MANAGEMENT'S DISCUSSION & ANALYSIS

PENDER GROWTH FUND INC.

Year ended December 31, 2022

TABLE OF CONTENTS

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") dated April 10, 2023 presents a review of the financial results for Pender Growth Fund Inc. ("Pender" or the "Company") for the year ended December 31, 2022 and assesses factors that may affect future results. The financial condition and results of operations are analyzed and significant factors that affected Pender's statements of financial position, statements of comprehensive income, statements of changes in equity and statements of cash flows are discussed.

The MD&A is supplementary information and should be read in conjunction with Pender's audited financial statements and the notes thereto for the year ended December 31, 2022 (the "Annual Audited Financial Statements"). All amounts shown in this MD&A are presented in Canadian dollars unless otherwise specified.

The MD&A has been prepared by PenderFund Capital Management Ltd. (the "Manager") and is the responsibility of management. The Board of Directors carries out its responsibility for the review of this disclosure through its Audit Committee, which is made up of three directors, a majority of whom are independent directors. The Audit Committee has reviewed and recommended approval of the MD&A by the Board of Directors. The Board of Directors has approved this disclosure.

Additional information about Pender is available on the SEDAR website at www.sedar.com.

Caution Regarding Forward-Looking Statements

This MD&A may contain forward-looking statements about the Company, including its strategy, prospects and further actions. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", or negative versions thereof and similar expressions.

In addition, any statement made concerning future performance, strategies or prospects and possible future Company action is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to risks, uncertainties and assumptions about the Company and economic factors, among other things. Forward-looking statements in this MD&A include, without limitation: statements with respect to the future performance of the Company and the companies in which it invests (each a "Portfolio Company"); the future impact on markets and economies of measures taken by central banks to control inflation and general market expectations for an earnings recession; the future impact of geopolitical events, global health pandemics and other crises; concentration of the investment portfolio, future economic and market conditions, including mergers and acquisitions ("M&A") and initial public offering ("IPO") market conditions, future orderly realization of value of and/or transactions involving its existing Portfolio Companies (including public listing or third-party acquisitions of such Portfolio Companies) or potential future Portfolio Companies or other future transactions, and/or proposed transactions; achieving returns for shareholders; the Company's investment approach, objectives and strategies, including its focus on specific sectors; the structuring of its investments and its expectations regarding the performance of certain sectors.

Forward-looking statements are not guarantees of future performance and actual events and results could differ materially from those expressed or implied in any forward-looking statements. While the Manager considers its expectations, assumptions and projections to be reasonable based on information currently available to it, no assurance can be given that its beliefs and assumptions will prove to be correct. Any number of important factors could contribute to these differences, including but not limited to: the ability of the Company to source additional investments; risks related to the technology sector, including early-stage companies, and the high proportion of companies from this sector in the portfolio; the risk inerent in small companies, startups, resource companies and companies in emerging sectors; the risks inherent in a concentrated portfolio, including the risk of having the portfolio value concentrated in one particular issuer, the risk inherent in large holdings relative to the size of the market for those holdings; the ability to dispose of investments in public or private Portfolio Companies rapidly or at favourable prices; the risk of the use of leverage; the availability of an active trading market for the Company's Class C Shares; general economic, political and public market factors in North America and internationally; interest and foreign exchange rates; global equity and capital markets; business competition; technological change; changes in government regulations; unexpected judicial or regulatory proceedings; and the impact of inflation, increased interest rates, bank failures, measures taken by central banks, geopolitical events, global pandemics and other catastrophic events.

We stress that the above-mentioned list of important factors is not exhaustive. We encourage you to consider these and other factors carefully before making any investment decisions and we urge you to avoid placing undue reliance on forward-looking statements. Further, except as may be required under applicable law, the Manager has no specific intention of updating any forward-looking statements, whether as a result of new information or future events, or otherwise, prior to the release of the next MD&A.

Business Strategy

Pender is an investment entity that trades on the TSX Venture Exchange (the "TSXV"). Its objective is to provide its investors with long-term capital appreciation. Pender invests opportunistically in a concentrated portfolio of securities of both public and private companies (each a "Portfolio Company"). In its quest for long-term capital appreciation, the Manager thoroughly evaluates the long-term business prospects of each potential Portfolio Company and works to understand its current value as well as its value over the long-term investment horizon. This long-term focus is a primary factor in Pender's investment strategy, regardless of whether a Portfolio Company is publicly listed or private. Pender may also invest in special situations, for example, using available cash to take advantage of opportunities with attractive internal rates of return. Pender's strategy is to buy securities that it believes are mispriced and that have the potential to compound capital, either through the convergence from current market price to intrinsic value or through the growth of intrinsic value over time, or through a combination of both.

Pender's mandate provides it with the flexibility to invest in securities that it believes to have the highest potential risk-adjusted returns at the time of investment. It is important to note that Pender defines risk as a permanent loss of capital, which differs from volatility risk. This flexible mandate allows Pender to take advantage of market cycles and different security types that it believes may have the potential to benefit its shareholders. Market cycles can provide opportunity as, from time-to-time, different industries, company stages or security types may become out of favour and attractively priced. Pender may invest in both newly established and later-stage businesses across a wide array of industries and security types, depending on the opportunity. The majority of Pender's investments will be in common equity or preferred equity securities, but it may make smaller allocations to convertible debt, corporate debt or other securities.

Non-IFRS Measures

The Company prepares and releases Annual Audited Financial Statements in accordance with IFRS. In this MD&A, we complement those IFRS disclosures with a number of the key indicators that we use to evaluate the performance and condition of our business. These supplementary key performance indicators include Net Assets, Net Assets per Share, Management Expense Ratio and Trading Expense Ratio. These are not recognized under IFRS nor do they have a standard meaning prescribed by IFRS. We present them to enhance the reader's ability to evaluate the Company. They may not be directly comparable to similar measures used by other companies and readers are cautioned not to view the non-IFRS measures as alternatives to IFRS measures.

Net Assets

The Company uses two financial measures that are individually recognized under IFRS, assets and liabilities, to calculate Net Assets, which is a non-IFRS measure. The calculation of Net Assets as at December 31, 2022 and 2021 is presented in the following table:

Net Assets	December 31, 2022	December 31, 2021
Assets	$ 76,464,010	$ 226,510,729
LESS: Liabilities	6,224,755	27,867,074
EQUALS Net Assets	$ 70,239,255	$ 198,643,655

Net Assets per Share

The Company uses three financial measures that are individually recognized under IFRS, assets, liabilities and number of shares outstanding, to calculate Net Assets per Share, which is a non-IFRS measure. The calculation of Net Assets per Share, as at December 31, 2022 and 2021 is presented in the following table:

Net Assets per Share	December 31, 2022	December 31, 2021
Assets	$ 76,464,010	$ 226,510,729
LESS: Liabilities	6,224,755	27,867,074
EQUALS Net Assets	$ 70,239,255	$ 198,643,655
DIVIDED BY Number of Shares Outstanding	7,569,929	7,616,529
EQUALS Net Assets per Share	$ 9.28	$ 26.08

The Company reports net asset value ("NAV") per share monthly.

Management Expense Ratio

The Company uses Management Expense Ratio ("MER"), a non-IFRS measure, to represent the total amount of operating expenses, including management fees, sales taxes and interest but excluding performance fees net of fees waived/expenses absorbed by the Manager, contingent payments, corporate taxes, commission and other portfolio transaction costs (together, the "MER Costs") that is borne by the Class C shareholders. The MER is an annualized percentage calculated by dividing total MER Costs by the average Net Assets.

Trading Expense Ratio

The Company uses Trading Expense Ratio ("TER"), a non-IFRS measure, to represent the total amount of commissions and other portfolio transaction costs (the "TER Costs") borne by the Class C shareholders. The TER is an annualized percentage calculated by dividing total TER Costs by the average Net Assets.

It should be noted that the Company also used two additional non-IFRS measures, Reporting NAV and Reporting NAV per Share, for a period of time and total shareholders' equity that was calculated under IFRS for financial reporting purposes differed from the monthly reported net asset value per share where Reporting NAV was presented, as described in the "Recent Developments" section of this MD&A.

Risk Factors

An investment in Pender is suitable for investors that have a high tolerance for risk and a long-term investment horizon.

Global Events

The economic uncertainties around persistent inflation pressure, bank failures, geopolitical events and the 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.

Investments

The Company's portfolio is materially concentrated in the shares of one publicly listed Portfolio Company, Copperleaf Technologies Inc. ("Copperleaf"). As at December 31, 2022, considering both its direct investment and its indirect investment through its holding of shares of Pender Private Investments Inc. ("PPI"), the Company held 6,762,065 shares of Copperleaf with a value of $38,814,252, which is 55.3% of the Company's total shareholders' equity of $70,239,255 (December 31, 2021 – 7,455,638 shares with a value of $177,816,957 which was 90% of the Company's total shareholders' equity).

