**MANAGEMENT'S DISCUSSION & ANALYSIS**

# PENDER GROWTH FUND INC.

Year ended December 31, 2020

PENDER

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## INTRODUCTION

This Management's Discussion and Analysis ("MD&A") dated April 7, 2021 presents a review of the financial results for Pender Growth Fund Inc. ("Pender" or the "Company") for year ended December 31, 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 audited financial statements and the notes thereto for the year ended December 31, 2020 (the "Annual Audited Financial Statements"). All amounts shown in this MD&A are presented in Canadian dollars unless otherwise specified.

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

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

### Caution Regarding Forward-Looking Statements

This MD&A 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 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 December 31, 2020 and December 31, 2019 is presented in the following table:

| Net Assets | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Assets | $ 48,429,247 | $ 34,040,763 |
| LESS: Liabilities | 1,175,057 | 207,746 |
| EQUALS Net Assets | $ 47,254,190 | $ 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 December 31, 2020 and December 31, 2019 is presented in the following table:

| Net Assets per Share | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Assets | $ 48,429,247 | $ 34,040,763 |
| LESS: Liabilities | 1,175,057 | 207,746 |
| EQUALS Net Assets | $ 47,254,190 | $ 33,833,017 |
| DIVIDED BY Number of Shares Outstanding | 7,740,129 | 8,083,329 |
| EQUALS Net Assets per Share | $ 6.11 | $ 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 under 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 a concentrated portfolio of securities of both public and private companies (each a "Portfolio Company"). In its quest for long-term capital appreciation, the Manager thoroughly evaluates the long-term business prospects of each potential Portfolio Company and works to understand its current value as well as its value over the long-term investment horizon. This long-term focus is a primary factor in Pender's investment strategy, regardless of whether a Portfolio Company is publicly listed or private. Pender may also invest in special situations, for example, using available cash to take advantage of opportunities with attractive internal rates of return. Pender's strategy is to buy securities that it believes are mispriced and that have the potential to compound capital, either through the convergence from current market price to intrinsic value or through the growth of intrinsic value over time, or through a combination of both.

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

**Risk Factors**

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

In 2020, 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 by fiscal and monetary stimulus and by measures taken to reopen world economies, the situation has affected, and may continue to affect, many businesses, including those of some 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.

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

Private Companies, by their nature, will generally lack liquidity and involve a longer than usual investment time horizon. Although M&A markets showed signs of reviving recently, M&A activity was at a very low level in 2020, with few exits, and an extension of holding periods for private equity investments, as sellers continued to wait for the uncertainty resulting from the global pandemic to be resolved.

Private companies comprise 34.6% 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. Losses are typically realized before gains, and Pender may be required to dispose of Portfolio Companies before any returns are realized.

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

Reference is made herein to the Company's proposed acquisition of all of the outstanding shares of Working Opportunities Fund (EVCC) Ltd. under of a plan of arrangement, subject to certain terms and conditions. This proposed transaction remains subject to conditions and there can be no assurance that the proposed transaction will be completed on the proposed terms, if at all. In addition, even if the proposed transaction completes, there can be no assurance that it will be ultimately beneficial to the Company.

Other risks include the relatively high proportion of early-stage technology company investments in the portfolio, industry concentration and the relatively small 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 may significantly impact the liquidity of those shares. The Net Assets per Share of the Class C Shares fluctuates with the Net Assets per Share of the Company. Even if an active trading market for Class C Shares is available, the market price of such shares may not enable shareholders to dispose of their shares at a reasonable price relative to the Net Assets per Share of the shares.

The risks associated with an investment in Pender are more fully described in its Annual Information Form dated 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 COVID-19, a novel strain of the coronavirus, 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.

We cannot control stock prices or volatility. However, we can and do control our disciplined investment process. As we run a concentrated investment portfolio, we only need to hold a relatively small number of good companies acquired at a good price to drive performance. We continue to look for best ideas, those that we think will benefit from the tailwinds caused by changes in behaviours, that could be potential disruptors or leaders on the other side of the global crisis, and that trade at significant discounts to intrinsic values.

Global markets seem to be on a recovery path in general and we are pleased to see private technology companies from within our portfolio having the opportunity to go public. In May, our Portfolio Company

Newtopia Inc. successfully completed a listing on the TSXV. In November, Tantalus Systems Corp., another Portfolio Company, announced that that it had entered into a definitive agreement to complete a going public transaction.

We are long-term, high-conviction investors but when conditions arise we will take advantage of short-term ‘close-the-discount’ opportunities, such as those in the IPO markets later in 2020.

