Unaudited Condensed Interim Financial Statements of

PENDER GROWTH FUND INC.

Three months and nine months ended September 30, 2021

PENDER GROWTH FUND INC.

Condensed Interim Statements of Financial Position (Unaudited)

	Notes	September 30, 2021	December 31, 2020
Assets			
Cash		$ 11,286,003	$ 1,789,278
Due from related parties	5	8,223,783	-
Divestment proceeds receivable		2,134,841	667,631
Interest receivable		118,934	52,075
Prepaid expenses		12,073	4,243
Receivable for investments sold		-	729,274
Investments	4, 12	162,048,314	45,186,746
		183,823,948	48,429,247
Liabilities			
Contingent payment obligation payable	4	21,136,513	-
Payable for investments purchased	4	13,453,808	-
Income tax payable	13	12,157,275	-
Loan payable	10	5,000,000	-
Accounts payable and accrued liabilities		170,177	116,184
Interest payable		30,616	-
Due to related parties	5	-	1,058,873
		51,948,389	1,175,057
Shareholders' equity			
Class C Common shares:			
Contributed capital	8	18,007,979	18,715,287
Retained earnings		113,867,580	28,538,903
Total Shareholders' Equity		$ 131,875,559	$ 47,254,190
Number of shares outstanding	8	7,616,529	7,740,129
Total shareholders' equity per share		$ 17.31	$ 6.11
Subsequent events	15		

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

Approved on behalf of the Board of Directors:

"David Barr" Director

"Kelly Edmison" Director

PENDER GROWTH FUND INC.

Condensed Interim Statements of Comprehensive Income (Unaudited)

	Notes	Three months ended Sept. 30, 2021	Three months ended Sept. 30, 2020	Nine months ended Sept. 30, 2021	Nine months ended Sept. 30, 2020
Revenue:					
Dividend income		$ -	$ 61,648	$ -	$ 167,955
Interest and securities lending income	6	41,373	48,073	226,012	154,611
Foreign exchange gain (loss)		-	16	-	(8,802)
Changes in fair value of investments:					
Net realized gain (loss)		11,759,663	2,949,137	16,258,325	3,982,097
Net change in unrealized appreciation (depreciation)		76,193,222	(22,333)	95,868,384	2,872,559
Total revenue		87,994,258	3,036,541	112,352,721	7,168,420
Operating Expenses:					
Management fees	5	312,570	208,271	814,874	589,876
Transaction costs		104,523	22,177	638,625	67,603
Interest and financing expenses		93,890	-	235,271	-
Audit and professional fees		110,945	10,770	184,785	46,223
Administration expenses		59,127	40,686	179,157	158,063
Directors' fees		13,613	13,591	45,057	38,667
Legal fees		18,453	4,188	34,083	23,200
Custody and recordkeeping fees		5,717	5,315	16,356	23,375
Withholding taxes (recovery)	7	-	564	-	1,460
Total operating expenses		718,838	305,562	2,148,208	948,467
Operating income		87,275,420	2,730,979	110,204,513	6,219,953
Other Items:					
Performance fees	5	18,774,287	-	20,348,791	-
Fees waived/expenses absorbed by the Manager	5	(4,693,572)	-	(5,087,198)	-
Net amount		14,080,715	-	15,261,593	-
Amount of Pender Private Investments Inc.'s ("PPI") performance fee earned by the Manager attributable to the Company's ownership of PPI shares	5	(23,679,545)	-	(23,679,545)	-
Total performance fee expense / (recovery)		(9,598,830)	-	(8,417,952)	-
Contingent payment	4	9,377,925	-	21,136,513	-
Net income before income taxes		$ 87,496,325	$ 2,730,979	$ 97,485,952	$ 6,219,953
Income taxes (recovery)	13	12,157,275	-	12,157,275	-
Net income		$ 75,339,050	$ 2,730,979	$ 85,328,677	$ 6,219,953
Net income, per share:					
Class C shares		$ 9.89	$ 0.35	$ 11.15	$ 0.78
Weighted average number of non-redeemable Class C shares outstanding		7,619,829	7,787,654	7,650,029	7,925,409

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

PENDER GROWTH FUND INC.

Condensed Interim Statements of Changes in Equity (Unaudited)

Class C shares	Note	Nine months ended Sept. 30, 2021	Nine months ended Sept. 30, 2020
Balance, beginning of period		$ 47,254,190	$ 33,833,017
Net income (loss)		85,328,677	6,219,953
Capital transactions	8(c)	(707,308)	(941,334)
Balance, end of period		$ 131,875,559	$ 39,111,636

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

PENDER GROWTH FUND INC.

