

Annual Financial Statements of

**PENDER ALTERNATIVE MUTUAL FUNDS**

And Independent Auditors' Report thereon

Period ended December 31, 2021

## MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the **Pender Alternative Mutual Funds** (the "Funds") are the responsibility of management. They have been prepared in accordance with International Financial Reporting Standards.

PenderFund Capital Management Ltd. (the "Manager") has developed and maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to produce relevant, reliable and timely financial information, including the accompanying financial statements.

The Board of Directors of the Manager is responsible for reviewing and approving the financial statements and for overseeing the Manager's performance of its financial reporting responsibilities. The Board of Directors has approved the accompanying financial statements of the Funds.

These financial statements have been audited by KPMG LLP, Chartered Professional Accountants, on behalf of the unitholders. The auditors' report outlines the scope of their audit and their opinion on the financial statements.

*(signed) "David Barr"*

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David Barr  
Chief Executive Officer  
PenderFund Capital Management Ltd.

*(signed) "Gina Jones"*

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Gina Jones  
Chief Financial Officer  
PenderFund Capital Management Ltd.

March 30, 2022



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## INDEPENDENT AUDITORS' REPORT

To the Unitholders of the Pender Alternative Mutual Funds (collectively, the "Funds")

Pender Alternative Absolute Return Fund  
Pender Alternative Arbitrage Fund

### ***Opinion***

We have audited the financial statements of the Funds, which comprise:

- the statements of financial position as at December 31, 2021
- the statements of comprehensive income for the period then ended (for the Pender Alternative Absolute Return Fund from September 1, 2021 to December 31, 2021 and the Pender Alternative Arbitrage Fund from September 8, 2021 to December 31, 2021)
- the statements of changes in net assets attributable to holders of redeemable units for the period then ended (for the Pender Alternative Absolute Return Fund from September 1, 2021 to December 31, 2021 and the Pender Alternative Arbitrage Fund from September 8, 2021 to December 31, 2021)
- the statements of cash flows for the period then ended (for the Pender Alternative Absolute Return Fund from September 1, 2021 to December 31, 2021 and the Pender Alternative Arbitrage Fund from September 8, 2021 to December 31, 2021)
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Funds as at December 31, 2021, and their financial performance and their cash flows for the period then ended (for the Pender Alternative Absolute Return Fund from September 1, 2021 to December 31, 2021 and the Pender Alternative Arbitrage Fund from September 8, 2021 to December 31, 2021) in accordance with International Financial Reporting Standards ("IFRS").



### ***Basis for Opinion***

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “**Auditors’ Responsibilities for the Audit of the Financial Statements**” section of our auditors’ report.

We are independent of the Funds in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

### ***Other Information***

Management is responsible for the other information. Other information comprises:

- the information included in the Annual Management Report of Fund Performance for each of the Funds filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in the Annual Management Report on Fund Performance for each of the Funds filed with the relevant Canadian Securities Commissions as at the date of this auditors’ report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors’ report.

We have nothing to report in this regard.

### ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Funds’ ability to continue as going concerns, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Funds or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Funds’ financial reporting process.



## ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Funds' internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Funds' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Funds to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

Chartered Professional Accountants

Vancouver, Canada  
March 30, 2022

# PENDER ALTERNATIVE ABSOLUTE RETURN FUND

Statement of Financial Position

December 31, 2021

|   | 2021                |
|---|---------------------|
| <b>Assets</b>   |                     |
| Cash  | \$ 6,419,036        |
| Interest receivable   | 554,327             |
| Subscriptions receivable  | 367,280             |
| Derivative assets   | 309,100             |
| Investments   | 45,075,362          |
|   | <hr/> 52,725,105    |
| <b>Liabilities</b>  |                     |
| Management and administration fees payable                              | \$ 7,353            |
| Redemptions payable to holders of redeemable units                      | 24,407              |
| Payable for interest and dividends on short securities                  | 43,721              |
| Investments sold short  | 11,903,218          |
|   | <hr/> 11,978,699    |
| <b>Net assets</b> , attributable to holders of redeemable units         | <hr/> \$ 40,746,406 |
| <b>Net assets attributable to holders of redeemable units per class</b> |                     |
| Class A   | \$ 5,114            |
| Class AF  | 2,651,026           |
| Class F   | 5,114               |
| Class FF  | 32,660,274          |
| Class H   | 5,114               |
| Class I   | 131,396             |
| Class N   | 5,114               |
| Class O   | 5,283,254           |
|   | <hr/> \$ 40,746,406 |
| <b>Net assets attributable to holders of redeemable units per unit:</b> |                     |
| Class A   | \$ 9.99             |
| Class AF  | 9.99                |
| Class F   | 9.99                |
| Class FF  | 10.00               |
| Class H   | 9.99                |
| Class I   | 9.99                |
| Class N   | 9.99                |
| Class O   | 9.99                |

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the Manager, PenderFund Capital Management Ltd.

(signed) "David Barr" Director      (signed) "Felix Narhi" Director

# PENDER ALTERNATIVE ABSOLUTE RETURN FUND

## Statement of Comprehensive Income

For the Period from September 1, 2021 (commencement of operations) to December 31, 2021

|  | Notes | 2021              |
|--|-------|-------------------|
| <b>Revenue:</b>  |       |                   |
| Interest for distribution purposes   |       | \$ 405,095        |
| Dividend and interest expense on securities sold short                               |       | (60,653)          |
| Foreign exchange gain  |       | 40,163            |
| Changes in fair value of investments and derivatives:                                |       |                   |
| Net realized loss  |       | (238,458)         |
| Net change in unrealized appreciation  |       | 235,810           |
| <b>Total revenue</b>   |       | <b>381,957</b>    |
| <b>Expenses:</b>   |       |                   |
| Administration fees  | 4     | 23,296            |
| Management fees  | 4     | 11,368            |
| Transaction costs  |       | 9,959             |
| Independent review committee fees  |       | 818               |
| <b>Total expenses</b>  |       | <b>45,441</b>     |
| <b>Less: Fees waived and expenses absorbed by the Manager</b>                        |       | <b>(35,482)</b>   |
| <b>Net expenses</b>  |       | <b>9,959</b>      |
| <b>Increase in net assets attributable to holders of redeemable units</b>            |       | <b>\$ 371,998</b> |
| <b>Increase in net assets attributable to holders of redeemable units per class:</b> |       |                   |
| Class A  |       | \$ 114            |
| Class AF   |       | 26,078            |
| Class F  |       | 114               |
| Class FF   |       | 225,813           |
| Class H  |       | 114               |
| Class I  |       | 1,397             |
| Class N  |       | 114               |
| Class O  |       | 118,254           |
|  |       | <b>\$ 371,998</b> |
| <b>Increase in net assets attributable to holders of redeemable units per unit:</b>  |       |                   |
| Class A  |       | \$ 0.22           |
| Class AF   |       | 0.19              |
| Class F  |       | 0.22              |
| Class FF   |       | 0.20              |
| Class H  |       | 0.22              |
| Class I  |       | 0.16              |
| Class N  |       | 0.22              |
| Class O  |       | 0.22              |

The accompanying notes are an integral part of these financial statements.

# PENDER ALTERNATIVE ABSOLUTE RETURN FUND

Statement of Changes in Net Assets Attributable to Holders of Redeemable Units

For the Period from September 1, 2021 (commencement of operations) to December 31, 2021

| <b>Class A</b>   |    | 2021      |
|--|----|-----------|
| Balance, beginning of period                                       | \$ | -         |
| Increase in net assets attributable to holders of redeemable units |    | 114       |
| Unit transactions:   |    |           |
| Proceeds from issue of redeemable units                            |    | 5,000     |
| Issued on reinvestment of distributions                            |    | 119       |
| Amounts paid on redemption of redeemable units                     |    | -         |
|  |    | 5,119     |
| Distributions paid from:   |    |           |
| Net investment income  |    | (119)     |
| Realized gains on sale of investments                              |    | -         |
| Return of capital  |    | -         |
|  |    | (119)     |
| Balance, end of period   | \$ | 5,114     |
| <b>Class AF</b>  |    | 2021      |
| Balance, beginning of period                                       | \$ | -         |
| Increase in net assets attributable to holders of redeemable units |    | 26,078    |
| Unit transactions:   |    |           |
| Proceeds from issue of redeemable units                            |    | 2,630,749 |
| Issued on reinvestment of distributions                            |    | 28,182    |
| Amounts paid on redemption of redeemable units                     |    | -         |
|  |    | 2,658,931 |
| Distributions paid from:   |    |           |
| Net investment income  |    | (33,983)  |
| Realized gains on sale of investments                              |    | -         |
| Return of capital  |    | -         |
|  |    | (33,983)  |
| Balance, end of period   | \$ | 2,651,026 |
| <b>Class F</b>   |    | 2021      |
| Balance, beginning of period                                       | \$ | -         |
| Increase in net assets attributable to holders of redeemable units |    | 114       |
| Unit transactions:   |    |           |
| Proceeds from issue of redeemable units                            |    | 5,000     |
| Issued on reinvestment of distributions                            |    | 119       |
| Amounts paid on redemption of redeemable units                     |    | -         |
|  |    | 5,119     |
| Distributions paid from:   |    |           |
| Net investment income  |    | (119)     |
| Realized gains on sale of investments                              |    | -         |
| Return of capital  |    | -         |
|  |    | (119)     |
| Balance, end of period   | \$ | 5,114     |

The accompanying notes are an integral part of these financial statements.



# PENDER ALTERNATIVE ABSOLUTE RETURN FUND

Statement of Changes in Net Assets Attributable to Holders of Redeemable Units (Continued)

For the Period from September 1, 2021 (commencement of operations) to December 31, 2021

| <b>Class FF</b>  |    | 2021       |
|--|----|------------|
| Balance, beginning of period                                       | \$ | -          |
| Increase in net assets attributable to holders of redeemable units |    | 225,813    |
| Unit transactions:   |    |            |
| Proceeds from issue of redeemable units                            |    | 32,628,558 |
| Issued on reinvestment of distributions                            |    | 152,381    |
| Amounts paid on redemption of redeemable units                     |    | (132,837)  |
|  |    | 32,648,102 |
| Distributions paid from:   |    |            |
| Net investment income  |    | (213,641)  |
| Realized gains on sale of investments                              |    | -          |
| Return of capital  |    | -          |
|  |    | (213,641)  |
| Balance, end of period   | \$ | 32,660,274 |
| <b>Class H</b>   |    | 2021       |
| Balance, beginning of period                                       | \$ | -          |
| Increase in net assets attributable to holders of redeemable units |    | 114        |
| Unit transactions:   |    |            |
| Proceeds from issue of redeemable units                            |    | 5,000      |
| Issued on reinvestment of distributions                            |    | 119        |
| Amounts paid on redemption of redeemable units                     |    | -          |
|  |    | 5,119      |
| Distributions paid from:   |    |            |
| Net investment income  |    | (119)      |
| Realized gains on sale of investments                              |    | -          |
| Return of capital  |    | -          |
|  |    | (119)      |
| Balance, end of period   | \$ | 5,114      |
| <b>Class I</b>   |    | 2021       |
| Balance, beginning of period                                       | \$ | -          |
| Increase in net assets attributable to holders of redeemable units |    | 1,397      |
| Unit transactions:   |    |            |
| Proceeds from issue of redeemable units                            |    | 129,999    |
| Issued on reinvestment of distributions                            |    | 1,631      |
| Amounts paid on redemption of redeemable units                     |    | -          |
|  |    | 131,630    |
| Distributions paid from:   |    |            |
| Net investment income  |    | (1,631)    |
| Realized gains on sale of investments                              |    | -          |
| Return of capital  |    | -          |
|  |    | (1,631)    |
| Balance, end of period   | \$ | 131,396    |

The accompanying notes are an integral part of these financial statements.