During the year ended December 31, 2020, Pender sold BasicGov Systems Inc., a private Portfolio Company and added three private Portfolio Companies to its portfolio. The Company also added numerous publicly listed Portfolio Companies to the portfolio and sold publicly listed Portfolio Companies when they reached our estimate of intrinsic value. Highlights of the Portfolio Companies are presented in the “Portfolio of Investments” section.

We continue to work with our core positions, aiming to help these Portfolio Companies build their intrinsic value over the long-term. During 2020, this included actively working with the 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 year ended December 31, 2020, the Company acquired its own shares in the market under the Normal Course Issuer Bid (the “NCIB”) that was launched on February 10, 2020. Under TSXV policies, during the one year term of the NCIB, the Company was entitled to purchase a maximum of 743,087 Shares, or 10% of the Company’s public float on launch date. During the year ended December 31, 2020, the Company bought back at total of 343,200 shares at an average price of $3.07. From January 1, 2021 to the expiry of the NCIB on February 9, 2021, the Company did not repurchase any additional shares. A total of 343,200 shares was repurchased under NCIB in one-year period at an average price of $3.07.

On February 11, 2021, the Company launched a new NCIB, under which the Company may purchase a maximum of 700,866 shares, or 10% of the Company’s public float on launch date, in the year ending February 11, 2022.

On April 6, 2021, the Company entered into a definitive agreement (the “Arrangement Agreement”) for the acquisition of all of the issued and outstanding shares of Working Opportunities Fund (EVCC) Ltd. (“WOF”) under of a plan of arrangement, subject to certain terms and conditions (the “Proposed Transaction”). The Proposed Transaction represents a unique opportunity for Pender to acquire an investment entity that holds a portfolio of good companies in the private technology space, our sector of expertise.

Long-term committed capital is one of the key requirements for building a great technology sector and Pender has been investing in and supporting companies in this sector since 2000, Pender has invested in Portfolio Companies alongside WOF from time-to-time over the years and in fact, the WOF portfolio includes an investment in Copperleaf, one of our existing Portfolio Companies.

The Proposed Transaction, if it closes, would also present WOF shareholders with liquidity options, while allowing Pender to provide ongoing support to the WOF portfolio companies. This would allow them to continue to execute on their strategic plans without the disruption of a change in direct ownership. Pender’s aim would be to support their development and growth toward potential exits when and where possible.

WOF has two types of Class A shares: Venture Series and Commercialization Series. Under the Proposed Transaction, the Company would acquire all Commercialization Series shares in exchange for a cash payment equal to the greater of 50% of the NAV per Commercialization Series share on the day before the closing of the Proposed Transaction, and 75% of the BuildDirect.com Technologies Inc. ("BuildDirect") subscription receipt financing price, if that financing is completed by the Proposed Transaction closing date, and Venture Series shareholders would sell their shares for a cash payment equal to 43.5% of the NAV per Venture Series share on the day prior to the date of the Arrangement Agreement (subject to a +/– 5% adjustment based upon the per share NAV of the Venture Series portfolio as at the end of the business day immediately prior to the closing of the Proposed Transaction) or could elect to continue to hold their Venture Series shares and maintain their pro rata participating position in the Venture Series portfolio. It is anticipated that the WOF will distribute any excess cash, if any, to the WOF shareholders as a dividend just prior to closing.

Shareholders who elect to sell their Venture Series shares to the Company ("Exiting Shareholders") have a limited and conditional right to an additional cash payment from the Company based on a percentage share of the net gains on carrying values at the effective date from divestment activity in the Venture Series portfolio before May 18, 2022, specifically, (a) if a divestment completes on or before November 18, 2021, Exiting Shareholders will receive their pro rata portion of 60% of the net gain; (b) if a divestment completes on or before February 18, 2022, Exiting Shareholders will receive their pro rata portion of 45% of the net gain; and (c) if a letter of intent, term sheet or binding agreement for a divestment is entered into on or before February 18, 2022 and such divestment is subsequently completed by May 18, 2022, Exiting Shareholders will receive their pro rata entitlement of 20% of to the net gain.

Pender and WOF are both managed by the Manager. Given the actual and perceived conflict, in addition to requiring approval of the Proposed Transaction by the WOF IRC, the special committee of the WOF board of directors engaged an independent qualified person to provide a fairness opinion that the Proposed Transaction is fair from a financial point of view to WOF's shareholders.

Pursuant to the terms of the Arrangement Agreement, the Proposed Transaction is subject to a number of conditions to closing, including approval of the Supreme Court of British Columbia, regulators, and shareholders, among others. There can be no assurance that the Proposed Transaction will be completed on the basis proposed or at all.