As at December 30, 2022, the closing price of Copperleaf was $5.74 per share, down $18.11 per share from its December 31, 2021 closing price of $23.85 per share. This decrease in price materially reduced the Company's unrealized gain on the holding as compared to December 31, 2021. The Company's shareholders' equity decreased by $16.80 per share during the year, from $26.08 per share at December 31, 2021 to $9.28 per share at year-end. During the year ended December 31, 2022, the Company sold a total of 745,532 shares from its direct and indirect holdings of Copperleaf. In early April 2023, shares of Copperleaf were trading below their December 31, 2022 closing price of $5.74 per share. There can be no assurance that the Company will be able to realize the value of this investment.

Historically, Pender's investment focus was on early-stage technology companies. The prospects for success of emerging technology companies are critically dependent on numerous factors that may be difficult to evaluate, especially when they have limited operating histories. Investments in emerging technology companies are inherently risky, and in the case of failed businesses, may result in the total loss of the capital invested by Pender in a Portfolio Company. The technology companies in which Pender invests will typically require additional capital, which Pender may not be able to provide, or which may not be available from other sources.

As at December 31, 2022, approximately 15.9% of Pender's portfolio was comprised of investments in public companies. However, taken together with Pender's indirect exposure to public companies through its investment in PPI, public companies make up 74.4% of Pender's holdings. Public company securities prices are influenced by particular companies' performance outlook, market activity and the larger economic picture. When the economy is expanding, the outlook for many companies will generally be good and the value of their stocks may rise. The opposite may also be true. Usually, the greater the potential reward, the greater the risk.

Where the size of the Company's holding of a particular security is large relative to the market, an orderly realization of value may be relatively difficult for the Company to achieve. Consequently, the sale of such investments may be subject to delay and may only be possible at substantial discounts.

For smaller companies, start-ups, resource companies and companies in emerging sectors, both the risks and potential rewards of investment may be greater than those of larger, more established companies. Likewise, the share prices of such companies may be more volatile than those of larger, more established companies. Further, the products and services offered by technology companies, for example, may become obsolete as science and technology advance. Certain convertible securities may also be subject to interest rate risk.

Private companies, by their nature, will generally lack liquidity and involve a longer-than-usual investment time horizon. The sale of such investments may also be subject to delays and additional costs and may only be possible at substantial discounts. As at December 31, 2022, private companies comprised 84.1% of Pender's investment portfolio. This includes Pender's investment in PPI, and its investment in the pre-close financing rounds of Pender Technology Inflection Fund II Limited Partnership ("PTIF II"), private entities that hold public and/or private company securities. Looking through to the underlying holdings of PPI and PTIF II, Pender's exposure to private companies is 25.6% of its holdings. It may be relatively difficult for Pender to dispose of its investment in any private company rapidly at favourable prices due to weak M&A markets, adverse market developments or other factors. The sale of such investments may also be subject to delays and additional costs and may only be possible at substantial discounts. Losses are typically realized before gains, and Pender may be required to dispose of Portfolio Companies before any returns are realized.

Pender faces competition from many other capital providers and there can be no assurance that suitable investments will be found. Despite the number of sources of private capital, financing for early-stage technology companies remains limited and is subject to pricing and terms that are based on the performance of the investee company and other factors, and what capital is available may be on terms unfavourable to the existing shareholders of these companies.

The Company entered into a three-year credit facility agreement with a Canadian chartered bank, dated May 28, 2021 and amended March 31, 2022, that allows it to draw up to $10 million in one or two tranches, secured against the Company's interest in the investments held by its investee, PPI (the "Term Loan"). As at December 31, 2022, the balance owing under the Term Loan is $4,500,000. See additional information in the "Financial Condition" section of this MD&A.

The use of leverage can magnify gains on investments, but it can also magnify losses. Interest expense and other costs may not be recovered if gains on investments are insufficient. The use of leverage may require the Company to liquidate portfolio positions, when it may not be advantageous to do so.

Other risks include the high proportion of technology company investments in the portfolio, industry concentration and the relatively small number of investments in the portfolio.

There can be no assurance that the Company will be able to complete divestments of individual Portfolio

Companies and/or complete an orderly realization of value, at current values or otherwise.

WOF Transaction

Effective May 28, 2021, the Company completed a transaction (the "WOF Transaction") pursuant to which it acquired 100% of the Commercialization Series shares and 97% of the Venture Series shares of the Working Opportunities Fund (EVCC) Ltd. ("WOF"), and WOF was renamed Pender Private Investments Inc. Please refer to the "Recent Developments" section of this MD&A for more information. As at December 31, 2022, Pender's investment in Pender Private Investments Inc., which holds an investment portfolio comprised of public and private companies, represented 61.3% of Pender's aggregate investment portfolio. Investments in private companies are inherently subject to the risks and uncertainties described above.

Class C Shares

The Company's Class C Shares are not redeemable. The Class C Shares trade on the TSXV under the ticker "PTF". An active trading market for the Class C Shares may not be available, which may significantly impact the liquidity of those shares. The Net Assets per Share of the Class C Shares fluctuates with the Net Assets per Share of the Company. Even if an active trading market for Class C Shares is available, the market price of such shares may not enable shareholders to dispose of their shares at a reasonable price relative to the Net Assets per Share of the shares.

The risks associated with an investment in Pender are more fully described in its Annual Information Form dated May 26, 2022, under the heading "Risk Factors". Reference should also be made to the "Caution Regarding Forward-Looking Statements" section at the beginning of this document.

Recent Developments

Investments

The fourth quarter of 2022 continued to be volatile for public equity markets. The quarter saw a rally in equity markets' risk assets after ending the third quarter near the lows of the year. Elevated inflation and central bank actions to raise interest rates continued to be in focus. The rapid pace of interest rate increases caused concerns regarding the outlook for economic growth and the risks of a recession. In the US, the S&P 500 index (in Canadian dollars) finished the quarter up 5.4%, bringing year-to-date returns to -12.4% as at December 31, 2022. The S&P/TSX Composite Index fared better, bouncing back with a positive 6.0% return in the fourth quarter and closing 2022 down 5.7%. Technology companies led the recovery in the fourth quarter, with the S&P/TSX Capped Information Technology Index advancing 11.3%, but still finishing down -35.5% in 2022.

Canadian venture capital ("VC") investment activity[1] during the third quarter of 2022 saw $896 million invested across 144 deals, as activity continued to normalize from the rapid pace of 2021. In terms of deal count, third quarter activity slowed for the fifth consecutive quarter-over-quarter decline, with the dollar value invested and number of investments declining by 40% and 24% respectively in the third quarter. US data showed a similar trend with a decline in private market activity levels as companies adjusted to the evolving macroeconomic environment and public market slowdown. Exit activity also slowed as of the third quarter of 2022 with no IPOs recorded.

During 2022, we continued to work closely with certain private Portfolio Companies with the aim of helping them develop and maintain their intrinsic value, while they seek an orderly realization of that value. Where

[1] Canadian Venture Capital & Private Equity Association: Q3 2022 Canadian Venture Capital Market Overview

necessary, we also supported them in optimizing their business in connection with the changing market environment, as well as the challenges and opportunities brought on by global events.

The Company made an investment in the Pender Technology Inflection Fund II Limited Partnership (“PTIF II") during the quarter. This investment provides access to a portfolio of private technology companies that would not be readily accessible to non-institutional investors. PTIF II is managed by a team of seasoned investment professionals who will leverage their experience and focus on user-centric, vertical business to business technology solutions in the enterprise and health IT sectors. These investments are made at the inflection point between commercialization and scale in a business’s lifecycle. This strategy aligns directly with the Company’s historical focus and success in investing in early-stage technology businesses that can compound value at high rates for long periods of time.

Normal Course Issuer Bid

On February 14, 2022, the Company refiled its Normal Course Issuer Bid (“NCIB”) on the TSXV, under which the Company was permitted to purchase up to a maximum of 678,839 shares, representing 10% of its public float at launch date, over a one-year period. The NCIB continued in effect until February 13, 2023.

During the year ended December 31, 2022, the Company bought back 46,600 Class C Shares in the market under its NCIB, at an average price of $12.13, for a total price of $565,438. From January 1, 2023 to the expiry of the NCIB on February 13, 2023, the Company did not repurchase any additional Class C Shares. A total of 40,700 shares were repurchased under the NCIB in its one-year period at an average price of $11.44.

On February 14, 2023, the Company renewed its NCIB on the TSXV. Upon launch, the Company had 7,568,921 shares issued, of which 6,630,459 shares represented its public float. The Company is entitled to purchase up to a maximum of 663,045 shares, representing 10% of its public float, over the one-year period of this NCIB. The NCIB will continue until February 13, 2024, unless terminated earlier in accordance with its terms. The Company intends to continue to repurchase its shares under the NCIB where the shares are trading at a price that is less than what we see as their intrinsic value, in order to enhance shareholder value.

