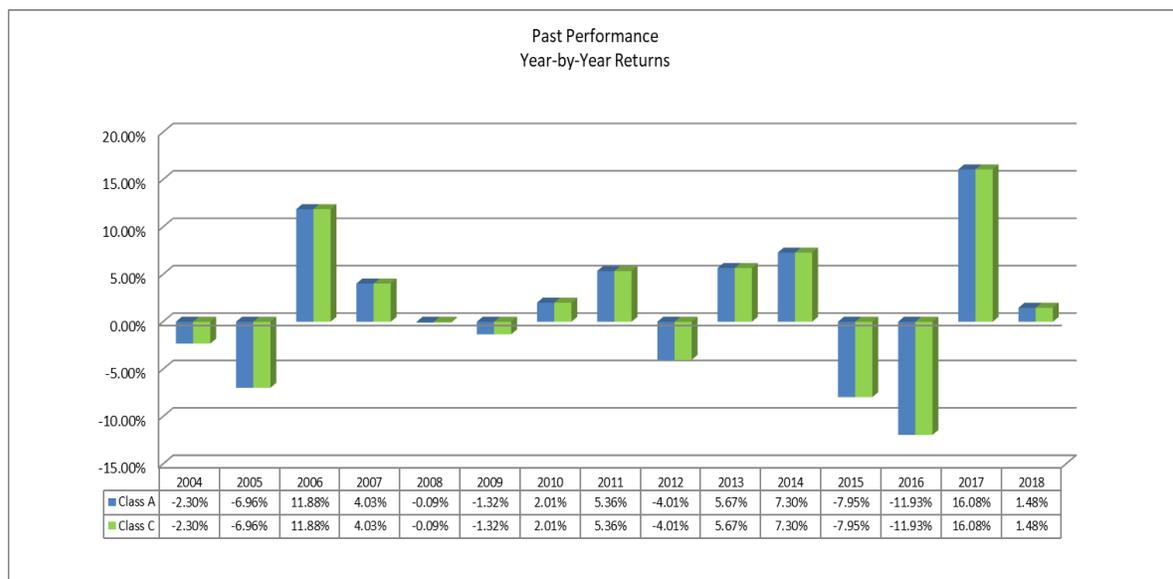
PAST PERFORMANCE

General

The performance information shown does not take into account sales, redemptions, income taxes or other charges that would have reduced returns or performance. Mutual funds are not guaranteed, their values change frequently and past performance is not indicative of future performance.

Year by Year Return

The following chart shows the Fund's performance for each year shown and illustrates how the Fund's performance has changed from year to year. The bar chart indicates, in percentage terms, how much an investment in the Fund made on the first day of the financial year would have grown or decreased by the last day of each financial year.



SUMMARY OF INVESTMENT PORTFOLIO

Summary of Portfolio Companies

Description	Maturity
Cash (6.32 %*)	
Venture Investments: (45.87%*)	
Dejero Labs Inc.	
Common Share Purchase Warrant	October 14, 2020
ERMS Corporation	
Common Shares	
FinanceIT Canada Inc.	
Common Share Purchase Warrant	April 21, 2018
Findev Inc.	

Common Share Purchase Warrant	July 5, 2018
Garner Distributed Workflow Inc.	
Common Share Purchase Warrant	July 8, 2021
Geminare Inc.	
Common Shares	
Health Care Services International Inc.	
Common Share Purchase Warrant	December 31, 2020
Hipplay Inc.	
Common Shares	
Intelligent Mechatronic Systems Inc.	
Promissory Note, 15.00%	July 31, 2017
Common Share Purchase Warrant	December 31, 2025
Common Share Purchase Warrant	December 31, 2025
MAC Financial Recovery (Canada) Inc.	
Promissory Note, 11.50%	February 1, 2019
Mobify Research and Development Inc.	
Common Share Purchase Warrant	December 22, 2021
Optessa Inc.	
Debenture, 20.00%	July 27, 2012
Pitchpoint Solutions Inc.	
Promissory Note, 13.50%	December 9, 2019
Common Share Purchase Warrant	December 9, 2021
Ridetones Inc.	
Promissory Note, 15.00%	July 31, 2017
Common Share Purchase Warrant	December 31, 2025
Skura Corporation Inc.	
Common Shares, Class E	
Trakopolis IoT Corp.	
Common Share Purchase Warrant	October 28, 2019
Utilitran Inc.	
Demand Note, 0.00%	November 11, 2011
Promissory Note, 0.00%	November 11, 2011
Common Shares	

* Percentages of total net assets attributable to holders of Class A shares and Class C shares

This summary of the portfolio investments of the Fund will change due to on-going transactions in the Fund. The summary will be updated on a semi-annual basis.

