Financial Statements of

PENDER GROWTH FUND INC.

And Independent Auditors’ Report thereon

Year ended December 31, 2022

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of **Pender Growth Fund Inc.** 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 is responsible for ensuring the Manager fulfils its responsibility. The Audit Committee meets with the Manager and the external auditors to review both the financial statements and the findings of the audit prior to the submission of the financial statements to the Board of Directors. The external auditors have unrestricted access to the Audit Committee. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or re-appointment of the external auditors.

These financial statements have been approved by the Board of Directors and have been audited by KPMG LLP, Chartered Professional Accountants, on behalf of the shareholders. The auditors’ report outlines the scope of their audit and their opinion on the financial statements.

"David Barr"
David Barr
Chief Executive Officer
PenderFund Capital Management Ltd.

"Gina Jones"
Gina Jones
Chief Financial Officer
PenderFund Capital Management Ltd.

April 10, 2023

KPMG LLP
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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Pender Growth Fund Inc.

Opinion

We have audited the financial statements of Pender Growth Fund Inc. (the "Company"), which comprise:

- the statements of financial position as at December 31, 2022 and December 31, 2021
- the statements of comprehensive income for the years then ended
- the statements of changes in equity for the years then ended
- the statements of cash flows for the years then ended
- 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 Company as at December 31, 2022 and December 31, 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit 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 is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matter to be communicated in our auditor's report.

Valuation of certain financial instruments that are not quoted in an active market

Description of the matter

We draw attention to Note 2(d), Note 3(a)(ii) and Note 12 to the financial statements. The Company holds certain financial instruments that are not quoted in an active market of $7,317,168 where the Company uses valuation models that use significant unobservable market inputs including revenue multiples.

Why the matter is a key audit matter

We identified the valuation of certain financial instruments that are not quoted in an active market as a key audit matter. This matter represented an area of significant risk of material misstatement due to a high degree of subjectivity required to evaluate the Company's significant unobservable inputs in determining the fair value. Significant auditor judgement was required to evaluate the results of audit procedure related to the significant unobservable inputs.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

With the involvement of valuation professionals with specialized skills, industry knowledge and relevant experience, we tested the valuation of certain financial instruments that are not quoted in an active market. We did this by comparing the selected revenue multiples to third-party industry data for comparable public company multiples.

Other Information

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

- the information included in Management's Discussion and Analysis 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 audit 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 audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's 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 auditor's 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 as issued by the International Accounting Standards Board ("IASB"), 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 Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's 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 auditor's 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 audit 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 Company's 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Company 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 audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditor's report is Duane Tup Chong

Vancouver, Canada
April 10, 2023

PENDER GROWTH FUND INC.

Statements of Financial Position

As at December 31, 2022 and 2021

	Notes		2022		2021
Assets					
Cash		$	1,552,667	$	10,008,858
Income taxes receivable	13		3,502,595		-
Due from related parties	5		3,023,368		6,243,402
Divestment proceeds receivable			1,916,139		1,671,449
Prepaid expenses			6,770		37,613
Interest receivable			162,932		198,210
Investments	4, 12		66,299,539		208,351,197
Total assets			76,464,010		226,510,729
Liabilities					
Interest payable			31,864		31,637
Share repurchase payable			13,186		-
Accounts payable and accrued liabilities			142,880		203,940
Payable for investments purchased			-		86,976
Income taxes payable	13		-		3,031,126
Deferred income tax liability	13		1,536,825		19,513,395
Loan payable	10		4,500,000		5,000,000
Total liabilities			6,224,755		27,867,074
Shareholders' equity					
Class C Common shares:					
Contributed capital	8		17,442,542		18,007,980
Retained earnings			52,796,713		180,635,675
Total Shareholders' Equity		$	70,239,255	$	198,643,655
Number of shares outstanding	8		7,569,929		7,616,529
Total shareholders' equity per share		$	9.28	$	26.08
Subsequent events	15				

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

Approved on behalf of the Board of Directors:

"David Barr" Director

"Kelly Edmison" Director

PENDER GROWTH FUND INC.

Statements of Comprehensive Income

Years ended December 31, 2022 and 2021

	Notes	2022	2021
Revenue:			
Interest and securities lending income	6	$ 278,949	$ 335,229
Foreign exchange (loss) gain		(2,225)	46,029
Changes in fair value of investments:			
Net realized (loss) gain		(13,556,891)	52,499,738
Net change in unrealized (depreciation) appreciation		(125,989,078)	115,906,623
Total revenue		(139,269,245)	168,787,619
Operating Expenses:			
Management fees	5	814,101	987,960
Interest and financing expenses	10	538,858	304,162
Administration expenses		356,646	268,096
Audit and professional fees		220,876	278,036
Directors' fees		54,565	58,671
Transaction costs		37,749	662,650
Custody and recordkeeping fees		27,785	21,839
Legal fees		22,720	58,172
Total operating expenses		2,073,300	2,639,586
Net operating (loss) income		$ (141,342,545)	$ 166,148,033
Other Items:			
Performance fees	5	(24,353,179)	36,991,288
Fees waived by the Manager	5	6,088,295	(9,247,822)
Net amount		(18,264,884)	27,743,466
Amount of Pender Private Investments Inc.'s ("PPI") performance fee earned by the Manager attributable to the Company's ownership of PPI shares	5	25,768,997	(36,236,726)
Total performance fee adjustment		7,504,113	(8,493,260)
Net (loss) income before income taxes (recovery)		$ (148,846,658)	$ 174,641,293
Income taxes (recovery)			
Current	13	(3,031,126)	3,031,126
Deferred	13	(17,976,570)	19,513,395
Total income taxes (recovery)		(21,007,696)	22,544,521
Net (loss) income		$ (127,838,962)	$ 152,096,772
Net (loss) income, per share:			
Class C shares		$ (16.85)	$ 19.90
Weighted average number of non-redeemable Class C shares outstanding		7,588,183	7,642,298

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

PENDER GROWTH FUND INC.