**Outlook**

Stock markets experienced a strong rebound in the latter part of 2020. Greater visibility into a post pandemic world seems to be on the horizon as the development and availability of vaccines and therapeutics progress. Joe Biden's election as the 46$^{th}$ President of the United States was also considered constructive by investors in its potential to reduce uncertainty.

M&A markets show good signs of recovery and strong pent-up demand. 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 going public, and we are looking to partner with other companies as they take steps to go public.

We are cautiously optimistic, but we remain fully aware that potential volatility is still on the horizon. COVID-19 is negatively impacting economies around the world, including those in which our private Portfolio Companies do business.

We have evaluated the potential impact of COVID-19 on each of our private Portfolio Companies and more information continues to become available as they continue to respond to the challenges and opportunities in the current market. Certain industries, like tourism and airlines, have been hard hit over the short-term and it is likely that it will take some time for them to rebound.

We are patient investors and continue to work closely 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 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**

As long-term, high-conviction investors, we nevertheless also try to take advantage of short-term close the discount opportunities where it makes sense to do so.

During the year ended December 31, 2020, we added three new private Portfolio Companies to the portfolio, Checkfront, Inc., Clarius Mobile Health Corp. and BuildDirect.com Technologies Inc. We also added numerous publicly listed Portfolio Companies, notable among which were: Inscape Corporation, GreenSpace Brands Inc., Spartan Delta Corp., and Dye and Durham Limited.

During the year, Pender sold BasicGov Systems Inc., a private Portfolio Company, as well as a number of publicly listed Portfolio Companies, including: Alcanna Inc., Diversified Royalty Corp., Ebix, Inc., and Leaf Group Ltd. As at December 31, 2020, the weight of our Portfolio Company holdings was 95.6% of Net Asset Value, an increase of 20.7% from December 31, 2019, as a result of our having deployed more capital into both existing positions and companies new to the portfolio.

Pender's Net Assets as at December 31, 2020 comprised securities of publicly listed companies (61.0%) and private companies (34.6%), with cash and other assets making up the remainder (4.4%). The significant trends and events for Pender's Portfolio Companies in the year ended December 31, 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**

one45 Software Inc. ("One45") is a software-as-a-service ("SaaS") provider of data management software to medical and other healthcare professional schools.

During 2020, One45 continued to close sales of its new product, One45 Analytics. With this new product, One45 provides healthcare education organizations with a full-featured data warehouse with advanced analytics. One45 funded the development of One45 Analytics with its own cash flow, and it managed to do so while still maintaining a strong balance sheet. The company continues to make steady progress with One45 Analytics, with revenue from several customers and a growing sales pipeline.

**Tantalus Systems**

Tantalus Systems Corp. (“Tantalus”) provides Smart Grid communications technology that 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 Q4 2020, Tanatalus announced that it entered into a definitive agreement with RiseTech Capital Corp. (TSXV: RTCC.P) (“RiseTech”) to complete a going public transaction. In connection with this announcement, Tantalus announced that it closed an $8.8 Million offering.

The transaction closed in February 2021 and the company commenced trading on the TSXV under the symbol “GRID.” Tantalus’ board and management team remain in place to lead the combined company, which will continue to focus on delivering innovative smart grid solutions to electric, water and gas utilities. This initiative enables the team at Tantalus to pursue a range of strategies with the potential to accelerate growth. We are pleased to see a private technology company from within our current portfolio having the opportunity to go public.

**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 Q4 2020, Copperleaf announced the selection of its C55 Decision Analytics solution by Chubu Electric Power, one of Japan's largest electric transmission and distribution companies. Chubu Electric Power is recognized as a thought leader in the energy industry and this partnership is key to Copperleaf's growth plans in Asia Pacific and Japan. This partnership 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 Corp. (Formerly Navarik Corp.)**

In September 2020 Velo Software Group, an operating group of Constellation Software, announced the acquisition of one of the Company's long-term holdings, 3760073 Canada Corp. ("Navarik"), a provider of on-demand software services that automates shipping logistics and physical trade operations in global crude oil, refined products and bulk commodities. The acquisition was an asset purchase for all cash consideration. The company is now inactive, and we continue to hold Navarik to receive and distribute a further potential holdback and/or earnout payments. We congratulate the Navarik team and wish them well as they began operating as an independent business unit within Velo Software Group.

**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 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 Q4 2020 Clarius announced that its solution is now available for high resolution cardiac imaging, which represents an additional growth opportunity for the company.

**Checkfront**

Checkfront, Inc. ("Checkfront") develops cloud-based booking management application and e-commerce platforms for tour providers, accommodation managers, and rental businesses in Canada and internationally. The Checkfront platform helps businesses manage their inventories, centralize reservations and process payments. 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.