# PENDER ALTERNATIVE ABSOLUTE RETURN FUND

Statement of Changes in Net Assets Attributable to Holders of Redeemable Units (Continued)

For the Period from September 1, 2021 (commencement of operations) to December 31, 2021

| <b>Class N</b>   | 2021                 |
|--|----------------------|
| Balance, beginning of period                                       | \$ -                 |
| Increase in net assets attributable to holders of redeemable units | 114                  |
| Unit transactions:   |                      |
| Proceeds from issue of redeemable units                            | 5,000                |
| Issued on reinvestment of distributions                            | 119                  |
| Amounts paid on redemption of redeemable units                     | -                    |
|  | <u>5,119</u>         |
| Distributions paid from:   |                      |
| Net investment income  | (119)                |
| Realized gains on sale of investments                              | -                    |
| Return of capital  | -                    |
|  | <u>(119)</u>         |
| Balance, end of period   | <u>\$ 5,114</u>      |
| <b>Class O</b>   | <b>2021</b>          |
| Balance, beginning of period                                       | \$ -                 |
| Increase in net assets attributable to holders of redeemable units | 118,254              |
| Unit transactions:   |                      |
| Proceeds from issue of redeemable units                            | 5,165,000            |
| Issued on reinvestment of distributions                            | 122,794              |
| Amounts paid on redemption of redeemable units                     | -                    |
|  | <u>5,287,794</u>     |
| Distributions paid from:   |                      |
| Net investment income  | (122,794)            |
| Realized gains on sale of investments                              | -                    |
| Return of capital  | -                    |
|  | <u>(122,794)</u>     |
| Balance, end of period   | <u>\$ 5,283,254</u>  |
| <b>Total Fund</b>  | <b>2021</b>          |
| Balance, beginning of period                                       | \$ -                 |
| Increase in net assets attributable to holders of redeemable units | 371,998              |
| Unit transactions:   |                      |
| Proceeds from issue of redeemable units                            | 40,574,306           |
| Issued on reinvestment of distributions                            | 305,464              |
| Amounts paid on redemption of redeemable units                     | (132,837)            |
|  | <u>40,746,933</u>    |
| Distributions paid from:   |                      |
| Net investment income  | (372,525)            |
| Realized gains on sale of investments                              | -                    |
| Return of capital  | -                    |
|  | <u>(372,525)</u>     |
| Balance, end of period   | <u>\$ 40,746,406</u> |

The accompanying notes are an integral part of these financial statements.

# PENDER ALTERNATIVE ABSOLUTE RETURN FUND

## Statement of Cash Flows

For the Period from September 1, 2021 (commencement of operations) to December 31, 2021

|  | 2021         |
|--|--------------|
| Cash provided by (used in):  |              |
| Operating:   |              |
| Increase in net assets attributable to holders of redeemable units | \$ 371,998   |
| Adjustments for:   |              |
| Interest for distribution purposes                                 | (405,095)    |
| Dividend and interest expense on securities sold short             | 60,653       |
| Foreign exchange gain  | (40,163)     |
| Net realized gain on sale of investments                           | (112,554)    |
| Net change in unrealized appreciation of investments               | 73,290       |
| Derivative assets and liabilities                                  | (309,100)    |
| Payable for interest and dividends on short securities             | 43,721       |
| Interest bought on purchase of investments                         | (284,540)    |
| Management and administration fees payable                         | 7,353        |
|  | (594,437)    |
| Proceeds on disposal of investments                                | 42,958,279   |
| Amounts paid on purchase of investments                            | (76,091,159) |
| Dividend and interest expense paid on securities sold short        | (60,653)     |
| Interest received  | 135,308      |
|  | (33,652,662) |
| Financing:   |              |
| Proceeds from issue of redeemable units                            | 40,207,026   |
| Amounts paid on redemption of redeemable units                     | (108,430)    |
| Distributions paid to unitholders                                  | (67,061)     |
|  | 40,031,535   |
| Net increase in cash   | 6,378,873    |
| Cash, beginning of period  | -            |
| Effect of exchange rate fluctuations on cash                       | 40,163       |
| Cash, end of period  | \$ 6,419,036 |

The accompanying notes are an integral part of these financial statements.

# PENDER ALTERNATIVE ABSOLUTE RETURN FUND

Schedule of Investment Portfolio

December 31, 2021

|   | Interest rate | Maturity date | Issue currency | Face value / number of shares | Cost                 | Fair value           |
|---|---------------|---------------|----------------|-------------------------------|----------------------|----------------------|
| <b>LONG POSITIONS</b>                           |               |               |                |                               |                      |                      |
| <b>Corporate bonds and loans:</b>               |               |               |                |                               |                      |                      |
| <b>Canada (25.2%):</b>                          |               |               |                |                               |                      |                      |
| AutoCanada Inc.                                 | 8.75%         | 2025/02/11    | CAD            | \$ 500,000                    | \$ 533,750           | \$ 526,771           |
| Bausch Health Companies Inc.                    | 5.50%         | 2025/11/01    | CAD            | 300,000                       | 388,023              | 386,132              |
| Empire Communities Corp.                        | 7.38%         | 2025/12/15    | CAD            | 450,000                       | 471,438              | 466,594              |
| Mattamy Group Corporation                       | 4.63%         | 2028/03/01    | CAD            | 350,000                       | 358,313              | 353,646              |
| Parkland Corporation                            | 4.63%         | 2030/05/01    | CAD            | 1,000,000                     | 1,244,300            | 1,259,201            |
| Ritchie Bros Holdings Ltd.                      | 4.95%         | 2029/12/15    | CAD            | 3,750,000                     | 3,776,562            | 3,824,999            |
| Secure Energy Services Inc.                     | 7.25%         | 2026/12/30    | CAD            | 500,000                       | 505,938              | 505,460              |
| Secure Energy Services Inc., Restricted         | 7.25%         | 2026/12/30    | CAD            | 250,000                       | 254,375              | 252,969              |
| Shawcor Ltd., Restricted                        | 9.00%         | 2026/12/10    | CAD            | 500,000                       | 500,000              | 514,792              |
| Teine Energy Ltd.                               | 6.88%         | 2029/04/15    | USD            | 950,000                       | 1,222,807            | 1,223,682            |
| Videotron Ltd.                                  | 5.75%         | 2026/01/15    | CAD            | 935,000                       | 959,125              | 956,783              |
|   |               |               |                |                               | 10,214,631           | 10,271,029           |
| <b>United States (82.6%):</b>                   |               |               |                |                               |                      |                      |
| ACI Worldwide, Inc.                             | 5.75%         | 2026/08/15    | USD            | 200,000                       | 264,473              | 263,999              |
| Asbury Automotive Group, Inc.                   | 4.63%         | 2029/11/15    | USD            | 100,000                       | 124,590              | 129,078              |
| Asbury Automotive Group, Inc.                   | 5.00%         | 2032/02/15    | USD            | 100,000                       | 124,590              | 131,454              |
| CCM Merger Inc.                                 | 6.38%         | 2026/05/01    | USD            | 200,000                       | 265,150              | 264,173              |
| CCO Holdings, LLC                               | 5.50%         | 2026/05/01    | USD            | 300,000                       | 391,502              | 391,400              |
| CCO Holdings, LLC                               | 4.75%         | 2030/03/01    | USD            | 500,000                       | 640,408              | 658,897              |
| CEC Entertainment, Inc.                         | 6.75%         | 2026/05/01    | USD            | 500,000                       | 630,340              | 620,483              |
| Covanta Holding Corporation                     | 6.00%         | 2027/01/01    | USD            | 2,000,000                     | 2,666,041            | 2,615,132            |
| CSC Holdings, LLC                               | 6.50%         | 2029/02/01    | USD            | 150,000                       | 209,480              | 203,410              |
| Greystar Real Estate Partners, LLC              | 5.75%         | 2025/12/01    | USD            | 2,000,000                     | 2,556,746            | 2,577,500            |
| Hilton Worldwide Finance LLC                    | 4.88%         | 2027/04/01    | USD            | 1,680,000                     | 2,202,434            | 2,190,995            |
| Icahn Enterprises L.P.                          | 6.38%         | 2025/12/15    | USD            | 1,750,000                     | 2,254,305            | 2,254,792            |
| Kratos Defense & Security Solutions, Inc.       | 6.50%         | 2025/11/30    | USD            | 1,050,000                     | 1,385,515            | 1,367,685            |
| Life Time Inc.                                  | 5.75%         | 2026/01/15    | USD            | 1,000,000                     | 1,293,416            | 1,310,710            |
| Live Nation Entertainment, Inc.                 | 4.88%         | 2024/11/01    | USD            | 1,220,000                     | 1,546,966            | 1,560,307            |
| MEDNAX, Inc.                                    | 6.25%         | 2027/01/15    | USD            | 1,000,000                     | 1,335,863            | 1,324,985            |
| MPT Operating Partnership, L.P.                 | 5.25%         | 2026/08/01    | USD            | 1,500,000                     | 1,941,029            | 1,954,291            |
| Park Intermediate Holdings LLC                  | 5.88%         | 2028/10/01    | USD            | 1,600,000                     | 2,117,293            | 2,107,862            |
| Party City Holdings Inc.                        | 8.75%         | 2026/02/15    | USD            | 450,000                       | 581,393              | 588,319              |
| Sally Holdings LLC                              | 5.63%         | 2025/12/01    | USD            | 2,250,000                     | 2,962,808            | 2,911,954            |
| Simmons Foods, Inc.                             | 4.63%         | 2029/03/01    | USD            | 750,000                       | 944,015              | 936,066              |
| Spectrum Brands, Inc.                           | 5.75%         | 2025/07/15    | USD            | 250,000                       | 323,885              | 323,282              |
| SS&C Technologies, Inc.                         | 5.50%         | 2027/09/30    | USD            | 1,750,000                     | 2,330,524            | 2,315,945            |
| Tronox Incorporated                             | 4.63%         | 2029/03/15    | USD            | 600,000                       | 749,108              | 759,395              |
| Uber Technologies, Inc.                         | 8.00%         | 2026/11/01    | USD            | 2,750,000                     | 3,687,967            | 3,709,887            |
| XHR LP  | 4.88%         | 2029/06/01    | USD            | 150,000                       | 195,041              | 193,387              |
|   |               |               |                |                               | 33,724,882           | 33,665,388           |
| <b>Foreign (1.6%):</b>                          |               |               |                |                               |                      |                      |
| McLaren Finance PLC                             | 7.50%         | 2026/08/01    | USD            | 500,000                       | 640,948              | 640,871              |
|   |               |               |                |                               | 640,948              | 640,871              |
| <b>Total corporate bonds and loans (109.4%)</b> |               |               |                |                               | <b>\$ 44,580,461</b> | <b>\$ 44,577,288</b> |
| <b>Equities (1.2%):</b>                         |               |               |                |                               |                      |                      |
| FTS International, Inc.                         |               |               |                | 15,000                        | 492,207              | 498,074              |
|   |               |               |                |                               | 492,207              | 498,074              |
| <b>Total long positions (110.6%)</b>            |               |               |                |                               | <b>\$ 45,072,668</b> | <b>\$ 45,075,362</b> |

The accompanying notes are an integral part of these financial statements.

