

Pender Alternative Special Situations Fund

For the year ended December 31, 2024

Annual Management Report of Fund Performance

This annual Management Report of Fund Performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You may obtain a copy of the annual financial statements at your request, at no cost, by calling toll-free 1-866-377-4743, by writing to us at 1830 - 1066 West Hastings Street, Vancouver, BC V6E 3X2 or by visiting our website at www.penderfund.com or the SEDAR+ website at www.sedarplus.ca.

You may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Pender Alternative Special Situations Fund

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MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The objective of the Pender Alternative Special Situations Fund (the “Fund”) is to achieve long-term capital appreciation by investing primarily in Canadian and US equities with the ability to also invest in debt and other securities. The Fund seeks to identify investment opportunities that are believed to represent special situations.

PenderFund Capital Management Ltd. (“Pender”) is the Manager and Portfolio Advisor of the Fund.

Risks

The risks of investing in the Fund are outlined in the Simplified Prospectus dated June 28, 2024. There were no other significant changes to the Fund’s objectives and strategies that affected its overall level of risk during the year.

The nature of the Fund’s investing activities exposes it to various risks, including but not limited to inflation and the impact of central bank measures on the economy, the state of M&A markets, geopolitical and other global events, factors that are beyond the Fund’s control.

Future developments in these challenging areas could impact the Fund’s results and financial condition 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.

Results of Operations

The net assets of the Fund were \$3,021,996 as at December 31, 2024 versus \$1,705,594 as at December 31, 2023. Of this \$1,316,402 increase, \$508,093 is attributable to positive investment performance and \$808,309 is attributable to net unitholder purchases of Fund units.

For the year ended December 31, 2024, Class A units of the Fund generated a total return of 27.1%. Returns for other classes of the Fund will be similar to Class A with any difference in performance being primarily due to the different management fees that are applicable to different classes. Please see the “Past Performance” section for the performance of the Fund’s other classes.

The Fund’s benchmark, the S&P/TSX Composite Index (“S&P/TSX”), returned 21.7% during the year. In accordance with National Instrument 81-106, we have included a comparison to this broad-based index to help you understand the Fund’s performance relative to the general performance of the market, but we caution that the Fund’s mandate may be significantly different from the index. Further, the Fund’s returns are reported net of all management fees and expenses for all classes, unlike the returns of the Fund’s benchmark, which are based on the performance of an index that does not pay fees or incur expenses.

As at the end of the year, the Fund was 74.1% invested in Canada, 27.2% in the United States and 4.6% internationally, had other assets less liabilities of 4.8% and had a bank overdraft of 10.7%. The Fund’s cash position may change over time as a result of portfolio transactions. The Fund’s investment portfolio is concentrated and not diversified in the conventional sense. The Fund’s top 10 holdings account for 53.3% of the Fund’s net assets at the end of the year. This concentration may lead to varied results over any given year.

The following comments and the comments under “Recent Developments” reflect the views of the portfolio management team and are based on information as at the end of the year. Please read the caution regarding forward-looking statements located on the last page of this document.

In 2024, key positive individual contributors to the Fund’s performance for the year included Glass House Brands Inc., Copperleaf Technologies Inc., and Kraken Robotics Inc. Conversely, Sigma Lithium Corporation, Stratasys Ltd., and AdvisorShares Pure US Cannabis ETF had the largest adverse impact.

The overall sector exposure of the Fund is determined by stock selection decisions and may shift from time to time. As at December 31, 2024 we were weighted toward holdings in the Information Technology, Energy, and Health Care sectors, because those are the sectors where we currently believe we are finding the best investment opportunities and, equally important, because they contain businesses for which we are best equipped to assess value. These top three sectors accounted for 60.2% of the Fund at the end of the year.

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Recent Developments

Equity markets performed well in 2024, driven by easing inflation, accommodative monetary policy, and resilient financial conditions. Improving liquidity and declining bond yields also supported risk appetite in equities. Market sentiment remained positive across most asset classes, with high-yield spreads finishing the year near decade lows at 292 basis points, reflecting investor confidence. The strength in financial markets was supported by financial conditions that remained near all-time highs, a pattern that has historically coincided with equity market strength.

As 2025 begins, equities enter the year with optimism but also potential risks. Elevated valuations in large caps, market concentration and elevated expectations in some key index names could make the overall equity market vulnerable to negative surprises and volatility as we enter the year. Potential headwinds could also include trade policies, particularly tariffs, which could weigh on corporate earnings, and fiscal challenges in developed economies as government deficit spending remains high.