Condensed Interim Statements of Cash Flows (Unaudited)

	Nine months ended Sept. 30, 2021	Nine months ended Sept. 30, 2020
Cash provided by (used in):		
Operating:		
Net income (loss)	$ 85,328,677	$ 6,219,953
Adjustments for:		
Dividend income	-	(167,955)
Interest and securities lending income	(226,012)	(153,933)
Foreign exchange (gain) loss	-	8,802
Net realized (gain) loss on sales of investments	(16,258,325)	(3,982,097)
Net change in unrealized (appreciation) depreciation on investments	(95,868,384)	(2,872,559)
(Increase) decrease in due from related parties	(8,223,783)	(7,932)
(Increase) decrease in divestment proceeds receivable	(1,467,210)	(667,631)
(Increase) decrease in prepaid expenses	(7,830)	(2,668)
Increase (decrease) in contingent payment obligation payable	21,136,513	-
Increase (decrease) in income tax payable	12,157,275	-
Increase (decrease) in accounts payable and accrued liabilities	53,993	(28,888)
Increase (decrease) in interest payable	30,616	-
Increase (decrease) in due to related parties	(1,058,873)	
Increase (decrease) in share repurchase receivable	-	(5,454)
Increase (decrease) in other receivable	-	61
	(4,403,343)	(1,660,301)
Proceeds on disposal of investments	22,935,448	14,280,322
Purchase of investments	(13,426,671)	(16,715,061)
Dividend received	-	162,728
Interest received	98,599	583,307
Net cash provided by (used in) operating activities	5,204,033	(3,349,005)
Financing:		
Proceeds from issuance of loan payable	5,000,000	-
Repurchase of shares	(707,308)	(941,334)
Net cash provided by (used in) financing activities	4,292,692	(941,334)
Net increase (decrease) in cash during the period	9,496,725	(4,290,339)
Cash, beginning of period	1,789,278	8,199,875
Increase (decrease) due to exchange rate fluctuations on cash	-	(8,802)
Cash, end of period	$ 11,286,003	$ 3,900,734

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

PENDER GROWTH FUND INC.

Condensed Interim Schedule of Investment Portfolio (Unaudited)

As at September 30, 2021

	Interest rate/ exercise price	Maturity/ expiry date	Issue Currency	Face value/ Number of shares/units	Cost	Fair value
Publicly listed companies: (17.4%)						
Common shares: (16.1%)						
BuildDirect.com Technologies Inc.				428,240	1,969,904	1,049,188
GreenSpace Brands Inc.				69,193,248	3,845,233	4,497,561
Inscape Corporation, Class B				6,886,981	4,498,638	6,542,632
MAV Beauty Brands Inc.				250,500	511,587	546,090
ProntoForms Corporation				2,743,333	1,304,884	2,962,799
Quorum Information Technologies Inc.				1,683,100	1,461,268	1,767,255
Redline Communications Group Inc.				378,153	649,717	189,077
Sangoma Technologies Corporation				519,007	696,998	1,759,434
Tantalus Systems Holding Inc.				486,131	251,200	1,054,904
Vigil Health Solutions Inc.				1,471,500	507,493	941,760
					15,696,922	21,310,700
Warrants: (0.0%)						
BuildDirect.com Technologies Inc.	4.23	12/31/2030	USD	89,722	-	-
BuildDirect.com Technologies Inc.	6.90	08/13/2023	CAD	428,240	-	-
Else Nutrition Holdings Inc.	3.25	10/06/2022	CAD	11,607	-	6,384
GreenSpace Brands Inc.	0.08	12/23/2022	CAD	42,140,328	-	-
GreenSpace Brands Inc.	0.09	09/28/2023	CAD	612,300	-	-
Newtopia Inc.	1.00	05/03/2022	CAD	178,571	-	-
Siyata Mobile Inc.	65.25	12/23/2022	CAD	6,896	-	-
					-	6,384
Convertible debentures: (1.3%)						
GreenSpace Brands Inc.	12.00%	10/01/2022	CAD	1,031,177	800,000	800,000
Siyata Mobile Inc.	12.00%	12/23/2021	CAD	1,000,000	950,000	950,000
					1,750,000	1,750,000
					17,446,922	23,067,084
Private unlisted companies: (105.4%)						
Common shares:						
Copperleaf Technologies Inc.				140,596	407,728	
Pender Private Investments Inc., Commercialization Shares				1,002,555	508,096	
Pender Private Investments Inc., Legacy Shares				16,698,042	25,318,907	
Preferred shares:						
Checkfront, Inc., Series A-2				38,973	999,993	
Copperleaf Technologies Inc., Series 1, Class A, Convertible				117,163	339,773	
D-Wave Systems Inc.				224,144	1,200,000	
Convertible debentures:						
Clarius Mobile Health Corp.	10.00%	12/31/2023	CAD	1,000,000	1,000,000	
					29,774,497	138,981,230
Less: Transaction costs included in cost of investments					(17,209)	
Total investments (122.8%)					$ 47,204,210	$ 162,048,314
Cash (8.6%)						11,286,003
Other assets less liabilities (-31.4%)						(41,458,758)
Total Shareholders' Equity (100.0%)						$ **131,875,559**

