

PENDER GROWTH FUND INC.

2018

**MANAGEMENT'S DISCUSSION & ANALYSIS**

Year ended December 31, 2018

**PENDER**

## TABLE OF CONTENTS

	Page
<b>INTRODUCTION</b> .....	<b>3</b>
Caution Regarding Forward-Looking Statements.....	3
Reporting Regime .....	4
Non-IFRS Measures.....	4
Business Strategy .....	5
Risk Factors.....	6
Recent Developments .....	7
Outlook .....	7
<b>PORTFOLIO OF INVESTMENTS</b> .....	<b>8</b>
<b>OVERALL PERFORMANCE AND DISCUSSION OF OPERATIONS</b> .....	<b>11</b>
<b>QUARTERLY PERFORMANCE</b> .....	<b>12</b>
<b>SELECTED ANNUAL INFORMATION</b> .....	<b>12</b>
<b>SUMMARY OF QUARTERLY RESULTS</b> .....	<b>18</b>
<b>SUMMARY OF QUARTERLY RESULTS (CONTINUED)</b> .....	<b>19</b>
<b>FOURTH QUARTER RESULTS</b> .....	<b>19</b>
<b>PAST PERFORMANCE</b> .....	<b>20</b>
<b>SUMMARY OF INVESTMENT PORTFOLIO</b> .....	<b>20</b>
<b>DIVIDEND POLICY</b> .....	<b>21</b>
<b>OUTSTANDING SHARE DATA</b> .....	<b>21</b>
<b>TRANSACTIONS BETWEEN RELATED PARTIES</b> .....	<b>21</b>
<b>LIQUIDITY AND CAPITAL RESOURCES</b> .....	<b>22</b>
<b>COMMITMENTS AND CONTINGENCIES</b> .....	<b>22</b>
<b>OFF-BALANCE SHEET ARRANGEMENTS</b> .....	<b>22</b>
<b>CRITICAL ACCOUNTING ESTIMATES</b> .....	<b>22</b>
<b>CHANGES IN ACCOUNTING POLICIES</b> .....	<b>23</b>
<b>CHANGES IN ACCOUNTING POLICIES (CONTINUED)</b> .....	<b>24</b>
<b>FUTURE CHANGES IN ACCOUNTING POLICIES</b> .....	<b>24</b>

## **INTRODUCTION**

This Management's Discussion and Analysis ("MD&A") dated March 19, 2019 presents a review of the financial results for Pender Growth Fund Inc. ("Pender" or the "Company") for the year ended December 31, 2018, compared with the year ended December 31, 2017, 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 the audited financial statements of Pender and the notes thereto (the "Annual Audited Financial Statements") for the year ended December 31, 2018. 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 which are independent directors. The Audit Committee has reviewed and recommended approval of the MD&A by the Board of Directors. The Board of Directors has approved this disclosure.

Additional information about Pender is available on the SEDAR website at [www.sedar.com](http://www.sedar.com).

### **Caution Regarding Forward-Looking Statements**

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

In addition, any statement made concerning future performance, strategies or prospects, and possible future Company action is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to risks, uncertainties and assumptions about the Company and economic factors, among other things. Forward looking statements in this MD&A include, without limitation: statements with respect to the future performance of its 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; 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; 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, 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 the 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 is now subject to NI 51-102, under which it is required to file annual and interim MD&A reports. Under 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 and unaudited interim financial statements in accordance with IFRS. In this MD&A, we complement 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, 2018 and December 31, 2017 is presented in the following table:

Net Assets	2018	2017
Assets	\$ 17,730,803	\$ 18,768,691
LESS: Liabilities	525,495	138,051
EQUALS Net Assets	\$ 17,205,308	\$ 18,630,640

#### *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, 2018 and December 31, 2017 is presented in the following table:

Net Assets per Share	2018	2017
Assets	\$ 17,730,803	\$ 18,768,691
LESS: Liabilities	525,495	138,051
EQUALS Net Assets	\$ 17,205,308	\$ 18,630,640
DIVIDED BY Number of Shares Outstanding	4,152,545	4,152,545
EQUALS Net Assets per Share	\$ 4.14	\$ 4.49

#### *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 percentage is calculated by dividing total MER costs for the applicable period by the average Net Assets during that period.

#### *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 percentage is calculated by dividing total TER costs for the applicable period by the average Net Assets during that period.

### **Business Strategy**

Pender is an investment company with the objective of achieving long-term capital appreciation for its investors. Pender invests opportunistically in the securities of both public and private companies (each a “Portfolio Company”). In seeking long-term capital appreciation, the Manager thoroughly evaluates the business prospects of each Portfolio Company over a long-term investment horizon. Regardless of whether

a Portfolio Company is publicly-listed or private, a long-term focus will remain paramount to Pender's investment strategy. Pender works to generate returns to investors by understanding the current and long-term value of the companies in which it invests. Pender's strategy is to buy securities that are mispriced and that provide the ability to compound capital either through convergence from current market price to intrinsic value, the growth of intrinsic value over time, or a combination of both.

Pender's mandate provides flexibility so that it may invest in securities that the Manager deems to have the highest risk adjusted returns at the time of investment. It is important to note that the Manager 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 for the benefit of its shareholders. Market cycles can provide opportunity as different industries, company stages or security types may become out of favour and attractively priced. As such, Pender may invest in both newly established and later-stage businesses across a wide array of industries and security types dependant on opportunity. The majority of Pender's investments will be in common equity or preferred equity securities, which may be supplemented by smaller allocations to convertible debt or corporate debt or other securities.

As of December 31, 2018, Pender has investments in a total of eight (8) Portfolio Companies; five (5) private companies and three (3) publicly-listed companies.

