

**MANAGEMENT'S DISCUSSION & ANALYSIS**

**PENDER GROWTH FUND INC.**

Three months and nine months ended September 30, 2020

**PENDER**

## TABLE OF CONTENTS

	Page
<b>INTRODUCTION</b> .....	<b>1</b>
Caution Regarding Forward-Looking Statements.....	1
Reporting Regime.....	2
Non-IFRS Measures.....	3
Business Strategy.....	4
Risk Factors.....	4
Recent Developments.....	5
Outlook.....	6
<b>PORTFOLIO OF INVESTMENTS</b> .....	<b>7</b>
<b>OVERALL PERFORMANCE AND DISCUSSION OF OPERATIONS</b> .....	<b>12</b>
<b>SELECTED FINANCIAL INFORMATION</b> .....	<b>13</b>
Financial Performance.....	14
Financial Highlights.....	18
Financial Condition.....	18
Cash Flows.....	20
Shareholder Activity.....	20
<b>SUMMARY OF QUARTERLY RESULTS</b> .....	<b>21</b>
<b>PAST PERFORMANCE</b> .....	<b>22</b>
<b>SUMMARY OF INVESTMENT PORTFOLIO</b> .....	<b>23</b>
<b>DIVIDEND POLICY</b> .....	<b>24</b>
<b>OUTSTANDING SHARE DATA</b> .....	<b>24</b>
<b>TRANSACTIONS BETWEEN RELATED PARTIES</b> .....	<b>24</b>
<b>LIQUIDITY AND CAPITAL RESOURCES</b> .....	<b>24</b>
<b>COMMITMENTS AND CONTINGENCIES</b> .....	<b>25</b>
<b>OFF-BALANCE SHEET ARRANGEMENTS</b> .....	<b>25</b>
<b>CRITICAL ACCOUNTING ESTIMATES</b> .....	<b>25</b>
<b>CHANGES IN ACCOUNTING POLICIES</b> .....	<b>26</b>
<b>FUTURE CHANGES IN ACCOUNTING POLICIES</b> .....	<b>26</b>

## INTRODUCTION

This Management's Discussion and Analysis ("MD&A") dated November 19, 2020 presents a review of the unaudited financial results for Pender Growth Fund Inc. ("Pender" or the "Company") for the three months and nine months ended September 30, 2020 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 unaudited condensed interim financial statements for the three months and nine months ended September 30, 2020 and the notes thereto (the "Condensed Interim Financial Statements") and Pender's audited financial statements for the year ended December 31, 2019 and the notes thereto (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](http://www.sedar.com).

### Caution Regarding Forward-Looking Statements

This MD&A contains 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's Portfolio Companies; future transactions involving its Portfolio Companies (including acquisitions of such Portfolio Companies); 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. 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 emerging technology sector and the high proportion of companies from this sector in the portfolio; the ability to dispose of investments in private companies rapidly or at favourable prices; the availability of an active trading market for the Company's Class C shares; general economic, political and 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; pandemics and 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.

### **Reporting Regime**

Pender is an investment entity created in 1994 with the objective of providing its investors with long-term capital appreciation. The Company was established as a “Venture Capital Corporation” (a “VCC”) under the provisions of the Small Business Ventures Capital Act (the “SBVCA”) which offered investors in the Company certain provincial tax credits at the time the Company’s shares were issued from treasury. The SBVCA also restricted the Company’s investment objectives and strategies to investments in “Eligible Small Businesses” as defined in the SBVCA.

The shareholders of the Company approved the cancellation of registration under the SBVCA on July 12, 2016. Effective October 27, 2016, Pender voluntarily cancelled its registration under the SBVCA, permitting it to employ various investing strategies that were previously not available to it, including, without limitation, investments in the public equity market and investments in larger and more established businesses based outside of British Columbia. Because the Company was considered a non-redeemable investment fund subject to the Canadian securities regulatory regime for investment funds (the “Investment Funds Regime”) and to National Instrument 81-102 — Investment Funds (“NI 81-102”), it provided continuous disclosure pursuant to such Investment Funds Regime, including but not limited to the provisions under National Instrument 81-106 — Investment Funds Continuous Disclosure.

The provisions of NI 81-102 restricted the Company from purchasing a security of an issuer (a) for purposes of exercising control over, or management of the issuer (the “Control Restrictions”) or (b) if immediately after the purchase the Company would hold more than 10% of the votes or outstanding equity of the issuer. While the Company was registered as a VCC it was able to rely on an exemption from the Control Restrictions, however after it cancelled its registration as a VCC it became subject to the Control Restrictions, which prohibited Pender from making investments which it determined would best fit its investment objectives and strategies.

As a result, the Manager concluded it was in the Company’s best interest to transition from the Investment Funds Regime to the Canadian securities regulatory regime for reporting issuers that are not investment funds (the “Corporate Issuer Regime”), including, but not limited to, compliance with National Instrument 51-102 — Continuous Disclosure Obligations (“NI 51-102”).

On May 23, 2018, at the annual general meeting of shareholders, the shareholders authorized the Company to transition to the Corporate Issuer Regime. As a result of the reclassification effective December 31, 2018, the Company became subject to NI 51-102, under which it is required to file annual and interim MD&A reports. Under International Financial Reporting Standards (“IFRS”), the Company continues to be treated as an investment entity for accounting purposes.

### Non-IFRS Measures

The Company prepares and releases Condensed Interim Financial Statements and 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. They 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 September 30, 2020 and December 31, 2019 is presented in the following table:

Net Assets	September 30, 2020	December 31, 2019
Assets	\$ 39,333,618	\$ 34,040,763
LESS: Liabilities	221,982	207,746
EQUALS Net Assets	\$ 39,111,636	\$ 33,833,017

#### 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 September 30, 2020 and December 31, 2019 is presented in the following table:

Net Assets per Share	September 30, 2020	December 31, 2019
Assets	\$ 39,333,618	\$ 34,040,763
LESS: Liabilities	221,982	207,746
EQUALS Net Assets	\$ 39,111,636	\$ 33,833,017
DIVIDED BY Number of Shares Outstanding	7,770,129	8,083,329
EQUALS Net Assets per Share	\$ 5.03	\$ 4.19

#### Management Expense Ratio

The Company uses Management Expense Ratio ("MER") to represent the total amount of management fees and operating expenses, including sales taxes and interest but excluding corporate taxes, commission and other portfolio transaction costs (together, the "MER Costs") that is borne by each outstanding share. 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") to represent the total amount of commissions and other portfolio transaction costs (the "TER Costs") that is borne by each outstanding share. The TER is an annualized percentage calculated by dividing total TER Costs by the average Net Assets.

It should also be noted that total shareholders' equity which is calculated using IFRS for financial reporting purposes may be different from the monthly reported net asset value per share ("Reported NAV").

## Business Strategy

Pender's objective is to achieve long-term capital appreciation for its investors. Pender invests opportunistically in the 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, using available cash to take advantage of opportunities with attractive internal rates of return, for example. 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 flexibility so that it may invest in securities that it believes to have the highest 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 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 dependent on 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.