Statements of Changes in Equity

Years ended December 31, 2022 and 2021

Class C shares	Note	2022	2021
Balance, beginning of year		$ 198,643,655	$ 47,254,190
Net (loss) income		(127,838,962)	152,096,772
Capital transactions	8(b)	(565,438)	(707,307)
Balance, end of year		$ 70,239,255	$ 198,643,655

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

PENDER GROWTH FUND INC.

Statements of Cash Flows

Years ended December 31, 2022 and 2021

	2022	2021
Cash (used in) provided by:		
Operating:		
Net (loss) income	$ (127,838,962)	$ 152,096,772
Adjustments for:		
Interest and securities lending income	(278,949)	(335,229)
Foreign exchange loss (gain)	2,225	(46,029)
Net realized loss (gain) on sales of investments	13,556,891	(52,499,738)
Net change in unrealized depreciation (appreciation) on investments	125,989,078	(115,906,623)
Increase in income taxes receivable	(3,502,595)	-
Increase in divestment proceeds receivable	(244,690)	(1,003,818)
Decrease (increase) in prepaid expenses	30,843	(33,370)
Decrease (increase) in due from related parties	3,220,034	(6,243,402)
Increase in interest payable	227	31,637
(Decrease) increase in accounts payable and accrued liabilities	(61,060)	87,756
(Decrease) increase in income taxes payable	(3,031,126)	3,031,126
(Decrease) increase in deferred income tax liability	(17,976,570)	19,513,395
Decrease in due to related parties	-	(1,058,873)
	(10,134,654)	(2,366,396)
Proceeds on disposal of investments	23,606,154	88,038,318
Purchase of investments	(20,905,653)	(81,919,604)
	2,700,501	6,118,714
Interest received	32,439	128,540
Net cash (used in) provided by operating activities	(7,401,714)	3,880,858
Financing:		
Proceeds from issuance of loan payable	-	5,000,000
Repayment of loan payable	(500,000)	-
Repurchase of shares	(552,252)	(707,307)
Net cash (used in) provided by financing activities	(1,052,252)	4,292,693
Net (decrease) increase in cash during the year	(8,453,966)	8,173,551
Cash, beginning of year	10,008,858	1,789,278
Effect of exchange rate fluctuations on cash	(2,225)	46,029
Cash, end of year	$ 1,552,667	$ 10,008,858

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

PENDER GROWTH FUND INC.

Schedule of Investment Portfolio

Year ended December 31, 2022

	Exercise price/ Interest rate	Expiry date	Issue Currency	Number of share/units	Cost	Fair value
Publicly listed companies: (15.0%)						
Common shares: (13.9%)						
BuildDirect.com Technologies Inc.				428,240	1,969,904	116,695
Copperleaf Technologies Inc.[1] ("Copperleaf")				232,342	673,792	1,333,643
D-Wave Quantum Inc.				199,411	1,200,000	388,804
GreenSpace Brands Inc.				69,193,248	3,845,233	345,966
Peloton Interactive, Inc.				102,875	4,983,561	1,105,984
ProntoForms Corporation				3,044,333	1,577,078	1,506,945
Quorum Information Technologies Inc.				1,683,100	1,461,268	1,329,649
Sangoma Technologies Corporation				289,843	5,525,295	1,840,503
Tantalus Systems Holding Inc.				486,131	251,200	490,992
Zillow Group, Inc.				29,090	2,156,222	1,268,683
					23,643,553	9,727,864
Warrants: (0.0%)						
BuildDirect.com Technologies Inc.	4.23	12/31/2030	USD	89,722	-	-
BuildDirect.com Technologies Inc.	6.90	08/13/2023	CAD	428,240	-	-
GreenSpace Brands Inc.	0.09	09/28/2023	CAD	612,300	-	-
					-	-
Loans (1.1%)						
GreenSpace Brands Inc.	12.00%	07/01/2023	CAD	1,031,177	800,000	800,000
					24,443,553	10,527,864
Private unlisted companies: (79.4%)						
Common shares/Units:						
Pender Private Investments Inc., Commercialization Shares[2] ("PPI")				1,002,555	508,096	
Pender Private Investments Inc., Legacy Shares[2] ("PPI')				6,452,726	17,980,400	
Pender Technology Inflection Fund II Limited Partnership[2] ("PTIF II")					3,957,600	
Preferred shares:						
Checkfront, Inc., Series A-2				38,973	999,993	
Clarius Mobile Health Corp., Series A1				1,287,055	1,145,479	
Clarius Mobile Health Corp., Series A2				365,256	499,999	
DistillerSR Inc. (Formerly Evidence Partners Incorporated)				51,295	1,999,992	
Jane Software Inc.				103,823	4,055,326	
Traction Complete Technologies Inc.				629,232	914,400	
Traction Rec Technologies Inc.				585,179	914,400	
					32,975,685	55,771,675
Less: Transaction costs included in cost of investments					(12,964)	
Total investments (94.4%)					$ 57,406,274	$ 66,299,539
Cash (2.2%)						1,552,667
Other assets less liabilities (3.4%)						2,387,049
Total Shareholders' Equity (100.0%)						**$ 70,239,255**

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

[1]Copperleaf is the Company's largest single public company holding, representing 58.5% of the total portfolio, including both its direct holdings and its indirect holdings investment through its investment in Pender Private Investments Inc.

[2]Considering the make up of the portfolio including the underlying portfolio of our private holdings of PPI and PTIF II, two private investees that themselves hold securities of public and/or private companies, the proportions of the total portfolio made up by publicly listed companies and private unlisted companies were 74.4% and 25.6%, respectively.

1. Incorporation and nature of operations:

Pender Growth Fund Inc. (the "Company") was incorporated under the laws of British Columbia on March 7, 1994.

The Company has been managed by PenderFund Capital Management Ltd. (the "Manager") since 2003. The investment objective of the Company is to achieve long-term capital growth from investment in opportunities identified by the Manager.

The Company's registered office is located at 1830 - 1066 West Hastings Street, Vancouver, British Columbia, V6E 3X2.

2. Basis of preparation:

(a) Statement of compliance:

The annual financial statements of the Company are prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards ("IAS") Board.