# PENDER ALTERNATIVE ABSOLUTE RETURN FUND

Schedule of Investment Portfolio (Continued)

December 31, 2021

|  | Interest rate | Maturity date | Issue currency  | Face value / number of shares | Cost                   | Fair value             |
|--|---------------|---------------|-----------------|-------------------------------|------------------------|------------------------|
| <b>SHORT POSITIONS</b>   |               |               |                 |                               |                        |                        |
| <b>Corporate bonds and loans:</b>  |               |               |                 |                               |                        |                        |
| <b>United States (-2.0%):</b>  |               |               |                 |                               |                        |                        |
| Hilton Domestic Operating Company Inc.                                       | 4.88%         | 2030/01/15    | USD             | \$ (600,000)                  | \$ (807,840)           | \$ (812,318)           |
|  |               |               |                 |                               | (807,840)              | (812,318)              |
| <b>Total corporate bonds and loans (-2.0%)</b>                               |               |               |                 |                               | <b>\$ (807,840)</b>    | <b>\$ (812,318)</b>    |
| <b>Government bonds (-16.2%):</b>  |               |               |                 |                               |                        |                        |
| Government of Canada   | 2.25%         | 2029/06/01    | CAD             | (2,000,000)                   | (2,127,300)            | (2,134,799)            |
| United States Treasury Bond  | 1.25%         | 2031/08/15    | USD             | (2,600,000)                   | (3,179,290)            | (3,221,531)            |
| United States Treasury Bond  | 1.38%         | 2031/11/15    | USD             | (1,000,000)                   | (1,261,458)            | (1,253,546)            |
|  |               |               |                 |                               | (6,568,048)            | (6,609,876)            |
| <b>Exchange-traded funds (-9.6%):</b>  |               |               |                 |                               |                        |                        |
| iShares iBoxx High Yield Corporate Bond ETF                                  |               |               |                 | (5,071)                       | (561,132)              | (558,131)              |
| iShares Russell 2000 ETF   |               |               |                 | (3,000)                       | (855,115)              | (844,164)              |
| SPDR Bloomberg Barclays High Yield Bond ETF                                  |               |               |                 | (5,000)                       | (690,263)              | (686,678)              |
| SPDR S&P 500 ETF Trust   |               |               |                 | (3,000)                       | (1,785,294)            | (1,802,402)            |
|  |               |               |                 |                               | (3,891,804)            | (3,891,375)            |
| <b>Equities (-1.4%):</b>   |               |               |                 |                               |                        |                        |
| Park Hotels & Resorts Inc.   |               |               |                 | (13,000)                      | (306,523)              | (310,469)              |
| Ryman Hospitality Properties, Inc.   |               |               |                 | (2,400)                       | (251,485)              | (279,180)              |
|  |               |               |                 |                               | (558,008)              | (589,649)              |
| <b>Total short positions (-29.2%)</b>  |               |               |                 |                               | <b>\$ (11,825,700)</b> | <b>\$ (11,903,218)</b> |
| Less: Transaction costs included in cost of investments                      |               |               |                 |                               | (1,534)                |                        |
| <b>Total investments (81.4%)</b>   |               |               |                 |                               | <b>\$ 33,245,434</b>   | <b>\$ 33,172,144</b>   |
| <b>Derivative assets (0.8%):</b>   |               |               |                 |                               |                        |                        |
| The Bank of Nova Scotia, Foreign Currency Forward                            | 3/8/2022      | 1.28          | USD\$24,278,000 |                               | CAD\$31,022,725        | \$ 309,100             |
|  |               |               |                 |                               |                        | 309,100                |
| Cash (15.8%)   |               |               |                 |                               |                        | 6,419,036              |
| Other assets less liabilities (2.0%)   |               |               |                 |                               |                        | 846,126                |
| <b>Total net assets attributable to holders of redeemable units (100.0%)</b> |               |               |                 |                               | <b>\$ 40,746,406</b>   |                        |

The accompanying notes are an integral part of these financial statements.

# PENDER ALTERNATIVE ARBITRAGE FUND

Statement of Financial Position

December 31, 2021

|  | 2021                 |
|--|----------------------|
| <b>Assets</b>  |                      |
| Cash   | \$ 4,267,664         |
| Dividends receivable   | 258                  |
| Subscriptions receivable   | 125,000              |
| Derivative assets  | 71,774               |
| Investments  | 9,273,907            |
|  | <u>13,738,603</u>    |
| <b>Liabilities</b>   |                      |
| Payable for investments purchased                                | 125,705              |
| Interest and borrow fees payable                                 | 439                  |
| Investments sold short   | 1,727,107            |
|  | <u>1,853,251</u>     |
| <b>Net assets</b> , attributable to holders of redeemable units  | <u>\$ 11,885,352</u> |
| Net assets attributable to holders of redeemable units per class |                      |
| Class A  | \$ 5,103             |
| Class AF   | 1,781,906            |
| Class F  | 5,103                |
| Class FF   | 9,909,525            |
| Class H  | 5,103                |
| Class I  | 5,103                |
| Class N  | 5,103                |
| Class O  | 168,406              |
|  | <u>\$ 11,885,352</u> |
| Net assets attributable to holders of redeemable units per unit: |                      |
| Class A  | \$ 10.19             |
| Class AF   | 10.19                |
| Class F  | 10.19                |
| Class FF   | 10.19                |
| Class H  | 10.19                |
| Class I  | 10.19                |
| Class N  | 10.19                |
| Class O  | 10.19                |

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the Manager, PenderFund Capital Management Ltd.

(signed) "David Barr" Director      (signed) "Felix Narhi" Director

# PENDER ALTERNATIVE ARBITRAGE FUND

## Statement of Comprehensive Income

For the Period from September 8, 2021 (commencement of operations) to December 31, 2021

|  | Notes | 2021              |
|--|-------|-------------------|
| <b>Revenue:</b>  |       |                   |
| Dividend income  |       | \$ 15,466         |
| Dividend and interest expense on securities sold short                               |       | (12,364)          |
| Foreign exchange loss  |       | (103,878)         |
| Changes in fair value of investments and derivatives:                                |       |                   |
| Net realized gain  |       | 46,863            |
| Net change in unrealized appreciation  |       | 200,570           |
| <b>Total revenue</b>   |       | <b>146,657</b>    |
| <b>Expenses:</b>   |       |                   |
| Performance fees   | 4     | 42,580            |
| Transaction costs  |       | 12,741            |
| Administration fees  | 4     | 10,699            |
| Management fees  | 4     | 7,837             |
| Interest and borrow fees expense   |       | 1,141             |
| Withholding taxes  | 5     | 915               |
| Independent review committee fees  |       | 238               |
| <b>Total expenses</b>  |       | <b>76,151</b>     |
| <b>Less: Fees waived and expenses absorbed by the Manager</b>                        |       | <b>(61,354)</b>   |
| <b>Net expenses</b>  |       | <b>14,797</b>     |
| <b>Increase in net assets attributable to holders of redeemable units</b>            |       | <b>\$ 131,860</b> |
| <b>Increase in net assets attributable to holders of redeemable units per class:</b> |       |                   |
| Class A  |       | \$ 103            |
| Class AF   |       | 31,886            |
| Class F  |       | 579               |
| Class FF   |       | 95,577            |
| Class H  |       | 103               |
| Class I  |       | 103               |
| Class N  |       | 103               |
| Class O  |       | 3,406             |
|  |       | <b>\$ 131,860</b> |
| <b>Increase in net assets attributable to holders of redeemable units per unit:</b>  |       |                   |
| Class A  |       | \$ 0.21           |
| Class AF   |       | 0.21              |
| Class F  |       | 0.14              |
| Class FF   |       | 0.22              |
| Class H  |       | 0.21              |
| Class I  |       | 0.21              |
| Class N  |       | 0.21              |
| Class O  |       | 0.21              |

The accompanying notes are an integral part of these financial statements.

# PENDER ALTERNATIVE ARBITRAGE FUND

Statement of Changes in Net Assets Attributable to Holders of Redeemable Units

For the Period from September 8, 2021 (commencement of operations) to December 31, 2021

| <b>Class A</b>   | 2021                |
|--|---------------------|
| Balance, beginning of period                                       | \$ -                |
| Increase in net assets attributable to holders of redeemable units | 103                 |
| Unit transactions:   |                     |
| Proceeds from issue of redeemable units                            | 5,000               |
| Issued on reinvestment of distributions                            | 9                   |
| Amounts paid on redemption of redeemable units                     | -                   |
|  | 5,009               |
| Distributions paid from:   |                     |
| Net investment income  | (9)                 |
| Realized gains on sale of investments                              | -                   |
| Return of capital  | -                   |
|  | (9)                 |
| <b>Balance, end of period</b>                                      | <b>\$ 5,103</b>     |
| <b>Class AF</b>  | 2021                |
| Balance, beginning of period                                       | \$ -                |
| Increase in net assets attributable to holders of redeemable units | 31,886              |
| Unit transactions:   |                     |
| Proceeds from issue of redeemable units                            | 1,770,400           |
| Issued on reinvestment of distributions                            | 2,697               |
| Amounts paid on redemption of redeemable units                     | (20,078)            |
|  | 1,753,019           |
| Distributions paid from:   |                     |
| Net investment income  | (2,999)             |
| Realized gains on sale of investments                              | -                   |
| Return of capital  | -                   |
|  | (2,999)             |
| <b>Balance, end of period</b>                                      | <b>\$ 1,781,906</b> |
| <b>Class F</b>   | 2021                |
| Balance, beginning of period                                       | \$ -                |
| Increase in net assets attributable to holders of redeemable units | 579                 |
| Unit transactions:   |                     |
| Proceeds from issue of redeemable units                            | 85,000              |
| Issued on reinvestment of distributions                            | 9                   |
| Amounts paid on redemption of redeemable units                     | (80,476)            |
|  | 4,533               |
| Distributions paid from:   |                     |
| Net investment income  | (9)                 |
| Realized gains on sale of investments                              | -                   |
| Return of capital  | -                   |
|  | (9)                 |
| <b>Balance, end of period</b>                                      | <b>\$ 5,103</b>     |

The accompanying notes are an integral part of these financial statements.