As of September 30, 2020, Pender has investments in a total of twenty-eight (28) Portfolio Companies: Seven (7) private companies and twenty-one (21) publicly listed companies.

## Risk Factors

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

Historically, Pender invested primarily in emerging technology companies. The prospects for success of emerging technology companies depend critically on a number of factors that, given their limited operating histories, may be difficult to evaluate. 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.

The COVID-19 global health pandemic resulted in significant volatility and turmoil in World markets. While the negative economic impact of measures to contain the virus have been mitigated to an extent by fiscal and monetary stimulus and by measures taken to reopen world economies, the situation has impacted and may continue to impact many businesses, including those of our Portfolio Companies. Investment results will depend to a large extent on future developments and new information that may emerge regarding COVID-19, factors which are beyond the Company's control.

COVID-19 resulted in a decrease in exits and an extension in holding periods for private equity investments, as sellers wait for uncertainty to be resolved. This may increase the risk inherent in the fact that, by their nature, Pender's private Portfolio Companies will generally lack liquidity and involve a longer than usual investment commitment time horizon. Losses are typically realized before gains, and Pender may be

required to dispose of Portfolio Companies before any returns are received therefrom. Private companies comprise 38.7% of Pender's investment portfolio. It may be relatively difficult for Pender to dispose of its investment in a private company rapidly at favourable prices due to 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.

Pender faces competition from a large number of 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 development stage technology companies remains limited and is subject to pricing and terms that are based on the performance of the investee company, among other factors, and what is available may be on terms unfavourable to existing shareholders of these companies.

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

The Company's Class C Shares are not redeemable. The Class C Shares trade on the TSX Venture Exchange (the "TSXV") under the ticker "PTF". An active trading market for the Class C Shares may not be available, which could 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, which could adversely affect the ability of a holder of the Class C Shares to dispose of them. 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 April 29, 2020 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**

Beginning in late 2019, the outbreak of a novel strain of coronavirus ("COVID-19") spread rapidly to many parts of the world. Its widening global impact together with the breakdown of OPEC resulted in significant downward volatility and turmoil in global markets in late February and into March 2020, when the virus was declared a global health pandemic. World markets made an astonishing rebound in April. Since then, significant monetary and fiscal stimulus, the reopening of global economies, and promising medical progress for potential COVID-19 therapies and/or vaccines have continued to push world markets higher. Global markets seem to be on a recovery path in general and we are pleased to see private technology companies from within our current portfolio having the opportunity to go public. In May our portfolio company Newtopia successfully completed a listing on the TSX-V. In September our portfolio company Tantalus Systems announced that it had entered into a Letter of Intent to complete a going public transaction.

We continue to work with our core positions, aiming to help these companies build their intrinsic value over the long-term. During Q3, this included actively working with management teams of portfolio companies to support them through their growth, to either conserve cash or accelerate development to assist customers and to pursue new opportunities that had recently developed. Where necessary, we also supported them in optimizing their business in connection with challenges and opportunities brought on by COVID-19.

During the third quarter of 2020, the Company also continued to acquire its own shares in the market under the Normal Course Issuer Bid (the "NCIB") that it launched on February 10, 2020. Under TSXV policies, the Company is entitled to purchase a maximum of 743,087 Shares, representing 10% of the Company's

launch date public float, over the period that the NCIB is in place. The NCIB will continue until February 10, 2021 unless terminated earlier in accordance with its terms. During the nine months ended September 30, 2020, the Company bought back 313,200 shares at an average price of \$2.99.

During the nine months ended September 30, 2020, Pender added two private Portfolio Companies to its portfolio, Checkfront, Inc. and Clarius Mobile Health Corp., as well as thirteen publicly listed Portfolio Companies: AgJunction Inc., Alcanna Inc., CloudMD Software & Services Inc., Diversified Royalty Corp., Dye & Durham Limited, Ebix, Inc., Else Nutrition Holdings Inc., GreenSpace Brands Inc., Leaf Group Ltd., MAV Beauty Brands Inc., Photon Control Inc., Spartan Delta Corp., and TIMIA Capital Corp. During the period, Pender sold BasicGov Systems Inc., a private Portfolio Company, as well as Crown Capital Partners Inc., and CloudMD Software & Services Inc. Additionally, Newtopia completed its direct listing on the TSXV and its shares commenced trading on Monday, May 4, 2020 under the symbol "NEWU". Pender sold the common shares of Newtopia Inc. in July 2020 but holds Newtopia warrants expiring on July 11, 2022.

Greater visibility into a post pandemic world is increasing as therapeutics and vaccines progress through the development pipeline. In November, Pfizer announced promising early COVID-19 vaccine data which cuts a person's chances of suffering symptoms by more than 90%—much more than most investors had expected. To have accomplished so much so fast is a triumph of modern globalized science. In addition, the apparent settlement of U.S. presidential election was also seen as constructive by investors because it lowered uncertainty. In other US election developments, the split Congress is perceived as positive for public markets, because gridlock in Washington means reduced odds that extreme policies will be passed.

## Outlook

The year started with market volatility of a severity not seen since the financial crisis of 2008. While stock markets experienced a strong rebound we remain fully aware of the potential volatility still on the horizon. COVID-19 is negatively impacting economies around the world, including those in which our private Portfolio Companies do business. Certain industries, like tourism and airlines, have been be hard hit over the short-term and it will likely take some time for them to rebound.

The pandemic is also having a significant impact on exits of private technology companies globally. Canadian venture capital activity had a marked decline in Q1 2020 but saw a strong Q2 driven by government stimulus for a total of \$2.5 Billion invested in the first half of the year. Large deal sizes (\$20 Million+) for later stage companies drove most of the dollars invested. The pace of VC-backed exits slowed tremendously, with only ten M&A exits reported in the first half of 2020 for a total of \$0.3B<sup>1</sup>. This was well below 2019's exit activity, 36 M&A exits representing \$1.4B in aggregate value, and we expect that activity levels in exits will continue at a relatively low rate for a period of time. With increased awareness of the strength and depth of the Canadian technology sector, we are seeing a very strong pipeline of mature, well run technology companies set to go public, and we are looking to partner with other companies as they take steps to go public.

We have evaluated the potential impact of COVID-19 on each of our private Portfolio Companies and, while at present it may be too soon to tell its longer term magnitude or specific impact, more information continues to become available as they continue to respond to the challenges and opportunities in the current market. We remain patient investors and continue to work with our private Portfolio Companies, aiming to help them build their intrinsic value over the long-term. It is important to note that some of the best businesses are created during challenging times such as these and we are actively screening for new prospects. We

<sup>1</sup> CVCA VC Canadian Market Overview H1 2020

remain steadfast investors in this asset class. Any potential impact on investment results will depend on future developments, the duration and severity of COVID-19 and the actions taken by government authorities and other entities to contain the virus or to treat its impact, which are beyond our control. Despite market factors, we continue to invest with the goal of leveraging Pender's advantages, its small asset base and investment flexibility, to the benefit of all shareholders.