**BuildDirect**

BuildDirect.com Technologies Inc. ("BuildDirect") is a Vancouver-based company that developed a technology platform to make buying and delivery of flooring simple and stress free. It is experiencing significant growth with its ecommerce business targeted towards repeat pro builders based in the United States. At the end of Q4 we invested in BuildDirect to help position the company for further growth.

**Publicly listed Companies**

During the year ended December 31, 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 year ended December 31, 2020. We then highlight some of the new publicly listed companies added to the portfolio over the year ended December 31, 2020.

Key positive individual contributors to the Company's performance for the year included Dye & Durham Limited (TSX:DND), Inscape Corporation (TSX:INQ) and Wishpond Technologies (TSXV:WISH).

On the flip side, the portfolio saw some of its publicly listed Portfolio Company holdings incur losses during the year ended December 31, 2020. Quorum Information Technologies Inc., Crown Capital Partners Inc, and BBTV Holdings Inc. were some of the key detractors.

Portfolio transactions during the year were made based on our stock selection process. In general, we increased weightings of individual stocks where we determined the margin of safety had increased and decreased their weightings as their traded market values moved closer to our estimates of their intrinsic values. We are constantly looking for new investment ideas and, we added 17 public company holdings to the portfolio during the year ended December 31, 2020. Below we discuss highlights a few new investments briefly, in alphabetical order.

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. DND completed its IPO in July at $7.50. Stock prices have been rising steadily since and ended the year at $50.52. Our position in DND generated realized and unrealized gains totaling $3.2 million and was one of the top positive contributors to the Company's performance during the year ended December 31, 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 resulted in an unsustainable level of 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, we invested a further $1.5M in March 2020 and $2.1M in December 2020 in this Portfolio Company.

Inscape Corporation (TSX:INQ)

Inscape Corporation ("Inscape") is a manufacturer of commercial office furniture and wall products. In October 2020, Pender Growth Fund entered into a share purchase agreement with major shareholders of Inscape: Bhayana Management Ltd. and The Madan and Raksha M. Bhayana Family Foundation. Pursuant to that agreement, in November 2020, the Company completed the purchase of a total of 6,886,981 Class B Subordinated Voting Shares at a price of $0.65 per share. On closing, The Company and other funds managed by the Manager hold in aggregate 7,927,321 Subordinated Voting Shares, or approximately 55.12% of the total issued and outstanding Subordinated Voting Shares of Inscape (calculated on a non-diluted basis). Of this amount, 47.89% is held by the Company.

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.

**Portfolio Turnover**

The Company's portfolio turnover was 71.4% during the year ended December 31, 2020 (December 31, 2019 – 17.9%). This increase in turnover in the current year reflects the high level of activity undertaken as we took the opportunity to maximize the return on our public investments during the abnormal volatility in the stock markets. The portfolio turnover rate is calculated based on the lesser of purchases and proceeds of sales of securities during a year as a percentage of the average value of the Company's investments in that year. In general, lower turnover rates result in lower trading costs and may reduce realized capital gains and losses. On the other hand, while the portfolio turnover rate is not necessarily related to performance there are scenarios, such as those we saw in 2020, where the higher turnover rate may translate into higher returns overall mitigating the impact of the additional fees. In 2020, Pender's return on its investment portfolio was 30%.

## OVERALL PERFORMANCE AND DISCUSSION OF OPERATIONS

As long-term, high-conviction investors, our goal is to create long-term capital appreciation for our investors, continuing to build on the Class C Shares' 18.3% annualized return since inception.

At Pender, we quantify our investment results in terms of the growth in Net Assets or Net Assets per Share rather than the change in shareholders' equity or the change in our listed share price. The growth in Net Assets per Share over time is primarily a result of investment performance. Like many listed investment entities, our shares may trade at prices 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 year ended December 31, 2020, the value of our Net Assets per Share ranged from $4.08 to $6.07 per share, while our closing share price ranged from a high of $4.40 per share to a low of $2.60 per share. During the year, 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 $13,421,173, or 39.7%, during the year ended December 31, 2020, to a level of $47,254,190 versus $33,833,017 as at December 31, 2019. This increase was the result of investment performance of $15,046,754, less operating costs net of income of $571,281 and share repurchases of $1,054,300 under the NCIB described in the "Recent Developments" section of this MD&A.

There were no discontinued operations during the years ended December 31, 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 December 31, 2020 are listed under the "Summary of Investment Portfolio" section of this MD&A.