Pender Private Investments Inc. and the WOF Transaction

Effective May 28, 2021, the Company completed the WOF Transaction, pursuant to which it acquired 100% of the Commercialization Series shares and 97% of the Venture Series shares of WOF. This transaction represented a unique opportunity for Pender to acquire an investment entity holding a portfolio of good companies in the private technology space, our sector of expertise. Pender had invested in Portfolio Companies alongside WOF from time to time over the years and in fact, the WOF portfolio included an investment in BuildDirect.com Technologies Inc., Copperleaf and D-Wave Systems Inc., three of our existing Portfolio Companies at the time.

Because of the actual and perceived conflict inherent in the fact that Pender and WOF were both managed by the Manager, the special committee of the WOF board of directors required the approval of the WOF Transaction by WOF’s Independent Review Committee and also engaged an independent financial advisor who provided a fairness opinion that the WOF Transaction was fair from a financial point of view to WOF’s shareholders. Further, just prior to closing, WOF distributed its excess cash to its shareholders as a dividend.

In conjunction with the closing of the WOF Transaction, WOF deregistered as an “employee venture capital corporation", changed its name to Pender Private Investments Inc., made an election to be a public corporation under the Income Tax Act and transitioned from the Canadian securities regulatory regime for investment funds to the Canadian securities regulatory regime for reporting issuers which are not investment funds.

Prior to the closing of the WOF Transaction, PPI had two types of Class A Shares: Venture Series (also referred to as Balanced Shares) and Commercialization Series. The Company acquired all of the Commercialization Series shares in exchange for a cash payment in the amount of $508,096, which represented 75% of the BuildDirect.com Technologies Inc. subscription receipt financing price.

Holders of Venture Series shares had the option to sell or continue to hold their shares and 97% of the holders of Venture Series shares opted to sell, while 3% elected to continue to hold their shares. Those who opted to sell their shares to the Company received a cash payment equal to 43.5% of the net asset value per Venture Series share on the day prior to the date of the Arrangement Agreement, adjusted based upon the per-share net asset value of the Venture Series portfolio as at the end of the business day immediately prior to May 28, 2021. The Balanced Shares (series 2) were renamed "Legacy Shares" and each outstanding Balanced Share (series 1) was exchanged for 1.18 Legacy Shares. The price paid for each Balanced Share (series 1) was effectively $1.7977, and for each Balanced Share (series 2), the price paid was $1.5157.

Those shareholders who sold their Venture Series shares ("Exiting Shareholders") had a limited and conditional right to an additional cash payment from the Company based on a percentage share of the net gains over carrying values at the effective date of the WOF Transaction from divestment activity in the Venture Series portfolio before May 18, 2022. Specifically, (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 subsequently completed by May 18, 2022, Exiting Shareholders would receive their pro-rata entitlement of 20% of the net gain.

Under IFRS, the gain inherent in the difference between the price the Company paid for the acquired shares and the net value of the assets acquired is treated as a deferred gain and a contra asset[2], under the investments reported in the financial statements. Total shareholders' equity per share for financial reporting purposes excludes this "Day-One Gain". Instead, under IFRS, the gain is deferred and recognized and taken into income to the extent applicable upon a change in a factor (including time) that market participants would take into account when pricing the investment.

"Reporting NAV" and "Reporting NAV per Share" were the non-IFRS measures that represented the Company's net assets per share including the "Day-One Gain", i.e., including its 97% proportionate share of the full net asset value of PPI. These non-IFRS measures do not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other reporting issuers. The Company used Reporting NAV and Reporting NAV per Share because we believed that they were key indicators of the value and condition of our business. We used Reporting NAV and Reporting NAV per share while they were relevant, until such time as the unrecognized Day-One Gain was no longer material relative to total shareholders' equity.

[2] A contra asset is a deduction from an asset that is reported on or below the related asset line in the financial statements. In this case, as required under IFRS, the *deferred gain* is recorded as a contra asset to the Company's *investments*, in effect, reducing the amount shown on the investments line in the financial statements.

Also in conjunction with the WOF Transaction, the Company entered into a three-year credit facility agreement with a Canadian chartered bank that allows it to draw up to $10 million in one or two tranches. As at December 31, 2022, the balance drawn on the facility was $4.5 million. (December 31, 2021 - $5 million).

Pender Private Investments Inc. Share Transactions

The Legacy Shares' rights and restrictions provide for them to be redeemed by PPI on a pro-rata basis at NAV upon divestments of portfolio investments. Accordingly, in October 2021, PPI redeemed approximately 58.49% of all Legacy Shares at a redemption price of approximately $6.4705 per share. The Company received a total of $63,197,947 on redemption of 9,767,089 of the Legacy Shares it held. This redemption triggered a requirement for the Company to pay an additional cash payment of $21,136,513, or $1.2661 per share, to the Exiting Shareholders and the Company made the payment effective October 13, 2021.

Because there was no letter of intent, term sheet or binding agreement for a divestment 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.

Under the Transaction, Legacy Shares 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 that did not hold their Legacy Shares to an eligible account on June 10, 2022 reverted back to receiving the applicable cash consideration from the Company under the Transaction and, the Company acquired an additional 10,440 ineligible Legacy Shares for a total payment of $59,297, bringing the Company's ownership of PPI to 98%.

In August 2022, PPI redeemed approximately 7.04% of the 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 for the 488,507 of its Legacy Shares that were redeemed.

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).

Outlook

The fourth quarter saw a continuation of the market challenges that started in early 2022. Geopolitical uncertainty, persistent inflation and rising interest rates have all contributed to a slower economic growth outlook as we enter 2023. Investors have continued to focus on these macro variables and the growing concern that a recession is needed to cool inflation and slow aggregate demand. These factors have created volatility and compressed multiples in equities, with the expectation that the slowing macro environment will lead to an earnings recession. We will continue to monitor these global events and assess their impacts on the Comany and our Portoflio Companies over time.

For VC activity, we expect a continuation of deteriorating market conditions, particularly at the later and growth stages, as tougher market conditions make it more difficult for companies to grow and seek exit opportunities.

We have evaluated the potential impact of current global events on each of our Portfolio Companies. As part of our analysis, we also evaluate each private Portfolio Company under various fundamental scenarios. We will remain diligent as more information continues to become available and as these companies continue to respond to the challenges and opportunities in the current market.

We are steadfast investors and continue to work closely with certain private Portfolio Companies with the aim of helping them develop and maintain their intrinsic value, while seeking an orderly realization of that value to achieve returns for our shareholders.

Portfolio of Investments

Our portfolio of investments reflects the fact that we are long-term, high-conviction investors while we also try to take advantage of short-term “close-the-discount” opportunities where it makes sense to do so.

During the year ended December 31, 2022, we introduced three new private Portfolio Companies to the portfolio; added securities of several existing publicly listed holdings, such as Peloton Interactive, Inc. and Sangoma Technologies Corporation; and a debenture of one of our private Portfolio Companies was converted to preferred shares when we participated in a new financing round. We also particiated in pre-close financing rounds of PTIF II, a limited partnership that invests in private equity, further described in the “Related Parties” section of this MD&A. During the year, we sold some of our existing publicly listed Portfolio Companies, including Inscape Corporation and Stitch Fix, Inc. At the end of year, Pender Private Debt Opportunities Fund I Limited Partnership (“PPDF”) was wound up and the Company acquired all of its holdings, having been the only limited partner of PPDF.

We were pleased to see certain private technology companies from within our portfolio have the opportunity to go public. On August 8, 2022, D-Wave Systems Inc. announced the completion of its previously announced intention to list on the New York Stock Exchange following a business combination with DPCM Capital, Inc. and D-Wave Systems Inc., as a publicly traded special purpose acquisition company (“SPAC”) named D-Wave Quantum Inc. (“D-Wave”) under the symbol QBTS.

As at December 31, 2022, our Portfolio Company holdings represented 94.4% of Net Asset Value, a decrease of 10.5% from the 104.9% as at December 31, 2021.

Pender’s Net Assets as at December 31, 2022 were comprised of securities of publicly listed companies (15.0%) and private unlisted companies (79.4%), with cash and other assets net of liabilities making up the remainder (5.6%). Looking through to the underlying holdings of PPI and PTIF II, two private investees which themselves hold securities of public and/or private companies, the makeup of the portfolio at December 31, 2022 was 74.4% publicly listed company securities and 25.6% private company securities.

The table below presents the fair value of investments as at December 31, 2022 and 2021.