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

1. Incorporation and nature of operations:

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

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

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

2. Basis of preparation:

(a) Statement of compliance:

The annual financial statements of the Company are prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards ("IAS") Board. These condensed interim financial statements ("financial statements") of the Company have been prepared in accordance with IAS 34 Interim Financial Reporting and do not include all of the information required for full annual financial statements. These financial statements should be read in conjunction with the audited annual financial statements.

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

These financial statements were authorized for issue by the Company's Board of Directors on November 24, 2021.

(b) Basis of measurement:

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

(c) Functional and presentation currency:

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

(d) Use of estimates and judgment:

The preparation of financial statements in conformity with IFRS requires the Manager to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized in the period in which the estimates are revised and in any future period affected.

The Company may hold financial instruments that are not quoted in an active market, including derivatives. The determination of the fair value of these investments is the area with the Manager's most significant accounting judgements and estimates in preparing these financial statements.

3. Significant accounting policies:

These financial statements follow the same accounting policies and methods of application as applied in the December 31, 2020 annual audited financial statements.

4. Purchase of Pender Private Investments Inc:

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

On the Effective Date of the WOF Transaction, the Company acquired 100% of WOF’s Commercialization Series shares and 97% of WOF’s Venture Series shares, for a total cash purchase price of $25,827,003.

Under the Arrangement Agreement, the Company paid the $508,096 total purchase price for the Commercialization Series shares in full on closing. Further, the Company paid $12,665,099, which was 50% of the total purchase price, for the Venture Series shares on closing, with the remaining 50% of the purchase price due on or before November 29, 2021**.** The Venture Series shares were also acquired at a discount to their fair value, with their purchase price calculated as 43.5% of the net asset value per Venture Series share on the day prior to the date of the Arrangement Agreement, adjusted for any change of up to 5% in their value to the day before the May 28, 2021 effective date of the WOF Transaction.

The Company has an obligation to make certain additional payments to those Venture Series shareholders that sold their shares to the Company (the “Exiting Shareholders”) in the event of a divestment of a WOF portfolio investment prior to May 18, 2022 (the "Contingent Payment Obligation").

This obligation for the Contingent Payment Obligation is based on a percentage share of the net gains over carrying values of the underlying Venture Series shares’ investment portfolio at the Effective Date and arises as follows: (a) if a divestment completes on or before November 18, 2021, former 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 portion entitlement of 20% of the net gain. As at September 30, 2021, the Contingent Payment Obligation payable was $21,136,513 (December 31, 2020 - $Nil). Subsequent to September 30, 2021, as a result of the divestment of two portfolio investments, the Exiting Shareholders received an additional cash payment. Please refer to Note 15 for additional details.

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

Upon the closing of the WOF Transaction, WOF changed its name to Pender Private Investments Inc. ("PPI"), and the Venture Series shares were renamed the "Legacy Shares". Subsequent to September 30, 2021, in accordance with the Legacy Share rights, the divestment of two portfolio investments triggered a required redemption of Legacy Shares on a pro rata basis at NAV. Please refer to Note 15 for additional details.

Under IFRS, the $32,798,793 gain inherent in the difference between the purchase price paid by the Company and the fair value of the assets it acquired, is treated as a deferred gain and contra asset under the investments reported in the Statements of Financial Position. This amount is excluded from shareholder's equity per share for financial reporting purposes. The deferred gain will be recognized to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the investment. During the three months and nine months ended September 30, 2021, $1,245,843 of the deferred gain was recognized and the remaining balance as at September 30, 2021 is $31,552,950.