Despite these near-term uncertainties, we remain constructive on the businesses we own in our portfolio or the mid to long-term. We remained vigilant in our analysis to identify trends that align with how the world is evolving and to allocate capital to companies that have attractive growth opportunities and tailwinds to their business fundamentals that are still mispriced by the market. This analysis applied consistently to special situations in the small-cap asset class offer a compelling opportunity set as we believe these companies are under-followed and under-appreciated.

Independent Review Committee ("IRC") Appointments & Resignations

Effective March 4, 2024, John Webster stepped down from the Independent Review Committee and John DeLucchi joined the Independent Review Committee.

Related Party Transactions

The Fund pays management and administration fees to the Manager for management and portfolio advisory services (see "Management Fees"). The Fund also pays the Manager performance fees (see "Performance Fees").

As at the end of the year, parties related to the Manager collectively held 11% of the Fund's units.

Management Fees

The Fund pays management and administration fees calculated as a percentage of the net asset value of each respective class. The Management Expense Ratio ("MER") before applicable taxes such as GST or HST for each class does not exceed certain levels as set out in the Fund's offering documents. The fees are calculated at the close of business on each valuation day and are paid monthly. In exchange for the administration fee, the Manager pays the operating costs of the Fund. The Manager has waived all management fees, administration fees and custody related transaction costs for the Fund since commencement of operations of the Fund.

Management fees are used by the Manager, in part, to pay sales commissions, trailer fees, marketing costs and other associated distribution costs relating to the sale of units of the Fund.

Such expenses represented approximately 18% of the management fees paid by the Fund to the Manager for the year.

Performance Fees

The Manager is also entitled to a performance fee plus applicable taxes such as GST or HST on all classes of units of the Fund. For Class O units, this fee is or will be charged directly to Unitholders, as applicable. The performance fee is equal to 15% of the amount by which the total return of the class of units exceeds a 6% hurdle rate, for the period since the performance fee was last paid, subject to accumulation in years where no performance is paid, provided that the total return of the relevant class of units for such year exceeds the previous high-water mark. The high-water mark is the net asset value of the applicable class of units to which it applies as at the most recent determination date on which a performance fee was payable. Performance fees will be calculated and accrued daily, and such accrued fees will be payable by the Fund at the end of each year. The Manager has reserved the right to change the period for which any performance fee may be paid by a Fund. The Manager, at its discretion, may reduce or waive performance fees.

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Financial Highlights

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

Fund's Net Assets Per Unit (a)

	2024 (\$)	2023 (\$)	2022 (\$)	2021 (\$)	2020 (\$)
Class A					
Net Assets, beginning of year	18.89	15.47	18.75	14.80	10.00
Increase (decrease) from operations:					
Total revenue	0.20	0.98	0.18	0.21	0.08
Total expenses	(0.24)	(0.43)	(0.06)	(0.16)	(0.04)
Realized gains (losses)	0.75	1.81	(4.11)	4.26	2.67
Unrealized gains (losses)	4.00	1.32	(0.02)	(0.30)	4.80
Total increase (decrease) from operations (b)	4.71	3.68	(4.01)	4.01	7.51
Distributions:					
From income (excluding dividends)	(0.04)	-	(0.12)	(0.01)	-
From dividends	(0.03)	(0.43)	(0.07)	(0.08)	(0.06)
From capital gains	-	-	-	(1.46)	(2.64)
Return of capital	-	-	-	-	-
Total distributions (b), (c)	(0.07)	(0.43)	(0.19)	(1.55)	(2.70)
Net Assets, end of year	23.58	18.89	15.47	18.75	14.80
Class E					
Net Assets, beginning of year	10.05	8.25	10.00	10.00	
Increase (decrease) from operations:					
Total revenue	0.11	0.52	0.12	0.09	
Total expenses	(0.12)	(0.23)	(0.04)	(0.07)	
Realized gains (losses)	0.47	0.88	(2.44)	1.11	
Unrealized gains (losses)	2.06	0.78	0.44	(0.04)	
Total increase (decrease) from operations (b)	2.52	1.95	(1.92)	1.09	
Distributions:					
From income (excluding dividends)	(0.02)	-	(0.06)	(0.00)	
From dividends	(0.02)	(0.23)	(0.04)	(0.05)	
From capital gains	-	-	-	(0.78)	
Return of capital	-	-	-	-	
Total distributions (b), (c)	(0.04)	(0.23)	(0.10)	(0.83)	
Net Assets, end of year	12.57	10.05	8.25	10.00	