Investments	December 31, 2022	December 31, 2021
Total Investments	$ 71,443,724	$ 213,495,382
LESS: Deferred gain	5,144,185	5,144,185
Net investments	$ 66,299,539	$ 208,351,197

The Company recognized $27,654,608 of the deferred gain described in the “Recent Developments” section of this MD&A during the year ended December 31, 2021. No further deferred gain was recognized during 2022. The deferred gain was $5,144,185 at December 31, 2022 and December 31, 2021.

The significant trends and events for Pender’s Portfolio Companies in the year ended December 31, 2022, are described in the following sections.

Significant Equity Investments

In accordance with National Instrument 51-102 of the Canadian Securities Administrators, the Company has determined that it is a significant equity investee in PPI and in Copperleaf, considering its direct and indirect holdings. Accordingly, we are required to disclose the following summary financial information. The summarized financial information provided is for the comparative financial years.

Pender Private Investments Inc.

PPI is an investment entity that holds a portfolio of companies in the technology sector. The Company acquired shares of PPI during 2021 as further described in the "Recent Developments" section of this MD&A. As at December 31, 2022, the Company held 98% of the outstanding Legacy Shares of PPI as well as 100% of its outstanding Commercialization Shares.

Pender Private Investments Inc.

Selected Financial Information	December 31, 2022	December 31, 2021
Total assets	$ 55,065,083	$ 192,381,033
Total liabilities	8,362,467	36,238,467
Total shareholder' equity	46,702,616	156,142,566

	December 31, 2022	December 31, 2021
Total revenue	$ (131,300,471)	$ 200,888,009
Net (loss) income	(104,852,588)	160,577,610

The PPI portfolio includes investments in three entities that are also held directly by the Company, Copperleaf, BuildDirect.com Technologies Inc and D-Wave Quantum Inc., as well as a number of other investments in Portfolio Companies, one or more of which are described below.

Copperleaf Technologies Inc.

Copperleaf provides decision analytics to companies managing critical infrastructure. The company's enterprise software solutions leverage operational and financial data to help its clients make strategic investment decisions about how best to sustain and expand this infrastructure to deliver the highest business value. Copperleaf is based in Vancouver and its solutions are distributed and supported by regional staff and partners worldwide.

In the fourth quarter of 2021, Copperleaf completed an IPO with its common shares trading on the TSX under the symbol "CPLF". In the third quarter of 2022, the company announced its operating results, reporting 19% revenue growth for the trailing twelve-month period, led by 27% growth in annual recurring revenue. Its pipeline of new business remains strong, although the sales cycle has slowed due to the uncertain macro environment and increased conservatism from its customers. Despite some slowing, the company continues to grow and maintains a strong balance sheet, and we believe the shares are undervalued. Copperleaf's solution is being used to manage an estimated $2.6 trillion of infrastructure across multiple industry sectors, including energy, water, transportation and government, in more than 24 countries.

As at December 31, 2022, the Company held 9.6% of Copperleaf's issued and outstanding shares, directly and through its investment in PPI.

Copperleaf Technologies Inc.
(expressed in thousands of Canadian dollars)

Selected Financial Information	December 31, 2022	December 31, 2021
Total assets	$ 185,693	$ 206,043
Total liabilities	52,666	51,025
Total shareholder' equity	133,027	155,018

	December 31, 2022	December 31, 2021
Revenue	$ 73,385	$ 69,283
Gross profit	54,840	54,913
Net loss and comprehensive loss for the year	(28,202)	(6,524)

Please also refer to the "Risk Factors" and "Overall Performance" sections of this MD&A.

Private Unlisted Companies

We continue to work with our private Portfolio Companies, with the ongoing aim of helping them build their intrinsic value over the long-term and seek an orderly realization of that value to achieve returns for our shareholders.

Checkfront, Inc.

Checkfront, Inc. ("Checkfront") develops cloud-based booking management applications and e-commerce platforms for tour providers, accommodation managers and rental businesses in Canada and internationally. The Checkfront platform helps businesses manage their inventories, centralize reservations and process payments. The company's platform is used as an operating system by more than 5,000 businesses in over 100 countries, with over $8B in bookings processed to date.

Clarius Mobile Health Corp.

Clarius Mobile Health Corp. ("Clarius") is developing and commercializing ultra-portable ultrasound scanners, with mobile applications and cloud solutions. The scanners connect wirelessly to off-the-shelf smartphones and tablets, based on Clarius' proprietary "ultrasound system-on-chip" technology. This novel technology efficiently utilizes technical resources on the chip, thus allowing high image quality to be maintained in a small form factor.

Clarius has a strong position in the ultra-portable ultrasound market, with thousands of devices sold to date, and has surpassed the three million count to-date for high-definition scans, an indication of the emergence of the point-of-care ultrasound industry. In the fourth quarter of 2022, the company introduced a marketplace platform that enables integration with AI-powered innovations.

DistillerSR Inc. (Formerly Evidence Partners Incorporated)

DistillerSR Inc. ("DistillerSR") provides a workflow software solution to automate the data collection, screening and review process for organizations seeking regulatory approvals for healthcare products.

DistillerSR has a diversified, global, blue-chip customer base that includes academic institutions, six of the top 10 medical device companies, six of the top 10 pharmaceutical companies, over 25 government agencies in the US, EU and Canada and more than 40 contract research organizations. During the fourth quarter of 2022, the company announced added capabilities for its CuratorCR module. This module is a knowledge centre platform that manages research and enables users to collaborate across their organizations.

General Fusion Inc.

General Fusion Inc. ("General Fusion") is a research and development stage company with the goal of developing a practical path to commercial fusion power, providing a powerful complement to renewables and a pathway to a zero-emission grid. General Fusion continues to work towards the deployment of its power-plant scale fusion demonstration plant to be built at a campus of the UK Atomic Energy Authority in England. This initiative is intended to demonstrate fusion in a power-plant-relevant environment, confirming the performance and economics of the company's technology, which would lead to the subsequent design of a commercial fusion pilot plant. During the fourth quarter of 2022, the company announced progress in meeting milesones related to plasma energy confinement times, plasma temperatures and compression system performance, all of which support its work towards developing its demonstration plant.

Jane Software Inc.

Jane Software Inc. ("Jane") is a software company with a platform that is modernizing practice management software. Jane enables physiotherapists, mental health counsellors, chiropractors and other allied health practitioners to run their practices in a digital-first way through features such as online booking, charting, scheduling, secure video and billing. Tens of thousands of healthcare practices globally are running on Jane across more than 40 countries. Jane is profitable, product-led and growing, with a team over over 350 employees. During the fourth quarter of 2022, the company continued to develop its integrated payment processing features.

Traction Complete Technologies Inc.

Traction Complete Technologies Inc. ("Traction Complete") is a developer of a suite of revenue operations solutions to help manage data complexity. Its solutions automate data cleanup, account hierarchies, matching and routing, all of which enhance the native capabilities and functionality of Salesforce. Traction Complete empowers organizations like Asana, Cisco, and DocuSign to simplify, save time, and scale faster.

Traction Rec Technologies Inc.

Traction Rec Technologies Inc. ("Traction Rec") is a recreation management software solution built to create meaningful and engaging connections between non-profit community centres and their members. By listening to customers and gaining a deep understanding of their pain points, Traction Rec has already demonstrated value for over 50 community centres across North America, including YMCAs, Jewish Community Centres and Boys and Girls Clubs of America.

Publicly listed Companies

During the year ended December 31, 2022, we continued to be patient, fundamental investors. As long-term investors, we do not believe discussions around quarterly or annual gains or losses add much value. Having said that, in the following section we discuss those publicly listed investments that were key contributors to or detractors from the performance of our portfolio during the year ended December 31, 2022, and we highlight some of the publicly listed companies new to the portfolio this reporting period, if any.

D-Wave Quantum Inc.

D-Wave is a leader in quantum computing systems, software, and services, which develops and delivers quantum computing systems, software and services worldwide, and the only provider building both annealing and gate-model quantum computers.

On August 8, 2022, D-Wave, announced the completion of its listing on the New York Stock Exchange following a business combination with DPCM Capital, Inc. and D-Wave Systems Inc., as a publicly traded SPAC named D-Wave Quantum Inc. under the symbol QBTS. As at December 31, the Company held shares of D-Wave both directly and indirectly through Pender Private Investments Inc. All of its shares were sold after the February 5, 2023 end of their lock-up period.

The key positive publicly listed contributor to the Company's performance for the year ended December 31, 2022 was D-Wave Quantum Inc. (NYSE: QBTS).

On the flip side, the portfolio saw some of its publicly listed holdings incur losses during 2022, with Inscape Corporation (TSX:INQ) and Sangoma Technologies Corporation (TSX:STC) being some of the key detractors.