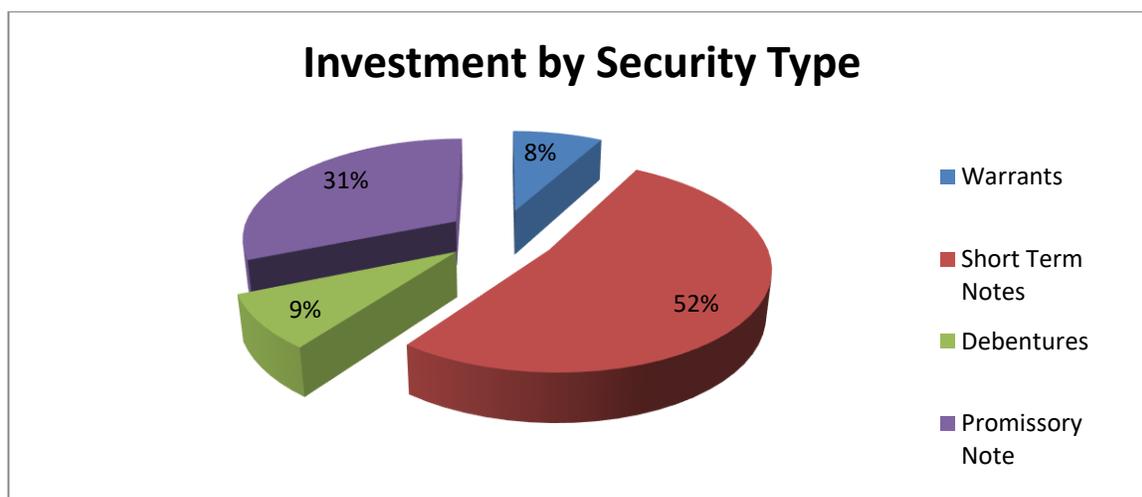
Top 25 Portfolio Investments (102.19% of Total Net Assets)

Investee Company	Asset Class	Description	Maturity Date
Bank of Nova Scotia	Short-Term	Banker's Acceptance Note	March 29, 2018
Ridetones Inc.	Venture	Promissory Note, 15.00%	July 31, 2017
Intelligent Mechatronic Systems Inc.	Venture	Promissory Note, 15.00%	July 31, 2017
Optessa Inc.	Venture	Debenture, 20.00%	July 27, 2012
Pitchpoint Solutions Inc.	Venture	Promissory Note, 13.50%	December 9, 2019
Cash	Cash		
Ridetones Inc.	Venture	Common Share Purchase Warrant	December 31, 2025

MAC Financial Recovery (Canada) Inc.	Venture	Promissory Note, 11.50%	February 1, 2019
Intelligent Mechatronic Systems Inc.	Venture	Common Share Purchase Warrant	December 31, 2025
Dejero Labs Inc.	Venture	Common Share Purchase Warrant	October 14, 2020
Trakopolis Iot Corp.	Venture	Common Share Purchase Warrant	October 28, 2019
ERMS Corporation	Venture	Common Shares	
FinanceIT Canada Inc.	Venture	Common Share Purchase Warrant	April 21, 2018
Garner Distributed Workflow Inc.	Venture	Common Share Purchase Warrant	July 8, 2021
Geminare Inc.	Venture	Common Shares	
Health Care Services International Inc.	Venture	Common Share Purchase Warrant	December 31, 2020
Hipplay Inc.	Venture	Common Shares	
Mobify Research & Development Inc.	Venture	Common Share Purchase Warrant	December 22, 2021
Pitchpoint Solutions Inc.	Venture	Common Share Purchase Warrant	December 9, 2021
Skura Corporation	Venture	Class E Shares	
Utilitran Inc.	Venture	Promissory Note, 0.00%	November 11, 2011
Trakopolis Iot Corp.	Venture	Common Share Purchase Warrant	October 28, 2019
Findev Inc.	Venture	Common Share Purchase Warrant	July 5, 2018

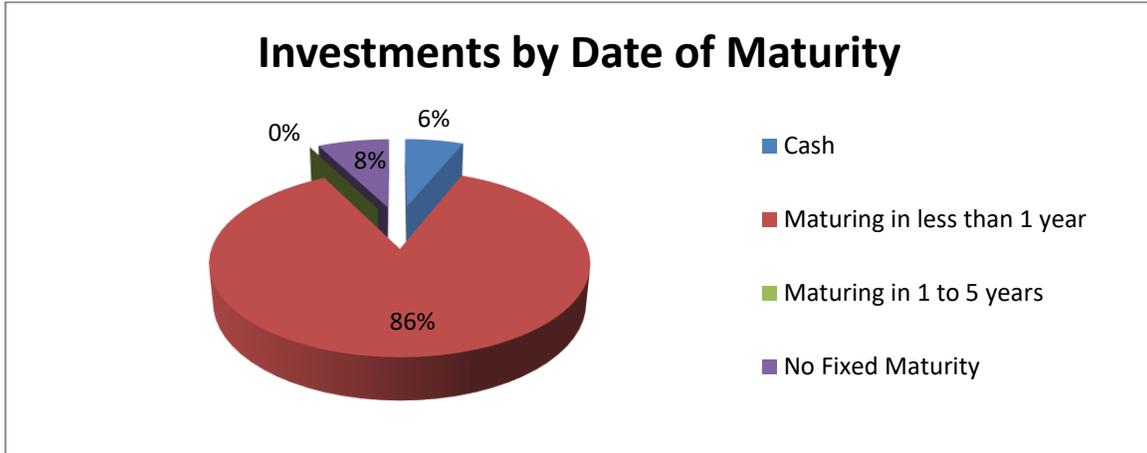
Investments by Security Type

The graph below shows the proportion of the Fund's investment portfolio by security type based on their fair value. Interest revenue is normally generated from debt securities only.



Investments by Date of Maturity

The graph below shows the proportion of the Funds investment portfolio plus the cash held by the Fund classified based on the date that the security is expected to mature. The graph shows the relative liquidity of the Fund's portfolio.



Other Information

The Fund is required to produce a full long form prospectus on an annual basis. The prospectus contains full disclosure of the Fund's securities, objectives and strategies, tax credits, valuation policies, a description of venture investments and risk factors among other detailed disclosure. The prospectus should be considered the main source of disclosure for the Fund.