**QUARTERLY PERFORMANCE**

As reported in Pender's unaudited semi-annual financial statements as at June 30, 2020 in the first half of the year the value of the Company's Net Assets went from $33,833,017 to $36,577,586, this 8.1% increase was attributable to positive investment performance. A decrease in Net Assets per Share by 2.6% from $4.19 to $4.08 in the first quarter of 2020 (Q1) was followed by a 14.2% increase in Net Assets per Share during the second quarter of 2020 (Q2), from $4.08 to $4.66.

In the third quarter of 2020 (Q3) Net Assets per Share went from $4.66 to $5.03, a 7.9% increase attributable to investment performance net of total expenses of the Company. This was followed by a fourth quarter (Q4) increase in Net Assets per Share from $5.03 to $6.11, a 21.5% total increase attributable mainly to investment performance.

During the Q4, the Company's Net Assets were $47,254,190 as at December 31, 2020 versus $39,111,636 as at September 30, 2020. This $8,142,554 increase for the three months ended December 31, 2020 was attributable to investment performance of $8,192,099, income net of operating costs of $63,421 and share repurchases of $112,966 under the NCIB described in the "Recent Developments" section of this MD&A.

**SELECTED FINANCIAL INFORMATION**

The following tables present selected key financial information about the Company to provide an understanding of the Company's financial condition and financial performance as at December 31, 2020, and for the three preceding financial years. This section should be read together with Annual Audited Financial Statements.

**Supplemental Data**

| | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Net Assets ($000s) | 47,254 | 33,833 | 17,205 | 18,631 |
| Non-Redeemable Class C Shares Outstanding | 7,740,129 | 8,083,329 | 4,152,545 | 4,152,545 |
| Net Assets per Share ($) | 6.11 | 4.19 | 4.14 | 4.49 |
| Closing Market Price* ($) | 4.35 | 3.75 | 3.10 | 4.55 |
| Total Increase (Decrease) from Operations per Share ($) | 1.84 | 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

| | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Net realized gain (loss) | $ 6,950,223 | $ 591,257 | $ - | $ 718,386 |
| Change in net unrealized gain (loss) | 8,096,531 | 1,923,769 | (678,949) | 727,410 |
| Foreign exchange gain (loss) | (50,541) | (7,586) | 2,987 | (56,752) |
| Dividend, interest and securities lending income | 1,798,393 | 634,941 | 3,370 | 214 |
| **Total income** | 16,794,606 | 3,142,381 | (672,592) | 1,389,258 |
| Performance fees | (1,211,315) | - | - | - |
| Management fees | (821,648) | (633,499) | (472,524) | (499,522) |
| Withholding taxes, GST/HST and transactions cost | (194,101) | (22,985) | - | (5,198) |
| Other expenses | (394,898) | (423,016) | (280,216) | (290,193) |
| **Total expenses** | (2,621,962) | (1,079,500) | (752,740) | (794,913) |
| Performance fees waived by the Manager | 302,829 | - | - | - |
| Net income (loss) before income taxes | 14,475,473 | 2,062,881 | (1,425,332) | 594,345 |
| Income tax (recovery) | - | - | - | - |
| **Net comprehensive income** | $ 14,475,473 | $ 2,062,881 | $ (1,425,332) | $ 594,345 |
| Management expense ratio | 5.58% | 3.94% | 4.18% | 4.28% |
| Trading expense ratio | 0.51% | 0.09% | 0.00% | 0.03% |

### Financial performance for the year ended December 31, 2020

Highlights of the factors contributing to Pender's investment performance in the year ended December 31, 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 year ended December 31, 2020, the net realized gain on investments was $6,950,223 (December 31, 2019 – net realized gain $591,257), attributable to the full divestment of shares of various Portfolio Companies, including private holding BasicGov Systems, Inc. and a number of public Portfolio Companies, such as CloudMD Software & Services Inc., Diversified Royalty Corp. and Leaf Group Ltd. Further, we trimmed certain other holdings, such as Dye & Durham Limited and Wishpond Technologies 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, and are also adjusted upon the sale of Portfolio Companies when the unrealized gain or loss becomes recategorized as a realized gain or loss. Net unrealized gains and losses are generally not comparable between periods because the investments that comprise the portfolio generally change each period.

During the year ended December 31, 2020, Pender's net change in unrealized gain on investments was an increase of $8,096,531 (December 31, 2019 – gain of $1,923,769), primarily as a result of increased trading prices for 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 year ended December 31, 2020, Pender incurred a foreign exchange loss of $50,541 (December 31, 2019 - a loss of $7,586). 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 $1,798,393 of dividend, interest and securities lending income during the year ended December 31, 2020 (December 31, 2019 - $634,941). The increase in the year was primarily due to increased dividend income, both from private Portfolio Company one45 Software Inc., and from numerous publicly listed Portfolio Companies, including Diversified Royalty Corp. and Sylogist Ltd. The Company also earned interest income during the year, primarily 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. During the year ended December 31, 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 to $821,648 for the year ended December 31, 2020, $188,149 higher than the fee of $633,499 in the year ended December 31, 2019.