Portfolio transactions during the year were made based on our stock selection process. In general, we increased weightings of individual stocks where we determined the price relative to our estimate of intrinsic value had increased, and decreased the weightings of companies that moved closer to our estimates of their intrinsic value or where we found better opportunities. We may liquidate our positions for various reasons, such as when share prices have reached our assessment of fair value, when an acquisition has occurred or where we have changed our investment thesis.

Portfolio Turnover

The Company's portfolio turnover was 19.8% during the year ended December 31, 2022 (December 31, 2021 – 90.4%). The portfolio turnover rate is calculated based on the lesser of purchases and proceeds of sales of securities during a period as a percentage of the average value of the Company's investments in that period. In general, lower turnover rates may result in lower trading costs.

OVERALL PERFORMANCE AND DISCUSSION OF OPERATIONS

As long-term, high-conviction investors, our goal is to create long-term capital appreciation for our shareholders, continuing to build on the Class C Shares' 19.1% annualized return under IFRS since inception.

At Pender, we quantify our investment results in terms of the growth in Net Assets or Net Assets per Share rather than the change in shareholders' equity or the change in our listed share price. The growth in Net Assets per Share over time is primarily a result of investment performance. Like many listed investment entities, our shares may trade at prices that may not be indicative of the underlying value of our Net Assets per Share. Further, the share price may change due to factors that are unrelated to our Net Assets per Share.

After recording a substantial gain on the Company's holdings of Copperleaf for the year ended December 31, 2021, the decline in Copperleaf's trading price during 2022 resulted in a reversal of a large part of that gain.

Copperleaf became publicly listed during 2021, and its December 31, 2021 closing price of $23.85 per share resulted in a substantial unrealized gain in the Company's 2021 financial statements. That unrealized gain was the major factor in the Company's 2021 increase in shareholders' equity, which went from $47.3 million at the beginning of 2021 to $198.6 million at December 31, 2021.

During 2022, Copperleaf's trading price declined by $18.11 per share, from the prior year's $23.85 to $5.74 per share at December 30, 2022. This decrease resulted in a reversal of a large part of the unrealized appreciation that had been recorded on the Company's holdings of Copperleaf in 2021, and was the principal factor in the $128,404,400 (64.6%) decrease in the Company's total shareholders' equity, which went from $198,643,655 at December 31, 2021 to $70,239,255 at December 31, 2022.

See further information in the "Financial Performance" section of this MD&A. Other factors contributing to the decline in Net Assets in the year to date were share repurchases of $565,438 under the NCIB, described in the "Recent Developments" section of this MD&A.

During the year ended December 31, 2022, Net Assets per Share ranged from $7.93 to $26.08, while our closing price per share on the TSXV ranged from a high of $18.00 per share to a low of $5.65. During the year, the shares traded at prices representing a discount to Net Assets per Share from 46.32% to 8.58%.

Please refer to the "Financial Performance" and "Financial Condition" sections of this MD&A for additional details and to the "Past Performance" section of this MD&A for the performance of Class C Shares. The sectors in which the Company was invested as at December 31, 2022 are listed under the "Summary of Investment Portfolio" section of this MD&A.

QUARTERLY PERFORMANCE

During the fourth quarter of 2022, the Company had a net loss of $9 million, primarily as a result of realized and unrealized portfolio losses of $9.8 million. These losses were primarily attributable to change in market prices of Copperleaf and D-Wave.

Quarterly investment performance was reflected in the Net Assets per Share as shown in the tables under the "Summary of Quarterly Results" section of this MD&A.

SELECTED FINANCIAL INFORMATION

The following tables present selected key financial information about the Company to provide an understanding of the Company's financial condition and financial performance as at December 31, 2022, and for the three preceding financial years. This section should be read together with the Annual Audited Financial Statements.

Supplemental Data

	2022	2021	2020	2019
Net Assets ($000s)	70,239	198,644	47,254	33,833
Non-Redeemable Class C Shares Outstanding	7,569,929	7,616,529	7,740,129	8,083,329
Net Assets per Share ($)	9.28	26.08	6.11	4.19
Closing Market Price* ($)	5.65	18.00	4.35	3.75
Total (decrease) increase from Operations per Share ($)	(16.85)	19.90	1.84	0.31

*Market Price: Closing market price on the last trading day of the period as reported on the TSXV.

Financial Performance

	2022	2021	2020	2019
Net realized (loss) gain	$ (13,556,891)	$ 52,499,738	$ 6,950,223	$ 591,257
Net change in net unrealized (loss) gain	(125,989,078)	115,906,623	8,096,531	1,923,769
Foreign exchange (loss) gain	(2,225)	46,029	(50,541)	(7,586)
Interest and securities lending income	278,949	335,229	1,798,393	634,941
Total revenue	(139,269,245)	168,787,619	16,794,606	3,142,381
Management fees	814,101	987,960	821,648	633,499
Withholding taxes, GST/HST and transactions cost	37,749	662,650	194,101	22,985
Other expenses	1,221,450	988,976	394,898	423,016
Total operating expenses	2,073,300	2,639,586	1,410,647	1,079,500
Net operating (loss) income	**(141,342,545)**	**166,148,033**	**15,383,959**	**2,062,881**
Other items:				
Performance fees	(24,353,179)	36,991,288	1,211,315	-
Performance fees waived by the Manager	6,088,295	(9,247,822)	(302,829)	-
Net amount	(18,264,884)	27,743,466	908,486	-
Amount of PPI performance fee earned by the Manager attributable to the Company's ownership of PPI shares	25,768,997	(36,236,726)	-	-
Total performance fee adjustment	7,504,113	(8,493,260)	908,486	-
Net (loss) income before income taxes (recovery)	**(148,846,658)**	**174,641,293**	**14,475,473**	**2,062,881**
Income taxes (recovery)				
Current	(3,031,126)	3,031,126	-	-
Deferred	(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**	**$ 14,475,473**	**$ 2,062,881**
Management expense ratio	1.90%	2.15%	3.20%	3.94%
Trading expense ratio	0.04%	0.72%	0.51%	0.09%

Financial performance for the year ended December 31, 2022

Highlights of the Portfolio Companies contributing to Pender's investment performance in the year ended December 31, 2022 are presented in the "Portfolio of Investments" section of this MD&A.

(a) Net realized gains and losses

Net realized gains and losses on investments are the result of the sale of Portfolio Companies. They are generally not comparable between periods because the investments that comprise the portfolio generally change each period.

During the year ended December 31, 2022, the net realized loss on investments was $13,556,891 (December 31, 2021 – net realized gain $52,499,738), attributable to the divestments including Inscape Corporation, Stitch Fix, Inc., and PPDF.

(b) Net change in unrealized gains and losses

The net change in unrealized gains and losses on investments is the result of changes in the value of Portfolio Companies held throughout the period and also as a result of unrealized gains or losses being reversed out of this category upon becoming realized gains or losses upon the sale of Portfolio Companies. The net change in unrealized gains and losses is generally not comparable between periods because the investments that comprise the portfolio generally change each period.

During the year ended December 31, 2022, the Company's net change in unrealized gains and losses on investments reflected a loss of $125,989,078 (December 31, 2021 – gain of $115,906,623), primarily attributable to the fact that the trading price of the Company's most material holding, Copperleaf, decreased from $23.85 at December 31, 2021 to $5.74 per share as at December 30, 2022.

(c) Foreign exchange gains and losses

Pender's financial statements are presented in Canadian dollars, so, to the extent that it holds US dollar-denominated assets and/or liabilities, it is exposed to fluctuations in currency exchange rates, which may result in foreign currency gains and/or losses. During the year ended December 31, 2022, the Company had a foreign exchange loss of $2,225 (December 31, 2021 – gain $46,029). The Manager believes that the level of the Company's US dollar-denominated assets does not warrant hedging the exposure to fluctuations in exchange rates at this time.

(d) Interest and securities lending income

The Company may earn interest on its investments in securities, interest on its cash balances and income from securities lending. The Company earned $278,949 in interest during the year ended December 31, 2022 (December 31, 2021 - $335,229). The interest income was mainly from the interest distribution upon dissolution of PPDF.

(e) Management Fees

The Company pays the Manager a management fee, which is calculated as a percentage of Net Assets. The fee varies from period to period in proportion to the variance in the average balance of Net Assets used in the calculation of management fees.

Overall, management fee expenses were $814,101 for the year ended December 31, 2022, down by $173,859 from the prior year's $987,960. Although the Company's average Net Assets were higher in 2022 than in 2021, the basis for the calculation of the management fee (Net Assets minus the value of PPI) was lower on average in 2022 than in 2021.

(f) Performance fees

The Manager is entitled to a performance fee in certain circumstances. The performance fee is calculated annually as 20% of any net increase in shareholders' equity above an annual hurdle rate of 6%, subject to a high water mark. Performance fees are accrued during the year, and the total performance fee for the year as calculated on the last Valuation Date of the year, if any, and becomes payable upon the publication of the Company's annual audited financial statements. In 2021, the Manager, in its sole discretion, waived a portion of the performance fee it charged, reducing it from 20% to 15%. During the year ended December 31, 2022, the Company did not earn performance fees (December 31, 2021 – net performance fee accrual $27,743,466).