### **Risk Factors**

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

Historically, Pender invested primarily in emerging technology companies. The prospects for success of emerging technology companies depend critically on a number of factors which, given their limited operating histories, are difficult to evaluate. Investments in emerging technology companies are inherently risky, and in the case of failed businesses, may result in the total loss of 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.

Pender's Portfolio Companies will generally lack liquidity and involve a longer than usual investment commitment. Losses are typically realized before gains, and Pender may be required to dispose of Portfolio Companies before any returns are received therefrom. Specifically, the majority of Pender's investments are illiquid securities of private companies. Consequently, it may be relatively difficult for Pender to dispose of its investment in a private 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.

Pender faces competition from other capital providers and there can be no assurance that suitable investments will be found. Since 2008, there has been a global contraction in the amount of financing available for such businesses. Although the global equity market has staged a dramatic rebound since March 2009, financing for development stage technology companies remains limited and what is available may be on terms unfavourable to existing shareholders of these companies.

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

The Company's Class C Shares are not redeemable. The Class C Shares trade on the TSX Venture

Exchange (the "TSX-V") under the ticker "PTF". While the Class C Shares trade on the TSX-V, an active trading market for the Class C Shares may not be available and will significantly impact the liquidity of such shares. The Net Assets per Share of the Class C Shares fluctuates with the Net Assets per Share of the Company, which could adversely affect the ability of a holder of the Class C Shares to dispose of them. Even if an active trading market for Class C Shares is available, the market price of such shares may not enable shareholders to dispose of their shares at a reasonable price relative to the Net Assets per Share of the shares.

The risks associated with an investment in Pender are more fully described in its Annual Information Form dated March 19, 2019 under the heading "Risk Factors". Reference should also be made to the section "Caution Regarding Forward-Looking Statements" at the beginning of this document.

### **Recent Developments**

The 2018 calendar year proved to be a very healthy one for private equities and for private technology companies in particular. In addition, private equity buyers have now become significant buyers of private technology companies, rivaling strategic buyers. We believe that the recent record amounts of fundraising and all-time high valuations bode well for our private Portfolio Companies.

Given this backdrop, Pender did not add or decrease any positions during the year. We remain patient investors. We continue to work with our core positions, aiming to help these companies build their intrinsic value over the long-term.

### **Outlook**

We plan to proceed with our investment objectives with caution as we remain cognizant of the late cycle market environment that has been fueled by record low interest rates and easy monetary policies. Although the current environment has been beneficial for our Portfolio Companies and general market valuations, we know that this cycle, like all others before it, will end. The increased volatility that the public markets experienced at the end of 2018 may be a glimpse into our near future as the tides shift. Although it is never enjoyable to endure, increased volatility has the potential to bring opportunities to those who remain patient and diligent in their approach. It is our goal to continue to leverage the Pender's advantages, a small asset base and investment flexibility, to the benefit of all shareholders.

## PORTFOLIO OF INVESTMENTS

We are long-term investors and we remain committed to our investment theses for our Portfolio Companies. We maintained our holdings in our core positions throughout the year ended December 31, 2018, neither adding to nor selling any part of our investments.

The majority of Pender's Net Assets is comprised of private equity securities (93%) with publicly traded securities, cash and other liabilities making up the balance (7%). The significant trends and events for Portfolio Companies in the year ended December 31, 2018 are described in this section.

### Private Securities

Our investments in private Portfolio Companies continued to hold their value in 2018. We continue to work with our core positions, aiming to help these Portfolio Companies build their intrinsic value over the long-term.

#### One45 Software Inc.

Pender's largest investment as at December 31, 2018 was in One45 Software Inc. ("One45"), a software-as-a-service ("SaaS") provider of scheduling software to medical and other healthcare professional schools. We first invested in One45 in 2011, when we bought it from a public technology company that was looking to divest of its non-core assets. One45 was a stable business in a niche market with impressive customer retention metrics nearing 99% which were a testament to the company's product and customer support. However, underneath the seller's corporate umbrella we felt appropriate resources were not put to use to capture immediate revenue opportunities. Thus, our thesis at the time of investment was the business should materially benefit as a standalone company where incentives and resources could be better aligned for One45's shareholders. Since our investment this thesis has continued to play out largely as expected as the company has grown revenue over 300% through further US market penetration, increased cross selling and product improvements. To the benefit of all shareholders, Management has not sacrificed fiscal conservatism for growth, as the company remains profitable on a net income basis.

During 2018, One45 remained a market leader in its niche and added to its client base. It also continued development of its newest product with the aim of increasing its addressable market. One45 remains profitable and continues to grow its recurring revenue.

One45 is the Company's largest investment and represents over 40% of the Company's Net Assets. The Company has provided summary financial information for One45 for the years ended December 31, 2017 and December 31, 2018 below.



**Amounts in ('000s)**

<b>Balance Sheet Data</b>	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Current Assets	4,169	3,572
Long Term Assets	104	25
<b>Total Assets</b>	<b>4,273</b>	<b>3,597</b>
Current Liabilities	152	132
Long Term Liabilities	2,268	1,858
<b>Total Liabilities</b>	<b>2,420</b>	<b>1,990</b>
<b>Shareholders' Equity</b>	<b>1,853</b>	<b>1,607</b>
<b>Summary of Operations</b>	<b>Year Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Net Income</b>	<b>231</b>	<b>47</b>

**BasicGov Systems, Inc.**

BasicGov Systems, Inc. ("BasicGov") is also a SaaS-based company, offering modules for licensing, inspection, planning, permitting, code enforcement, fund accounting, and payment/billing management, to municipalities as well as provincial and state governments. We invested in BasicGov in 2011 and provided it with additional capital in 2014, 2015 and 2017. At the time of our initial investment we believed BasicGov was well positioned to benefit from the digitization of legacy government systems. A central tenet to our thesis was that BasicGov's decades of operational expertise in government environments would become a strong competitive advantage as these agencies were increasingly demanding customizable, comprehensive end-to-end solutions that were built specific to their needs. Throughout our investment the company has continued to grow revenues at a favorable pace, however BasicGov has experienced challenges in its goal of maintaining consistent profitability. These challenges are reflected in BasicGov's current carrying value in the Company.