(f) Performance fees

The Manager is entitled to a performance fee. The performance fee is calculated annually as 20% of any net increase in shareholders' equity above an annual hurdle rate of 6%, subject to a high water mark. During the year ended December 31, 2020, the Company incurred performance fees of $1,211,315 (2019 – $Nil). The Manager agreed to waive part of the performance fee, reducing the fee to 15% instead of 20%, for a reduction of $302,829 (2019 – $Nil).

(g) 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 year ended December 31, 2020 was 5.58%. This is higher than the MER for 2019 because of the performance fees incurred. The 2020 MER includes the performance fee of 2.38% and expenses of 3.20%; whereas, for 2019 there occurred only expenses of 3.94%. The 0.74% decreased in expenses was due to the decrease in the management fee rate offset by the increase in the average value of Net Assets upon completion of the secondary offering the Class C in 2019 as described in the "Management Fees" and "Shareholder Activity" sections of this MD&A.

(h) 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 year ended December 31, 2020 is 0.51% (December 31, 2019 - 0.09%), reflecting the fact that 2020 was an active year with more portfolio transactions than in 2019.

## Financial Highlights

| **Net Assets per Share (Note 1)** | **2020** | **2019** | **2018** | **2017** |
|---|---|---|---|---|
| Net Assets per Share (beginning of year) | $4.19 | $4.14 | $4.49 | $4.34 |
| **Increase (decrease) from operations:** | | | | |
| Total revenue | 0.23 | 0.09 | 0.00 | 0.00 |
| Total expenses | (0.29) | (0.16) | (0.18) | (0.19) |
| Realized gains (losses) | 0.88 | 0.09 | 0.00 | 0.17 |
| Unrealized gains (losses) | 1.02 | 0.29 | (0.17) | 0.17 |
| **Total increase (decrease) from operations** | 1.84 | 0.31 | (0.35) | 0.15 |
| Distributions: | | | | |
| From income (excluding dividends) | - | - | - | - |
| From dividends | - | - | - | - |
| From capital gains | - | - | - | - |
| Return of capital | - | - | - | - |
| **Total annual distributions** | - | - | - | - |
| **Net Assets per Share (end of year)** | $6.11 | $4.19 | $4.14 | $4.49 |
| **Ratios and Supplemental Data** | | | | |
| Total net asset value ($000s) | $47,254 | $33,833 | $17,205 | $18,631 |
| Number of shares outstanding | 7,740,129 | 8,083,329 | 4,152,545 | 4,152,545 |
| Closing market price | $4.35 | $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

| | | December 31, 2020 | | December 31, 2019 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash | $ | 1,789,278 | $ | 8,199,875 |
| Receivable for investments sold | | 729,274 | | - |
| Divestment proceeds receivable | | 667,631 | | - |
| Interest receivable | | 52,022 | | 491,123 |
| Prepaid expenses | | 4,243 | | 4,546 |
| Other receivable | | 53 | | 73 |
| Investments | | 45,186,746 | | 25,345,146 |
| **Total assets** | | 48,429,247 | | 34,040,763 |
| **Liabilities** | | | | |
| Due to related parties | | 1,058,873 | | 105,753 |
| Accounts payable and accrued liabilities | | 116,184 | | 100,815 |
| Payable for investments purchased | | - | | 1,178 |
| **Total liabilities** | | 1,175,057 | | 207,746 |
| **Shareholders' equity** | $ | 47,254,190 | $ | 33,833,017 |

(a) Investments

As at December 31, 2020, Pender's investments of $45,186,746 comprised publicly listed Portfolio Companies valued at $28,853,494 and private, unlisted Portfolio Companies valued at $16,333,252. The increase of $19,841,600 from the investments balance at December 31, 2019 is a result of the deployment of capital into investments in three private Portfolio Companies and a number of publicly listed Portfolio Companies new to the portfolio as well as 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 year ended December 31, 2020.

(b) Cash

Pender typically holds cash balances to invest in securities and pay expenses. Cash balances are monitored daily by the Manager. The $1,789,278 cash balance at December 31, 2020 was $6,410,597 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, accounts payable and share repurchases.

(c) Divestment proceeds receivable

During the year ended December 31, 2020 the Company recorded a balance of $667,631 relating to divestment proceeds receivable from the disposition of the shares of BasicGov Systems, Inc. (December 31, 2019 - $Nil).