(f) Performance fees, continued

(i) 2021 Unrealized Performance Fee

In 2021, performance fee expense was $27,743,466, of which $22,514,596 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 related to performance fees calculated upon net realized gains. This latter amount was paid to the Manager in April 2022.

The Manager, in its sole discretion, decided that the payment of the 2021 Unrealized Performance Fee would be deferred until the underlying gains were realized, so the fee was not paid upon the publication of the Company's 2021 audited annual financial statements. Therefore, 2021 Unrealized Performance Fee is being recalculated each month and the accrual and expenses are adjusted accordingly. The performance fee, if triggered, is being paid quarterly, based on (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 net assets. 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 recalculated and paid to the Manager. The high water mark will be recalculated accordingly.

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

(ii) PPI Performance Fee

The Company's Manager is also the manager of PPI and earns a performance fee in certain circumstances (the "PPI Performance Fee"). The Company owns 98% of PPI and the Manager has agreed to pay the Company 98% of the PPI Performance Fee.

As at December 31, 2021, the Company had accrued $34,150,813 as receivable from the Manager relating to the PPI Performance Fees on unrealized gains at PPI. This part of the PPI Performance fee is accrued at PPI but it is not payable until a divestment occurs, at which time the gain applicable to the divestment will be recalculated based on the final Net Divestment Proceeds and paid to the Manager, who will then pay 98% of it to the Company. During the year ended December 31, 2022, the $26,670,102 decrease in this receivable is due to the change in the unrealized appreciation of the Company's indirect holdings of Copperleaf, and $901,105 is due to a payment received in August 2022, for a net decrease is $25,768,997. (December 31, 2021 – accrued PPI Performance Fee earned by the Manager attributable to the Company's ownership of PPI shares $36,236,726).

(iii) Net impact from Uncrystallized Performance Fee

The net impact of the two reversals described in (i) and (ii) above, the $18,264,884 reversal of 2021 Unrealized Performance Fees due to the Manager and $25,768,997 reversal of the PPI Performance Fees due from the Manager, was a total performance fee adjustment of $7,504,113 (December 31, 2021 – total performance fee recovery $(8,493,260)).

For the year ended December 31, 2021, the high water mark was $10.95 excluding the impact of the unrealized gains on Copperleaf, which would otherwise have increased the high water mark by $18.77. As at December 31, 2022, the high water mark at December 31, 2021 was recalculated to reflect realized gains on Copperleaf and adjusted to $11.17, excluding the impact of the unrealized gains on Copperleaf, which would otherwise have increased the high water mark by $3.32.

(g) Income taxes (recovery)

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. 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 carryforward to future years up to a maximum of 20 years. For the year ended December 31, 2022, the income tax recovery was $3,031,126 (2021 – income tax expense of $3,031,126).

The deferred income tax liability that had been accrued at December 31, 2021 was decreased from $19,513,395 to $1,536,825, which resulted in a deferred income tax recovery of $17,976,570 (December 31, 2021 – accrued income tax expenses $19,513,395).

(h) Management Expense Ratio

The MER is an annualized percentage calculated by dividing the total MER Costs by the average Net Assets. Performance fees are excluded from MER Costs. The MER for the year ended December 31, 2022 was 1.90%, which was 0.25% lower than the 2.15% MER during the year ended December 31, 2021, primarily due to the increased average value of Net Assets.

(i) Trading Expense Ratio

The TER is an annualized percentage calculated by dividing the total of all commissions and other portfolio transaction costs by the average Net Assets during the year. The small number of Portfolio Companies and the long-term investment horizon of the Company have resulted in a TER that is relatively low. The TER for the year ended December 31, 2022 is 0.04% (December 31, 2021 – 0.72%).

Financial Highlights

Net Assets per Share (Note 1)	**2022**	**2021**	**2020**	**2019**
Net Assets per Share (beginning of year)	$26.08	$6.11	$4.19	$4.14
(Decrease) increase from operations:				
Total revenue	0.04	0.04	0.23	0.09
Total recovery (expenses)	1.50	(2.18)	(0.29)	(0.16)
Realized (losses) gains	(1.79)	6.87	0.88	0.09
Unrealized (losses) gains	(16.60)	15.17	1.02	0.29
Total (decrease) increase from operations	(16.85)	19.90	1.84	0.31
Distributions:				
From income (excluding dividends)	-	-	-	-
From dividends	-	-	-	-
From capital gains	-	-	-	-
Return of capital	-	-	-	-
Total annual distributions	-	-	-	-
Net Assets per Share (end of year)	$9.28	$26.08	$6.11	$4.19
Ratios and Supplemental Data				
Total net asset value ($000s)	$70,239	$198,644	$47,254	$33,833
Number of shares outstanding	7,569,929	7,616,529	7,740,129	8,083,329
Closing market price	$5.65	$18.00	$4.35	$3.75

Note 1 – Net assets per share is based on the number of shares outstanding at the relevant time. The increase (decrease) from operations per share is based on the weighted-average number of shares outstanding during the period. Therefore, the beginning of period net assets plus the increase (decrease) from operations shown above will not sum to the end of period net assets.

Financial Condition

		December 31, 2022		December 31, 2021
Assets				
Cash	$	1,552,667	$	10,008,858
Income taxes receivable		3,502,595		-
Due from related parties		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		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		-		3,031,126
Deferred income tax liability		1,536,825		19,513,395
Loan payable		4,500,000		5,000,000
Total liabilities		6,224,755		27,867,074
Shareholders' equity	$	70,239,255	$	198,643,655

(a) Investments

As at December 31, 2022, Pender's total investments of $66,299,539 were comprised of publicly listed Portfolio Companies valued at $10,527,864 plus unlisted Portfolio Companies valued at $60,915,860, less the deferred gain of $5,144,185 described below and in the "Recent Developments" section of this MD&A.

Looking through to the underlying holdings of PPI and PTIF II, two private investees that themselves hold securities of public and/or private companies, the portfolio comprises 74.4% publicly listed company securities and 25.6% private company securities.

The $142,051,658 decrease in the total investments balance from $208,351,197 as at December 31, 2021 to $66,299,539 as at December 31, 2022 is primarily due to the net decrease in the unrealized appreciation on Copperleaf as well as the disposition of several other publicly listed companies during the year.

In accordance with IFRS, the gain inherent in the difference between the price Pender paid for the acquired shares of PPI and the net value of the assets acquired was treated as a deferred gain and deducted from the value of investments reported in the financial statements. This deferred gain has been recognized and taken into income to the extent applicable as a result of changes in a factor that market participants would take into account when pricing the investment such as a public listing of shares. To date, $27,654,608 of the original deferred gain has been recognized and taken into income. The remaining deferred gain at December 31, 2022 is $5,144,185 (December 31, 2021 - $5,144,185).

(b) Cash

Pender holds cash balances to pay operating expenses and, from time to time, as a strategic asset class, to invest in securities. Cash balances are monitored by the Manager. The $1,552,667 cash balance as at December 31, 2022 was $8,456,191 less than the $10,008,858 balance at December 31, 2021. This decrease in cash was primarily due to the net payment of crystallized performance fees, operating expenses, repayment of the loan payable, income taxes payments for the tax year of 2021 and other uses of working capital as well as share repurchases under the NCIB disclosed in the “Recent Developments” section of this MD&A.

(c) Income taxes receivable

The Company has accrued current income taxes receivable of $3,502,595 (December 31, 2021 - $Nil), relating to its estimate of tax recovery arising from the carryback of 2022 tax losses to the 2021 tax year.

(d) Due from related parties

The $3,023,368 balance due from related parties as at December 31, 2022 (December 31, 2021 – $6,243,402) is comprised of performance fees the Manager earned from PPI in the amount of $7,480,711 (December 31, 2021 - $34,150,813) that are due to the Company from the Manager (the PPI Performance Fee). Offsetting this are performance fees payable to the Manager of $4,249,712 (December 31, 2021 - $27,743,466) as well as $207,631 (December 31, 2021 - $163,945) due to the Manager for management fees and operating expenses paid by the Manager on behalf of the Company. Please refer to the detailed information about performance fees and their recognition, especially as they relate to unrealized gains on Copperleaf, in the “Financial performance for the year ended December 31, 2022” section of this MD&A.

(e) Divestment proceeds receivable

As at December 31, 2022, divestment proceeds of $1,916,139 (December 31, 2021 – $1,671,449) represent escrow amounts related to the previous disposition of the shares of a private Portfolio Company.