BasicGov continues to grow its recurring annual contract value at a healthy rate. In 2018, Basic Gov added an Executive Chair to its board to guide the CEO in optimizing operations, scaling the company, positioning it for sustainable long-term growth and to draw the interest of potential acquirers.

**D-Wave Systems Inc.**

Another of Pender's interesting private Portfolio Companies is D-Wave Systems Inc. ("D-Wave"), a development stage company in the field of quantum computing systems. We invested in D-Wave in 2006 and provided additional capital in 2008 to help finance its development efforts. Our thesis at the time of our investment was predicated on the company's exceptional team and technological leadership within the revolutionary field of quantum computing. D-Wave continued to meet development milestone expectations, and we believed the company's trajectory would soon lead to small scale commercialised products. In 2009, a new CEO was hired to lead the transition from a research company into a leading commercial quantum application and systems company. Since then D-Wave has successfully sold to or collaborated with numerous fortune 500 companies to help solve their most advanced optimization problems. This steady execution has led to multiple follow-on financings that have been led by some of the most prominent global technology investors.

D-Wave continues to show promise as a technological leader in its field. During 2018, D-Wave received

substantial funding from private and public sources to continue its development efforts. The Public Sector Pension Investment Board added another \$20 million in funding, based on the D-Wave having met key technology and business milestones. D-Wave also received \$10 million from Sustainable Development Technology Canada for the development of its next generation system. D-Wave continues to make progress with new customers and applications, and we at Pender continue to believe in its potential.

#### **Tantalus Systems Corp.**

Tantalus Systems Corp. (“Tantalus”) provides Smart Grid communications technology that enables electric, gas and water utilities to optimize the use of resources and delivers the data that utilities and customers need to manage energy intelligently and cost-effectively. Pender first invested in Tantalus in 2000, providing capital for its growth efforts. We felt our most recent investment was an attractive risk reward opportunity given the company’s substantial revenue base, large customer roster and near term cash flow inflection.

In 2018, Tantalus met budgeted revenue and generated positive EBITDA. Tantalus continues to advance a number of strategic initiatives to deliver additional value to customers and to integrate their communications module into other metering platforms, such as those of Landis and Gyr.

#### **Navarik Corp.**

Founded in 2001, Navarik Corp. (“Navarik”) is the leader in on-demand software services that automate shipping logistics and physical trade operations in global crude oil, refined products and bulk commodities. Navarik’s mission is to create an open standards-based industry network that brings together all parties engaged in the physical movement and trading of maritime cargo to more effectively manage bulk commodities shipped around the globe. The Company first invested in Navarik in 2008. The Portfolio Company proved out tangible use cases to improve upon the large inefficiencies present in the movement of bulk commodities. This Portfolio Company remains one of the only solution providers exclusively focused on logistics and inspection automation within the bulk commodity industry. After large declines in revenue coming out of the financial crisis, operations have steadily improved since 2013 as Navarik continually increases its market penetration and displaces paper and excel based systems.

The current CEO joined the Portfolio Company in 2016 with a plan to improve the product and leverage its position as an intermediary between asset owners and inspection providers. In 2018, Navarik made significant progress towards its goals with the development of a new data focused centralized platform.

#### **Publicly-Traded Securities**

Volatility held sway in the public financial markets in 2018. Although the traded value of Pender’s publicly-listed Portfolio Companies declined as a result of market prices, negatively impacting Net Assets, we are patient, fundamental investors, and we believe that this market presents good potential opportunities for our public holdings.

#### **Espial Group Inc. – TSX:ESP**

Espial Group Inc. (“Espial”) provides software solutions to TV services providers and SmartTV manufacturers. In addition to a traditional licensing model, Espial also offers its cloud-based Elevate platform to operators. We first added the business to our portfolio in November 2016. The stock declined 43% over the year ended December 31, 2018 and 10% during Q4. Espial is transitioning its pricing model from a one-time licence to a recurring subscription or SaaS-based contracts model. We view this transition as positive for the business as it will decrease the variability in revenue over the long-term, even though the transition has the effect of reducing revenue in the short term.

**Redline Communication Group Inc. – TSX:RDL**

Redline Communication Group Inc. (“Redline”) develops wireless communication products and solutions for markets such as oil and gas, mining, telecom service providers, military organizations and governments. Customers in these markets have demanding requirements and rely heavily on Redline’s wireless network infrastructure to deliver high performance, secure communications over extended periods of time. We first added the business to the portfolio in April 2014. The stock declined 12% during the year ended December 31, 2018 and 20% during Q4, despite its business fundamentals improving with the rebound in the Oil & Gas industry and the growth in its LTE products.

**ProntoForms Corporation – TSXV:PFM**

ProntoForms Corporation’s (“ProntoForms”) solutions help small and medium businesses and enterprises transform paper forms to mobile forms. Its cloud-based solutions allow businesses and mobile workers to collect, process, and analyze field data in real-time through the use of mobile forms on their mobile devices. We first added the business to the portfolio in September 2017. The business grew 20% and expanded its customer base during the year. The stock declined 7.1% over the year-ended December 31, 2018 and 1.5% during Q4.

**Portfolio Turnover**

Our investment portfolio remained unchanged during 2018. We remained committed to our investment theses for our Portfolio Companies throughout the year and as a result we neither added to nor divested of any of our investments.