(d) Interest Receivable

The $52,022 interest receivable balance relates to interest on convertible debentures issued to two Portfolio

Companies.

(e) Due to related parties

The $1,058,873 balance due to related parties as at December 31, 2020 comprises performance fees, 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 year as a result of the timing of payments and the change in fees and other expenses due to the Manager. During the year ended December 31, 2020 the balance increased by $953,120 from the prior year-end balance of $105,753, mainly due to performance fees payable to the Company as at December 31, 2020.

(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 year ended December 31, 2020, this balance increased by $15,369 to $116,184 in the normal course of business.

(g) Shareholders' equity

Shareholders' equity represents the equity in the Company owned by the holders of the 7,740,129 non-redeemable Class C common shares outstanding as at December 31, 2020 (December 31, 2019 - 8,083,329). The decrease of 343,200 Class C Common Shares during the year ended December 31, 2020 reflects shares repurchased under NCIB described in "Recent Developments".

**Cash Flows**

For the year ended December 31, 2020, Pender's cash balance decreased by $6,410,597, primarily due to the deployment of capital into publicly listed and private Portfolio Companies, the payment of expenses 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 year ended December 31, 2020, the Company repurchased 343,200 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 7,740,129 as at December 31, 2020.

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.

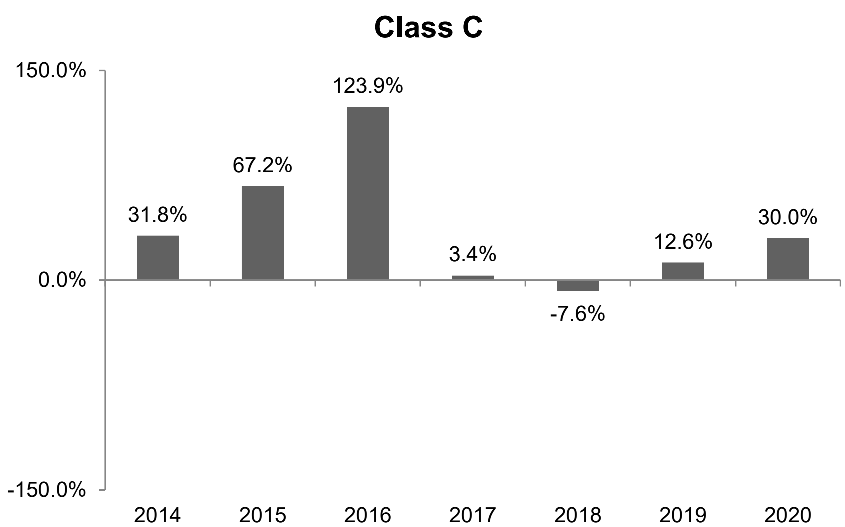
| | 2020 Q4 | 2020 Q3 | 2020 Q2 | 2020 Q1 |
|---|---|---|---|---|
| Net realized gain (loss) | $ 2,968,126 | $ 2,949,137 | $ 437,666 | $ 595,295 |
| Change in net unrealized gain (loss) | 5,223,971 | (22,333) | 4,195,453 | (1,300,561) |
| Foreign exchange gain (loss) | (41,740) | 16 | (10,053) | 1,236 |
| Dividend, interest and securities lending income | 1,475,828 | 109,721 | 120,517 | 92,327 |
| **Total income** | 9,626,185 | 3,036,541 | 4,743,583 | (611,703) |
| Performance fees | (1,211,315) | - | - | - |
| Management fees | (231,772) | (208,271) | (192,690) | (188,914) |
| Withholding taxes, GST/HST and transactions cost | (125,038) | (22,741) | (18,187) | (28,136) |
| Other expenses | (105,371) | (74,550) | (90,088) | (124,889) |
| **Total expenses** | (1,673,496) | (305,562) | (300,965) | (341,939) |
| Performance fees waived by the Manager | 302,829 | - | - | - |
| **Net income (loss) before income taxes** | 8,255,518 | 2,730,979 | 4,442,618 | (953,642) |
| **Income tax (recovery)** | - | - | - | - |
| **Net comprehensive income** | **$ 8,255,518** | **$ 2,730,979** | **$ 4,442,618** | **$ (953,642)** |
| **Net Assets per Share (beginning of period)** | $ 5.03 | $ 4.66 | $ 4.08 | $ 4.19 |
| **Net Assets per Share (end of period)** | $ 6.11 | $ 5.03 | $ 4.66 | $ 4.08 |