# PENDER ALTERNATIVE ARBITRAGE FUND

Statement of Changes in Net Assets Attributable to Holders of Redeemable Units (Continued)

For the Period from September 8, 2021 (commencement of operations) to December 31, 2021

| <b>Class FF</b>  |    | 2021      |
|--|----|-----------|
| Balance, beginning of period                                       | \$ | -         |
| Increase in net assets attributable to holders of redeemable units |    | 95,577    |
| Unit transactions:   |    |           |
| Proceeds from issue of redeemable units                            |    | 9,814,906 |
| Issued on reinvestment of distributions                            |    | 12,434    |
| Amounts paid on redemption of redeemable units                     |    | -         |
|  |    | 9,827,340 |
| Distributions paid from:   |    |           |
| Net investment income  |    | (13,392)  |
| Realized gains on sale of investments                              |    | -         |
| Return of capital  |    | -         |
|  |    | (13,392)  |
| Balance, end of period   | \$ | 9,909,525 |
| <b>Class H</b>   |    | 2021      |
| Balance, beginning of period                                       | \$ | -         |
| Increase in net assets attributable to holders of redeemable units |    | 103       |
| Unit transactions:   |    |           |
| Proceeds from issue of redeemable units                            |    | 5,000     |
| Issued on reinvestment of distributions                            |    | 9         |
| Amounts paid on redemption of redeemable units                     |    | -         |
|  |    | 5,009     |
| Distributions paid from:   |    |           |
| Net investment income  |    | (9)       |
| Realized gains on sale of investments                              |    | -         |
| Return of capital  |    | -         |
|  |    | (9)       |
| Balance, end of period   | \$ | 5,103     |
| <b>Class I</b>   |    | 2021      |
| Balance, beginning of period                                       | \$ | -         |
| Increase in net assets attributable to holders of redeemable units |    | 103       |
| Unit transactions:   |    |           |
| Proceeds from issue of redeemable units                            |    | 5,000     |
| Issued on reinvestment of distributions                            |    | 9         |
| Amounts paid on redemption of redeemable units                     |    | -         |
|  |    | 5,009     |
| Distributions paid from:   |    |           |
| Net investment income  |    | (9)       |
| Realized gains on sale of investments                              |    | -         |
| Return of capital  |    | -         |
|  |    | (9)       |
| Balance, end of period   | \$ | 5,103     |

The accompanying notes are an integral part of these financial statements.

# PENDER ALTERNATIVE ARBITRAGE FUND

Statement of Changes in Net Assets Attributable to Holders of Redeemable Units (Continued)

For the Period from September 8, 2021 (commencement of operations) to December 31, 2021

| Class N  | 2021          |
|--|---------------|
| Balance, beginning of period                                       | \$ -          |
| Increase in net assets attributable to holders of redeemable units | 103           |
| Unit transactions:   |               |
| Proceeds from issue of redeemable units                            | 5,000         |
| Issued on reinvestment of distributions                            | 9             |
| Amounts paid on redemption of redeemable units                     | -             |
|  | 5,009         |
| Distributions paid from:   |               |
| Net investment income  | (9)           |
| Realized gains on sale of investments                              | -             |
| Return of capital  | -             |
|  | (9)           |
| Balance, end of period   | \$ 5,103      |
| Class O  | 2021          |
| Balance, beginning of period                                       | \$ -          |
| Increase in net assets attributable to holders of redeemable units | 3,406         |
| Unit transactions:   |               |
| Proceeds from issue of redeemable units                            | 165,000       |
| Issued on reinvestment of distributions                            | 283           |
| Amounts paid on redemption of redeemable units                     | -             |
|  | 165,283       |
| Distributions paid from:   |               |
| Net investment income  | (283)         |
| Realized gains on sale of investments                              | -             |
| Return of capital  | -             |
|  | (283)         |
| Balance, end of period   | \$ 168,406    |
| Total Fund   | 2021          |
| Balance, beginning of period                                       | \$ -          |
| Increase in net assets attributable to holders of redeemable units | 131,860       |
| Unit transactions:   |               |
| Proceeds from issue of redeemable units                            | 11,855,306    |
| Issued on reinvestment of distributions                            | 15,459        |
| Amounts paid on redemption of redeemable units                     | (100,554)     |
|  | 11,770,211    |
| Distributions paid from:   |               |
| Net investment income  | (16,719)      |
| Realized gains on sale of investments                              | -             |
| Return of capital  | -             |
|  | (16,719)      |
| Balance, end of period   | \$ 11,885,352 |

The accompanying notes are an integral part of these financial statements.

# PENDER ALTERNATIVE ARBITRAGE FUND

## Statement of Cash Flows

For the Period from September 8, 2021 (commencement of operations) to December 31, 2021

|  | 2021         |
|--|--------------|
| Cash provided by (used in):  |              |
| Operating:   |              |
| Increase in net assets attributable to holders of redeemable units | \$ 131,860   |
| Adjustments for:   |              |
| Dividend income  | (15,466)     |
| Dividend and interest expense on securities sold short             | 12,364       |
| Foreign exchange loss  | 103,878      |
| Net realized gain on sale of investments                           | (46,863)     |
| Net change in unrealized appreciation of investments               | (128,796)    |
| Derivative assets and liabilities                                  | (71,774)     |
| Interest and borrow fees expense                                   | 439          |
|  | (14,358)     |
| Proceeds on disposal of investments                                | 5,490,742    |
| Amounts paid on purchase of investments                            | (12,736,178) |
| Dividend and interest expense paid on securities sold short        | (12,364)     |
| Dividends received   | 15,208       |
|  | (7,256,950)  |
| Financing:   |              |
| Proceeds from issue of redeemable units                            | 11,730,306   |
| Amounts paid on redemption of redeemable units                     | (100,554)    |
| Distributions paid to unitholders                                  | (1,260)      |
|  | 11,628,492   |
| Net increase in cash   | 4,371,542    |
| Cash, beginning of period  | -            |
| Effect of exchange rate fluctuations on cash                       | (103,878)    |
| Cash, end of period  | \$ 4,267,664 |

The accompanying notes are an integral part of these financial statements.

# PENDER ALTERNATIVE ARBITRAGE FUND

Schedule of Investment Portfolio

December 31, 2021

|  | Number of<br>shares | Cost       | Fair<br>value |
|--|---------------------|------------|---------------|
| <b>LONG POSITIONS</b>                                |                     |            |               |
| <b>Equities</b>                                      |                     |            |               |
| <b>Banks (12.9%):</b>                                |                     |            |               |
| Atlantic Capital Bancshares, Inc.                    | 5,600               | \$ 186,222 | \$ 203,798    |
| CIT Group Inc.                                       | 2,530               | 161,314    | 164,305       |
| Elmira Savings Bank                                  | 5,700               | 163,666    | 164,826       |
| Flagstar Bancorp, Inc.                               | 3,900               | 255,494    | 236,502       |
| Great Western Bancorp, Inc.                          | 3,900               | 162,282    | 167,535       |
| Level One Bancorp, Inc.                              | 4,000               | 197,936    | 199,559       |
| Partners Bancorp                                     | 6,148               | 76,365     | 76,058        |
| People's United Financial, Inc.                      | 7,000               | 156,381    | 157,790       |
| Tristate Capital Holdings, Inc.                      | 4,200               | 161,218    | 160,765       |
|  |                     | 1,520,878  | 1,531,138     |
| <b>Communication services (2.7%):</b>                |                     |            |               |
| Shaw Communications Inc., Class 'B'                  | 3,710               | 135,706    | 142,427       |
| Wow Unlimited Media Inc.                             | 123,938             | 184,548    | 178,471       |
|  |                     | 320,254    | 320,898       |
| <b>Consumer discretionary (1.9%):</b>                |                     |            |               |
| Casper Sleep Inc.                                    | 22,700              | 190,238    | 191,812       |
| Golden Nugget Online Gaming, Inc.                    | 2,900               | 64,174     | 36,500        |
|  |                     | 254,412    | 228,312       |
| <b>Consumer staples (2.0%):</b>                      |                     |            |               |
| Apollo Healthcare Corp.                              | 21,400              | 93,376     | 96,086        |
| SOL Cuisine Ltd.                                     | 69,155              | 132,062    | 140,730       |
|  |                     | 225,438    | 236,816       |
| <b>Diversified financials (28.5%):</b>               |                     |            |               |
| 26 Capital Acquisition Corp., Class 'A'              | 6,400               | 79,006     | 79,742        |
| 5:01 Acquisition Corp., Class 'A'                    | 3,300               | 40,491     | 41,117        |
| Accelerate Acquisition Corp., Class 'A'              | 6,500               | 79,202     | 79,920        |
| AltC Acquisition Corp., Class 'A'                    | 6,336               | 79,615     | 78,945        |
| Altimeter Growth Corp. 2, Class 'A'                  | 6,400               | 79,738     | 79,823        |
| Apollo Strategic Growth Capital II, Class 'A'        | 6,400               | 79,227     | 79,176        |
| Ares Acquisition Corporation, Class 'A'              | 6,400               | 78,670     | 78,852        |
| Austerlitz Acquisition Corporation II, Class 'A'     | 6,500               | 80,291     | 79,920        |
| Avanti Acquisition Corp., Class 'A'                  | 2,100               | 25,992     | 26,086        |
| B. Riley Principal 250 Merger Corp., Class 'A'       | 6,500               | 79,869     | 80,084        |
| Bluescape Opportunities Acquisition Corp., Class 'A' | 1,300               | 16,071     | 16,099        |
| CC Neuberger Principal Holdings II, Class 'A'        | 2,000               | 24,813     | 25,046        |
| CF Acquisition Corp. IV, Class 'A'                   | 2,900               | 35,848     | 35,950        |
| Churchill Capital Corp VI, Class 'A'                 | 6,400               | 79,314     | 79,176        |
| Churchill Capital Corp VII, Class 'A'                | 6,071               | 74,305     | 75,490        |
| Cohn Robbins Holdings Corp., Class 'A'               | 4,000               | 50,352     | 49,738        |
| Compute Health Acquisition Corp., Class 'A'          | 6,500               | 81,023     | 80,002        |
| Dune Acquisition Corp.                               | 6,400               | 79,373     | 80,147        |
| E.Merge Technology Acquisition Corp., Class 'A'      | 3,300               | 40,742     | 41,075        |
| Elliott Opportunity II Corp., Class 'A'              | 6,399               | 77,881     | 79,082        |
| FirstMark Horizon Acquisition Corp., Class 'A'       | 6,400               | 79,132     | 80,066        |
| Fortress Capital Acquisition Corp., Class 'A'        | 335                 | 4,144      | 4,136         |
| Fortress Value Acquisition Corp. IV, Class 'A'       | 6,400               | 78,055     | 78,933        |
| FTAC Hera Acquisition Corp., Class 'A'               | 6,500               | 80,912     | 80,331        |
| Fusion Acquisition Corp. II, Class 'A'               | 6,500               | 80,312     | 79,755        |
| GO Acquisition Corp., Class 'A'                      | 4,000               | 49,117     | 49,788        |
| Hamilton Lane Alliance Holdings I, Inc., Class 'A'   | 6,500               | 79,674     | 80,331        |
| Health Assurance Acquisition Corp., Class 'A'        | 5,280               | 66,046     | 65,253        |
| Highland Transcend Partners I Corp., Class 'A'       | 3,900               | 47,983     | 48,938        |

The accompanying notes are an integral part of these financial statements.