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Fund's Net Assets Per Unit (a) (cont'd)

	2024 (\$)	2023 (\$)	2022 (\$)	2021 (\$)	2020 (\$)
Class F					
Net Assets, beginning of year	18.97	15.47	18.75	14.80	10.00
Increase (decrease) from operations:					
Total revenue	0.16	0.95	0.19	0.19	0.08
Total expenses	(0.24)	(0.43)	(0.07)	(0.15)	(0.04)
Realized gains (losses)	0.77	1.91	(3.64)	4.24	2.67
Unrealized gains (losses)	3.49	1.13	0.07	(0.56)	4.80
Total increase (decrease) from operations (b)	4.18	3.56	(3.45)	3.72	7.51
Distributions:					
From income (excluding dividends)	(0.04)	-	(0.12)	(0.01)	-
From dividends	(0.03)	(0.42)	(0.07)	(0.08)	(0.06)
From capital gains	-	-	-	(1.46)	(2.64)
Return of capital	-	-	-	-	-
Total distributions (b), (c)	(0.07)	(0.42)	(0.19)	(1.55)	(2.70)
Net Assets, end of year	23.58	18.97	15.47	18.75	14.80
Class H					
Net Assets, beginning of year	10.05	8.25	10.00	10.00	
Increase (decrease) from operations:					
Total revenue	0.01	0.51	0.10	0.09	
Total expenses	(0.11)	(0.23)	(0.03)	(0.07)	
Realized gains (losses)	(0.84)	0.95	(2.47)	1.30	
Unrealized gains (losses)	3.43	0.80	0.44	(0.62)	
Total increase (decrease) from operations (b)	2.49	2.03	(1.96)	0.70	
Distributions:					
From income (excluding dividends)	-	-	(0.06)	(0.00)	
From dividends	-	(0.23)	(0.04)	(0.05)	
From capital gains	-	-	-	(0.78)	
Return of capital	-	-	-	-	
Total distributions (b), (c)	-	(0.23)	(0.10)	(0.83)	
Net Assets, end of year	2.49	10.05	8.25	10.00	
Class I					
Net Assets, beginning of year	10.01	8.25	10.00	10.00	
Increase (decrease) from operations:					
Total revenue	0.11	0.46	0.09	0.14	
Total expenses	(0.13)	(0.23)	(0.03)	(0.11)	
Realized gains (losses)	0.43	0.76	(2.41)	0.68	
Unrealized gains (losses)	1.86	1.11	0.22	(2.97)	
Total increase (decrease) from operations (b)	2.27	2.10	(2.13)	(2.26)	
Distributions:					
From income (excluding dividends)	(0.02)	-	(0.06)	(0.00)	
From dividends	(0.02)	(0.24)	(0.04)	(0.05)	
From capital gains	-	-	-	(0.78)	
Return of capital	-	-	-	-	
Total distributions (b), (c)	(0.04)	(0.24)	(0.10)	(0.83)	
Net Assets, end of year	12.56	10.01	8.25	10.00	

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Fund's Net Assets Per Unit (a) (cont'd)

	2024 (\$)	2023 (\$)	2022 (\$)	2021 (\$)	2020 (\$)
Class O					
Net Assets, beginning of year	10.04	8.25	10.00	10.00	
Increase (decrease) from operations:					
Total revenue	0.09	0.50	0.11	0.06	
Total expenses	(0.13)	(0.23)	(0.04)	(0.05)	
Realized gains (losses)	0.44	0.93	(2.19)	0.78	
Unrealized gains (losses)	2.16	0.83	0.43	0.03	
Total increase (decrease) from operations (b)	2.56	2.03	(1.69)	0.82	
Distributions:					
From income (excluding dividends)	(0.02)	-	(0.06)	(0.00)	
From dividends	(0.02)	(0.23)	(0.04)	(0.05)	
From capital gains	-	-	-	(0.78)	
Return of capital	-	-	-	-	
Total distributions (b), (c)	(0.04)	(0.23)	(0.10)	(0.83)	
Net Assets, end of year	12.57	10.04	8.25	10.00	

(a) This information is derived from the Fund's audited annual financial statements as at December 31 for the year stated, prepared under IFRS Accounting Standards. Class H was closed on June 28, 2024.

(b) Net assets per unit and distributions per unit are based on the actual number of units for the relevant Fund class outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding during the year.

(c) Distributions were paid in cash and/or reinvested in additional units of the Fund.