| | 2019 Q4 | 2019 Q3 | 2019 Q2 | 2019 Q1 |
|---|---|---|---|---|
| Net realized gain (loss) | $ 706,480 | $ 125,405 | $ (240,628) | $ - |
| Change in net unrealized gain (loss) | 1,108,024 | 48,579 | 156,049 | 611,116 |
| Foreign exchange gain (loss) | (6,912) | 2,110 | (1,340) | (1,445) |
| Dividend, interest and securities lending income | 532,102 | 65,179 | 37,633 | 28 |
| **Total income** | 2,339,694 | 241,273 | (48,286) | 609,699 |
| Management fees | (187,536) | (175,866) | (155,762) | (114,335) |
| Withholding taxes, GST/HST and transactions cost | (17,321) | (4,695) | (725) | - |
| Other expenses | (94,393) | (97,494) | (120,643) | (110,729) |
| **Total expenses** | (299,250) | (278,055) | (277,130) | (225,064) |
| **Net income (loss) before income taxes** | 2,040,444 | (36,782) | (325,416) | 384,635 |
| **Income tax (recovery)** | - | - | - | - |
| **Net comprehensive income** | **$ 2,040,444** | **$ (36,782)** | **$ (325,416)** | **$ 384,635** |
| **Net Assets per Share (beginning of period)** | $ 3.93 | $ 3.94 | $ 4.24 | $ 4.14 |
| **Net Assets per Share (end of period)** | $ 4.19 | $ 3.93 | $ 3.94 | $ 4.24 |

**PAST PERFORMANCE**

To illustrate how the Company's performance has varied over time, the following bar chart shows the Company's performance for the year ended December 31, 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 year and the major asset classes in which Pender was invested are indicated below. The investment portfolio may change due to ongoing portfolio transactions. Please also refer to the "Schedule of Investment Portfolio" in the Financial Statements.

### Summary of Top 25 Holdings

| | % OF NET ASSETS |
|---|---|
| Private unlisted companies* | 34.6 |
| Inscape Corporation, Class B | 13.7 |
| GreenSpace Brands Inc. | 10.3 |
| ProntoForms Corporation | 5.7 |
| Sangoma Technologies Corporation | 4.7 |
| Spartan Delta Corp. | 4.1 |
| BBTV Holdings Inc. | 4.0 |
| Dye & Durham Limited | 4.0 |
| Wishpond Technologies Ltd. | 3.8 |
| Quorum Information Technologies Inc. | 3.7 |
| MAV Beauty Brands Inc. | 2.6 |
| Siyata Mobile Inc., 12%, 12/23/2021 | 2.0 |
| Vigil Health Solutions Inc. | 0.9 |
| AgJunction Inc. | 0.8 |
| Redline Communications Group Inc. | 0.4 |
| TIMIA Capital Corp. | 0.3 |

### Summary of Composition of the Portfolio

| | % OF NET ASSETS |
|---|---|
| Software and services | 24.3 |
| Information technology | 23.0 |
| Industrials | 13.7 |
| Consumer staples | 12.9 |
| Communication services | 7.7 |
| Technology hardware and equipment | 4.7 |
| Energy | 4.1 |
| Consumer discretionary | 4.0 |
| Health care | 0.9 |
| Diversified financial | 0.3 |
| **TOTAL INVESTMENTS** | **95.6** |
| Cash | 3.8 |
| Other assets less liabilities | 0.6 |
| **TOTAL NET ASSETS** | **100.0** |

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

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

**PREFERRED SHARES**
Checkfront, Inc., Series A-2
Copperleaf Technologies Inc., Series 1, Class A, Convertible
DWSI Holdings Inc., Class A (Formerly D-Wave Systems Inc.)
Tantalus Systems Corp., Class B, Convertible
Tantalus Systems Corp., Class D, Convertible

**WARRANTS**
BuildDirect.com Technologies Inc., USD 0.78, 12/31/2030

**CONVERTIBLE DEBENTURES**
BuildDirect.com Technologies Inc., 8%, 12/31/2023
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 December 31, 2020 the Company had 7,740,129 Class C Shares outstanding.

## TRANSACTIONS BETWEEN RELATED PARTIES

As at December 31, 2020, the Manager, directors and officers of the Company directly and/or indirectly held 9.1% 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 $821,648 for the year ended December 31, 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. Performance fees of $1,211,315 (2019 - $Nil), of which $302,829 (2019 - $Nil) of performance fee earned was waived by the Manager.

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

## LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2020, the Company was in a strong liquidity position, with cash of $1,789,278 comprising 3.8% of the value of its Net Assets, and investments in publicly traded securities of $27,889,914 or 59.0% 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 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 contacts. The availability of observable market prices and model inputs reduces the need for management judgment and estimation, and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs 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 year ended December 31, 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

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

**www.penderfund.com**