## **PORTFOLIO OF INVESTMENTS**

We are long-term, high-conviction investors but at the same time we also try to take advantage of short-term close the discount opportunities where it makes sense to do so. During the nine months ended September 30, 2020, we added two new private Portfolio Companies and thirteen new publicly listed Portfolio Companies to the portfolio.

The new private Portfolio Companies added in the period were Checkfront, Inc. and Clarius Mobile Health Corp. The new publicly listed Portfolio Companies added in the period were AgJunction Inc., Alcanna Inc., CloudMD Software & Services Inc., Diversified Royalty Corp., Dye & Durham Limited, Ebix, Inc., Else Nutrition Holdings Inc., GreenSpace Brands Inc., Leaf Group Ltd., MAV Beauty Brands Inc., Photon Control Inc., Spartan Delta Corp., and TIMIA Capital Corp. During the period, we divested of the shares of BasicGov Systems, Inc., Crown Capital Partners Inc., CloudMD Software & Services Inc. and Newtopia Inc..

As at September 30, 2020, the weight of our Portfolio Company holdings was 84% of Net Asset Value, an increase of 13.8% from December 31, 2019, as a result of our having deployed more capital into existing positions and into companies new to the portfolio.

Pender's Net Assets at September 30, 2020 were comprised of securities of publicly listed companies (50.0%) and private companies (38.7%), with cash and other assets making up the remainder (11.3%). The significant trends and events for Pender's Portfolio Companies in the three months and nine months ended September 30, 2020 are described in this section.

### **Private Unlisted Companies**

We continue to work with our private Portfolio Companies, aiming to help these companies build their intrinsic value over the long-term.

#### **one45 Software**

As at September 30, 2020, Pender's single largest investment was in one45 Software Inc. ("one45"), a software-as-a-service ("SaaS") provider of data management software to medical and other healthcare professional schools.

During the nine months ended September 30, 2020, one45 continued to close sales of its new product, one45 Analytics, to new customers. With this product, one45 provides healthcare education organizations with a full-featured data warehouse with advanced analytics. While one45 funded the development of one45 Analytics with its own cash flow, it managed to do so while still maintaining a strong balance sheet. The company has made steady progress with one45 Analytics, with revenue from several customers and a strong sales pipeline. Our investment in one45 represents over 25% of our Net Assets.

#### **Tantalus Systems**

Tantalus Systems Corp. ("Tantalus") provides Smart Grid communications technology that both enables electric, gas and water utilities to optimize their use of resources, and delivers the data that utilities and

customers need to manage energy intelligently and cost-effectively.

In September, Tantalus announced that it has entered into a Letter of Intent with RiseTech Capital Corp. (TSXV: RTCC.P) (“RiseTech”) to complete a going public transaction. At the same time, Tantalus also announced it had hired a new Chief Financial Officer, George Reznik, who brings 25 years of experience as the CFO of publicly traded, high-growth technology companies in Canada.

These developments come as part of a string of additional utility wins for Tantalus this year, including the addition of more than ten new public power and electric cooperative utilities to its growing user community. We are pleased to see a private technology company from within our current portfolio having the opportunity to go public. This initiative will enable the team at Tantalus to pursue a range of strategies with the potential to accelerate growth.

### **Copperleaf Technologies**

Copperleaf Technologies Inc. (“Copperleaf”) provides decision analytics to companies managing critical infrastructure. Copperleaf’s enterprise software solutions leverage operational and financial data to help its clients make investment decisions that have the potential 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 August 2020, Copperleaf announced the selection of its C55 Decision Analytics solution by TransAlta, which operates and develops a diverse fleet of electrical power generation assets in Canada, the United States and Australia. This is an example of Copperleaf’s ability to provide industry-leading asset management decision support and we believe there is a significant growth opportunity for Copperleaf as it continues to build out its business.

### **3760073 Canada Corporation (Formerly Navarik Corp.)**

Navarik Corp. (“Navarik”) is a provider of on-demand software services that automate shipping logistics and physical trade operations in global crude oil, refined products and bulk commodities.

In March 2020, Navarik announced the appointment of its new CEO, its former CTO who has been with the company and worked with its board since 2017, including work on the development of the company’s new Navarik Bridge product.

### **Clarius**

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 its 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 over 20 patents and thousands of devices sold to date. In response to COVID-19, Clarius has seen an increase in demand for its scanners which are being used to check patients’ lungs for acute pneumonia. In August 2020 Clarius announced that had appointed Dr. Oron Frenkel, an emergency physician and a renowned point-of-care ultrasound educator as chair of its medical advisory board.

**Checkfront**

Checkfront, Inc. (“Checkfront”) develops cloud-based booking management application and e-commerce platform for tour providers, accommodation managers, and rental businesses in Canada and internationally. The Checkfront platform is intended to help businesses manage their inventories, centralize reservations and process payments. Checkfront’s solution is used as an operating system by thousands of operators in over one hundred countries. Despite the industry impact of COVID-19, we believe the company is in a strong position relative to industry peers who mostly operate under a commission-based revenue model.

**Publicly listed Companies**

During the nine months ended September 30, 2020, we continued to be patient, fundamental investors, and we believe that the significant market volatility caused by COVID-19 presents good potential opportunities for our public company holdings. 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 investments that were key contributors to or detractors from the performance of our portfolio during the nine months ended September 30, 2020. We then discuss new publicly listed companies added to the portfolio over the nine months ended September 30, 2020.

**Contributors**Dye and Durham Limited (TSX:DND)

Dye and Durham Limited (“DND”) provides registry data services to law firms through automating the registry search processes and data collection. DND has an industry leading position with few competitors and has a high margin business. It completed its IPO in July and stock prices soared soon afterward. Our position in DND generated realized and unrealized gains totaling \$2.1 million and was one of the top positive contributors to the fund performance during the nine months ended September 30, 2020.

Sangoma Technologies Corporation (TSXV:STC)

Sangoma Technologies Corporation is a leading voice and Unified Communications (UC) solution provider. The company was founded in 1984 and supplies solutions to businesses of all sizes and to telecom operators in over 150 countries. We added the business to the portfolio in October 2019. During the nine months ended September 30, 2020, our position in Sangoma generated realized and unrealized gains totaling \$814,000.

EBIX, Inc. (NASDAQ:EBIX)

EBIX, Inc. (“EBIX”) provides software solutions to the insurance, finance, healthcare, travel, foreign exchange and e-learning industries. EBIX solutions enable insurance carriers, brokers, and related third parties to conduct end-to-end insurance transactions through a single unified exchange platform. EBIX also operates EBIXCash, primarily in India, connecting consumer and brokers to back-end products and services such as travel, foreign exchange, remittances and bill payments. We believe Ebix has a customer-sticky business model with high profit margins. We added this position to the portfolio in March 2020 and during the nine months ended September 30, 2020, it generated realized and unrealized gains totaling \$791,000.