The Company qualifies as an investment entity under IFRS 10, *Consolidated Financial Statements*.

These financial statements were authorized for issue by the Company's Board of Directors on April 10, 2023.

(b) Basis of measurement:

These financial statements have been prepared on a historical cost basis except for investments, which are measured at fair value.

(c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, the Company's functional currency.

(d) Use of estimates and judgment:

The preparation of 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 Company 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.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(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 in which case 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 Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount is presented in the Statements of Financial Position only when the Company has a legal right to offset the amounts and intends 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 Company 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. Should the Company change its business model for managing financial assets, all affected financial assets would be reclassified on the first day of the first reporting period following the change in the business model.

3. Significant accounting policies (continued):

(a) Financial instruments (continued):

(i) Recognition and measurement (continued):

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 FVTPL, such as derivatives liabilities. The Company may also, at initial recognition, irrevocably designate a financial liability as measured at FVTPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency.

(ii) Fair value through profit or loss:

Financial instruments classified as FVTPL are initially measured 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 Company's investments in securities are classified as FVTPL.

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 Company uses 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 Company's policy is to recognize transfers into and out of the fair value hierarchy levels described in Note 12(a) 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 quoted 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, market approach, and other methods commonly used by market participants and which 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.

(iii) Amortized cost:

Financial assets and liabilities classified as amortized cost are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, measurement is at amortized cost using the effective interest method, less any impairment losses. The Company classifies cash, receivable for investments sold, income taxes receivable, divestment proceeds receivable, dividends receivable, interest receivable, other receivables, due from related parties, accounts payable and accrued liabilities, payable for investments purchased, management and administration fees payable, performance fees payable, share repurchase payable, due to related parties, income taxes payable, deferred income tax liability and loan payable as amortized cost.

The effective interest method is a method of calculating the amortized cost of a financial asset or

3. Significant accounting policies (continued):

(a) Financial instruments (continued):

(iii) Amortized cost (continued):

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.

(iv) Fair Value through other comprehensive income:

The Company has not classified any of its financial assets or liabilities as FVOCI.

(b) Investments in associates and subsidiaries:

The Company meets the criteria required to be considered an “investment entity” under IFRS 10, *Consolidated Financial Statements* and, as such, in the cases where the Company has control or significant influence over a Company in its investment portfolio, the Company values such investments as financial assets at FVTPL.

(c) Shares:

The Company classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Where an issued financial instrument is considered a compound financial instrument, it is bifurcated into liability and equity components based on the respective value of each component.

The common shares, which are classified as equity, are measured at the residual shareholders’ equity value. Distributions to holders of non-redeemable shares are recognized in the Statements of Changes in Equity.

(d) Per share amounts:

Total shareholders’ equity per share is calculated based on the number of shares outstanding at the end of the period. Net income (loss) per share is calculated by dividing the net income (loss) by weighted average number of shares outstanding during the period.

(e) Securities lending transactions:

The Company enters into securities lending transactions which involve the temporary exchange of securities for collateral with a commitment to redeliver the same securities on a future date.

Securities lending transactions are administered by Canadian Imperial Bank of Commerce and The Bank of New York Mellon (collectively, the “Securities Lending Agent”). The value of cash or securities held as collateral must be at least 102% of the fair value of the securities loaned, sold or purchased. Income is earned from these transactions in the form of fees paid by the counterparty and, in certain circumstances, interest paid on cash or securities held as collateral. Income earned from these transactions is included in the Statements of Comprehensive Income as Securities lending income and recognized when earned.

Note 6 summarizes the details of securities loaned and collateral received and presents a reconciliation of the gross amount generated from securities lending to the securities lending income earned by the Company.

3. Significant accounting policies (continued):

(f) Foreign exchange:

These financial statements of the Company 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.

(g) Income recognition:

Interest income 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.

(h) Income taxes:

Current tax expense is based on taxable profit for the year. Taxable profit differs from profit as reported in the Statements of Comprehensive Income as certain items of income or expense are never taxable or deductible or are taxable or deductible in a different period than the reporting period. The current tax liability is determined using tax rates that have been enacted or substantially enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the calculation of taxable profit. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for deductible temporary differences or for carry forward of unused tax losses, to the extent that it is probable that the deductions or tax losses can be utilized. The carrying amount of deferred tax assets are reviewed at each reporting date and reduced to the extent it is no longer probable that the income tax asset will be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability settled, based on tax rates and legislation that have been enacted or substantively enacted at the reporting date. Where applicable, current and deferred taxes relating to items recognized directly in equity are also recognized in equity.

4. Purchase of Pender Private Investments Inc.:

On May 28, 2021 (the “Effective Date”), the Company completed a transaction (the "WOF Transaction") with the Working Opportunities Fund (EVCC) Ltd. (“WOF”), an investment entity, for the acquisition of WOF’s issued and outstanding shares pursuant to the April 7, 2021 definitive agreement (the “Arrangement Agreement”), under a plan of arrangement.

On the Effective Date of the WOF Transaction, the Company acquired 100% of WOF’s Commercialization Series shares for a total cash purchase price of $508,096 which was paid in full on closing and 97% of WOF’s

4. Purchase of Pender Private Investments Inc. (continued):

Venture Series shares for a total cash purchase price of $25,316,232, 50% of which was paid on closing with the remaining 50% paid on November 25, 2021. The Venture Series shares were acquired at a discount to their fair value, with their purchase price calculated as 43.5% of the net asset value per Venture Series share on the day prior to the date of the Arrangement Agreement, adjusted for any change of up to 5% in their value to the day before the May 28, 2021 effective date of the WOF Transaction.

Upon the closing of the WOF Transaction, WOF changed its name to Pender Private Investments Inc. (“PPI”), and the Venture Series shares were renamed the “Legacy Shares”.