**OVERALL PERFORMANCE AND DISCUSSION OF OPERATIONS**

Pender’s goal is to create long-term capital appreciation for its investors, building on our 17.7% annualized return since inception on Class C Shares. We are long-term investors and we remained committed to our investment theses for the eight (8) Portfolio Companies we held as at December 31, 2018.

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. Similar to many listed investment entities, our shares may often trade at a price which is not 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, 2018, the value of our Net Assets per Share ranged from \$4.49 to \$4.14 per share, while our share price ranged from a high of \$4.75 per share to a low of \$3.01 per share. During the year the shares traded at prices that ranged from a premium of 5.8% to Net Assets per Share to a discount of 27.6%.

The Company’s Net Assets were \$17,205,308 as at December 31, 2018 versus \$18,630,640 as at December 31, 2017. This \$1,425,332 (8.3%) decrease in the 2018 financial year was attributable to investment performance and the total expenses of the Company.

See the “Financial Performance” and “Financial Condition” sections for further details.

There were no discontinued operations during the years ended December 31, 2016, 2017 or 2018.

The sectors in which the Company was invested as at December 31, 2018 are listed under “Summary of Investment Portfolio”.

Please see the “Past Performance” section for the performance of Class C Shares.

### QUARTERLY PERFORMANCE

As reported in Pender’s unaudited semi-annual financial statements as at June 30, 2018, in the first half of the year the value of the Company’s Net Assets went from \$18,630,640 to \$18,009,937, a 3.3% decline due to investment performance and total expenses of the Company. A decline in Net Assets per Share by 1.1% from \$4.49 to \$4.44 in the first quarter of 2018 (Q1) was followed by a 2.2% decline in Net Assets per Share during the second quarter of 2018 (Q2), from \$4.44 to \$4.34.

In the third quarter of 2018 (Q3) Net Assets per Share went from \$4.34 to \$4.30, a 0.9% decrease attributable to investment performance and total expenses of the Company. This was followed by a fourth quarter (Q4) decline in Net Assets per Share from \$4.30 to \$4.14, a 3.7% total decrease attributable to investment performance and total expenses of the Company.

During the Q4, Pender’s net decrease in shareholders’ equity was \$390,204, attributable to declines in the listed prices of Pender’s publicly listed Portfolio Companies due to the impact of negative market sentiment on the traded prices of the shares, as well as total expenses of the Company for the quarter. The most significant contribution to the change in unrealized depreciation came from Pender’s holding of Espial Group Inc., which declined by \$79,337.

Highlights of the factors contributing to Pender’s investment performance are presented in the “Portfolio of Investments” section of this MD&A.

### SELECTED ANNUAL INFORMATION

The following tables present selected key financial information about the Company to provide an understanding of the Company’s financial performance and financial condition in the year ended December 31, 2018, and for the three preceding financial years. This section should be read together with the Annual Audited Financial Statements.

Supplemental data as at December 31 of the stated year

	2018	2017	2016	2015
Net Assets (\$000s)	\$ 17,205	\$ 18,631	\$ 18,036	\$ 7,237
Non-Redeemable Class C Shares Outstanding	4,152,545	4,152,545	4,152,545	3,723,802
Net Assets per Share	\$ 4.14	\$ 4.49	\$ 4.34	\$ 1.94
Closing Market price*	\$ 3.10	\$ 4.55	\$ 3.04	\$ 0.74
Total increase (decrease) from operations per Share	\$ (\$0.34)	\$ 0.14	\$ 2.48	\$ 0.78

\*Market Price: Closing market price on the last trading day of the period as reported on the TSX Venture Exchange.

## FINANCIAL PERFORMANCE

	2018	2017	2016	2015
Net realized gain (loss)	\$ -	\$ 718,386	\$ 5,899,593	\$ 3,306,696
Change in net unrealized gain (loss)	(678,949)	727,410	5,126,126	39,942
Foreign exchange gain (loss)	2,987	(56,752)	(26,050)	236,293
Impairment of receivables	-	-	(18,623)	-
Dividend and interest income	3,370	214	81,190	225,935
<b>Total income</b>	<b>(672,592)</b>	<b>1,389,258</b>	<b>11,062,236</b>	<b>3,808,866</b>
Management fees	(472,524)	(499,522)	(540,541)	(420,618)
Withholding taxes, GST/HST and transactions cost	-	(5,198)	(3,625)	(32)
Other expenses	(280,216)	(290,193)	(650,010)	(289,290)
<b>Total expenses</b>	<b>(752,740)</b>	<b>(794,913)</b>	<b>(1,194,176)</b>	<b>(709,940)</b>
Net income (loss) before income taxes	(1,425,332)	594,345	9,868,060	3,098,926
Income tax (recovery)	-	-	-	-
<b>Net comprehensive income</b>	<b>\$ (1,425,332)</b>	<b>\$ 594,345</b>	<b>\$ 9,868,060</b>	<b>\$ 3,098,926</b>
Management expense ratio	4.18%	4.28%	6.49%	5.09%
Trading expense ratio	0.00%	0.03%	0.02%	0.00%

## (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 years because the investments that comprise the portfolio generally change each year.

During the year ended December 31, 2018 there was no portfolio turnover and as such there were no realized gains or losses on investments. Highlights of the factors contributing to Pender's investment performance in 2018 are presented in the "Portfolio of Investments" section of this MD&A.

In the year ended December 31, 2017 Pender realized a gain of \$718,386 due to the divestment of two publicly listed Portfolio Companies, Calyx Bio-Ventures Inc. and IWG Technologies Inc.