Ratios and Supplemental Data

	2024	2023	2022	2021	2020
Class A					
Total net asset value (\$000s) (a)	411	314	310	420	131
Number of units outstanding (a)	17,409	16,622	20,022	22,408	8,870
Management expense ratio before performance fee (b)	0.00%	0.00%	0.00%	0.00%	0.00%
Management expense ratio (b)	0.00%	0.00%	0.00%	0.00%	0.00%
Management expense ratio before absorptions (c)	6.51%	5.32%	2.67%	2.62%	2.50%
Trading expense ratio (d)	1.08%	2.51%	0.42%	1.17%	0.85%
Portfolio turnover rate (e)	88.86%	105.63%	85.07%	161.57%	77.56%
Net asset value per unit (\$) (a)	23.58	18.89	15.47	18.75	14.80
Class E					
Total net asset value (\$000s) (a)	301	294	185	120	
Number of units outstanding (a)	23,966	29,267	22,395	12,009	
Management expense ratio before performance fee (b)	0.00%	0.00%	0.00%	0.00%	
Management expense ratio (b)	0.00%	0.00%	0.00%	0.00%	
Management expense ratio before absorptions (c)	3.70%	3.18%	0.61%	0.67%	
Trading expense ratio (d)	1.08%	2.51%	0.42%	1.17%	
Portfolio turnover rate (e)	88.86%	105.63%	85.07%	161.57%	
Net asset value per unit (\$) (a)	12.57	10.05	8.25	10.00	

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Ratios and Supplemental Data (cont'd)

	2024	2023	2022	2021	2020
Class F					
Total net asset value (\$000s) (a)	1,288	283	281	354	131
Number of units outstanding (a)	54,592	14,929	18,172	18,885	8,870
Management expense ratio before performance fee (b)	0.00%	0.00%	0.00%	0.00%	0.00%
Management expense ratio (b)	0.00%	0.00%	0.00%	0.00%	0.00%
Management expense ratio before absorptions (c)	6.13%	4.22%	1.61%	1.59%	1.50%
Trading expense ratio (d)	1.08%	2.51%	0.42%	1.17%	0.85%
Portfolio turnover rate (e)	88.86%	105.63%	85.07%	161.57%	77.56%
Net asset value per unit (\$) (a)	23.58	18.97	15.47	18.75	14.80
Class I					
Total net asset value (\$000s) (a)	1,016	494	207	384	
Number of units outstanding (a)	80,857	49,308	25,113	38,387	
Management expense ratio before performance fee (b)	0.00%	0.00%	0.00%	0.00%	
Management expense ratio (b)	0.00%	0.00%	0.00%	0.00%	
Management expense ratio before absorptions (c)	5.58%	4.07%	1.45%	1.51%	
Trading expense ratio (d)	1.08%	2.51%	0.42%	1.17%	
Portfolio turnover rate (e)	88.86%	105.63%	85.07%	161.57%	
Net asset value per unit (\$) (a)	12.56	10.01	8.25	10.00	
Class O					
Total net asset value (\$000s) (a)	7	6	5	5	
Number of units outstanding (a)	562	561	548	541	
Management expense ratio before performance fee (b)	0.00%	0.00%	0.00%	0.00%	
Management expense ratio (b)	0.00%	0.00%	0.00%	0.00%	
Management expense ratio before absorptions (c)	0.00%	0.00%	0.00%	0.00%	
Trading expense ratio (d)	1.08%	2.51%	0.42%	1.17%	
Portfolio turnover rate (e)	88.86%	105.63%	85.07%	161.57%	
Net asset value per unit (\$) (a)	12.57	10.04	8.25	10.00	

(a) This information is derived from the Fund's audited annual financial statements as at December 31 for the year stated, prepared under IFRS Accounting Standards. Class H was closed on June 28, 2024.

(b) Management expense ratio ("MER") is based on total expenses (excluding commissions and other portfolio transaction costs) for the year and is expressed as an annualized percentage of daily average net asset value during the year. The MER may vary from one class of units to another because of differences in the applicable management fees and certain fees and expenses may have been absorbed by the Manager which would otherwise be paid by the Fund. Management expense ratio before performance fee is the MER before any performance fees, if applicable, for the stated year.

(c) The Manager of the Fund has agreed to absorb sufficient expenses of the Fund, as necessary, so that the annual MER before applicable taxes such as GST or HST will not exceed certain limits as outlined in the Fund's Simplified Prospectus. The amount of expenses absorbed is at the discretion of the Manager as set out in the Fund's Simplified Prospectus and the Manager may in its sole discretion cease to absorb expenses.