# PENDER ALTERNATIVE ARBITRAGE FUND

Schedule of Investment Portfolio (Continued)

December 31, 2021

|   | Number of<br>shares | Cost      | Fair<br>value |
|---|---------------------|-----------|---------------|
| <b>LONG POSITIONS</b>                                 |                     |           |               |
| <b>Equities (continued):</b>                          |                     |           |               |
| <b>Diversified financials (28.5%) (continued)</b>     |                     |           |               |
| Hudson Executive Investment Corp. II                  | 6,500               | \$ 80,102 | \$ 80,413     |
| Hudson Executive Investment Corp. III, Class 'A'      | 6,500               | 79,802    | 79,920        |
| Independence Holdings Corp., Class 'A'                | 6,506               | 79,241    | 79,993        |
| Jaws Mustang Acquisition Corporation, Class 'A'       | 6,400               | 80,458    | 78,933        |
| Khosla Ventures Acquisition Co. III, Class 'A'        | 3,300               | 40,665    | 40,742        |
| KKR Acquisition Holdings I Corp., Class 'A'           | 6,500               | 80,283    | 80,084        |
| Landcadia Holdings IV, Inc., Class 'A'                | 6,500               | 79,563    | 80,002        |
| Lazard Growth Acquisition Corp. I                     | 6,500               | 79,928    | 80,002        |
| Mason Industrial Technology, Inc., Class 'A'          | 6,500               | 80,613    | 80,248        |
| Oaktree Acquisition Corp. II, Class 'A'               | 4,000               | 49,149    | 49,991        |
| Pershing Square Tontine Holdings, Ltd.                | 3,200               | 79,643    | 79,823        |
| Pontem Corporation, Class 'A'                         | 2,100               | 25,832    | 26,033        |
| Revolution Healthcare Acquisition Corp., Class 'A'    | 6,477               | 79,592    | 79,555        |
| RMG Acquisition Corp. III, Class 'A'                  | 2,100               | 25,819    | 25,900        |
| SciON Tech Growth I                                   | 6,400               | 78,896    | 79,014        |
| Slam Corp., Class 'A'                                 | 3,300               | 40,298    | 40,700        |
| Social Capital Suvretta Holdings Corp. I, Class 'A'   | 5,700               | 70,189    | 71,597        |
| Social Capital Suvretta Holdings Corp. II, Class 'A'  | 6,400               | 78,989    | 80,066        |
| Social Capital Suvretta Holdings Corp. III, Class 'A' | 2,530               | 31,317    | 31,683        |
| Social Capital Suvretta Holdings Corp. IV, Class 'A'  | 6,400               | 78,990    | 79,500        |
| TCW Special Purpose Acquisition Corp., Class 'A'      | 6,500               | 79,670    | 80,248        |
| Vector Acquisition Corporation II, Class 'A'          | 146                 | 1,779     | 1,804         |
| Virgin Group Acquisition Corp. II, Class 'A'          | 4,400               | 53,450    | 54,934        |
| Warburg Pincus Capital Corporation I-A                | 329                 | 4,141     | 4,078         |
| Warburg Pincus Capital Corporation I-B                | 6,500               | 80,081    | 80,248        |
|   |                     | 3,365,688 | 3,378,512     |
| <b>Energy (2.7%):</b>                                 |                     |           |               |
| FTS International, Inc., Class 'A'                    | 4,200               | 138,308   | 139,461       |
| Phillips 66 Partners LP                               | 4,100               | 198,301   | 187,070       |
|   |                     | 336,609   | 326,531       |
| <b>Health care (0.7%):</b>                            |                     |           |               |
| Magellan Health, Inc.                                 | 736                 | 87,277    | 88,436        |
|   |                     | 87,277    | 88,436        |
| <b>Industrials (6.0%):</b>                            |                     |           |               |
| Aerojet Rocketdyne Holdings, Inc.                     | 2,910               | 154,137   | 172,124       |
| PAE Incorporated                                      | 14,900              | 188,855   | 187,158       |
| SPX FLOW, Inc.  | 1,300               | 143,286   | 142,211       |
| Welbilt, Inc.   | 7,080               | 213,429   | 212,880       |
|   |                     | 699,707   | 714,373       |
| <b>Information technology (7.5%):</b>                 |                     |           |               |
| Bottomline Technologies, Inc.                         | 2,900               | 209,614   | 207,152       |
| GreenSky, Inc.  | 10,700              | 153,513   | 153,757       |
| McAfee Corp., Class 'A'                               | 3,300               | 105,706   | 107,656       |
| NeoPhotonics Corporation                              | 8,300               | 160,162   | 161,371       |
| Nuance Communications, Inc.                           | 1,557               | 108,638   | 108,954       |
| Rogers Corporation                                    | 450                 | 150,556   | 155,399       |
|   |                     | 888,189   | 894,289       |
| <b>Insurance (2.2%):</b>                              |                     |           |               |
| American National Group, Inc.                         | 535                 | 129,201   | 127,797       |
| State Auto Financial Corporation                      | 2,000               | 128,196   | 130,771       |
|   |                     | 257,397   | 258,568       |

The accompanying notes are an integral part of these financial statements.

# PENDER ALTERNATIVE ARBITRAGE FUND

Schedule of Investment Portfolio (Continued)

December 31, 2021

|   | Number of<br>shares | Cost                  | Fair<br>value         |
|---|---------------------|-----------------------|-----------------------|
| <b>LONG POSITIONS</b>                                   |                     |                       |                       |
| <b>Equities (continued):</b>                            |                     |                       |                       |
| <b>Materials (8.4%):</b>                                |                     |                       |                       |
| Corvus Gold Inc.  | 39,600              | \$ 160,569            | \$ 161,569            |
| GCP Applied Technologies Inc.                           | 4,000               | 162,717               | 160,193               |
| Hexion Holdings Corporation, Class 'B'                  | 1,500               | 54,702                | 54,940                |
| Kraton Corporation                                      | 2,300               | 130,814               | 134,763               |
| Millennial Lithium Corp.                                | 47,800              | 189,666               | 218,446               |
| Neo Lithium Corp.                                       | 17,000              | 107,875               | 107,440               |
| Verso Corporation                                       | 4,700               | 161,894               | 160,641               |
|   |                     | 968,237               | 997,992               |
| <b>Real estate (2.5%):</b>                              |                     |                       |                       |
| Cominar Real Estate Investment Trust                    | 18,700              | 217,383               | 218,603               |
| Corepoint Lodging Inc.                                  | 4,000               | 77,392                | 79,439                |
|   |                     | 294,775               | 298,042               |
| <b>Total equities (long)</b>                            |                     | <b>\$ 9,218,861</b>   | <b>\$ 9,273,907</b>   |
| <b>SHORT POSITIONS</b>                                  |                     |                       |                       |
| <b>Equities:</b>  |                     |                       |                       |
| <b>Banks (-9.8%):</b>                                   |                     |                       |                       |
| First Citizens BancShares, Inc.                         | (156)               | \$ (163,612)          | \$ (163,754)          |
| First Interstate BancSystem, Inc.                       | (3,285)             | (168,031)             | (168,999)             |
| First Merchants Corporation                             | (2,866)             | (152,787)             | (151,866)             |
| M&T Bank Corporation                                    | (826)               | (158,450)             | (160,468)             |
| New York Community Bancorp, Inc.                        | (15,658)            | (260,674)             | (241,838)             |
| OceanFirst Financial Corp.                              | (2,774)             | (77,703)              | (77,899)              |
| SouthState Corporation                                  | (2,016)             | (189,984)             | (204,292)             |
|   |                     | (1,171,241)           | (1,169,116)           |
| <b>Consumer discretionary (-0.7%):</b>                  |                     |                       |                       |
| DraftKings, Inc., Class 'A'                             | (1,059)             | (65,142)              | (36,798)              |
| Genius Brands International, Inc.                       | (33,586)            | (64,565)              | (44,609)              |
|   |                     | (129,707)             | (81,407)              |
| <b>Diversified financials (-2.4%):</b>                  |                     |                       |                       |
| Raymond James Financial, Inc.                           | (1,050)             | (133,130)             | (133,351)             |
| The Goldman Sachs Group, Inc.                           | (321)               | (156,065)             | (155,334)             |
|   |                     | (289,195)             | (288,685)             |
| <b>Energy (-1.6%):</b>                                  |                     |                       |                       |
| Phillips 66   | (2,050)             | (200,335)             | (187,899)             |
|   |                     | (200,335)             | (187,899)             |
| <b>Total equities (short)</b>                           |                     | <b>\$ (1,790,478)</b> | <b>\$ (1,727,107)</b> |
| Less: Transaction costs included in cost of investments |                     | (10,379)              |                       |
| <b>Total investments (63.5%)</b>                        |                     | <b>\$ 7,418,004</b>   | <b>\$ 7,546,800</b>   |

The accompanying notes are an integral part of these financial statements.

# PENDER ALTERNATIVE ARBITRAGE FUND

Schedule of Investment Portfolio (Continued)

December 31, 2021

|  | Settlement<br>date | Contract<br>rate | Pay            | Receive        | Unrealized<br>gain   |
|--|--------------------|------------------|----------------|----------------|----------------------|
| <b>Derivative assets (0.6%):</b>   |                    |                  |                |                |                      |
| The Bank of Nova Scotia,<br>Foreign Currency Forward                         | 3/8/2022           | 1.28             | USD\$6,774,900 | CAD\$8,642,568 | \$ 71,774            |
|  |                    |                  |                |                | 71,774               |
| Cash (35.9%)   |                    |                  |                |                | \$ 4,267,664         |
| Other assets less liabilities (0.0%)   |                    |                  |                |                | (886)                |
| <b>Total net assets attributable to holders of redeemable units (100.0%)</b> |                    |                  |                |                | <b>\$ 11,885,352</b> |

The accompanying notes are an integral part of these financial statements.

# PENDER ALTERNATIVE MUTUAL FUNDS

Notes to Financial Statements

Period ended December 31, 2021

## 1. The Funds:

The Pender Alternative Mutual Funds (individually a “Fund” and collectively the “Funds”) include the following:

|                                  | Fund<br>Commencement of<br>Operations Date | Classes                  |
|----------------------------------|--|--------------------------|
| Alternative Absolute Return Fund | September 1, 2021,                         | A, AF, F, FF, H, I, N, O |
| Alternative Arbitrage Fund       | September 8, 2021,                         | A, AF, F, FF, H, I, N, O |

The Funds were formed on August 4, 2021, as open-end investment trusts governed under the laws of the Province of British Columbia pursuant to the Sixteenth Amended and Restated Mutual Fund Trust Agreement dated December 22, 2021 (previously the Fifteenth Amended and Restated Mutual Fund Trust Agreement dated July 19, 2021). The Pender Alternative Absolute Return Fund commenced operations on September 1, 2021, and the Pender Alternative Arbitrage Fund commenced operations on September 8, 2021.

The Funds’ registered office is located at 1830 - 1066 West Hastings Street, Vancouver, BC, V6E 3X2.