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

Net unrealized gains and losses on investments are the result of changes in the value of Portfolio Companies. They are generally not comparable between years because the investments that comprise the portfolio generally change each year.

During the year ended December 31, 2018, Pender's unrealized loss on investments increased by \$678,949, as negative market sentiment resulted in a decline in the traded prices of Pender's three publicly-listed Portfolio Companies, Espial, Redline and ProntoForms. Highlights of the factors contributing to Pender's investment performance in 2018 are presented in the "Portfolio of Investments" section of this MD&A.

In contrast, the year ended December 31, 2017 saw a net increase in unrealized gains in the amount of \$727,410, comprised of a \$1,505,492 increase in the valuation of private Portfolio Companies in the portfolio plus a decrease of \$778,082 in the market value of Pender's three remaining publicly-listed Portfolio Companies.

**FINANCIAL PERFORMANCE (CONTINUED)**

## (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, 2018 Pender incurred a foreign exchange gain of \$2,987 (2017 - a loss of \$56,752). At present, the Manager believes that the extent of the Company's US dollar-denominated assets does not warrant hedging the exposure to fluctuations in exchange rates.

## (d) Impairment of receivables

The Company has a balance receivable from divestiture of investments. The Manager's estimate of the recoverability of these receivables was unchanged in the financial year ended December 31, 2018 and 2017, so no impairment in receivables amount was recorded.

## (e) Dividend and interest income

The Company may earn dividend and/or interest income on its investments in securities, and interest income on its cash balances. The Company earned \$3,370 of interest in the year ended December 31, 2018 and \$214 in the year ended December 31, 2017.

## (f) Management Fees

The Company pays the Manager a management fee which is calculated as a percentage of Net Assets, so the fees vary from year to year in proportion to the variance in the average Net Assets. Accordingly, the \$472,524 management fee expense in the year ended December 31, 2018 was \$26,998 less than the fee of \$499,522 paid in the year ended December 31, 2017, which was \$41,019 less than the fee \$540,541 paid in the year ended December 31, 2016.

## (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 4.18% MER for the year ended December 31, 2018 was 0.10% lower than the 4.28% MER for the year ended December 31, 2017 due to reduced costs. The MER for the year ended December 31, 2017 was 2.21% lower than the MER in 2016, the year in which the Company resigned its registration as a VCC, and undertook the conversion and/or redemption of all classes of shares other than Class C.

**FINANCIAL PERFORMANCE (CONTINUED)**

## (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, 2018 was 0.00%, reflecting the fact that there were no portfolio transactions in the year. In the years ended December 31, 2017 was 0.03%, being 0.01% higher than the 2016 TER, reflecting the costs incurred for portfolio transactions in the year.

**FINANCIAL HIGHLIGHTS**

<b>Net Assets per Share</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Net Assets per Share (beginning of period)	\$4.49	\$4.34	\$1.94	\$1.16
<b>Increase (decrease) from operations:</b>				
Total revenue	0.00	0.00	0.02	0.06
Total expenses	(0.18)	(0.19)	(0.30)	(0.18)
Realized gains (losses)	0.00	0.17	1.48	0.89
Unrealized gains (losses)	(0.16)	0.16	1.28	0.01
<b>Total increase (decrease) from operations</b>	<b>(0.34)</b>	<b>0.14</b>	<b>2.48</b>	<b>0.78</b>
Distributions:				
From income (excluding dividends)	-	-	-	-
From dividends	-	-	-	-
From capital gains	-	-	-	-
Return of capital	-	-	-	-
<b>Total annual distributions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Assets per Share (end of period)</b>	<b>\$4.14</b>	<b>\$4.49</b>	<b>\$4.34</b>	<b>\$1.94</b>
<b>Ratios and Supplemental Data</b>				
Total net asset value (\$000s)	\$17,205	\$18,631	\$18,036	\$7,237
Number of shares outstanding	4,152,545	4,152,545	4,152,545	3,723,802
Closing market price	\$3.10	\$4.55	\$3.04	\$0.74

**FINANCIAL CONDITION**

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Assets</b>				
Investments	\$ 17,644,890	\$ 18,323,839	\$ 16,703,435	\$ 12,937,725
Cash	17,653	307,878	1,322,426	407,498
Receivable for investments sold	68,260	136,974	146,605	882,992
Interest receivable	-	-	-	18,623
<b>Total assets</b>	<b>17,730,803</b>	<b>18,768,691</b>	<b>18,172,466</b>	<b>14,246,838</b>
<b>Liabilities</b>				
Accounts payable and accrued expenses	76,718	94,493	81,425	48,921
Due to related parties	448,777	43,558	54,746	40,952
<b>Total liabilities</b>	<b>525,495</b>	<b>138,051</b>	<b>136,171</b>	<b>89,973</b>
<b>Shareholders' equity</b>	<b>\$ 17,205,308</b>	<b>\$ 18,630,640</b>	<b>\$ 18,036,295</b>	<b>\$ 14,156,965</b>

**FINANCIAL CONDITION (CONTINUED)****(a) Investments**

As at December 31, 2018, Pender's investments of 17,644,890 comprised publicly-listed Portfolio Companies valued at \$1,678,624 and private unlisted Portfolio Companies valued at \$15,966,266. The decrease of \$678,949 was due to the decrease in the value of publicly-listed Portfolio Companies, which was the result of negative market sentiment. See the "Portfolio of Investments" section of this MD&A for a discussion of the Company's investments and significant factors that affected them in 2018.

As at December 31, 2017, Pender's investments of \$18,323,839 comprised publicly-listed Portfolio Companies valued at \$2,357,573 and private unlisted Portfolio Companies valued at \$15,966,266. The portfolio increased by \$1,620,405 in 2017 as a result of net acquisitions of \$174,609, net realized gains on sale of Portfolio Companies of \$718,386 and a net increase in unrealized gains of \$727,410.