The Company had an obligation to make certain additional payments to those Venture Series shareholders that sold their shares (the “Exiting Shareholders”) to the Company for divestments of WOF portfolio investments (the "Contingent Payment Obligation"). The Contingent Payment Obligation was based on a percentage share of the net gains over carrying values of the underlying Venture Series shares’ investment portfolio at the Effective Date and arose as follows: (a) if a divestment completed on or before November 18, 2021, Exiting Shareholders would receive their pro rata portion of 60% of the net gain; (b) if a divestment completed on or before February 18, 2022, Exiting Shareholders would receive their pro rata portion of 45% of the net gain; and (c) if a letter of intent, term sheet or binding agreement for a divestment was entered into on or before February 18, 2022 and such divestment was subsequently completed by May 18, 2022, Exiting Shareholders would receive their pro rata portion of 20% of the net gain.

The divestment of two of PPI’s portfolio investments triggered a requirement for a pro rata redemption of Legacy Shares at the NAV in effect at the time. In October 2021, PPI redeemed approximately 58.49% of all outstanding Legacy Shares, on a pro rata basis, at a redemption price of approximately $6.4705 per share. Accordingly, the Company received a total of $63,197,947 upon the redemption of 9,767,089 of the Legacy Shares it held. A portion of these proceeds was used to satisfy the additional cash payment to the Exiting Shareholders that was triggered by the divestments and the redemption: $21,136,513 or $1.2661 per share was paid effective October 13, 2021.

Because no letter of intent, term sheet or binding agreement for a divestment was entered into after November 18, 2021 and before February 18, 2022, which was the final period during which an additional exit payment could have been triggered, the right to any additional cash payment ceased and the Exit Venture Shares were redeemed automatically effective May 20, 2022.

4. Purchase of Pender Private Investments Inc. (continued):

Under the Transaction, Legacy shareholders were required to make an election and to ensure the account in which their shares were held was eligible to continue to hold the shares. Shareholders who did not hold their Legacy Shares in an eligible account on June 10, 2022 had their Legacy Shares redeemed in exchange for the applicable cash consideration equal to the original amount offered under the Transaction. In total, there were 10,440 Legacy Shares that weren't held in eligible accounts and those shares were purchased by the Company for a total payment of $59,297, bringing its ownership of PPI to 98%.

On August 19, 2022, as provided by the Legacy Share right, PPI redeemed a portion of its Legacy Shares. The redemption was triggered by certain divestments of PPI's portfolio companies. Accordingly, PPI redeemed approximately 7.04% of all outstanding Legacy Shares on a pro rata basis, at a redemption price of approximately $8.2573 per share. The Company received a total of $4,033,749 upon the redemption of 488,507 of the Legacy Shares it held. As at December 31, 2022, the Company held 98% (December 31, 2021, 97%) of the outstanding Legacy Shares, or 6,452,726 Legacy Shares (December 31, 2021 - 6,930,953 Legacy shares).

Under IFRS, the gain inherent in the difference between the purchase price paid by the Company and the fair value of the assets it acquired is treated as a deferred gain and contra asset under the investments reported in the Statements of Financial Position. On the effective date of the WOF Transaction, a $32,798,793 deferred gain was recorded by the Company. The deferred gain is being recognized to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the investment. For the year ended December 31, 2022, the Company recognized $Nil deferred gain (December 31, 2021 - $27,654,608). As at December 31, 2022, the remaining balance is $5,144,185 (December 31, 2021 - $5,144,185).

5. Related party transactions:

(a) Management and performance fees:

(i) Management fees:

In accordance with the Third Amended and Restated Management Agreement dated May 1, 2017, as amended March 7, 2019 (the "Management Agreement"), the Manager provides management services in connection with all aspects of the identification, investment, development, active monitoring and ultimate divestment of all investments of the Company. This Management Agreement is in effect until April 30, 2023 and shall be renewed automatically at that date for an additional four-year term, unless a vote of shareholders determines otherwise.

In exchange for these management services, the Company pays a management fee. Effective May 2019, the management fee was set at 2.50% of the first $15,000,000 of the value of Net Assets and 1.75% of the value of Net Assets above $15,000,000.

5. Related party transactions (continued):

(a) Management and performance fees (continued):

(*i*) *Management fees (continued):*

The management fee is calculated and paid monthly. Net assets used in the management fee calculation exclude the value of the Company's investment in PPI, which is also managed by PGF's Manager. For the year ended December 31, 2022, the management fees incurred by the Company were $814,101 (December 31, 2021 - $987,960).

(ii) Performance fees:

The Manager is entitled to a performance fee plus applicable taxes in certain circumstances, based on achieving performance criteria set out in the Management Agreement. The performance fee is calculated on an annual basis as 20% of any net increase in shareholders' equity above an annual hurdle rate of 6%. The performance fee is subject to a high water mark, being the year-end total shareholders' equity per share for the most recent preceding year in which a performance fee was earned. Subject to accumulation of the hurdle rate in years in which no performance fee is payable and the recalculation discussed in section (iii) below, the high water mark will not be reset other than to be adjusted in the event of a subdivision or consolidation of the shares. Performance fees are accrued during the year, where applicable. However, annual performance fees are calculated on the last valuation date of the year and are payable to the Manager each year upon publication of the Company's audited annual financial statements. For the year ended December 31, 2022, the Company accrued performance fees of $Nil (December 31, 2021 - $27,743,466).

(iii) Performance fees – 2021:

In 2021, the performance fee expense of $27,743,466 comprised $22,514,596 that arose from the net increase in unrealized appreciation of the Company's direct and indirect holdings of Copperleaf ("2021 Unrealized Performance Fee") and $5,228,870 that arose from net realized gains and this latter amount was paid to the Manager in April 2022.

The Manager, in its sole discretion, decided that the 2021 Unrealized Performance Fee would not be paid upon the publication of the Company's audited annual financial statements, instead it would be recalculated and the accrual and expenses adjusted accordingly, and quarterly payments would be triggered from time to time as gains are realized. The quarterly payments would be equal to the total recalculated performance fee arising from (1) the realized gain on the Company's direct holdings of Copperleaf and (2) the realized gain on the Company's indirect holdings of Copperleaf in excess of 20% of the Company's shareholders' equity at such time. After the Copperleaf holdings in excess of a 20% weighting are sold, the performance fee on the unrealized appreciation on the Company's remaining holdings of Copperleaf will be paid. The high water mark will be recalculated accordingly.