5. Related party transactions:

(a) Management and performance fees:

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

In exchange for these management services, the Company pays a management fee. Effective May 2019, the management fee was set at 2.50% of the first $15,000,000 of the value of Net Assets and 1.75% of the value of Net Assets above $15,000,000. Prior to May 2019 the management fee was 2.50% of the Company's total shareholders' equity per annum on total shareholders' equity of up to $50,000,000 and 2.00% of the Company's total shareholders' equity in excess of $50,000,000 per annum. The management fee is calculated and paid monthly.

For the three months ended September 30, 2021, the Company incurred management fees of $312,570 (September 30, 2020 - $208,271). For the nine months ended September 30, 2021, the Company incurred management fees of $814,874 (2020 - $589,876)

The Manager is entitled to a performance fee plus applicable taxes in certain circumstances, based on achieving certain performance criteria set out in the Management Agreement. The performance fee is calculated as 20% of any net increase in shareholders' equity above an annual hurdle rate of 6%. The performance fee is calculated on an annual basis and is subject to a high water mark, being the year-end total shareholders' equity per share for the most recent preceding year in which a performance fee was earned. The December 31, 2016 total shareholders' equity per share was the initial high water mark. A performance fee was earned in the year ended December 31, 2020 which reset the high water mark to $6.22. Subject to the accumulation of the hurdle rate in years in which no performance fee is payable, the high water mark will not be reset other than to be adjusted in the event of a subdivision or consolidation of the shares.

5. Related party transactions (continued):

(a) Management and performance fees (continued):

Performance fees are accrued during the year, where applicable. However, annual performance fees are calculated on the last valuation date of the year and are payable to the Manager each year upon publication of the Company's audited annual financial statements.

The Manager shall pay to the Company an amount equal to the portion of the PPI performance fee earned by the Manager that is attributable to the Company's ownership of PPI shares, or 97.19%. As at September 30, 2021 the Company had accrued $23,679,545 as receivable from the Manager in this respect.

For the three months ended September 30, 2021, the Company accrued performance fees of $18,774,287 (2020 - $Nil). The Manager has agreed to waive $4,693,572 (2020 - $Nil) of the performance fee, reducing the net performance fee accrual to $14,080,715 (2020 - $Nil). For the three months ended September 30, 2021, the total performance fee recovery is $9,598,830 (2020 - $Nil), equivalent to the net performance fee accrual adjusted for the described receivable from the Manager for performance fees the Manager earned from PPI. For the nine months ended September 30, 2021, the Company accrued performance fees of $20,348,791 (2020 – $Nil). The Manager has agreed to waive $5,087,198 (2020 - $Nil) of the performance fee, reducing the net performance fee accrual to $15,261,593 (2020 - $Nil). For the nine months ended September 30, 2021, the total performance fee recovery is $8,417,952 (2020 - $Nil), equivalent to the net performance fee accrual adjusted for the described receivable from the Manager for performance fees the Manager earned from PPI.

As at September 30, 2021, the Company had a due to related parties of $15,455,762 (December 31, 2020 – due to related parties $1,058,873) related to normal course management fees, performance fees net of fees waived/expenses absorbed by the Manager and operating expenses paid on behalf of the Company, and a due from related parties of $23,679,545 related to the above described receivable from the Manager for performance fees the Manager earned from PPI. Amounts are shown as a due from related parties of $8,223,783 on the Statements of Financial Position.

(b) Share holdings

As at September 30, 2021, the Manager, directors and officers of the Company directly or indirectly held 9.7% (December 31, 2020 – 9.1%) of the Company's Class C Shares.

The aggregate investment by the Company's directors and officers in all Portfolio Companies did not exceed 1.0% of the issued and outstanding shares of any Portfolio Company.

6. Securities lending transactions:

As at September 30, 2021, the value of securities loaned is $Nil (December 31, 2020 – $19,955) and collateral received in respect of securities lending is $Nil (December 31, 2020 – $20,965).

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

6. Securities lending transactions (continued):

A reconciliation of the gross amount generated from securities lending transactions to the securities lending income earned by the Company for the periods ended September 30, 2021 and 2020 is presented in the following table.