**(b) Cash**

Pender typically holds cash balances to invest in securities and pay expenses. Cash balances are monitored daily by the Manager. Since 2016, Pender has been fully invested in its Portfolio Companies and the cash on hand has been used to pay operating expenses. During the year ended December 31, 2018 the cash balance decreased by \$290,225, to \$17,653, as Pender paid management fees (see "Due to related parties" below) and operating expenses due to third parties.

As at December 31, 2017, the cash balance of \$307,878 reflected a decrease of \$1,014,548 from the prior year end due primarily to new investments.

**(c) Receivable for investments sold**

The receivable for investments sold relates to a divestiture of the Company's investment in a private Portfolio Company. This balance changes due to payments received and/or impairment adjustments. During the year ended December 31, 2018 the balance decreased by \$68,714, to \$68,260 due to receipt of a payment. During the year-ended December 31, 2017, the balance decreased by \$9,631 due the change in the US dollar exchange rate during the year.

**(d) Accounts payable and accrued expenses**

The Company's accounts payable and accrued expenses balance represents amounts due to third parties for operating expenses. During the year ended December 31, 2018 this balance decreased by \$17,775, to \$76,718, as the Company paid its accounts payable and accrued expenses in the normal course of business.

The balance increased by \$13,068 during the year ended December 31, 2017, to \$94,493, as the accounts payable and accrued expenses were increased in the normal course of business.



**FINANCIAL CONDITION (CONTINUED)****(e) Due to related parties**

The \$448,777 due to related parties at December 31, 2018 comprises unpaid management and administration fees owed to the Manager. This balance changes during the year due to timing of payments and the change in fees and other expenses due to the Manager. During 2018 the balance increased by \$405,219 from the prior year-end balance of \$43,558, as management fees due to the Manager accumulated without being paid.

The balance decreased by \$11,188 during the year ended December 31, 2017, to \$43,558, due to timing of payments and the change in fees and other expenses due to the Manager.

**(f) Shareholders' equity**

Shareholders' equity represents the equity in the Company owned by the holders of its non-redeemable Class C common shares, of which there were 4,152,545 outstanding as at December 31, 2018 and 2017.

**Cash Flows**

For the year ended December 31, 2018, Pender's cash balance declined by \$290,225 as cash was used to pay for operating expenses. No cash was generated from investing or divesting, financing or capital activities in the year. For the year ended December 31, 2017, the cash balance of \$307,878 reflected a decrease of \$1,014,548 from the prior year end due primarily to new investments. No cash was generated by financing or capital activities in 2017.

**Shareholder Activity**

There were no shares issued or redeemed during the years ended December 31, 2018 and 2017. During the year ended December 31, 2016 the Company converted its Class B shares into Class C and Class R shares and redeemed its Class R shares such that there are no longer any Class B or Class R shares outstanding. More information about the formation and history of the Company is available in its Annual Information Form dated March 19, 2019.

## SUMMARY OF QUARTERLY RESULTS

The tables below show information about Pender's financial performance for each quarter in the years ended December 31, 2018, 2017, and 2016. In each quarter, the net income or loss is a result of realized and unrealized gains and losses on investments, and operating expenses. A comparison of the information presented from quarter-to-quarter does not necessarily indicate any meaningful pattern or correlation.

	4 <sup>th</sup> Quarter 2018	3 <sup>rd</sup> Quarter 2018	2 <sup>nd</sup> Quarter 2018	1 <sup>st</sup> Quarter 2018
Net realized gain (loss)	\$ -	\$ -	\$ -	\$ -
Change in net unrealized gain (loss)	(223,683)	(242,585)	(166,833)	(45,847)
Foreign exchange gain (loss)	12,825	(4,332)	(2,423)	(3,084)
Impairment of receivables	-	-	-	-
Dividend and interest income	1,020	695	1,549	106
<b>Total income</b>	<b>(209,838)</b>	<b>(246,222)</b>	<b>(167,707)</b>	<b>(48,825)</b>
Management fees	(114,483)	(117,424)	(119,364)	(121,254)
Withholding taxes, GST/HST and transactions cost	-	-	-	-
Other expenses	(65,883)	(50,779)	(103,742)	(59,811)
<b>Total expenses</b>	<b>(180,366)</b>	<b>(168,203)</b>	<b>(223,106)</b>	<b>(181,065)</b>
<b>Net income (loss) before income taxes</b>	<b>(390,204)</b>	<b>(414,425)</b>	<b>(390,813)</b>	<b>(229,890)</b>
<b>Income tax (recovery)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net comprehensive income</b>	<b>\$ (390,204)</b>	<b>\$ (414,425)</b>	<b>\$ (390,813)</b>	<b>\$ (229,890)</b>
<b>Net Assets per Share (beginning of period)</b>	<b>\$ 4.30</b>	<b>\$ 4.34</b>	<b>\$ 4.44</b>	<b>\$ 4.49</b>
<b>Net Assets per Share (end of period)</b>	<b>\$ 4.14</b>	<b>\$ 4.30</b>	<b>\$ 4.34</b>	<b>\$ 4.44</b>