As at December 31, 2022, the total performance fee payable in this respect was $4,249,712, which comprised $261,774 arising from net realized gains on Copperleaf shares in 2022 and $3,987,938 arising from the net unrealized appreciation of the Company's direct and indirect holdings of Copperleaf.

5. Related party transactions (continued):

(a) Management and performance fees (continued):

(iii) Performance fees - 2021 (continued):

For the year ended December 31, 2021, the high water mark was $10.95 excluding unrealized gains on Copperleaf. As at December 31, 2022 the high water mark was adjusted to $11.17 reflecting net realized gains on Copperleaf during the year. As at December 31, 2022, the portion of the high water mark that relates to the net unrealized appreciation of the Company’s direct and indirect holdings of Copperleaf is $3.32 (December 31, 2021 - $18.77).

During the year ended December 31, 2022, due to a change in the unrealized appreciation of Copperleaf and realized gains on Copperleaf shares sold, the Company recorded a net reversal of previously accrued performance fees of $18,264,884 (December 31, 2021 – accrued performance fees of $27,743,466).

The changes related to the December 31, 2021 performance fee accrual are outlined in the table below:

2021 performance fee

For the year ended December 31, 2022	Balance, beginning of year	Change in unrealized appreciation	Realized gain (unpaid)	Realized gain (paid)	Balance, end of year
Performance fees	36,991,288	(24,702,211)	349,032	(5,228,870)	7,409,239
Fees waived by the Manager	(9,247,822)	6,175,553	(87,258)	-	(3,159,527)
Net amount	27,743,466	(18,526,658)	261,774	(5,228,870)	4,249,712

(iv) PPI Performance Fee:

In certain circumstances, the Manager also earns a performance fee by virtue of its management of PPI (the “PPI Performance Fee”). Because the Company currently holds 98% of PPI, the Manager in its sole discretion decided to pay the Company 98% of the PPI Performance Fee. As at December 31, 2022, the Company had accrued a receivable from the Manager for this in the amount of $7,480,711 (December 31, 2021 - $34,150,813).

This reflected a net $25,768,997 decrease in this receivable during the year ended December 31, 2022, made up of $26,670,102 from the change in the unrealized appreciation of the Company’s indirect holdings of Copperleaf, offset by the payment received $901,105 related performance fees incurred by PPI for net divestment proceeds received in August 2022.

5. Related party transactions (continued):

(a) Management and performance fees (continued):

(v) Performance fee summary:

For the year ended December 31, 2022, the net impact of the adjustments (recovery) related to 2021, described in notes 5(a)(iii) and (iv) above was ($3,230,999) (December 31, 2021 – ($6,407,347)), as summarized in the table below:

2021 total performance fee adjustment

For the year ended December 31, 2022	Balance, beginning of year	changes	Paid/ payment received	Balance, end of year
Net amount of performance fee	27,743,466	(18,264,884)	(5,228,870)	4,249,712
Amount due from Manager related to performance fees earned from PPI – Unrealized appreciation	(34,150,813)	26,670,102	-	(7,480,711)
Amount due from Manager related to performance fees earned from PPI – payment received in 2022	-	(901,105)	901,105	-
Total performance fee adjustment	**(6,407,347)**	**7,504,113**	**(4,327,765)**	**(3,230,999)**

(b) Due from related parties:

As at December 31, 2022, the Company had a net balance due from related parties of $3,023,368 (December 31, 2021 – $6,243,402), all of which was due from the Manager. Of this amount, $4,457,343 was due to the Manager including 2021 performance fees $4,249,712, as described in note 5(a)(iii) and management fees and operating expenses $207,631 paid by the Manager on behalf of the Company. This was offset by an amount of $7,480,711 due from the Manager (December 31, 2021 - $34,150,813) for PPI Performance Fees that the Manager agreed to pay to the Company, as described in note 5(a)(iv) above.

(c) Share holdings:

As at December 31, 2022, the Manager, directors and officers of the Company directly or indirectly held 11.6% (December 31, 2021 – 10.0%) of the Company's Class C Shares. The aggregate investment by the Company's directors and officers in all Portfolio Companies did not exceed 1.0% of the issued and outstanding shares of any Portfolio Company.

As previously noted, the Company holds 98% of the outstanding shares of PPI, an entity also managed by the Manager.

On January 1, 2022, the Company transferred its holdings in certain loans and convertible debentures and warrants to Pender Private Debt Opportunities Fund I Limited Partnership ("PPDF") at cost. PPDF is a related party by virtue of it being managed by a wholly owned subsidiary of the Manager. The Company is the sole limited partner of PPDF. On December 31, 2022, PPDF was wound up and the Company received the net assets of PPDF upon the dissolution.

On December 16, 2022 the Company signed a subscription agreement with Pender Technology Inflection Fund II Limited Partnership ("PTIF II") via Pender Carry II Limited Partnership for a total committed capital amount of $12,500,000, of which $3,957,600 was funded in pre-close rounds during the year. PTIF II, a

5. Related party transactions (continued):

(c) Share holdings (continued):

related party managed by the Manager, invests in a concentrated selection of business to business and health-focused technology companies at their inflection point.

6. Securities lending transactions:

As at December 31, 2022, the value of securities loaned is $Nil (December 31, 2021 – $Nil) and collateral received in respect of securities lending is $Nil (December 31, 2021 – $Nil).

Collateral received in respect of securities lending may be comprised of debt obligations of the Government of Canada and other countries, Canadian provincial or territorial governments, governments of states of the United States of America, and evidence of indebtedness of financial institutions whose short-term debt is rated A-1 or R-1 or equivalent by a recognized, widely followed North American credit rating agency.

A reconciliation of the gross amount generated from securities lending transactions to the securities lending income earned by the Company for the year ended December 31, 2022 was $Nil and 2021 is presented in the following table.