Periods ended	Gross Income	Withholding taxes	Agent fees	Securities lending income
September 30, 2021	$ 13,419	$ -	$ (5,367)	$ 8,052
September 30, 2020	$ 1,230	$ -	$ 552	$ 678

The agent fees were paid to the Securities Lending Agent by the Company and represented 40% of the gross securities lending income net of withholding taxes through to March 31, 2020, and 35% of the gross securities lending income net of withholding taxes thereafter.

7. Withholding tax expense:

Certain dividend income received by the Company is subject to withholding tax imposed in the country of origin. During the period, withholding tax rates were between 0% and 35% (2020 – between 0% and 35%).

8. Share capital:

(a) Authorized share capital:

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

As at September 30, 2021, the authorized capital of the Company consists of:

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

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

Class C Shares:

Class C Shares are not redeemable or convertible. Class C Shares are listed on the TSX Venture Exchange (“TSXV”) under the ticker symbol “PTF”.

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

8. Share capital (continued):

(a) Authorized share capital (continued):

Preferred Shares:

The Preferred Shares were created on July 24, 2019. As at September 30, 2021 and December 31, 2020, no Preferred Shares have been issued. The special rights and restrictions of the Preferred Shares empower the Board to fix the number of shares in each series of each class of Preferred Shares and to fix the preferences, special rights and restrictions, privileges, conditions and limitations attaching to the shares of that series, before the issuance of shares of any particular series. The Board has the power to fix, among other things, the number of shares constituting any series, the voting powers, designation, preferences and relative participation, optional or other special rights and dividend rate, terms of redemption (including sinking fund provisions), redemption price or prices, conversion rights and liquidation preferences of the shares constituting any series. The issuance of Preferred Shares could affect the rights of the holders of Class C shares.

(b) Issued and fully paid shares:

During the nine months ended September 30, 2021 and 2020, the Company has issued and fully paid Class C shares outstanding as follows:

	Balance, Beginning of period	Shares issued	Shares repurchased	Balance, end of period
September 30, 2021				
Class C	7,740,129	-	(123,600)	7,616,529
September 30, 2020				
Class C	8,083,329	-	(313,200)	7,770,129

On February 10, 2020, the Company launched a Normal Course Issuer Bid (“NCIB”) through the facilities of the TSXV. On the launch date, the Company had 8,083,329 Shares outstanding, of which 7,430,877 Shares represented the Company’s public float. The Company was entitled to purchase up to a maximum of 743,087 Shares, representing 10% of the Company’s public float, over the one-year period that the NCIB was in place.

Following the expiry of its NCIB on February 10, 2021, the Company launched a new NCIB on the TSXV. Upon this launch, the Company had 7,739,121 shares issued, of which 7,008,669 Shares represented its public float. The Company is entitled to purchase up to a maximum of 700,866 Shares, representing 10% of its public float, over the one-year period of this NCIB. The NCIB will continue in effect until February 11, 2022, unless terminated earlier in accordance with its terms.

During the nine months ended September 30, 2021, the Company bought back 123,600 shares under its NCIB for a total price of $707,308 (September 30, 2020 – 313,200 shares and $941,334).

8. Share capital (continued):

(c) Equity capital:

The changes in shareholders' equity for the nine months ended September 30, 2021 and 2020 are as follows:

	Share capital	Retained earnings (deficit)	Total
Balance, January 1, 2021	$ 18,715,287	$ 28,538,903	$ 47,254,190
Net income (loss)	-	85,328,677	85,328,677
Capital transactions	(707,308)	-	(707,308)
Balance, September 30, 2021	$ 18,007,979	$ 113,867,580	$ 131,875,559

	Share capital	Retained earnings (deficit)	Total
Balance, January 1, 2020	$ 19,769,587	$ 14,063,430	$ 33,833,017
Net income (loss)	-	6,219,953	6,219,953
Capital transactions	(941,334)	-	(941,334)
Balance, September 30, 2020	$ 18,828,253	$ 20,283,383	$ 39,111,636

9. Capital management:

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

The investment objective of the Company is to achieve long-term capital growth from investments in public and private companies.

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

10. Loan payable

In connection with the WOF Transaction described in Note 4, the Company obtained a three-year term loan from a Canadian chartered bank in the maximum amount of $10,000,000 (the "Term Loan"). As at September 30, 2021, the Company has drawn $5,000,000 on the Term Loan, which bears interest at a rate of 7.45% per annum and matures on May 28, 2024. As security for the Term Loan, the Company granted the lender a security interest in all of the shares of PPI held by the Company and its holdings in its public company investments. The Company is in compliance with all covenants on the loan payable as of September 30, 2021.