	4 <sup>th</sup> Quarter 2017	3 <sup>rd</sup> Quarter 2017	2 <sup>nd</sup> Quarter 2017	1 <sup>st</sup> Quarter 2017
Net realized gain (loss)	\$ (428,331)	\$ -	\$ -	\$ 1,146,717
Change in net unrealized gain (loss)	512,963	(240,641)	1,552,245	(1,097,157)
Foreign exchange gain (loss)	4,151	(31,821)	(20,938)	(8,143)
Impairment of receivables	-	-	-	-
Dividend and interest income	(7,282)	35	7,386	76
<b>Total income</b>	<b>81,501</b>	<b>(272,427)</b>	<b>1,538,693</b>	<b>41,493</b>
Management fees	(121,956)	(124,128)	(124,017)	(129,421)
Withholding taxes, GST/HST and transactions cost	-	-	-	-
Other expenses	(95,064)	(24,708)	(163,364)	(12,257)
<b>Total expenses</b>	<b>(217,020)</b>	<b>(148,836)</b>	<b>(287,381)</b>	<b>(141,678)</b>
<b>Net income (loss) before income taxes</b>	<b>\$ (135,519)</b>	<b>\$ (421,263)</b>	<b>\$ 1,251,312</b>	<b>\$ (100,185)</b>
<b>Income tax (recovery)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net comprehensive income</b>	<b>\$ (135,519)</b>	<b>\$ (421,263)</b>	<b>\$ 1,251,312</b>	<b>\$ (100,185)</b>
<b>Net Assets per Share (beginning of period)</b>	<b>\$ 4.53</b>	<b>\$ 4.62</b>	<b>\$ 4.32</b>	<b>\$ 4.34</b>
<b>Net Assets per Share (end of period)</b>	<b>\$ 4.49</b>	<b>\$ 4.53</b>	<b>\$ 4.62</b>	<b>\$ 4.32</b>

## SUMMARY OF QUARTERLY RESULTS (CONTINUED)

	4 <sup>th</sup> Quarter 2016	3 <sup>rd</sup> Quarter 2016	2 <sup>nd</sup> Quarter 2016	1 <sup>st</sup> Quarter 2016
Net realized gain (loss)	\$ 6,491,300	\$ (79,316)	\$ (512,391)	\$ -
Change in net unrealized gain (loss)	5,689,155	(3,865,088)	3,302,059	-
Foreign exchange gain (loss)	13,880	21,710	(21,574)	(40,066)
Impairment of receivables	(18,623)	-	-	-
Dividend and interest income	32	3	58	81,097
<b>Total income</b>	<b>12,175,744</b>	<b>(3,922,691)</b>	<b>2,768,152</b>	<b>41,031</b>
Management fees	(216,461)	(111,225)	(117,809)	(95,046)
Withholding taxes, GST/HST and transactions cost	(3,545)	(80)	-	-
Other expenses	(419,645)	(58,313)	(113,785)	(58,267)
<b>Total expenses</b>	<b>(639,651)</b>	<b>(169,618)</b>	<b>(231,594)</b>	<b>(153,313)</b>
<b>Net income (loss) before income taxes</b>	<b>11,536,093</b>	<b>(4,092,309)</b>	<b>2,536,558</b>	<b>(112,282)</b>
<b>Income tax (recovery)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net comprehensive income</b>	<b>\$ 11,536,093</b>	<b>\$ (4,092,309)</b>	<b>\$ 2,536,558</b>	<b>\$ (112,282)</b>
<b>Net Assets per Share (beginning of period)</b>	<b>\$ 1.58</b>	<b>\$ 2.55</b>	<b>\$ 1.97</b>	<b>\$ 1.94</b>
<b>Net Assets per Share (end of period)</b>	<b>\$ 4.34</b>	<b>\$ 1.58</b>	<b>\$ 2.55</b>	<b>\$ 1.97</b>

## FOURTH QUARTER RESULTS

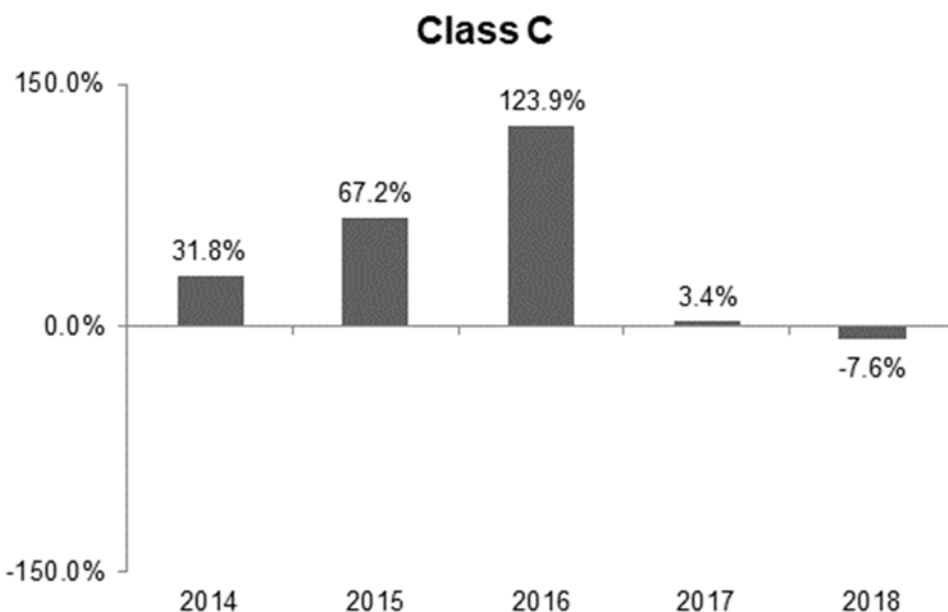
The following table presents the fourth quarter results for the current fiscal year and the two preceding years. Variations between the quarters presented relates primarily to investment decisions made by the Manager in each quarter, which are the result of the Manager's expectations as to future performance of its Portfolio Companies, market factors, cash flow requirements and the outlook for the future. See "Overall Performance and Discussion of Operations" and "Quarterly Performance" for additional quarterly information.