The Manager of the Funds is PenderFund Capital Management Ltd. (The “Manager”).

## 2. Basis of preparation:

### (a) Statement of compliance:

The annual financial statements of the Funds are prepared under International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. These financial statements were authorized for issue by the Manager on March 30, 2022.

### (b) Basis of measurement:

The financial statements have been prepared on a historical cost basis except for investments, investments sold short and derivatives, which are measured at fair value.

### (c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, the Funds’ functional currency.

### (d) Use of estimates and judgment:

The preparation of these financial statements in conformity with IFRS requires the Manager to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized in the period in which the estimates are revised and in any future period affected.

The Funds may hold financial instruments that are not quoted in an active market, including derivatives.

The determination of the fair value of these investments is the area with the Manager’s most significant accounting judgements and estimates in preparing these financial statements.



# PENDER ALTERNATIVE MUTUAL FUNDS

Notes to Financial Statements

Period ended December 31, 2021

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### 3. Significant accounting policies:

(a) Financial instruments:

(i) Recognition and measurement:

Financial instruments are required to be classified into one of the following categories: amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of the financial instrument. Transaction costs are included in the initial carrying amount of financial instruments except for financial instruments classified as FVTPL for which transaction costs are expensed as incurred.

Financial assets and financial liabilities are recognized initially on the trade date, which is the date on which the particular Fund becomes a party to the contractual provisions of the instrument. The Funds derecognize a financial liability when its contractual obligations are discharged, cancelled, or expire.

Financial assets and liabilities are offset, and the net amount presented in the Statements of Financial Position only when the Funds have a legal right to offset the amounts and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

A financial asset is measured at amortized cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and/or interest on the principal amount outstanding.

A financial asset is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is both to hold assets to collect contractual cash flows and to potentially sell financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and/or interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Funds may irrevocably elect to measure financial assets that otherwise meet the requirements to be measured at amortized cost or at FVOCI as at FVTPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency.

Financial assets are not reclassified subsequent to their initial recognition, unless the Funds change their business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial liability is generally measured at amortized cost, with exceptions that may allow for classification as FVTPL. These exceptions include financial liabilities that are mandatorily measured at fair value through profit or loss, such as derivatives liabilities. The Funds may also, at initial recognition, irrevocably designate a financial liability as measured at FVTPL when doing so results in more relevant information.

# PENDER ALTERNATIVE MUTUAL FUNDS

Notes to Financial Statements

Period ended December 31, 2021

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### 3. Significant accounting policies (continued):

(a) Financial instruments (continued):

(ii) Amortized cost:

Financial assets and liabilities classified as amortized cost are recognized initially at fair value plus any directly attributable transaction costs. Subsequent measurement is at amortized cost using the effective interest method, less any impairment losses. The Funds classify cash, dividends receivable, interest receivable, subscriptions receivable, management and administration fees payable, payable for interest and dividends on short securities, payable for investment purchased, redemptions payable to holders of redeemable units, and interest and borrow fees payable as amortized cost.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(iii) Derivative transactions:

The Funds may use derivative contracts to manage risks associated with the investments. The derivatives are classified as FVTPL and, as a result, the contracts are measured at fair value on the valuation date and the resulting gains and losses, both realized and unrealized, are recognized in the Statements of Comprehensive Income. Gains and losses arising from changes in fair value of derivatives are shown in the Statements of Comprehensive Income as "Net change in unrealized appreciation (depreciation) of investments and derivatives" and as "Net realized gain (loss) of investments and derivatives" when positions are closed out or have expired, where applicable.

(iv) Short sales

The Funds may sell securities short, in which event a borrowed security is sold in anticipation of a decline in the market value of that security. Short sales are held for trading and are consequently classified as financial liabilities at FVTPL. Interest and dividends on investments sold short are accrued as incurred and are reported as a liability in the Statements of Financial Position in "Payable for interest and dividends on short securities" and in the Statements of Comprehensive Income in "Dividend and interest expense on securities sold short".

(v) Fair value through profit and loss:

Financial assets and liabilities classified as FVTPL are recognized initially at fair value at each reporting period with changes in fair value recognized in the Statements of Comprehensive Income in the period in which they occur. The Funds' derivative assets and derivative liabilities, investments in securities, and investments sold short are classified as FVTPL.

# PENDER ALTERNATIVE MUTUAL FUNDS

Notes to Financial Statements

Period ended December 31, 2021

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### 3. Significant accounting policies (continued):

(a) Financial instruments (continued):

(v) Fair value through profit and loss (continued):

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and marketable securities) is based on quoted market prices at the close of trading on the reporting date. The Funds use the last traded market price for both financial assets and financial liabilities. In circumstances where there is no closing price, the average of the closing bid and the closing ask price on the valuation date is used. The Funds' policy is to recognize transfers into and out of the fair value hierarchy levels described in Note 9 as of the date of the event or change in circumstances giving rise to the transfer.

The fair value of financial assets and liabilities that are not traded in an active market, including non- publicly traded derivative instruments, is determined using valuation techniques. Valuation techniques include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and other methods commonly used by market participants that make the maximum use of observable inputs. Where the value of a financial asset or liability is not readily available or where the Manager is of the opinion that the value available is inaccurate or unreliable, the fair value is estimated on the basis of the most recently reported information of a similar financial asset or liability.

(vi) Fair Value through other comprehensive income:

The Funds have not classified any of their financial assets or liabilities as FVOCI.

(b) Redeemable units:

The Funds classify financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The Funds have designated redeemable units as financial liabilities at FVTPL because they are managed, and their performance is evaluated, on a fair value basis. The redeemable units provide investors with the right to require redemption, subject to available liquidity, for cash at a unit price based on the Funds' valuation policies at each redemption date. Distributions to holders of redeemable units are recognized in comprehensive income when they are authorized and no longer at the discretion of the Manager.

(c) Per unit amounts:

Net assets attributable to holders of redeemable units is calculated based on the number of units outstanding at the end of the period. The increase in net assets attributable to holders of redeemable units per unit is calculated by dividing the increase in net assets attributable to holders of redeemable units by the weighted average number of units outstanding during the period.

# PENDER ALTERNATIVE MUTUAL FUNDS

Notes to Financial Statements

Period ended December 31, 2021

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### 3. Significant accounting policies (continued):

(d) Foreign exchange:

The financial statements of the Funds are denominated in Canadian dollars. Foreign denominated investments and other foreign denominated assets and liabilities are translated into Canadian dollars using the exchange rates prevailing on each valuation date. Purchases and sales of investments, as well as income and expense transactions denominated in foreign currencies, are translated using exchange rates prevailing on the date of the transaction. Foreign currency gains and losses are recognized in the Statements of Comprehensive Income.

(e) Income recognition:

Interest for distribution purposes shown on the Statements of Comprehensive Income is recognized on an accrual basis. Dividend income is recognized on the date that the right to receive payment is established, which for quoted equity securities is usually the ex-dividend date. Portfolio transactions are recorded on the trade date. Realized gains and losses arising from the sale of investments are determined on the average cost basis of the respective investments.

(f) Income taxes:

The Funds qualify as unit trusts under the *Income Tax Act* (Canada). All of the Funds' net income for tax purposes and net capital gains realized in any period is required to be distributed to unitholders such that no income tax is payable by the Funds. As a result, the Funds do not record income taxes.

### 4. Related party transactions:

(a) Management fees:

Each Fund pays management fees calculated as a percentage of the net asset value of each respective class. Management fees are subject to applicable taxes such as GST or HST. The fees are calculated at the close of business on each valuation day and are paid monthly. The management fees charged to the Fund by the Manager are intended to cover, among other things, investment management costs, including any portfolio advisory fees, as well as distribution, marketing and promotion of the Fund. The management fees for Class O units are negotiable and paid directly by the investors and not by the Funds. The Simplified Prospectus for these Funds specified that the Manager had the ability to discontinue the sale of Class AF and Class FF units at any time following the initial offering of the Funds. Refer to Note 11 for details regarding the closure of Class AF and Class FF units subsequent to period end. The annual management fee percentages before applicable taxes such as GST or HST of the remaining classes as at December 31, 2021 are as follows:

|                                  | Class A | Class AF | Class F | Class FF | Class H | Class I | Class N |
|----------------------------------|---------|----------|---------|----------|---------|---------|---------|
| Alternative Absolute Return Fund | 1.80%   | 1.15%    | 0.80%   | 0.15%    | 1.50%   | 0.65%   | 0.30%   |
| Alternative Arbitrage Fund       | 1.80%   | 1.15%    | 0.80%   | 0.15%    | 1.50%   | 0.65%   | 0.30%   |

# PENDER ALTERNATIVE MUTUAL FUNDS

Notes to Financial Statements

Period ended December 31, 2021

## 4. Related party transactions (continued):

### (b) Administration fees and other expenses:

Each Fund pays an administration fee calculated as a percentage of the net asset value of each respective class equal to 0.50%. In exchange for the fee, the Manager will pay for the operating costs of each Fund (including administrative and operating expenses, registrar and transfer agency fees, custody fees, unitholder servicing costs, costs of prospectus and reports, regulatory fees, and audit and legal fees) other than taxes, brokerage commissions, transaction costs and Independent Review Committee (“IRC”) fees. The administration fees for Class O units are negotiable and paid directly by the investors and not by the Funds.

The Management Expense Ratio (“MER”) before applicable taxes, such as GST or HST for each class does not exceed certain levels as set out in the Fund’s offering documents. The Manager has agreed to cap the management fees, administration fees and other expenses before applicable taxes such as GST or HST charged to each Fund class so that the management expense ratio (“MER”) before applicable taxes such as GST or HST as at December 31, 2021, expressed as a percentage of average NAV, does not exceed the following rates:

|                                  | Class A | Class AF | Class F | Class FF | Class H | Class I | Class N |
|----------------------------------|---------|----------|---------|----------|---------|---------|---------|
| Alternative Absolute Return Fund | 2.30%   | 1.65%    | 1.30%   | 0.65%    | 2.00%   | 1.15%   | 0.80%   |
| Alternative Arbitrage Fund       | 2.30%   | 1.65%    | 1.30%   | 0.65%    | 2.00%   | 1.15%   | 0.80%   |

The Manager, at its discretion, may reduce or waive management fees and reimburse the Funds for any expenses. During the period from commencement of operations through to December 31, 2021, the Manager waived all management and administration fees and custody related transaction costs for the Funds.

### (c) Performance fees:

A performance fee applies to all classes of units of the Funds. For the Pender Alternative Absolute Return Fund, the performance fee is equal to 15% of the amount by which the total return of the class of units exceeds a 3% hurdle rate, for the period since the performance fee was last paid, provided that the total return of the relevant class of units for such period exceeds the previous high-water mark (as described below). For the Pender Alternative Arbitrage Fund, the performance fee is equal to 15% of the amount by which the total return of the class of units exceeds the previous high-water mark (as described below) for each applicable class of units for the period since the performance fee was last paid.