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

(e) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. In general, the higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

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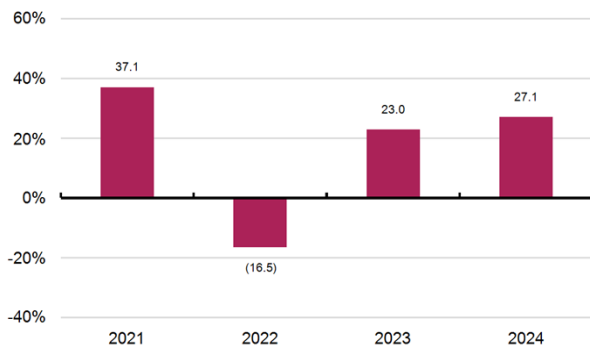
Past Performance

The following charts show the past performance for the units of each class of the Fund and do not necessarily indicate how the Fund will perform in the future. The information shown assumes that any distributions made by the Fund were reinvested in additional units of the Fund. Returns would be different if an investor did not reinvest distributions. In addition, the information does not take into account sales, redemptions, income taxes payable or other charges that would have reduced returns or performance. Past performance for Class H units of the Fund is not available for disclosure because it was closed during the year.

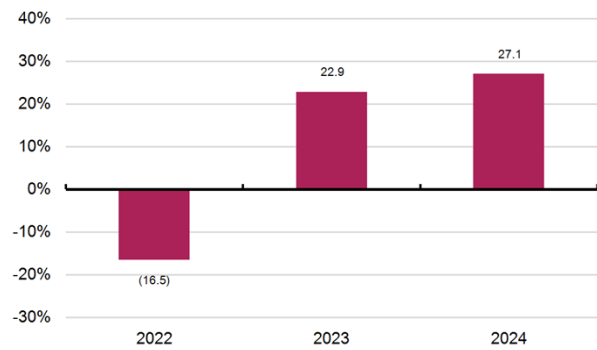
Year-by-Year Returns

To illustrate how the Fund's performance has varied over time, the following bar charts show the Fund's annual returns for the calendar years indicated. The information is presented starting from the first full financial year of the respective Fund class. In percentage terms, the bar charts show how much an investment held on the first day of the year would have increased or decreased by the last day of the year.

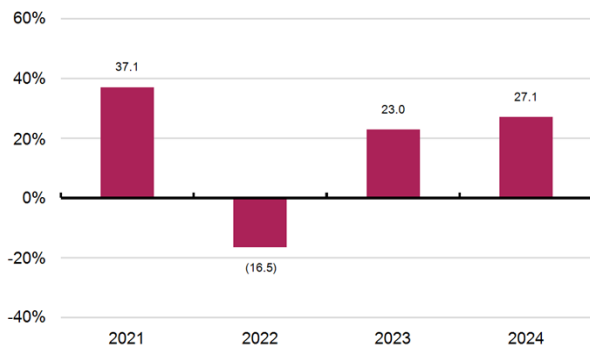
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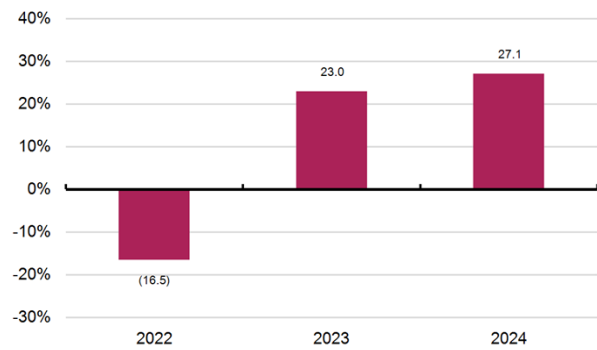
Class E