11. Financial risk management:

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

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

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 to an extent by fiscal and monetary stimulus, measures taken to reopen world economies and the development and rollout of vaccines, the situation had an impact on many entities and the markets for the securities that they issue and the impact may continue. Investment results will depend to a large extent on future developments and new information that may emerge regarding COVID-19 and its variants, factors which are beyond the Company's control.

The Company will continue to support its Portfolio Companies, to monitor the impact that COVID-19 has on them and to reflect the consequences as appropriate in its accounting and reporting.

(a) Credit risk:

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

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

The Company's maximum exposure to credit risk as at September 30, 2021 is $7,761,213 (December 31, 2020 - $8,125,864).

11. Financial risk management (continued):

(b) Liquidity risk:

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

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

The following table summarizes the Company's financial liabilities as at September 30, 2021 and December 31, 2020, which are all due within one year, based on undiscounted contractual cash flows:

	September 30, 2021	December 31, 2020
Contingent payment obligation payable	$ 21,136,513	$ -
Payable for investments purchased	13,453,808	-
Income tax payable	12,157,275	-
Loan payable	5,000,000	-
Accounts payable and accrued liabilities	170,177	116,184
Interest payable	30,616	-
Due to related parties	-	1,058,873
	$ 51,948,389	$ 1,175,057

(c) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices, will affect the Company's income or the fair value of its holdings of financial instruments.

(i) Interest rate risk:

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

11. Financial risk management (continued):

(c) Market risk (continued):

(ii) Currency risk:

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

(iii) Other price risk:

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

As at September 30, 2021, if the fair value of the Company's publicly listed investments had increased or decreased by 10% with all other factors remaining constant, the Company's shareholders' equity would have increased or decreased by approximately $1,568,000 (December 31, 2020 - $2,682,000). Price sensitivity was determined based on portfolio-weighted beta. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

12. Fair value of financial instruments:

(a) Valuation models:

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices. For all other financial instruments, the Company determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Company measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

12. Fair value of financial instruments (continued):

(a) Valuation models (continued):

The Company uses widely recognized valuation models for determining the fair value of common and relatively simple financial instruments, such as debt securities, mutual fund units and warrants that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple OTC derivatives such as forward foreign currency contacts. The availability of observable market prices and model inputs reduces the need for management judgment and estimation, and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on 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 estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in the determination of fair value.

In determining fair value for these types of instruments the Manager considers: the history and nature of the business; operating results and financial conditions; the general economic, industry and market conditions; capital market and transaction market conditions; independent valuations of the business; contractual rights relating to the investment; comparable trading and transaction multiples, where applicable; and other pertinent considerations. Adjustments to the carrying value of the investments may also be determined by the Manager when there is pervasive and objective evidence of a decline in the value of the investment, as indicated by an assessment of the financial condition of the investment based on operational results, forecasts and other developments since acquisition.

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

The table below presents the fair value of financial instruments as at September 30, 2021 and December 31, 2020 by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the Statements of Financial Position.

	September 30, 2021	December 31, 2020
Level 1:		
Publicly listed companies	$ 21,317,084	$ 27,903,494
Level 2:		
Publicly listed companies	-	-
Level 3:		
Publicly listed companies	1,750,000	950,000
Private unlisted companies	138,981,230	16,333,252
Total Level 3	140,731,230	17,283,252
	$ 162,048,314	$ 45,186,746

12. Fair value of financial instruments (continued):

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

During the nine months ended September 30, 2021, Tantalus Systems Holding Inc. and BuildDirect.com Technologies Inc. were transferred from level 3 to level 1 of the fair value hierarchy upon becoming publicly traded. (In 2020, Newtopia Inc. was transferred from level 3 to level 1 of the fair value hierarchy upon becoming publicly traded**).**

The following table shows a reconciliation of all movements in the fair value of financial instruments categorized within Level 3 for the nine months ended September 30, 2021 and December 31, 2020:

	September 30, 2021	December 31, 2020
Opening balance	$ 17,283,252	$ 17,845,943
Amounts paid on purchase of investments	26,627,003	3,909,343
Sales and settlements of investments	(12,623,139)	(3,626,682)
Transfer from Level 3 to Level 1	(4,116,447)	(250,000)
Total gain (loss) recognized in comprehensive income	113,560,561	(595,352)
Ending balance	$ 140,731,230	$ 17,283,252

Included in the net change in unrealized appreciation (depreciation) in fair value of investments on the Statements of Comprehensive Income for the nine months ended September 30, 2021 is a change in unrealized appreciation of $101,695,866 (December 31, 2020 – unrealized depreciation $364,306 related to Level 3 investments).