# PENDER ALTERNATIVE MUTUAL FUNDS

Notes to Financial Statements

Period ended December 31, 2021

## 4. Related party transactions (continued):

### (c) Performance fees (continued):

Performance fees will be calculated and accrued daily, and such accrued fees will be paid by the Funds at the end of each year. The Manager has reserved the right to change the period for which any performance fee may be paid by a Fund. Performance fees are subject to applicable taxes such as GST or HST. The following table summarizes the performance fee incurred for the Funds as at December 31, 2021.

|                                  | 2021   |
|----------------------------------|--------|
| Alternative Absolute Return Fund | \$ Nil |
| Alternative Arbitrage Fund       | 42,580 |

The Manager, at its discretion, may reduce or waive performance fees. During the period from commencement of operations to December 31, 2021, the Manager waived all performance fees for the Funds.

The high-water mark is the net asset value of the applicable class of units to which it applies as at the most recent determination date on which a performance fee was payable. Pender Alternative Absolute Return Fund accrued no performance fee for the period ended December 31, 2021, and its high-water mark remains at \$10.00 per unit. However, the adjusted high-water mark, which reflects the distributions that were paid out to investors, including that of December 2021, results in the high-water mark for Class A, Class F, Class H, Class I and Class N at \$9.76 per unit, Class AF at \$9.77 per unit and Class FF at \$9.78 per unit. Pender Alternative Arbitrage Fund high-water mark was reset on December 31, 2021, to \$10.19 per unit for all classes. Pender Alternative Arbitrage Fund performance fees accrued of \$42,580 was waived by the Manager.

### (d) Amounts payable to the Manager:

As at December 31, 2021, the Funds had an amount of nil payable to the Manager relating to management fees, administration fees and other expenses, and related taxes, incurred by the Manager on behalf of the Funds.

From time to time the Manager may reduce the effective management fee payable by some unitholders by reducing the management fee it charges to the Funds and directing the Funds to make distributions to these unitholders in amounts equal to the management fee reduction. During the period from inception to December 31, 2021, the Manager waived all fees for the Funds.

### (e) Related party holdings:

As at December 31, 2021, parties related to the Manager directly or indirectly held the following percentages of each Fund's outstanding units. Subscriptions and redemptions of related parties are subject to the same terms and conditions as those of arm's length investors in the Funds.

|                                  | 2021 |
|----------------------------------|------|
| Alternative Absolute Return Fund | 1%   |
| Alternative Arbitrage Fund       | 2%   |

# PENDER ALTERNATIVE MUTUAL FUNDS

Notes to Financial Statements

Period ended December 31, 2021

## 5. Withholding tax expense:

Certain dividend and interest income received by the Funds is subject to withholding tax imposed in the country of origin. During the period, withholding tax rates were between 0% and 35%.

## 6. Redeemable units:

The Funds are authorized to issue an unlimited number of redeemable units in an unlimited number of classes. The redeemable unit transactions for the Funds during the period ended December 31, 2021, was as follows:

| 2021                              | Outstanding units, beginning of period | Units issued | Units issued on reinvestment of distributions | Units redeemed | Outstanding units, end of period |
|-----------------------------------|--|--------------|---|----------------|----------------------------------|
| Alternative Absolute Return Fund: |  |              |   |                |                                  |
| Class A                           | -                                      | 500          | 12  | -              | 512                              |
| Class AF                          | -                                      | 262,481      | 2,831   | -              | 265,312                          |
| Class F                           | -                                      | 500          | 12  | -              | 512                              |
| Class FF                          | -                                      | 3,263,239    | 15,307  | (13,309)       | 3,265,237                        |
| Class H                           | -                                      | 500          | 12  | -              | 512                              |
| Class I                           | -                                      | 12,992       | 164   | -              | 13,156                           |
| Class N                           | -                                      | 500          | 12  | -              | 512                              |
| Class O                           | -                                      | 516,500      | 12,323  | -              | 528,823                          |
| Alternative Arbitrage Fund:       |  |              |   |                |                                  |
| Class A                           | -                                      | 500          | 1   | -              | 501                              |
| Class AF                          | -                                      | 176,658      | 266   | (1,998)        | 174,926                          |
| Class F                           | -                                      | 8,429        | 1   | (7,929)        | 501                              |
| Class FF                          | -                                      | 971,608      | 1,228   | -              | 972,836                          |
| Class H                           | -                                      | 500          | 1   | -              | 501                              |
| Class I                           | -                                      | 500          | 1   | -              | 501                              |
| Class N                           | -                                      | 500          | 1   | -              | 501                              |
| Class O                           | -                                      | 16,500       | 28  | -              | 16,528                           |

## 7. Capital management:

The capital of each Fund is represented by its redeemable units issued. The Funds are not subject to any internally or externally imposed restrictions on their capital. The Funds' objective in managing capital is to ensure a stable base to maximize returns to all unitholders, and to manage liquidity risk arising from unitholder redemptions.

## 8. Financial risk management:

The Funds are exposed to various financial risks associated with their respective investment objectives and strategies, financial instruments and the markets in which they invest. These include credit risk, liquidity risk, and market risk, which consists of currency risk, interest rate risk and other price/market risk.

The Manager manages the potential impact of these financial risks on the Funds' performance by employing professional and experienced portfolio advisors who regularly monitor the Funds' positions and market events and diversify investment portfolios within the constraints of the investment guidelines. Each Fund maintains positions in a variety of financial instruments in accordance with its investment objectives and strategies.

# PENDER ALTERNATIVE MUTUAL FUNDS

Notes to Financial Statements

Period ended December 31, 2021

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## 8. Financial risk management (continued):

### **Pender Alternative Absolute Return Fund:**

The objective of the Pender Alternative Absolute Return Fund is to maximize absolute returns over a complete market cycle by providing long-term capital growth and income, with low volatility of returns. The Fund will invest primarily in a portfolio of North American fixed income securities but may also invest in foreign and other securities.

### **Pender Alternative Arbitrage Fund:**

The objective of the Pender Alternative Arbitrage Fund is to generate consistent, positive returns, with low volatility and low correlation to equity markets by investing primarily in North American securities. The Fund may also invest in foreign and other securities.

A Fund's exposure to financial risks is concentrated in its investment holdings. The Schedule of Investment Portfolio for each Fund groups securities by asset type, geographic region, and/or market segment. The Manager's risk management practices include the monitoring of compliance with investment objectives and strategies. The Manager manages the potential effects of these financial risks on each Fund's performance by regularly monitoring each Fund's positions and market events and by diversifying investment portfolios within the constraints of each Fund's investment objective.

Financial risk includes the risk that global pandemics, natural disasters and other catastrophic events may impact markets and security prices.

On February 24, 2022, Russia launched a large military invasion of Ukraine. This has resulted in a disruption in the supply of energy resources, a refugee crisis in Europe, global protests and the imposition of sanctions on Russia, which in turn triggered a financial crisis in Russia. The Russian president has placed Russia's nuclear forces on high alert, increasing tension between the West and Russia. The invasion has introduced a new source of uncertainty for financial markets.

The COVID-19 global health pandemic that began in 2019 continues today. In early 2020, it resulted in significant volatility and turmoil in World markets. The negative economic impact of measures taken to contain the virus have been mitigated to a certain extent by fiscal and monetary stimulus, measures taken to reopen world economies, and the development and rollout of vaccines. The situation has had an impact on many entities and the markets for the securities that they issue, and that impact may continue.

Investment results may be affected by future developments and new information that may emerge resulting from Russia's invasion of Ukraine COVID-19, its variants and the pandemic, factors which are beyond the Funds' control.

#### (a) Credit risk:

Credit risk is the risk that a loss could arise due to a security issuer or counterparty to a financial instrument not being able to meet its financial obligations. The determination of fair value of debt securities includes a consideration of the creditworthiness of the debt issuer. The credit exposure of other assets is represented by their carrying amounts.

Credit risk is managed by the portfolio advisor of each Fund through a careful selection of securities and diversification within each respective Fund. Each Fund's portfolio advisor monitors the overall market positions of the Fund, and positions are maintained within established ranges.



# PENDER ALTERNATIVE MUTUAL FUNDS

Notes to Financial Statements

Period ended December 31, 2021

## 8. Financial risk management (continued):

### (a) Credit risk (continued):

The Pender Alternative Arbitrage Fund is not exposed to any significant credit risk. The following table summarizes the maximum exposure to credit risk for the Pender Alternative Absolute Return Fund as at December 31, 2021, categorized by credit ratings.

|                        | 2021                 |
|------------------------|----------------------|
| <b>Long positions</b>  |                      |
| BBB                    | \$ 1,954,291         |
| Below BBB              | 41,363,796           |
| Unrated                | 1,259,201            |
|                        | <u>44,577,288</u>    |
| <b>Short positions</b> |                      |
| AAA                    | (6,609,876)          |
| Below BBB              | (812,318)            |
|                        | <u>(7,422,194)</u>   |
|                        | <u>\$ 37,155,094</u> |

### (b) Liquidity risk:

Liquidity risk is the risk that a Fund may not be able to settle or meet its obligations on time or at a reasonable price.

Each Fund is exposed to liquidity risk through unitholder redemptions of its units. The redeemable units of each Fund are issued and redeemed on demand at the option of the unitholder based on the then current NAV per class of unit.

Each Fund is also exposed to liquidity risk through its investments. This risk is managed by investing the majority of each Fund's assets in investments that are traded in an active market and that can be disposed of readily. In the case where the Funds hold thinly traded investments, timely disposition of such investments and the realized price may be significantly different from their carrying values.

The Funds' non-derivative liabilities other than redeemable units are due within one month of the reporting date of the respective Fund. The following table presents the contractual maturities of derivative assets (liabilities) of the Funds as at December 31, 2021 that were due within three months of the financial reporting date. The amounts are gross and undiscounted.

|  | 2021             |                    |
|--|------------------|--------------------|
|  | Nominal<br>value | Unrealized<br>gain |
| <b>Alternative Absolute Return Fund:</b> |                  |                    |
| Derivative instruments:                  |                  |                    |
| Inflows                                  | \$ 31,022,725    | \$ 309,100         |
| <b>Alternative Arbitrage Fund:</b>       |                  |                    |
| Derivative instruments:                  |                  |                    |
| Inflows                                  | 8,642,568        | 71,774             |

# PENDER ALTERNATIVE MUTUAL FUNDS

Notes to Financial Statements

Period ended December 31, 2021

## 8. Financial risk management (continued):

### (c) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices, will affect the Funds' income or the fair value of their holdings of financial instruments.

### (i) Interest rate risk:

Interest rate risk is the risk that the market value of a Fund's interest-bearing investments will fluctuate due to changes in market interest rates. A Fund's exposure to interest rate risk is concentrated in its investment in debt securities. Other assets and liabilities are short-term in nature and/or non-interest bearing, which reduce interest rate risk.

Interest rate risk is managed by the portfolio advisor of each Fund through a careful selection of securities and diversification within each respective Fund. Where applicable, the Fund's portfolio advisor monitors the Fund's overall duration and positions are maintained within established ranges.

The Pender Alternative Arbitrage Fund is not exposed to any significant interest rate risk.