(f) Interest receivable

The December 31, 2022 interest receivable balance is $162,932 (December 31, 2021 – $198,210) relating to an interest-bearing investment.

(g) Accounts payable and accrued expenses

The Company’s accounts payable and accrued expenses balance represent amounts due to third parties for operating expenses. During the year ended December 31, 2022, this balance decreased by $61,060 to $142,880 (December 31, 2021 - $203,940) in the normal course of business.

(h) Income taxes payable and Deferred income tax liability

The Company has accrued current income taxes payable of $Nil (December 31, 2021 - $3,031,126), and a deferred income tax liability $1,536,825 (December 31, 2021 - $19,513,395) relating to its estimate of future taxable income.

(i) Loan payable

In conjunction with the WOF Transaction described in the “Recent Developments” section of this MD&A,

the Company entered into a three-year credit facility agreement with a Canadian chartered bank that allows it to draw up to $10 million in one or two tranches. As at December 31, 2022, the balance drawn on the facility was $4.5 million (December 31, 2021 - $5 million).

In 2021, the Company drew $5,000,000 on the Term Loan at an interest rate of Prime + 5% per annum. 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 in its holdings in its public company investments. On March 31, 2022, the bank swept the $5,000,000 owing under this first tranche and collected $193,027 as six months' prepayment interest. Concurrently, the Company drew down an additional $5,000,000 as a second tranche, which bears interest at the rate of Prime + 2% and has a minimum one-year term. The loan matures on May 28, 2024. At December 31, 2022, the balance owing under the Term Loan was $4,500,000.

(j) Shareholders' equity

Shareholders' equity represents the equity in the Company owned by the holders of the 7,569,929 non-redeemable Class C common shares outstanding as at December 31, 2022 (December 31, 2021 - 7,616,529). The decrease of 46,600 Class C common shares during the year ended December 31, 2022 is the result of the shares repurchased under the NCIB described in the "Recent Developments" section of this MD&A.

Cash Flows

During the year ended December 31, 2022, Pender's cash balance decreased by $8,456,191, primarily due to the net payment of crystallized performance fees, operating expenses, loan repayments, income tax payments and the cost of share repurchases under the NCIB described in the "Recent Developments" section of this MD&A.

Shareholder Activity

During the year ended December 31, 2022, the Company repurchased 46,600 shares under the NCIB described in the "Recent Developments" section of this MD&A, reducing the number of the Company's outstanding shares from 7,616,529 at the prior year end to 7,569,929 as at December 31, 2022.

More information about the formation and history of the Company is available in its Annual Information Form dated May 26, 2022.

SUMMARY OF QUARTERLY RESULTS

The tables below show information about Pender's financial performance for the most recently completed eight quarters. In each quarter, the net income or loss is a result of realized and unrealized gains and losses on investments, dividend, interest and securities lending income and operating expenses. A comparison of the information presented from quarter to quarter does not necessarily indicate any meaningful pattern or correlation.

		2022 Q4		2022 Q3		2022 Q2		2022 Q1
Net realized (loss) gain	$	(9,191,190)	$	2,453,227	$	(3,021,127)	$	(3,797,801)
Net change in net unrealized depreciation		(635,766)		(9,113,619)		(62,414,222)		(53,825,471)
Foreign exchange gain (loss)		6,583		11		4,761		(13,580)
Interest and securities lending income		269,271		5,286		750		3,642
Total revenue		(9,551,102)		(6,655,095)		(65,429,838)		(57,633,210)
Management fees		166,361		195,014		212,661		240,065
Withholding taxes, GST/HST and transaction costs		21,603		635		4,434		11,077
Other expenses		171,520		305,135		206,510		538,285
Total operating expenses		359,484		500,784		423,605		789,427
Net operating loss		(9,910,586)		(7,155,879)		(65,853,443)		(58,422,637)
Other items:								
Performance fees		(1,649,826)		3,924,710		(14,623,714)		(12,004,349)
Performance fees waived by the Manager		412,457		(981,178)		3,655,928		3,001,088
Net amount		(1,237,369)		2,943,532		(10,967,786)		(9,003,261)
Amount of PPI performance fee earned by the Manager attributable to the Company's ownership of PPI shares		1,834,561		(294,045)		13,270,570		10,957,911
Total performance fee adjustment		597,192		2,649,487		2,302,784		1,954,650
Net loss before income taxes (recovery)		(10,507,778)		(9,805,366)		(68,156,227)		(60,377,287)
Income taxes (recovery)								
Current		(1,198,544)		(1,792,043)		(40,539)		-
Deferred		(333,557)		506,798		(9,594,231)		(8,555,580)
Total income taxes (recovery)		(1,532,101)		(1,285,245)		(9,634,770)		(8,555,580)
Net loss	**$**	**(8,975,677)**	**$**	**(8,520,121)**	**$**	**(58,521,457)**	**$**	**(51,821,707)**
Net Assets per Share (beginning of year)	$	10.46	$	11.58	$	19.29	$	26.08
Net Assets per Share (end of year)	$	9.28	$	10.46	$	11.58	$	19.29

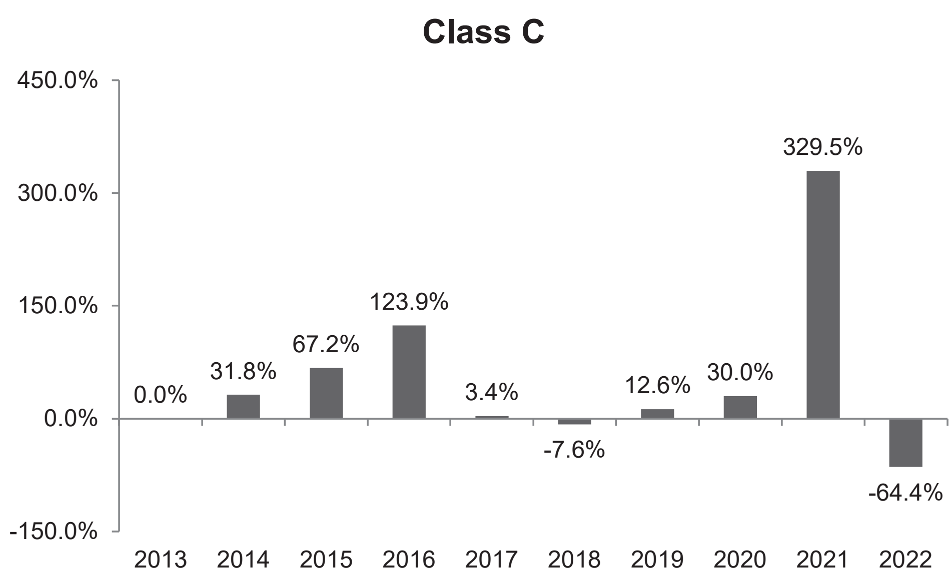
SUMMARY OF QUARTERLY RESULTS (CONTINUED)

	2021 Q4	2021 Q3	2021 Q2	2021 Q1
Net realized gain	$ 36,241,413	$ 11,759,663	$ 1,908,681	$ 2,589,981
Change in net unrealized gain (loss)	20,038,238	76,193,222	21,584,389	(1,909,226)
Foreign exchange gain	46,029	-	-	-
Dividend, interest and securities lending income	109,217	41,373	89,113	95,526
Total revenue	56,434,897	87,994,258	23,582,183	776,281
Management fees	173,086	312,570	241,069	261,235
Withholding taxes, GST/HST and transaction costs	24,025	104,523	278,726	255,376
Other expenses	294,265	301,745	270,696	122,270
Total operating expenses	491,376	718,838	790,491	638,881
Net operating income	55,943,521	87,275,420	22,791,692	137,400
Other items:				
Performance fees	16,642,497	18,774,287	1,574,504	-
Performance fees waived by the Manager	(4,160,624)	(4,693,572)	(393,626)	-
Net amount	12,481,873	14,080,715	1,180,878	-
Amount of PPI performance fee earned by the Manager attributable to the Company's ownership of PPI shares	(12,557,181)	(23,679,545)	-	-
Total performance fee recovery (expenses)	(75,308)	(9,598,830)	1,180,878	-
Contingent payment	(21,136,513)	9,377,925	11,758,588	-
Net income before income taxes	77,155,342	87,496,325	9,852,226	137,400
Income tax expenses				
Current	3,031,126	-	-	-
Deferred	7,356,120	12,157,275	-	-
Total income tax expenses	10,387,246	12,157,275	-	-
Net comprehensive income	**$ 66,768,096**	**$ 75,339,050**	**$ 9,852,226**	**$ 137,400**
Net Assets per Share (beginning of year)	$ 17.31	$ 7.42	$ 6.13	$ 6.11
Net Assets per Share (end of year)	$ 26.08	$ 17.31	$ 7.42	$ 6.13

PAST PERFORMANCE

To illustrate how the Company's performance has varied over time, the following bar chart shows performance for the year ended December 31, 2022 and for each of the previous years ended December 31. The bar charts show, in percentage terms, how much an investment made at the beginning of the period would have grown or decreased by the end of the period based on shareholders' equity. The past performance of the Company does not necessarily indicate how it will perform in the future.