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

The table below sets out information about significant unobservable inputs used at September 30, 2021 and December 31, 2020 in measuring financial instruments categorized as Level 3 in the fair value hierarchy.

September 30, 2021					
Description	Fair value	Valuation technique	Unobservable input	Enterprise value/ weighted average multiple	Sensitivity to change in significant unobservable input
Unlisted private investments	$140,731,230	Investment cost/ enterprise value	Enterprise value	$140,731,230	The estimated fair value would increase if enterprise value increased

12. Fair value of financial instruments (continued):

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

December 31, 2020					
Description	Fair value	Valuation technique	Unobservable input	Enterprise value/ weighted average multiple	Sensitivity to change in significant unobservable input
Unlisted private investments	$ 7,861,067	Investment cost/ enterprise value	Enterprise value	$ 7,861,067	The estimated fair value would increase if enterprise value increased
Unlisted private investments	$ 9,422,185	Market approach using comparable traded revenue multiples	Revenue multiple	1.9	The estimated fair value would increase if the revenue multiples were higher

Significant unobservable inputs are developed as follows:

(i) Enterprise value:

Represents the amount that market participants would pay when purchasing the investee company. The Manager determines this value based on arm's length transactions in shares of entities comparable to the respective company.

comparable

(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 company by its revenue and further discounted for considerations such as the lack of marketability and other differences between the comparable peer group and the specific investee company.

12. Fair value of financial instruments (continued):

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

Although the Company believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used to alternative reasonably possible assumptions would have the following effects on shareholders' equity at September 30, 2021 and December 31, 2020:

	September 30, 2021	December 31, 2020
Favourable	$ 14,073,123	$ 5,167,864
Unfavourable	(14,073,123)	(4,103,980)

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

- The impact of a 10% increase or decrease in enterprise value.
- A change in the revenue multiple to alternative reasonably possible assumptions of 1.0 and 3.0, respectively.

(e) Financial instruments not measured at fair value:

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

13. Income taxes:

The Company is subject to income taxes on its net investment income and net realized gain on investments at rate of approximately 27.00% and 13.50%, respectively.

The taxation year-end of the Company is December 31. As at the end of the 2020 tax year-end, the Company has $5,903,051 accumulated capital losses (2019 - $5,903,051) and non-capital losses of $12,363,944 (2019 - $13,684,986).

Capital losses are available to be carried forward indefinitely. Non-capital losses may be carried forward up to 20 years. The Company's non-capital losses expire over the years from 2026 through 2039. The Company's non-capital losses expire as follows:

2026	$ 245,257
2027	3,059,028
2029	1,748,428
2030	1,728,090
2031	1,138,041
2032	912,449
2033	634,364
2034	607,498
2035	532,573
2037	427,593
2038	749,122
2039	581,501
	$ 12,363,944

The Company has reflected the net benefit of the losses available for carryover in estimating its income taxes for the period ended September 30, 2021.

For the nine months ended September 30, 2021, the Company's income tax payable is $12,157,275 (December 31, 2020 - $Nil).

14. Involvement with subsidiaries and associates:

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

Entity	Nature and purpose	Interest held by the Company
Inscape Corporation	Industrial	Investment in common shares
Pender Private Investments Inc.	Private Equity Investments	Investment in common shares

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

September 30, 2021 and December 31, 2020					
Name of Entity	Relationship	Principal place of business	Country of incorporation	Ownership interest	Voting rights
Inscape Corporation	Associate	Canada	Canada	48% (2020 - 48%)	48% (2020 - 48%)
Pender Private Investments Inc.	Subsidiary	Canada	Canada	97% (2020 - N/A)	97% (2020 - N/A)

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

15. Subsequent events

On October 13, 2021, in accordance with the Legacy Share rights, a portion of the Company's Legacy Shares of PPI were redeemed. As at September 30, 2021, the Company held 97% of the outstanding Legacy Shares, or approximately 16,698,042 Legacy Shares.

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

Effective November 25, 2021, the Company will pay the remaining 50% of the purchase price to Exiting Shareholders.