Year ended	Gross Income	Withholding taxes	Agent fees	Securities lending income
December 31, 2021	$ 13,419	$ -	$ (5,367)	$ 8,052

The agent fees were paid to the Securities Lending Agent by the Company and represented 35% of the gross securities lending income net of withholding taxes.

7. Withholding tax expense:

Certain dividend income received by the Company is subject to withholding tax imposed in the country of origin. During the year, withholding tax rates were between 0% and 35% (2021 – between 0% and 35%).

8. Share capital:

(a) Authorized share capital:

On July 24, 2019, the shareholders approved a resolution deleting the Class B and Class R shares, altering the rights and restrictions of Class C shares to remove references therein to Class R shares, and creating a new class of preferred shares.

As at December 31, 2022, the authorized capital of the Company consists of:

(i) An unlimited number of Class C Participating Common Shares (“Class C Shares”); and

(ii) An unlimited number of Preferred Shares (“Preferred Shares”).

Class C Shares:

Class C Shares are not redeemable or convertible. Class C Shares are listed on the TSX Venture

8. Share capital: (continued)

(a) Authorized share capital: (continued)

Exchange (“TSXV”) under the ticker symbol “PTF”.

Each Class C Share is entitled to one vote in any vote on shareholder matters and is entitled to dividends at the discretion of the Board of Directors.

Preferred Shares:

The Preferred Shares were created on July 24, 2019. As at December 31, 2022 and 2021, no Preferred Shares have been issued. The special rights and restrictions of the Preferred Shares empower the Board to fix the number of shares in each series of each class of Preferred Shares and to fix the preferences, special rights and restrictions, privileges, conditions and limitations attaching to the shares of that series, before the issuance of shares of any particular series. The Board has the power to fix, among other things, the number of shares constituting any series, the voting powers, designation, preferences and relative participation, optional or other special rights and dividend rate, terms of redemption (including sinking fund provisions), redemption price or prices, conversion rights and liquidation preferences of the shares constituting any series. The issuance of Preferred Shares could affect the rights of the holders of Class C shares.

(b) Issued and fully paid shares:

During the years ended December 31, 2022 and 2021, the Company has issued and fully paid Class C shares outstanding as follows:

	Balance, Beginning of year	Shares issued	Shares repurchased	Balance, end of year
December 31, 2022				
Class C	7,616,529	-	(46,600)	7,569,929
December 31, 2021				
Class C	7,740,129	-	(123,600)	7,616,529

Following the expiry of its Normal Course Issuer Bid (“NCIB”) on February 10, 2021, the Company launched a new NCIB on the TSXV. Upon this launch, the Company had 7,739,121 shares issued, of which 7,008,669 shares represented its public float. The Company was entitled to purchase up to a maximum of 700,866 shares, representing 10% of its public float, over the one-year period of this NCIB. The NCIB was continued in effect until February 11, 2022.

On February 14, 2022, the Company refiled its NCIB on the TSXV. Upon launch, the Company had 7,609,621 shares issued, of which 6,788,397 shares represented its public float. The Company is entitled to purchase up to a maximum of 678,839 shares, representing 10% of its public float, over the one-year period of this NCIB. The NCIB will continue until February 13, 2023, unless terminated earlier in accordance with its terms.

During the year ended December 31, 2022, the Company bought back 46,600 shares under its NCIB for a total price of $565,438 (December 31, 2021 – 123,600 shares and $707,307).

8. Share capital: (continued)

(c) Equity capital:

The changes in shareholders' equity for the year ended December 31, 2022 and 2021 are as follows:

	Share capital	Retained earnings	Total
Balance, January 1, 2022	$ 18,007,980	$ 180,635,675	$ 198,643,655
Net loss	-	(127,838,962)	(127,838,962)
Capital transactions	(565,438)	-	(565,438)
Balance, December 31, 2022	$ 17,442,542	$ 52,796,713	$ 70,239,255

	Share capital	Retained earnings	Total
Balance, January 1, 2021	$ 18,715,287	$ 28,538,903	$ 47,254,190
Net income	-	152,096,772	152,096,772
Capital transactions	(707,307)	-	(707,307)
Balance, December 31, 2021	$ 18,007,980	$ 180,635,675	$ 198,643,655

9. Capital management:

The Company's Class C Shares represent the capital of the Company. The Company is not subject to any external or internally imposed restrictions on its capital other than debt covenants as described in Note 10.

The investment objective of the Company is to achieve long-term capital growth. The firm invests in public and private companies based primarily in Canada and the U.S., principally in the technology sector.

The Company's objective in managing capital is to ensure it has the ability to continue to make new investments and to make follow-on investments in companies that it has previously invested in, to have sufficient cash for operations and to continue to operate as a going concern.

10. Loan payable:

In connection with the WOF Transaction described in Note 4, the Company obtained a three-year term loan from a Canadian chartered bank, under a loan agreement dated May 28, 2021, as amended March 31, 2022. The facility provided for a maximum amount of $10,000,000 to be advanced in one or two tranches (the "Term Loan"). As security for the Term Loan, the Company granted the lender a security interest in all of the shares of PPI held by the Company and its holdings in its public company investments. The Company is in compliance with all covenants on the loan agreement as of December 31, 2022.

10. Loan payable (continued):

In 2021, the Company drew $5,000,000 on the Term Loan, at an interest rate of Prime plus 5% per annum. On March 31, 2022, the bank swept the $5,000,000 owing under this first tranche and collected 6 months' prepayment interest, or $193,027, under the terms of the amended loan agreement. Concurrently, the Company drew down $5,000,000 as a second tranche, which bears interest at the rate of Prime plus 2% for a minimum one year term. The Term Loan matures on May 28, 2024. At December 31, 2022, the balance owing under the Term Loan is $4,500,000.

11. Financial risk management:

The Company may be exposed to various financial risks in the normal course of business, associated with its investment objectives and strategies, financial instruments and the markets in which it invests. These risks include credit risk, liquidity risk, and market risk which consists of currency risk, interest rate risk and other price risk.