Past performance for Class C Shares of the Company is calculated based on its shareholders' equity and is not based on its market price on the TSXV. The information presented for the years prior to 2018 relates to the period when the Company was subject to the Investment Funds Regime. Commencing December 31, 2018, the Company became subject to the Corporate Issuer Regime.



SUMMARY OF INVESTMENT PORTFOLIO

Pender's largest Portfolio Company holdings as at the end of the year and the major asset classes in which Pender was invested are indicated below. The investment portfolio may change due to ongoing portfolio transactions. Please also refer to the "Schedule of Investment Portfolio" in the Financial Statements.

Summary of Top 25 Holdings

	% OF NET ASSETS
Private unlisted companies*	79.4
Sangoma Technologies Corporation	2.6
ProntoForms Corporation	2.2
Copperleaf Technologies Inc.[1]	1.9
Quorum Information Technologies Inc.	1.9
Zillow Group, Inc.	1.8
Peloton Interactive, Inc.	1.5
GreenSpace Brands Inc. 12.00%, 07/01/2023	1.1
Tantalus Systems Holdings Inc.	0.7
D-Wave Quantum Inc.	0.6
GreenSpace Brands Inc.	0.5
BuildDirect.com Technologies Inc.	0.2

Summary of Composition of the Portfolio

	% OF NET ASSETS
Pender Related Entities	63.6
Information Technology	11.2
Health Care	9.0
Software and Services	4.3
Real Estate	1.8
Consumer Discretionary	1.6
Consumer Staples	1.6
Technology Hardware and Equipment	1.3
TOTAL INVESTMENTS	**94.4**
Cash	2.2
Other assets less liabilities	3.4
TOTAL NET ASSETS	**100.0**

* The value of these companies is disclosed on an aggregate basis due to the nature of private, unlisted companies. Refer to the Financial Statements for more information. The names of these private Portfolio Companies are listed in the table below.

COMMON SHARES/UNITS
Pender Private Investments Inc., Commercialization Shares[2]
Pender Private Investments Inc., Legacy Shares[2]
Pender Technology Inflection Fund II Limited Partnership[2]

PREFERRED SHARES
Checkfront, Inc., Series A-2
Clarius Mobile Health Corp., Series A1
Clarius Mobile Health Corp., Series A2
DistillerSR Inc. (Formerly Evidence Partners Incorporated)
Jane Software Inc.
Traction Complete Technologies Inc.
Traction Rec Technologies Inc.

[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] Looking through to the underlying holdings of PPI and PTIF II, Pender's exposure to private companies is 25.6% of its holdings.

DIVIDEND POLICY

The Company does not currently intend to pay regular dividends or other distributions but may do so if, as and when determined by the Board of Directors.

OUTSTANDING SHARE DATA

As at December 31, 2022 the Company had 7,569,929 Class C Shares outstanding.

TRANSACTIONS BETWEEN RELATED PARTIES

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

Pender pays management fees and performance fees to the Manager for management and portfolio advisory services.

Effective May 2019, the management fee paid to the Manager was reduced to 2.50% on the first $15,000,000 of the value of Net Assets and 1.75% on the value of Net Assets above $15 million. The management fee is calculated and paid monthly. Subsequent to the WOF Transaction, Net Assets used in the management fee calculation excluded the value of the Company's investment in PPI. The management fee expense is $814,101 for the year ended December 31, 2022.

Pender also pays the Manager a performance fee in certain circumstances, based on achieving certain performance criteria. The performance fee is calculated as 20% of any net increase in the value of Pender's shareholders' equity above an annual hurdle rate of 6%. The performance fee is calculated on an annual basis and is subject to a high water mark, being the year-end value of Net Assets per Share for the most recent preceding year in which a performance fee was earned. Subject to the accumulation of the hurdle rate in years in which no performance fee is payable and the recalculation discussed in section below regarding 2021 performance fees, 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, and the total performance fee, if any, calculated on the last Valuation Date of the year is payable upon the publication of the Company's annual audited financial statements.

In 2021, the Manager, in its sole discretion, waived a portion of the performance fee it charged, reducing it from 20% to 15%. As at December 31, 2022 performance fees accrued for 2022 performance were $Nil (December 31, 2021 – $27,743,466).

In 2021, the performance fee expense of $27,743,466 comprised $22,514,596 arising from the net increase in unrealized appreciation of the Company's direct and indirect holdings of Copperleaf plus $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 payments would be triggered from time to time as gains were realized. The basis for these payments is described in detail in part (f)(i) of the "Financial performance for the year ended December 31, 2022" section of this MD&A.

As at December 31, 2022, the total of this performance fee 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.

During the year ended December 31, 2022, due to a change in the unrealized appreciation of Copperleaf, the Company recorded a net reversal of previously accrued performance fees of $18,264,884 (December 31, 2021 - Nil). The changes to the December 31, 2021 performance fee accrual are summarized 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

The Company currently holds 98% of PPI as described in the "Recent Developments" section of this MD&A. The Company's Manager is also the manager of PPI and earns a PPI Performance Fee in certain circumstances. As described in part (f)(ii) in the preceding "Financial performance for the year ended December 31, 2022" section of this MD&A, the Manager has agreed to pay the Company 98% of the PPI Performance Fee. Accordingly, as at December 31, 2022, the Company has accrued a receivable from the Manager of $7,480,711 (December 31, 2021 - $34,150,813).

The Manager recovers from the Company certain operating expenses incurred by it on behalf of the Company.

On January 1, 2022, the Company became the sole limited partner of PPDF, a limited partnership that was a related party by virtue of being managed by a wholly owned subsidiary of the Manager. On December 31, 2022, the Company wound up PPDF and its net assets were acquired by the Company.

On December 16, 2022, the Company signed a subscription agreement with PTIF II, a related party by virtue of being managed by a wholly owned subsidiary of the Manager, which invests in a concentrated portfolio of business-to-business and health-focused technology companies at their inflection point, via Pender Carry II Limited Partnership. The Company's total committed capital for PTIF II is $12,500,000, of which $3,957,600 was funded in pre-close financing rounds during the year. After year end, the Company received the distribution of $2,218,459 from PTIF II on February 6, 2023 which comprised $3,964,865 for a return of capital for the pre-close funding and interest, net of $1,746,406 to meet PTIF II's first capital call for the Company's proportionate share of investments and expenses. After the capital call, the Company will have contributed 13.97% of its total $12,500,000 commitment and the Company's unfunded balance will be $10,753,594.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2022, the Company is in a stable liquidity position, with cash of $1,552,667 comprising 2.2% of the value of its Net Assets, and investments in publicly traded securities of $9,727,864 or 13.9% of the value of its Net Assets.

Should the future composition of its portfolio be weighted significantly more toward investments that could not readily be sold, the Company would need to secure credit facilities or issue securities to help meet its liquidity needs. There is no immediate need to rely on these liquidity sources.

COMMITMENTS AND CONTINGENCIES

Pender may become liable for commitments and contingencies relating to litigation or claims in the normal course of business as a result of investing. The Manager is not aware of any commitments or contingencies, or any current or planned litigation or claims against it.

OFF-BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet arrangements.

CRITICAL ACCOUNTING ESTIMATES

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.

The Company may hold financial instruments that are not quoted in an active market, including derivatives. Currently, the Company holds common and preferred shares as well as convertible debt issued by its private Portfolio Companies. Details of these holdings are set forth in the ”Summary of Investment Portfolio” section of this MD&A.

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.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next reporting period is included in the Notes to the Financial Statements and relates to the determination of fair value of investments with significant unobservable inputs.

The Company uses widely recognized valuation models for determining the fair value of relatively simple financial instruments that are publicly traded, such as debt and equity 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 is prone to changes 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 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 instruments for which there is no public market available, 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 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 change in the value of the investment, as indicated by an assessment of the financial condition of the investment based on operational results, forecasts and/or other developments since acquisition.

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 Portfolio Company by its revenue.

CHANGES IN ACCOUNTING POLICIES

The Company has determined there were no changes in accounting policy for the year ended December 31, 2022.

FUTURE CHANGES IN ACCOUNTING POLICIES

The Company has determined there are no IFRS standards that are issued but not yet effective that could materially impact the Company’s financial statements.

MANAGED BY:
PENDERFUND CAPITAL MANAGEMENT LTD.

1830 –1066 West Hastings St.
Vancouver BC V6E 3X2

TELEPHONE 604 688-1511
FACSIMILE 604 563-3199
TOLL FREE 1 866 377-4743

www.penderfund.com