***Detractors***

The portfolio had eight publicly listed Portfolio Companies that saw share prices decline during the nine months ended September 30, 2020. Quorum Information Technologies Inc., GreenSpace Brands Inc., and Crown Capital Partners Inc were some of the key detractors.

***New Publicly listed Portfolio Companies***

During the nine months ended September 30, 2020, we added 13 public company holdings to the portfolio. Of these, we discussed Dye and Durham Limited and EBIX, Inc. above. Below we discuss each of other new names briefly, in alphabetical order.

**AgJunction Inc. (TSX:AJX)**

AgJunction Inc. (“AgJunction”) provides guidance and autosteering solutions for precision agriculture applications. AgJunction's products and solutions enable farmers' machines to reach a pre-planned path and then "steer" along the path with minimal additional input from the farmer. AgJunction sells products through two channels: directly to farmers, online, and indirectly to farmers by becoming the supplier of choice for machine manufacturers. AgJunction holds over 130 fundamental steering and machine control patents. We added AgJunction to the portfolio in March 2020.

**Alcanna Inc. (TSX:CLIQ)**

Alcanna Inc. (“Alcanna”) is North America's largest publicly traded operator of retail liquor stores, operating over 200 liquor stores in Alberta, BC, and Alaska. The company was originally known as Liquor Stores N.A. and rebranded to Alcanna when it expanded to retail cannabis distribution in 2018. The company operates under several different brands: Liquor Depot, Liquor Barn, Wine and Beyond, Wine Cellar and Brown Jug. We added Alcanna to the portfolio in June 2020.

**Diversified Royalty Corporation (TSX:DIV)**

Diversified Royalty Corporation (“DIV”) owns royalty rights in franchise businesses. Unlike other business models with royalties from one single franchise chain, DIV owns royalty streams from a diversified pool of businesses including Mr. Lube, Air Miles, Sutton Realty, Oxford Learning, Mr. Mikes, and Nurse Next Door. DIV has an asset light model with virtually no capital expenditures. The royalties they receive are used to pay dividends. Revenue growth comes from acquisitions of other royalty streams as well as same store sales growth from their existing businesses. We added DIV to the portfolio in March 2020.

**Else Nutrition Holdings Inc. (TSXV:BABY)**

Else Nutrition Holdings Inc. (“BABY”) is an Israel-based food and nutrition company focused on the research, development, manufacturing, marketing and sale of plant-based food and nutrition products for infant, toddler, children and adult markets. The company recently launched its first U.S. nationwide brand campaign ahead of its product launch in the U.S. Its specialty product is a non-diary non-soy formula alternative made from plants. We added BABY to the portfolio in September 2020.

**GreenSpace Brands Inc. (TSXV:JTR)**

GreenSpace Brands Inc. (“GreenSpace”) is a Canadian-based company that develops, markets and sells natural food products to consumers in Canada and the US. Founded in 2002, GreenSpace launched and acquired various brands over the years with a focus on “better for you”. Today their portfolio consists of six brands, including Love Child Organics, Central Roast, and Go Veggie. Over the years, the business was

built with a focus on revenue growth rather than profitability. However, a combination of unstable acquisitions and weak operational focus eventually resulted in it carrying unsustainable leverage. We saw value in the brands and led a private placement to recapitalize the company on the conditions that we reconstitute and control the Board of Directors and appoint the Executive Chairman. Following that, in March 2020, we invested \$1.5M in GreenSpace.

#### Leaf Group (NYSE:LEAF)

Leaf Group (“Leaf”) is a diversified consumer internet company managing brands that reach audiences in large and growing lifestyle categories, including Fitness & Wellness (Well+Good, Livestrong.com and MyPlate App), and Home, Art & Design (Saatchi Art, Society6 and Hunker). We added Leaf to the portfolio in April 2020.

#### MAV Beauty Brands Inc. (TSX:MAV)

MAV Beauty Brands Inc. (“MAV”) is a developer and marketer of personal care products led by its founder Marc Anthony. MAV offers a broad variety of hair care, body care and beauty products through six complementary brands including Marc Anthony, Rempure and Cake. It has a capital-light model that has been successful in driving high free cash flow conversion. We believe it is well positioned to benefit from consumer trends including that of buying higher quality, natural and environmentally friendly products. We added MAV to the portfolio in March 2020.

#### Newtopia Inc. (TSXV: NEWU)

Newtopia Inc. (“Newtopia”) is a provider of a personalized health and wellness platform designed to bring sustainable health and well-being to the workplace. Its platform offers customized care plans for disease prevention, combining genetic testing, personalized coaching and smart technology, intended to enable companies to reduce their healthcare costs.

Newtopia completed its direct listing of shares on the TSXV and its shares commenced trading on Monday, May 4, 2020 under the symbol “NEWU”.

#### Photon Control Inc. (TSX:PHO)

Photon Control Inc. (“PHO”) designs, manufactures, and distributes a wide range of optical sensors and systems to measure temperature and position, particularly under harsh environments and extreme conditions. These sensors are widely used by wafer fabrication equipment manufacturers to improve efficiency and reduce costs during the manufacturing process. Today the company operates mainly in the semiconductor industry, with minor revenue contribution from the medical sector. Wafer Fab Equipment (WFE) spending was soft in 2019 as companies were trying to use up existing inventory. We started to see a recovery in spending in the past few months and we believe PHO is well positioned for recovery. We added the business to the portfolio in March 2020.

#### Spartan Delta Corp. (TSXV:SDE)

Spartan Delta Corp. (“Spartan”) was formerly known as Return Energy and changed its name in May 2020. Spartan engages in the exploration, development, and production of petroleum and natural gas properties in the Western Canadian Sedimentary Basin in Canada. The company is focused on a consolidation strategy to take advantage of distress and dislocations in the Canadian E&P sector. We added Spartan to the portfolio in May 2020.

#### TIMIA Capital Corp. (TSXV:TCA)

TIMIA Capital Corp. (“TIMIA”) is a specialty finance company that provides growth capital to technology companies in exchange for payments based on monthly revenue. This alternative financing option complements both debt and equity financing, while allowing entrepreneurs and existing stakeholders to retain ownership and control of their business. TIMIA’s single focus is the fast growing, global, business-to-business Software-as-a-Service (or SaaS) segment. We first added the business to the portfolio in January 2020.

### **Portfolio Turnover**

The Company’s portfolio turnover was 11.6% during the three months ended September 30, 2020 (September 30, 2019 – 0.0%) and 45.1% during the nine months ended September 30, 2020 (September 30, 2019 – 5.8%). 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. While the portfolio turnover rate is not necessarily related to performance, in general, lower turnover rates result in lower trading costs and may reduce realized capital gains and losses.

### **OVERALL PERFORMANCE AND DISCUSSION OF OPERATIONS**

Pender’s goal is to create long-term capital appreciation for its investors, continuing to build on the Class C Shares’ 16.6% annualized return since inception. We are long-term, high-conviction investors.