The Company's investment objective is to achieve long-term capital growth by investing in public and private companies. The Company maintains positions in a variety of financial instruments in accordance with its investment objectives and strategies. The Schedule of Investment Portfolio groups these investment holdings by asset type. The Company's exposure to financial risk is concentrated in its investment holdings. The Manager manages the potential impact of these financial risks on the Company's performance by employing and overseeing professional and experienced portfolio advisors who regularly monitor the Company's positions and market events and diversify the investment portfolio within the constraints of the investment guidelines.

The economic uncertainties around persistent inflation pressure, bank failures, geopolitical events and lingering COVID-19 pandemic have the potential to slow growth in the global economy. Future developments in these challenging areas could impact the Company's results and financial conditions and the full extent of that impact remains unknown. Developing reliable estimates and applying judgment continue to be substantially complex. Actual results may differ from those estimates and assumptions.

As at December 31, 2022, the Company had exposure to the banking sector. Subsequent to year-end, the Company continues to have exposure to this sector. In certain cases, government agencies have assumed control or otherwise intervened in the operations of certain banks due to liquidity and solvency concerns. The extent of the situation remains uncertain and as such the Manager continues to assess across the broader financial sector and will take potential actions, as deemed necessary. The ultimate resolution of these liquidity and solvency concerns and the extent of the related impact to the Company is uncertain and could be significant.

The Company will continue to support its Portfolio Companies, to monitor the impact that global events have on them and to reflect the consequences as appropriate in its accounting and reporting.

The Company's exposure to financial risks is concentrated in its investment holdings. The Company carries out part of its investment strategy by investing in related entities such as PPI and PTIF II. The financial risks associated with the Company's investment strategy are disclosed based on its direct holdings. 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 the Company's performance by regularly monitoring each position and market and global events and by diversifying investment portfolios within the constraints of the Company's investment objective.

11. Financial risk management (continued):

(a) Credit risk:

Credit risk represents the risk associated with the inability of a counterparty to fulfill its financial obligations. The Company limits its exposure to credit risk related to its excess cash, when applicable, by investing in high quality short-term investments, typically term or other deposits with a large Canadian bank.

The Company is also exposed to credit risk through its investment in loans, convertible and other notes and preferred shares of its investee companies. The Company manages this credit risk through careful selection and monitoring of its investee companies. Receivables relating to the Company's investments are also subject to credit risk and are managed through active review of the portfolio of private unlisted investments.

The Company's maximum exposure to credit risk as at December 31, 2022 is $14,025,031 (December 31, 2021 - $13,065,978).

(b) Liquidity risk:

Liquidity risk is the risk that the Company may not be able to settle or meet its obligations on time or at a reasonable price. The Company invests in equity securities and other financial instruments. A portion of the Company's equity holdings are in private unlisted investments for which no active markets exist. Accordingly, timely disposition may not be possible, and the realized price may be significantly different from the carrying value.

The Company's policy is to maintain sufficient cash to meet normal operating requirements. It is also the Company's policy that the Manager monitors the Company's liquidity position and that the board of directors reviews it on a quarterly basis.

The following table summarizes the Company's financial liabilities as at December 31, 2022 and 2021, based on undiscounted contractual cash flows:

	December 31, 2022	December 31, 2021
Interest payable	$ 31,864	$ 31,637
Share repurchase payable	13,186	-
Accounts payable and accrued liabilities	142,880	203,940
Payable for investments purchased	-	86,976
Income taxes payable	-	3,031,126
Loan payable	4,500,000	5,000,000
Total	$ 4,687,930	$ 8,353,679

11. 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 Company's income or the fair value of its holdings of financial instruments. These changes present the risk that markets as a whole may go down in value, including the possibility that markets may go down sharply and unpredictably at times. The value of most investments, and in particular equity securities, is affected by changes in general market conditions. These changes may be caused by corporate developments, general market sentiment, changes in interest rates, changes in the level of inflation, political and economic changes both domestic and foreign, catastrophic events, such as pandemics and outbreaks of disease, natural disasters including those exacerbated by climate change, war, acts of aggression or terrorist events, and other unforeseen events that may cause changes to markets.

(i) Interest rate risk:

Interest rate risk is the risk that fair value of a financial instrument will fluctuate because of changes in market interest rates. The Company's investment portfolio may contain private debt instruments, the majority of which may be convertible. The valuation of these private debt instruments is based on the enterprise value of the underlying Company and generally does not change with changes in market interest rates. The interest rates of these instruments are fixed, so changes in market interest rates will not impact cash flows of the Company.

(ii) Currency risk:

Currency risk is the risk that the fair value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company invests primarily in Canadian securities. Accordingly, the Company is not subject to significant currency risk.

(iii) Other price risk:

Other price risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from the aforementioned risks), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in a market. The Manager manages other price risk through careful selection of investments and through diversification of the investment portfolio.

As at December 31, 2022, if the fair value of the Company's publicly listed investments had increased or decreased by 10% with all other factors remaining constant, the Company's shareholders' equity would have increased or decreased by approximately $1,164,000 (December 31, 2021 - $4,611,000). Price sensitivity was determined based on portfolio-weighted beta. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

12. 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. For all other financial instruments, the Company determines 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 Company measures fair value 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 Company can access at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company uses widely recognized valuation models for 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 contacts. 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, which are prone to change based on specific events and general conditions in the financial markets, varies depending on the products and markets.

For more complex instruments, the Company uses recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market and may be derived from market prices or rates or 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; the general economic, industry and market conditions; capital market and transaction market conditions; independent valuations of the business; contractual rights relating to the investment; comparable trading and transaction multiples, where applicable; and other pertinent considerations. Adjustments to the carrying value of the investments may also be determined 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 and other developments since acquisition.

12. Fair value of financial instruments (continued):

(b) Fair value hierarchy – financial instruments measured at fair value:

The table below presents the fair value of financial instruments as at December 31, 2022 and 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.