Class F



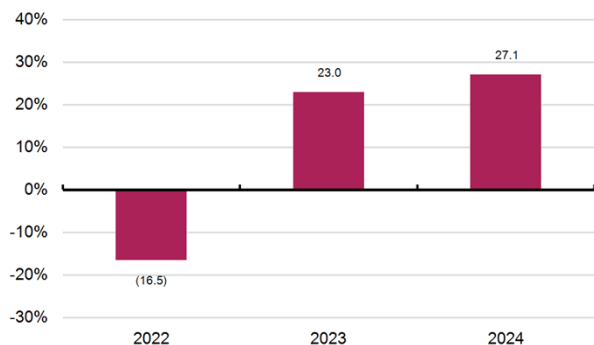
Class I



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Class O



Annual Compound Returns

The annual compound returns table compares the Fund's performance to one or more benchmarks. Benchmarks are usually an index or a composite of more than one index. An index is generally made up of a group of securities. Since the Fund does not necessarily invest in the same securities as an index or in the same proportion, the Fund's performance is not expected to equal the performance of the index. Fund returns are reported net of all management fees and expenses for all classes (prior to June 30, 2021, the Fund's MER was inclusive of applicable taxes such as GST or HST), unlike the returns of the Fund's benchmark, which are based on the performance of an index that does not pay fees or incur expenses. It may be more helpful to compare the Fund's performance to that of other mutual funds with similar objectives and investment strategies.

The Fund's broad-based benchmark is S&P/TSX Composite Index. The S&P/TSX is the headline index for the Canadian equity market. With approximately 95% coverage of the Canadian equities market, it is the primary gauge for Canadian-based, Toronto Stock Exchange listed companies.

A discussion of the performance of the Fund as compared to its benchmarks is found in the "Results of Operations" section of this report.

	Inception Date	1 Year (%)	3 Year (%)	Since Inception (%)
Class A	10-Jul-20	27.1	9.3	29.1
S&P/TSX		21.7	8.7	14.5
Class E	25-Jun-21	27.1	9.3	10.3
S&P/TSX		21.7	8.7	9.3
Class F	10-Jul-20	27.1	9.3	29.1
S&P/TSX		21.7	8.7	14.5
Class I	25-Jun-21	27.1	9.3	10.3
S&P/TSX		21.7	8.7	9.3
Class O	25-Jun-21	27.1	9.3	10.3
S&P/TSX		21.7	8.7	9.3

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Summary of Investment Portfolio

The largest holdings of the Fund as at the end of the year and the major asset classes in which the Fund was invested are indicated below. Where the Fund has less than 25 holdings, the table will show the Fund's entire investment portfolio. The investment portfolio may change due to ongoing portfolio transactions. An update of the Fund's summary of investment portfolio as at the end of each calendar quarter is available from the Manager. Please see the front page of this document for information about how this can be obtained.

Top 25 Holdings

	% of Net Assets
dentalcorp Holdings Ltd.	8.8
GH Group, Inc., Preferred, Series 'C', 20.00%	7.2
D2L Inc.	5.5
Well Health Technologies Corp.	5.5
Logan Energy Corp.	5.3
Burford Capital Ltd.	4.7
Partners Value Investments L.P.	4.6
5N Plus Inc.	4.4
Kraken Robotics Inc.	3.7
Mercer Park Opportunities Corp.	3.6
Profound Medical Corp.	3.4
Saturn Oil & Gas Inc.	3.3
Aviat Networks Inc.	3.2
Thinkific Labs Inc.	3.0
Anterix Inc.	2.9
ARC Resources Ltd.	2.7
Athabasca Oil Corp.	2.7
Lightspeed Commerce Inc.	2.7
Polaris Renewable Energy Inc.	2.6
Sangoma Technologies Corp.	2.6
NexGen Energy Ltd.	2.5
Sylogist Ltd.	2.5
Gitlab Inc., Class 'A'	2.4
Glass House Brands Inc.	2.4
Hammond Power Solutions Inc.	2.1

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Composition of the Portfolio

	% of Net Assets
LONG POSITIONS	
Equities	
Information technology	24.3
Energy	18.2
Health care	17.7
Financial services	14.4
Industrials	11.4
Materials	6.0
Consumer discretionary	5.5
Communication services	2.9
Utilities	2.6
Consumer staples	2.4
SHORT POSITIONS	
Exchange-traded fund(s)	(0.4)
Total equities	105.0
Warrants	0.9
Total investments	105.9
Cash (Bank overdraft)	(10.7)
Other assets less liabilities	4.8
Total net assets	100.0

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Caution Regarding Forward-Looking Statements

This report contains forward-looking statements about the Fund, 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 Fund 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 Fund and economic factors, among other things.

Forward-looking statements are not a guarantee of future performance, and actual events and results could differ materially from those expressed or implied in any forward-looking statements. Any number of important factors could contribute to these digressions, including, but not limited to: geopolitical events, general economic conditions, political and market factors around the world; interest rates and inflation; fiscal and monetary policy; global equity and capital markets; business competition; technological change; changes in government regulations; unexpected judicial or regulatory proceedings.

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, future events or otherwise, prior to the release of the next Management Report of Fund Performance.



Pender Alternative Special Situations Fund

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