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 which may not be indicative of the value of our Net Assets per Share. Further, the share price may change due to factors which are unrelated to our Net Assets per Share.

During the three months ended September 30, 2020, the value of our Net Assets per Share ranged from \$4.66 to \$5.06, while our share price ranged from a high of \$3.65 to a low of \$2.60 per share. During the quarter, the shares traded at prices representing a discount to Net Assets per Share of ranging from 27.87% to 46.97%.

During the nine months ended September 30, 2020, the value of our Net Assets per Share ranged from \$4.08 to \$5.06 per share, while our closing share price ranged from a high of \$3.80 per share to a low of \$2.60 per share. During the period, the shares traded at prices representing a discount to Net Assets per Share ranging from 18.42% to 46.97%.

The Company’s Net Assets increased by \$2,534,050, or 6.9%, during the three months ended September 30, 2020, closing at \$39,111,636 versus \$36,577,586 as at June 30, 2020. This increase in the quarter was the result of investment performance of \$2,926,804, less operating costs net of income of \$195,825 and share repurchases of \$196,929 under the NCIB described in the “Recent Developments” section of this MD&A.

The Company’s Net Assets increased by \$5,278,619, or 15.6%, during the nine months ended September 30, 2020, to a level of \$39,111,636 versus \$33,833,017 as at December 31, 2019. This increase for the nine month period was the result of investment performance of \$6,854,656, less operating costs net of income of \$634,703 and share repurchases of \$941,334 under the NCIB described in the “Recent Developments” section of this MD&A.

There were no discontinued operations during the three months or the nine months ended September 30, 2020 and 2019.

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 September 30, 2020 are listed under the “Summary of Investment Portfolio” 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 as at September 30, 2020 compared to September 30, 2019 and for the three preceding financial years, as well as its financial performance in the three months ended September 30, 2020, compared to the three months ended September 30, 2019, and the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019. This section should be read together with the Condensed Interim Financial Statements and the Annual Audited Financial Statements.

### Supplemental Data

	2020 Q3 (3 months)	2019 Q3 (3 months)	2019	2018	2017
Net Assets (\$000s)	39,112	31,793	33,833	17,205	18,631
Non-Redeemable Class C Shares Outstanding	7,770,129	8,083,329	8,083,329	4,152,545	4,152,545
Net Assets per Share (\$)	5.03	3.93	4.19	4.14	4.49
Closing Market Price* (\$)	3.20	3.44	3.75	3.10	4.55
Total Increase (Decrease) from Operations per Share (\$)	0.35	(0.01)	0.31	(0.35)	0.15

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

**Financial Performance**

	<b>2020</b>		<b>2019</b>		<b>2020</b>		<b>2019</b>
	<b>Q3</b>		<b>Q3</b>		<b>Q1 – Q3</b>		<b>Q1 – Q3</b>
	<b>(3 months)</b>		<b>(3 months)</b>		<b>(9 months)</b>		<b>(9 months)</b>
Net realized gain (loss)	\$ 2,949,137	\$	125,405	\$	3,982,097	\$	(115,223)
Change in net unrealized gain (loss)	(22,333)		48,579		2,872,559		815,071
Foreign exchange gain (loss)	16		2,110		(8,802)		-
Dividend, interest and securities lending income	109,721		65,179		322,566		102,839
<b>Total income</b>	<b>3,036,541</b>		<b>241,273</b>		<b>7,168,420</b>		<b>802,687</b>
Management fees	(208,271)		(175,866)		(589,876)		(445,963)
Withholding taxes, GST/HST and transactions cost	(22,741)		(4,695)		(69,063)		(5,419)
Other expenses	(74,550)		(97,494)		(289,528)		(328,868)
<b>Total expenses</b>	<b>(305,562)</b>		<b>(278,055)</b>		<b>(948,467)</b>		<b>(780,250)</b>
Net income (loss) before income taxes	2,730,979		(36,782)		6,219,953		22,437
Income tax (recovery)	-		-		-		-
<b>Net comprehensive income</b>	<b>\$ 2,730,979</b>	\$	<b>(36,782)</b>	\$	<b>6,219,953</b>	\$	<b>22,437</b>
Management expense ratio	2.96%		3.44%		3.22%		4.20%
Trading expense ratio	0.06%		0.01%		0.19%		0.02%

**Financial performance for the three months ended September 30, 2020**

Highlights of the factors contributing to Pender's investment performance in the three months ended September 30, 2020 are presented in the "Portfolio of Investments" section of this MD&A.

**(a) Net realized gain (loss)**

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

During the three months ended September 30, 2020, net realized gain on investments was \$2,949,137 (September 30, 2019 – net realized gain \$125,405), attributable to the divestment of the shares of CloudMD Software & Services Inc. Inc. and Newtopia Inc., and the partial divestment of various publicly listed Portfolio Companies. Please see the detailed discussion in the "Portfolio of Investments" section of this MD&A.

**(b) Change in net unrealized gain (loss)**

Change in net unrealized gains and losses on investments are the result of changes in the value of Portfolio Companies held throughout the period, as well as the sale of holdings of Portfolio Companies. They are generally not comparable between periods because the investments that comprise the portfolio generally change each period.

During the three months ended September 30, 2020, Pender's net change in unrealized loss on investments was \$22,333 (September 30, 2019 – gain of \$48,579) due to increases in the traded prices of many of Pender's publicly listed Portfolio Companies, net of a decrease in valuation of one private unlisted Portfolio Company.

(c) Foreign exchange gain (loss)

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 three months ended September 30, 2020, Pender incurred a foreign exchange gain of \$16 (September 30, 2019 – gain of \$2,110). At present, 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.

(d) Dividend, interest and securities lending income

The Company may earn dividends, interest on its investments in securities, interest on its cash balances, and/or income from securities lending. The Company earned \$109,721 of dividend, interest and securities lending income during the three months ended September 30, 2020 (September 30, 2019 - \$65,179 of interest income). The increase is primarily due to dividend income from Diversified Royalty Corp., Sylogist Ltd., Ebix, Inc. and ADF Group Inc., interest income from the convertible debentures of Siyata Mobile Inc. and Clarius Mobile Health Corp.

(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. On May 1, 2019, a new management fee rate reduced the management fee from an effective rate of 2.50% of Net Assets, to 2.50% on the first \$15 million of Net Assets and 1.75% on Net Assets over \$15 million.

During the three months ended September 30, 2020, the increase in management fees paid by the Company reflected the increase in the level of Net Assets. The \$208,271 management fee expense in the three months ended September 30, 2020 was \$32,405 higher than the fee of \$175,866 paid for the three months ended September 30, 2019.

(f) Management Expense Ratio

The MER is an annualized percentage calculated by dividing the total of all expenses of the Company, other than commissions and other portfolio transaction costs, by the average Net Assets. The 2.96% MER for the three months ended September 30, 2020 was 0.48% lower than the 3.44% MER for the 3 months ended September 30, 2019.