	December 31, 2022	December 31, 2021
Level 1:		
Publicly listed companies	$ 9,727,864	$ 50,497,509
Level 2:		
Publicly listed companies	-	35,760
Level 3:		
Publicly listed companies – loans	800,000	5,141,000
Private unlisted companies	55,771,675	152,676,928
Total Level 3	56,571,675	157,817,928
	$ 66,299,539	$ 208,351,197

During the year ended December 31, 2022, D-Wave Quantum Inc. (formerly D-Wave Systems Inc.) transferred from level 3 to level 1 of the fair value hierarchy upon becoming publicly traded. During the year ended December 31, 2021, BuildDirect.com Technologies Inc., Tantalus Systems Holding Inc. and Copperleaf Technologies Inc. were transferred from level 3 to level 1 of the fair value hierarchy upon becoming publicly traded.

The following table shows a reconciliation of movements in the fair value of financial instruments categorized within Level 3 for the year ended December 31, 2022 and 2021:

	December 31, 2022	December 31, 2021
Opening balance	$ 157,817,928	$ 17,283,252
Amounts paid on purchase of investments	12,332,042	56,157,169
Sales and settlements of investments	(7,831,780)	(76,978,506)
Transfers between Level 1 and Level 3	-	(4,863,951)
Total (loss) gain recognized in comprehensive income	(105,746,515)	166,219,964
Ending balance	$ 56,571,675	$ 157,817,928

Included in the net change in unrealized appreciation (depreciation) in fair value of investments on the Statements of Comprehensive Income for the year ended December 31, 2022 is a change in unrealized depreciation of $104,036,114 (December 31, 2021 – unrealized appreciation $118,121,235 related to Level 3 investments.

12. Fair value of financial instruments (continued):

(c) Significant unobservable inputs used in measuring fair value:

The table below sets out information about significant unobservable inputs used at December 31, 2022 and 2021 in measuring financial instruments categorized as Level 3 in the fair value hierarchy.

December 31, 2022

Description	Fair value	Valuation technique	Unobservable input	Revenue multiple	Sensitivity to change in significant unobservable input
Unlisted private investments	$7,317,168	Market approach	Revenue multiple	$7,317,168	The estimated fair value would increase if revenue multiple increased

December 31, 2021

Description	Fair value	Valuation technique	Unobservable input	Revenue multiple	Sensitivity to change in significant unobservable input
Unlisted private investments	$5,055,319	Market approach	Revenue multiple	$ 5,055,319	The estimated fair value would increase if revenue multiple increased

Significant unobservable inputs are developed as follows:

(i) Revenue multiple:

Revenue multiples are selected from comparable public companies based on geographic location, industry, size, target markets, and other factors that the Manager considers to be reasonable. The traded multiples for the comparable companies are determined by dividing the enterprise value of the company by its revenue.

12. Fair value of financial instruments (continued):

(d) Effects of unobservable input on fair value measurement:

Although the Company believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used to alternative reasonably possible assumptions would have the following effects on shareholders' equity as at December 31, 2022 and 2021:

	December 31, 2022	December 31, 2021
Favourable	$ 731,717	$ 505,532
Unfavourable	(731,717)	(505,532)

The favourable and unfavourable effects of using alternative reasonably possible assumptions for the valuation of unlisted private investments have been calculated by recalibrating the model values using unobservable inputs based on ranges of possible estimates.

(e) Financial instruments not measured at fair value:

The carrying value of the Company's financial instruments, other than investments, approximates their fair value given their short-term nature. These financial instruments are classified as Level 2 in the fair value hierarchy because while prices are available, there is no active market for these instruments.

13. Income taxes:

The Company's provision for income taxes (recovery) for the years ended December 31, 2022 and 2021 is summarized as follows:

	2022	2021
Combined federal and provincial statutory income tax rate	27.00%	27.00%
Income tax (recovery) expenses calculated at statutory tax rate	$ (40,188,598)	$ 47,153,149
Adjustments resulting from:		
Non-taxable portion of realized losses (gains)	1,830,180	(7,087,465)
Non-taxable portion of unrealized depreciation (appreciation)	17,008,826	(15,653,608)
Utilization of capital losses and other items	341,896	(1,867,555)
Income tax (recovery) expense	$ (21,007,696)	$ 22,544,521

The taxation year-end of the Company is December 31. As at the end of the 2022 tax year-end, the Company had non-capital losses of $6,243,996 (2021 - $Nil) and capital losses of $14,180,878 (2021 - $Nil) available for carryback to the 2021 tax year, including non-capital losses of $5,882,132 and capital losses of $14,180,878.

13. Income taxes (continued):

As of December 31, 2022, the Company's income taxes receivable balance is $3,502,595 (December 31, 2021 - $Nil). The remaining 2022 non-capital losses $361,864 are available for carry forward to future years up to a maximum of 20 years.

As at December 31, 2022, the Company has a current tax liability of $Nil (December 31, 2021 - $3,031,126) and deferred income tax liability $1,536,825 (December 31, 2021 - $19,513,395).

14. Involvement with subsidiaries and associates:

The table below describes subsidiaries and associates in which the Company holds an interest and that it does not consolidate or account for by the equity method.

Entity	Nature and purpose	Interest held by the Company
Pender Private Investments Inc.	Private Equity Investments	Investment in common shares
Pender Technology Inflection Fund II Limited Partnership	Private Equity Investments	Investment in limited partnership

The table below sets out interests held by the Company in unconsolidated subsidiaries and associates. The maximum exposure to loss is the carrying amount of the financial assets held.

December 31, 2022 and 2021					
Name of Entity	Relationship	Principal place of business	Country of incorporation	Ownership interest	Voting rights
Pender Private Investments Inc.	Subsidiary	Canada	Canada	98% (2021 - 97%)	98% (2021 - 97%)
Pender Technology Inflection Fund II Limited Partnership	Partnership	Canada	Canada	25% (2021 – N/A)	N/A

Furthermore, none of the subsidiaries described in the table above are subject to any restrictions.

15. Subsequent events:

On February 6, 2023, the Company received a distribution of $2,218,459 from PTIF II which comprised $3,964,865 for a return of capital for the Company's pre-close funding and interest, net of capital call of $1,746,406. After the capital call, the Company will have contributed 13.97% of its total commitment of $12,500,000 and the Company's unfunded balance will be $10,753,594.