The following table summarizes the exposure to interest rate risk for the Pender Alternative Absolute Return Fund as at December 31, 2021, categorized by the earlier of contractual repricing or maturity dates:

|                       | 2021                 |
|-----------------------|----------------------|
| <b>Long position</b>  |                      |
| 1 to 3 years          | \$ 1,560,307         |
| 3 to 5 years          | 22,788,848           |
| More than 5 years     | 20,228,133           |
|                       | <u>44,577,288</u>    |
| <b>Short position</b> |                      |
| More than 5 years     | (7,422,194)          |
|                       | <u>(7,422,194)</u>   |
|                       | <u>\$ 37,155,094</u> |

As at December 31, 2021, if the prevailing interest rates had been increased or decreased by 1%, assuming a parallel shift in the yield curve and all other factors remaining constant, the net assets of the Pender Alternative Absolute Return Fund with exposure to interest rate risk would have decreased or increased by \$1,410,198.

Interest rate sensitivity was determined based on portfolio-weighted, modified duration. Actual results may differ from this sensitivity analysis and the difference could be material.

# PENDER ALTERNATIVE MUTUAL FUNDS

Notes to Financial Statements

Period ended December 31, 2021

## 8. Financial risk management (continued):

### (c) Market risk (continued):

#### (ii) Currency risk:

Currency risk is the risk that the value of financial assets and liabilities denominated in currencies other than the Canadian dollar will fluctuate due to changes in foreign exchange rates. Equities in foreign markets and foreign bonds are exposed to currency risk as the prices denominated in foreign currencies are converted to Canadian dollars at the valuation date.

Currency risk is managed by the portfolio advisor of each Fund in accordance with the policies and procedures in place, through a careful selection of securities and diversification within each respective Fund. Each Fund's portfolio advisor monitors the overall market positions of the Fund on a daily basis and positions are maintained within established ranges.

The Funds enter into certain forward foreign currency contracts to mitigate its foreign currency exposure for all classes.

The net currency exposure for each of the Funds as at December 31, 2021 was as follows:

| 2021                             | Canadian dollar | US dollar  | Total         |
|----------------------------------|-----------------|------------|---------------|
| Alternative Absolute Return Fund | \$ 40,483,481   | \$ 262,925 | \$ 40,746,406 |
| Alternative Arbitrage Fund       | 11,976,224      | (90,872)   | 11,885,352    |

As at December 31, 2021, if the Canadian dollar had strengthened or weakened by 10% in relation to all foreign currencies, with all other factors remaining constant, the net assets of the Funds would have decreased or increased respectively by the following amounts:

|                                  | 2021      |
|----------------------------------|-----------|
| Alternative Absolute Return Fund | \$ 26,293 |
| Alternative Arbitrage Fund       | (9,087)   |

#### (iii) Other price risk:

Other price risk is the risk that the fair value of a security will fluctuate as a result of changes in market prices (other than those changes arising from interest rate risk or currency risk), whether caused by factors specific to the security or its issuer, or by factors affecting all similar securities traded in a market. All investments are exposed to other price risk.

Other price risk is managed by the portfolio advisor of each Fund through a careful selection of securities within specified limits and the Funds' price risk is managed through diversification within each respective Fund. Each Fund's portfolio advisor monitors the overall market positions of the Fund and maintains positions within established ranges. The Schedule of Investment Portfolio summarizes each Fund's exposure to other price risk as at December 31, 2021, by providing the market sector breakdown of investments. Possible losses from securities sold short can be unlimited.

# PENDER ALTERNATIVE MUTUAL FUNDS

Notes to Financial Statements

Period ended December 31, 2021

## 8. Financial risk management (continued):

(c) Market risk (continued):

(iii) Other price risk (continued):

The following table summarizes the exposure to other price risk for each of the Funds as at December 31, 2021:

|                                  | 2021        |
|----------------------------------|-------------|
| <b>Equities -Long position</b>   |             |
| Alternative Absolute Return Fund | \$ 498,074  |
| Alternative Arbitrage Fund       | 9,273,907   |
| <b>Equities -Short position</b>  |             |
| Alternative Absolute Return Fund | (4,481,024) |
| Alternative Arbitrage Fund       | (1,727,107) |

As at December 31, 2021, if equity prices had increased or decreased by 10% with all other factors remaining constant, the net assets of the Funds would have increased or decreased by the following amounts:

|                                  | 2021         |
|----------------------------------|--------------|
| Alternative Absolute Return Fund | \$ (140,139) |
| Alternative Arbitrage Fund       | 404,102      |

Price sensitivity was determined based on portfolio-weighted beta. Actual results may differ from this sensitivity analysis and the difference could be material.

(d) Leverage risk:

When a Fund makes investments in derivatives, borrows cash for investment purposes, or uses physical short sales on equities, fixed income securities or other portfolio assets, leverage may be introduced into the Fund. Leverage occurs when the Funds' aggregate gross exposure to underlying assets is greater than the amount invested. Leverage may increase volatility, may impair the Funds' liquidity and may cause the Funds to liquidate positions at unfavourable times.

The aggregate gross exposure of the Funds, to be calculated as the sum of the following, must not exceed three times the Funds' net asset value: (i) the aggregate value of the Funds' outstanding indebtedness under any borrowing agreements; (ii) the aggregate market value of physical short sales on equities, fixed income securities or other portfolio assets; and (iii) the aggregate notional value of the Funds' specified derivatives positions excluding any specified derivatives used for hedging purposes.

# PENDER ALTERNATIVE MUTUAL FUNDS

Notes to Financial Statements

Period ended December 31, 2021

## 8. Financial risk management (continued):

### (d) Leverage risk (continued):

The following table summarizes the Funds' lowest and highest aggregate gross exposure of the Funds' net asset value during the period from commencement of operations to December 31, 2021:

|                                  | Lowest aggregate exposure to net assets | Highest aggregate exposure to net assets |
|----------------------------------|---|--|
| Alternative Absolute Return Fund | 0%                                      | 46.32%                                   |
| Alternative Arbitrage Fund       | 0%                                      | 22.87%                                   |

The primary source of leverage was cash borrowing, short sales, and derivative contracts. The low and high end of the range are as a result of the Fund's investing activities and timing of subscriptions and/or redemptions. The Funds' strategy is outlined in the Simplified Prospectus.

The Manager monitors to ensure that the Fund's aggregate gross exposure is less than three times the Fund's net asset value.

## 9. Fair value of financial instruments:

### (a) Valuation models:

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Funds determine fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Funds measure fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical assets or liabilities that the Funds can access at the measurement date.
- Level 2: Inputs other than quoted market prices included within Level 1 that are observable for the asset or liability either directly (i.e., as prices) or indirectly (i.e., as derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

# PENDER ALTERNATIVE MUTUAL FUNDS

Notes to Financial Statements

Period ended December 31, 2021

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## 9. Fair value of financial instruments (continued):

### (a) Valuation models (continued):

The Funds use widely recognized valuation models in determining the fair value of common and relatively simple financial instruments, such as debt securities, mutual fund units and warrants that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple OTC derivatives such as forward foreign currency contracts. The availability of observable market prices and model inputs reduces the need for management judgment and estimation, and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets. Valuation techniques may include discounted cash flow calculations for debt securities and for forward foreign currency contracts, option pricing matrices for warrants and net asset value as published by underlying fund managers for mutual fund units.

For more complex instruments, the Funds use recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market, may be derived from market prices or rates or may be estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in the determination of fair value.

In determining fair value for these types of instruments the Manager considers the history and nature of the business; operating results and financial conditions; general economic, industry and market conditions; capital market and transaction market conditions; independent valuations of the business; contractual rights relating to the investment; comparable company trading and transaction multiples, where applicable, and other relevant considerations. Adjustments to the carrying value of the investments may also be determined to be appropriate by the Manager when there is pervasive and objective evidence of a decline in the value of the investment, as indicated by an assessment of the financial condition of the investment based on operational results, forecasts, or other developments since acquisition.

# PENDER ALTERNATIVE MUTUAL FUNDS

Notes to Financial Statements

Period ended December 31, 2021

## 9. Fair value of financial instruments (continued):

### (a) Valuation models (continued):

The table below presents the fair value of financial instruments as at December 31, 2021 by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the Statements of Financial Position. All fair value measurements below are recurring.

|  | Level 1       | Level 2    | Level 3 | Total         |
|--|---------------|------------|---------|---------------|
| <b>Alternative Absolute Return Fund:</b> |               |            |         |               |
| Bonds and loans - Long                   | \$ 44,577,288 | \$ -       | \$ -    | \$ 44,577,288 |
| Equities - Long                          | 498,074       | -          | -       | 498,074       |
| Bonds and loans - Short                  | (7,422,194)   | -          | -       | (7,422,194)   |
| Exchange-traded funds - Short            | (3,891,375)   | -          | -       | (3,891,375)   |
| Equities - Short                         | (589,649)     | -          | -       | (589,649)     |
| Forward foreign currency contracts       | -             | 309,100    | -       | 309,100       |
|  | \$ 33,172,144 | \$ 309,100 | \$ -    | \$ 33,481,244 |
| <b>Alternative Arbitrage Fund:</b>       |               |            |         |               |
| Equities - Long                          | \$ 9,273,907  | \$ -       | \$ -    | \$ 9,273,907  |
| Equities - Short                         | (1,727,107)   | -          | -       | (1,727,107)   |
| Forward foreign currency contracts       | -             | 71,774     | -       | 71,774        |
|  | \$ 7,546,800  | \$ 71,774  | \$ -    | \$ 7,618,574  |

The carrying amount of the Funds' net assets attributable to holders of redeemable units also approximates fair value as it is measured at the redemption amount and classified as Level 2 in the fair value hierarchy.

There were no transfers between the levels during the period of commencement of operations of each fund.

### (b) Short selling:

If a Fund sells a security short, it will borrow that security from a broker to complete the sale. The Fund will incur a loss as a result of a short sale if the price of the borrowed security increases between the date of the short sale and the date on which the Fund closes out its short position by buying that security. There can be no assurance that a Fund will be able to close out a short position at an acceptable time or price. Until the Fund replaces a borrowed security, it will maintain adequate margin with the broker consisting of cash and liquid securities.

|                                  | As at December 31,<br>2021 |
|----------------------------------|----------------------------|
| Alternative Absolute Return Fund | \$ (11,903,218)            |
| Alternative Arbitrage Fund       | (1,727,107)                |

# PENDER ALTERNATIVE MUTUAL FUNDS

Notes to Financial Statements

Period ended December 31, 2021

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## 10. Income taxes:

The taxation year-end of the Funds is December 15. As at the end of the 2021 tax year-end, the Funds had accumulated capital losses available for utilization against realized capital gains in future years. Capital losses have no expiry date.

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|                                  | As at December 31,<br>2021 |
|----------------------------------|----------------------------|
| Alternative Absolute Return Fund | \$ 318,063                 |
| Alternative Arbitrage Fund       | 50,673                     |

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As at the end of the tax year-end, the Funds had no accumulated non-capital losses available for carry forward.

## 11. Subsequent event:

Effective February 11, 2022, for the Pender Alternative Absolute Return Fund, the Manager closed Class AF and Class FF of the Fund to buy and switch in trades. The Fund will continue to allow redemption, switch out and transfer out trades.