(g) 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 period. 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 three months ended September 30, 2020 is 0.06% (September 30, 2019 – 0.01%), reflecting the fact that there were more portfolio transactions during the period than the same period last year.

**Financial performance for the nine months ended September 30, 2020**

Highlights of the factors contributing to Pender's investment performance in the nine months ended September 30, 2020 are presented in the "Portfolio of Investments" section of this MD&A.

**(a) Net realized gain (loss)**

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 nine months ended September 30, 2020, the net realized gain on investments was \$3,982,097 (September 30, 2019 – net realized loss \$115,223), attributable to the divestment of shares of BasicGov Systems, Inc., Crown Capital Partners Inc., CloudMD Software & Services Inc., Newtopia Inc., and partial divestment of holdings of Alcanna Inc., Diversified Royalty Corp., Dye & Durham Limited, Ebix, Inc., Photon Control Inc., Quorum Information Technologies Inc., Sangoma Technologies Corporation and Sylogist Ltd. Individual Portfolio Companies are discussed in the "Portfolio of Investments" section of this MD&A.

**(b) Net unrealized gain (loss)**

Net unrealized gains and losses on investments are the result of changes in the value of Portfolio Companies held throughout the period, as well as 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 nine months ended September 30, 2020, Pender's net change in unrealized gain on investments was \$2,872,559 (September 30, 2019 – gain of \$815,745), primarily as a result of an increase in the traded prices of many of Pender's publicly listed Portfolio Companies.

**(c) Foreign exchange gain (loss)**

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 nine months ended September 30, 2020, Pender incurred a foreign exchange loss of \$8,802 (September 30, 2019 - a loss of \$674). At present, 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.

**(d) Dividend, interest and securities lending income**

The Company may earn dividends, interest on its investments in securities, interest on its cash balances, and/or income from securities lending. The Company earned \$322,566 of dividend, interest and securities lending income during the nine months ended September 30, 2020 (September 30, 2019 - \$102,839 of interest income). The increase is due to dividend income from Diversified Royalty Corp., Sylogist Ltd., Ebix, Inc. and ADF Group In and Crown Capital Partners Inc., interest income from the convertible debentures of Siyata Mobile Inc. and Clarius Mobile Health Corp. and bank interest.

**(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.

During the nine months ended September 30, 2020, the increase in management fees paid by the Company reflected the increase in the level of Net Assets. The increase in Net Assets was the result of performance in the 2020 year to date as well as secondary offering of Class C shares in second quarter of 2019 described in the "Shareholder Activity" section of this MD&A.

A new management fee rate schedule came into effect on May 1, 2019, reducing the management fee from an effective rate of 2.50% of Net Assets, to 2.50% on the first \$15 million of Net Assets and 1.75% on Net Assets over \$15 million.

The net impact of these changes was an increase in the management fee expense for the nine months ended September 30, 2020 as compared to the same period in 2019. The \$589,876 management fee expense in the nine months ended September 30, 2020 was \$143,913 higher than the fee of \$445,963 paid in the nine months ended September 30, 2019.

(f) Management Expense Ratio

The MER is an annualized percentage calculated by dividing the total of all expenses of the Company (other than commissions and other portfolio transaction costs) by the average Net Assets. The MER for the nine months ended September 30, 2020 was 3.22%, which is 0.98% lower than the 4.20% MER during the 9 months ended September 30, 2019. This is primarily due to the increase in the average value of Net Assets upon completion of the secondary offering of Class C described in the "Shareholder Activity" section of this MD&A.

(g) 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 period. 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 nine months ended September 30, 2020 is 0.19% (September 30, 2019 - 0.02%), reflecting the fact that there were more portfolio transactions this year than 2019.

## Financial Highlights

	2020 Q3 (3 months)	2019 Q3 (3 months)	2019	2018	2017
<b>Net Assets per Share (Note 1)</b>					
Net Assets per Share (beginning of period)	\$4.66	\$3.94	\$4.14	\$4.49	\$4.34
<b>Increase (decrease) from operations:</b>					
Total revenue	0.01	0.00	0.09	0.00	0.00
Total expenses	(0.04)	(0.03)	(0.16)	(0.18)	(0.19)
Realized gains (losses)	0.38	0.02	0.09	0.00	0.17
Unrealized gains (losses)	0.00	0.00	0.29	(0.17)	0.17
<b>Total increase (decrease) from operations</b>	<b>0.35</b>	<b>(0.01)</b>	<b>0.31</b>	<b>(0.35)</b>	<b>0.15</b>
Distributions:					
From income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
<b>Total annual distributions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Assets per Share (end of period)</b>	<b>\$5.03</b>	<b>\$3.93</b>	<b>\$4.19</b>	<b>\$4.14</b>	<b>\$4.49</b>
<b>Ratios and Supplemental Data</b>					
Total net asset value (\$000s)	\$39,112	\$31,793	\$33,833	\$17,205	\$18,631
Number of shares outstanding	7,770,129	8,083,329	8,083,329	4,152,545	4,152,545
Closing market price	\$3.20	\$3.44	\$3.75	\$3.10	\$4.55

**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

	September 30, 2020	December 31, 2019
<b>Assets</b>		
Cash	\$ 3,900,734	\$ 8,199,875
Divestment proceeds receivable	667,631	-
Interest receivable	61,749	491,123
Prepaid expenses	7,214	4,546
Share repurchase receivable	5,454	-
Dividend receivable	5,227	-
Other receivable	12	73
Investments	34,685,597	25,345,146
<b>Total assets</b>	<b>39,333,618</b>	<b>34,040,763</b>
<b>Liabilities</b>		
Due to related parties	97,821	105,753
Accounts payable and accrued liabilities	71,927	100,815
Payable for investments purchased	52,234	1,178
<b>Total liabilities</b>	<b>221,982</b>	<b>207,746</b>
<b>Shareholders' equity</b>	<b>\$ 39,111,636</b>	<b>\$ 33,833,017</b>

## (a) Investments

As at September 30, 2020, Pender's investments of \$34,685,597 comprised publicly listed Portfolio Companies valued at \$19,568,642 and private, unlisted Portfolio Companies valued at \$15,116,955. The increase of \$9,340,451 from the investments balance at December 31, 2019 is a result of the deployment

of capital into investments in two private Portfolio Companies and thirteen publicly listed Portfolio Companies new to the portfolio and the purchase of additional shares of existing Portfolio Companies, offset by the divestment of shares of certain private and publicly listed Portfolio Companies, and by the net change in unrealized appreciation of publicly listed Portfolio Companies. Please refer to the “Recent Developments” section of this MD&A as well as the “Portfolio of Investments” section for a discussion of the Company’s investments and significant factors that affected them in the nine months ended September 30, 2020.

(b) Cash

Pender typically holds cash balances to invest in securities and pay expenses. Cash balances are monitored daily by the Manager. The \$3,900,734 cash balance at September 30, 2020 was \$4,299,141 less than the \$8,199,875 balance at December 31, 2019. This decrease in cash was due to the deployment of capital into investments in securities of private and publicly listed Portfolio Companies new to the portfolio, offset by the divestment of shares of certain private and publicly listed Portfolio Companies, and the payment of expenses and accounts payable.

(c) Divestment proceeds receivable

During the nine months ended September 30, 2020 the Company recorded a balance of \$667,631 relating to divestment proceeds receivable from the disposition of the shares of BasicGov Systems, Inc. (September 30, 2019 - Nil).

(d) Interest Receivable

The \$61,749 interest receivable balance relates to interest on convertible debentures issued to two Portfolio Companies.

(e) Due to related parties

The \$97,821 balance due to related parties as at September 30, 2020 comprises management and administration fees owed to the Manager and third-party expenses paid by the Manager on behalf of the Company. This balance will change during any period as a result of the timing of payments and the change in fees and other expenses due to the Manager. During the nine months ended September 30, 2020 the balance decreased by \$7,932 from the prior year-end balance of \$105,753, as management fees and other operating expenses due to the Manager that had accumulated during 2019 were paid in the period.

(f) 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 nine months ended September 30, 2020, this balance decreased by \$28,888 to \$71,927, as accounts payable and accrued expense amounts that had accumulated during 2019 were paid in the period.

(g) Shareholders’ equity

Shareholders’ equity represents the equity in the Company owned by the holders of the 7,770,129 non-redeemable Class C common shares outstanding as at September 30, 2020 (December 31, 2019 - 8,083,329). The decrease of 313,200 Class C Common Shares in the nine-month period reflects shares repurchased under NCIB described in “Recent Developments”.

### Cash Flows

For the nine months ended September 30, 2020, Pender's cash balance decreased by \$4,299,141, primarily due to the deployment of capital into publicly listed and private, unlisted Portfolio Companies, the payment of expenses and accounts payable and share repurchases, partially offset by the disposition of shares of certain private and publicly listed Portfolio Companies, as described under "Recent Developments".

### Shareholder Activity

During the nine months ended September 30, 2020, the Company repurchased 313,200 shares under the NCIB described in the "Recent Developments" section of this MD&A, reducing the outstanding shares from 8,083,329 at the prior year end to 7,770,129 at the end of Q3.

On May 10, 2019, the Company completed a secondary offering of Class C shares on the TSXV for aggregate proceeds of \$15,015,000. On May 24, 2019, the Company announced the syndicate of agents had exercised their option to purchase over-allotment shares which brought the total gross proceeds from the offering to \$15,330,058. The secondary offering resulted in underwriting fees of \$433,075 and other offering expenses of \$332,155, for total net proceeds of \$14,564,828. As a result of the secondary offering, 3,930,784 Class C shares were issued, which increased total outstanding Class C shares to 8,083,329 as at December 31, 2019. The Company used the net proceeds for working capital purposes and to invest in public and private investment opportunities, in accordance with the Company's investment strategies.

On July 24, 2019, at the annual general and special meeting, the shareholders approved a special resolution under the *Business Corporations Act* (British Columbia) altering the authorized share structure of the company to (a) create a new class of preferred shares issuable in series; (b) delete the Class B Convertible Non-Participating shares and the Class R Senior Participating Redeemable Convertible Preference Shares, none of which were issued and outstanding; and (c) to alter the Articles of the Company to remove references to the Class R shares from the special rights and restrictions of the Class C Shares.

More information about the formation and history of the Company is available in its Annual Information Form dated April 29, 2020.

## 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.

	2020		2020		2020		2019	
	Q3		Q2		Q1		Q4	
Net realized gain (loss)	\$	2,949,137	\$	437,666	\$	595,295	\$	706,480
Change in net unrealized gain (loss)		(22,333)		4,195,453		(1,300,561)		1,108,024
Foreign exchange gain (loss)		16		(10,053)		1,236		(6,912)
Dividend, interest and securities lending income		109,721		120,517		92,327		532,102
<b>Total income</b>		<b>3,036,541</b>		<b>4,743,583</b>		<b>(611,703)</b>		<b>2,339,694</b>
Management fees		(208,271)		(192,690)		(188,914)		(187,536)
Withholding taxes, GST/HST and transactions cost		(22,741)		(18,187)		(28,136)		(17,321)
Other expenses		(74,550)		(90,088)		(124,889)		(94,393)
<b>Total expenses</b>		<b>(305,562)</b>		<b>(300,965)</b>		<b>(341,939)</b>		<b>(299,250)</b>
<b>Net income (loss) before income taxes</b>		<b>2,730,979</b>		<b>4,442,618</b>		<b>(953,642)</b>		<b>2,040,444</b>
<b>Income tax (recovery)</b>		<b>-</b>		<b>-</b>		<b>-</b>		<b>-</b>
<b>Net comprehensive income</b>	<b>\$</b>	<b>2,730,979</b>	<b>\$</b>	<b>4,442,618</b>	<b>\$</b>	<b>(953,642)</b>	<b>\$</b>	<b>2,040,444</b>
<b>Net Assets per Share (beginning of period)</b>	<b>\$</b>	<b>4.66</b>	<b>\$</b>	<b>4.08</b>	<b>\$</b>	<b>4.19</b>	<b>\$</b>	<b>3.93</b>
<b>Net Assets per Share (end of period)</b>	<b>\$</b>	<b>5.03</b>	<b>\$</b>	<b>4.66</b>	<b>\$</b>	<b>4.08</b>	<b>\$</b>	<b>4.19</b>

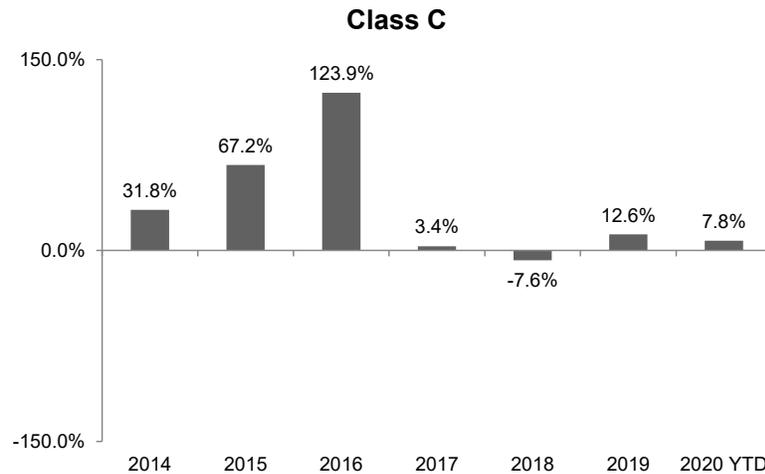
  

	2019		2019		2019		2018	
	Q3		Q2		Q1		Q4	
Net realized gain (loss)	\$	125,405	\$	(240,628)	\$	-	\$	-
Change in net unrealized gain (loss)		48,579		156,049		611,116		(223,683)
Foreign exchange gain (loss)		2,110		(1,340)		(1,445)		12,825
Dividend, interest and securities lending income		65,179		37,633		28		1,020
<b>Total income</b>		<b>241,273</b>		<b>(48,286)</b>		<b>609,699</b>		<b>(209,838)</b>
Management fees		(175,866)		(155,762)		(114,335)		(114,483)
Withholding taxes, GST/HST and transactions cost		(4,695)		(725)		-		-
Other expenses		(97,494)		(120,643)		(110,729)		(65,883)
<b>Total expenses</b>		<b>(278,055)</b>		<b>(277,130)</b>		<b>(225,064)</b>		<b>(180,366)</b>
<b>Net income (loss) before income taxes</b>		<b>(36,782)</b>		<b>(325,416)</b>		<b>384,635</b>		<b>(390,204)</b>
<b>Income tax (recovery)</b>		<b>-</b>		<b>-</b>		<b>-</b>		<b>-</b>
<b>Net comprehensive income</b>	<b>\$</b>	<b>(36,782)</b>	<b>\$</b>	<b>(325,416)</b>	<b>\$</b>	<b>384,635</b>	<b>\$</b>	<b>(390,204)</b>
<b>Net Assets per Share (beginning of period)</b>	<b>\$</b>	<b>3.94</b>	<b>\$</b>	<b>4.24</b>	<b>\$</b>	<b>4.14</b>	<b>\$</b>	<b>4.24</b>
<b>Net Assets per Share (end of period)</b>	<b>\$</b>	<b>3.93</b>	<b>\$</b>	<b>3.94</b>	<b>\$</b>	<b>4.24</b>	<b>\$</b>	<b>4.14</b>

**PAST PERFORMANCE**

To illustrate how the Company’s performance has varied over time, the following bar chart shows the Company’s performance for the nine months ended September 30, 2020 and for each of the previous 12 months ended December 31. 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 monthly reported net asset value (“Reported NAV”) and is not based on its market price on the TSXV. It should also be noted that total shareholders’ equity which is calculated under IFRS for financial reporting purposes may be different from the Reported NAV. In addition, the information does not take into account sales, redemptions, distributions, income taxes payable or other charges that would have reduced returns or performance. Finally, 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. Refer to the “Reporting Regime” section of this MD&A for additional details.



**SUMMARY OF INVESTMENT PORTFOLIO**

Pender's largest Portfolio Company holdings as at the end of the period 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 Condensed Interim Financial Statements.

**Summary of Top 25 Holdings**

	<b>% OF NET ASSETS</b>
Private unlisted companies*	38.7
ProntoForms Corporation	6.3
Sangoma Technologies Corporation	5.0
Quorum Information Technologies Inc.	4.4
Spartan Delta Corp.	4.1
Alcanna Inc.	3.5
Diversified Royalty Corp.	3.0
GreenSpace Brands Inc.	2.8
Ebix, Inc.	2.7
Sylogist Ltd.	2.7
Leaf group Ltd.	2.6
Siyata Mobile Inc.	2.4
Dye & Durham Limited	2.2
MAV Beauty Brands Inc.	2.2
ADF Group Inc.	1.6
AgJunction Inc.	1.3
Vigil Health Solutions Inc.	1.2
Photon Control Inc.	1.1
Redline Communications Group Inc.	0.5
TIMIA Capital Corp.	0.3
Else Nutrition Holdings Inc.	0.1

**Summary of Composition of the Portfolio**

	<b>% OF NET ASSETS</b>
Software and services	33.4
Information technology	30.6
Consumer staples	8.7
Consumer discretionary	5.5
Energy	4.1
Technology hardware and equipment	3.3
Materials	1.6
Health care	1.2
Diversified financial	0.3
<b>TOTAL INVESTMENTS</b>	<b>88.7</b>
Cash	10.0
Other assets less liabilities	1.3
<b>TOTAL NET ASSETS</b>	<b>100.0</b>

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

**COMMON SHARES**

3760073 Canada Corporation (Formerly Navarik Corp.)  
Copperleaf Technologies Inc.  
one45 Software Inc.

**PREFERRED SHARES**

Checkfront, Inc.  
Copperleaf Technologies Inc., Class A, Convertible  
DWSI Holdings Inc., Class A (Formerly D-Wave Systems Inc.)  
Tantalus Systems Corp., Class D, Convertible

**CONVERTIBLE DEBENTURES**

Clarius Mobile Health Corp., 8%, 12/31/2023

**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 September 30, 2020 the Company had 7,770,129 Class C Shares outstanding.

**TRANSACTIONS BETWEEN RELATED PARTIES**

As at September 30, 2020, the Manager, directors and officers of the Company directly and/or indirectly held 8.6% of the Company's Class C Shares. The aggregate investment by the Company's directors and officers in all investee companies did not exceed 1.0% of the any investee 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 \$15,000,000. Prior to that date, the management fee paid to the Manager was equal to 2.50% of the value of Net Assets up to \$50,000,000 and 2.00% of the value of Net Assets in excess of \$50,000,000. The management fee is calculated and paid monthly. The management fee expense is \$589,876 for the nine months ended September 30, 2020.

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 Net Assets above an annual hurdle rate of 6%. The performance fee is calculated on an annual basis and is subject to a highwater 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, the highwater mark will not be reset other than to be adjusted in the event of a subdivision or consolidation of the shares. No performance fee was paid in respect of the nine months ended September 30, 2020 and 2019.

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

**LIQUIDITY AND CAPITAL RESOURCES**

As at September 30, 2020, the Company was in a strong liquidity position, with cash of \$3,900,734 comprising 10.0% of the value of its Net Assets, and investments in publicly traded securities of \$19,568,642 or 47.6% of the value of its Net Assets .

Should the future composition of its portfolio be weighted significantly more toward private 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 note 10 of the Condensed Interim 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 which 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 contracts. The availability of observable market prices and model inputs reduces the need for management judgment and estimation, and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

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 fund trading and transaction multiples, where applicable; and other pertinent considerations. Adjustments to the carrying value of the investments may also be determined by the Manager when there is pervasive and objective evidence of a decline in the value of the investment, as indicated by an assessment of the financial condition of the investment based on operational results, forecasts and/or other developments since acquisition.

Significant unobservable inputs are developed as follows:

(i) Enterprise value:

Enterprise Value represents the amount that market participants would pay when purchasing the Portfolio Company. The Manager determines this value based on comparable arm's length transactions in shares of the applicable comparable entity, on revenue multiples, or other valuation methods as appropriate.

(ii) 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 and may be further discounted for considerations such as the lack of marketability and other differences between the comparable peer group and the specific Portfolio Company.

There are risks associated with holding securities that are not publicly traded. It may be relatively difficult for the Company to dispose of its investment in a private Portfolio Company rapidly at favourable prices in connection with 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.

### **CHANGES IN ACCOUNTING POLICIES**

The Company has determined there were no changes in accounting policy for the nine months ended September 30, 2020.

### **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.

# PENDER

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](http://www.penderfund.com)**