	4 <sup>th</sup> Quarter 2018	4 <sup>th</sup> Quarter 2017	4 <sup>th</sup> Quarter 2016
Net realized gain (loss)	\$ -	\$ (428,331)	\$ 6,491,300
Change in net unrealized gain (loss)	(223,683)	512,963	5,689,155
Foreign exchange gain (loss)	12,825	4,151	13,880
Impairment of receivables	-	-	(18,623)
Dividend and interest income	1,020	(7,282)	32
<b>Total income</b>	<b>(209,838)</b>	<b>81,501</b>	<b>12,175,744</b>
Management fees	(114,483)	(121,956)	(216,461)
Withholding taxes, GST/HST and transactions cost	-	-	(3,545)
Other expenses	(65,883)	(95,064)	(419,645)
<b>Total expenses</b>	<b>(180,366)</b>	<b>(217,020)</b>	<b>(639,651)</b>
<b>Net income before income taxes</b>	<b>(390,204)</b>	<b>(135,519)</b>	<b>11,536,093</b>
<b>Income tax (recovery)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net comprehensive income</b>	<b>\$ (390,204)</b>	<b>\$ (135,519)</b>	<b>\$ 11,536,093</b>

**PAST PERFORMANCE**

To illustrate how the Company’s performance has varied over time, the following bar chart shows the Company’s performance for the calendar years indicated. 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 Net Assets per Share and is not based on its market price on the TSX-V. 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 below relates to the period when the Company was subject to the Investment Funds Regime. The Company is now subject to the Corporate Issuer Regime. Please see the disclosure under “Reporting Regime”.



**SUMMARY OF INVESTMENT PORTFOLIO**

Pender’s largest Portfolio Companies as at the end of the period and the major asset classes in which Pender was invested are indicated below. Where Pender has less than 25 holdings, the table will show the entire investment portfolio. The investment portfolio may change due to ongoing portfolio transactions. See also the “Schedule of Investment Portfolio” in the Annual Audited Financial Statements.

**Summary of Top 25 Holdings**

	<b>% OF NET ASSETS</b>
Private unlisted investments*	92.8
Espial Group Inc.	4.4
Redline Communications Group Inc.	3.2
ProntoForms Corporation	2.2

**Summary of Composition of the Portfolio**

	<b>% OF NET ASSETS</b>
Software and services	63.2
Technology hardware and equipment	29.6
Information technology	9.8
<b>TOTAL INVESTMENTS</b>	<b>102.6</b>
Cash	0.1
Other assets less liabilities	-2.7
<b>TOTAL NET ASSETS</b>	<b>100.0</b>

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\* The value of these investments is disclosed on an aggregate basis due to the nature of private unlisted investments. See Pender's financial statements for more information. The names of these private Portfolio Companies are listed in the table below.

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**COMMON SHARES**

BasicGov Systems, Inc.  
Navarik Corp.  
One45 Software Inc.

**PREFERRED SHARES**

D-Wave Systems Inc., Class B, Convertible  
D-Wave Systems Inc., Class C, Convertible  
Tantalus Systems Corp., Class D, Convertible

**CONVERTIBLE AND OTHER NOTES**

BasicGov Systems, Inc., 15%, Demand

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**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 March 19, 2019 the Company has 4,152,545 Class C Shares outstanding.

**TRANSACTIONS BETWEEN RELATED PARTIES**

As at December 31, 2018, directors and officers of the Manager directly and/or indirectly held 14.4% of the Company's Class C Shares.

As at December 31, 2018, directors and officers of the Manager directly and/or indirectly owned 790,904 shares or 3% of issued and outstanding shares of BasicGov Systems, Inc., one of Pender's Portfolio Companies.

Pender pays management fees and performance fees to the Manager for management and portfolio advisory services. The Manager also recovers certain operating expenses incurred by it on behalf of the Company.

The management fee paid to the Manager is equal to 2.50% of the value of Pender's Net Assets up to \$50,000,000 and 2.00% of the value of Pender's Net Assets in excess of \$50,000,000. The management fee is calculated and paid monthly.

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 high water mark, being the year-end value of Net Assets per Share for the most recent preceding year in which a performance fee was earned. Subject to the accumulation of the hurdle rate in years in which no performance fee is payable, the high water mark will not be reset other than to be adjusted in the event of a subdivision or consolidation of the shares. No performance fee was paid in respect of the year ended December 31, 2018, or in respect of the three preceding financial years.

**LIQUIDITY AND CAPITAL RESOURCES**

The Company has no significant financial or contractual obligations other than accounts payable in the normal course of business. The Company holds approximately 9.8% of its assets in publicly traded securities with a market value of approximately \$1,678,624, part of which could be liquidated to meet the Company's operating expense requirements.

The Company's publicly listed securities can be disposed of with relative ease. Should the future composition of its portfolio be weighted significantly more toward private investments that cannot be readily 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. The Manager is presently extending credit to the Company to cover its working capital requirements. Should it be necessary, the Company's publicly held securities could be liquidated to repay the Manager and fund working capital requirements.

In 2018, the Company did not undertake any financing activities. As at the date of this MD&A, the Company does not have any capital expenditure commitments.

**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 and other debt instruments issued by its private Portfolio Companies. Details of these holdings are set forth under "Summary of Investment Portfolio".

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 9 of the Annual Audited Financial Statements and relates to the determination of fair value of investments with significant unobservable inputs.

The Company uses widely recognized valuation models for determining the fair value of relatively simple financial instruments which are publicly traded, such as debt and equity securities, mutual fund units and warrants that use only observable market data and require little management judgment and estimation.

Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple OTC derivatives such as forward foreign currency contracts. The availability of observable market prices and model inputs reduces the need for management judgment and estimation, and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Company uses recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are 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; 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 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 other developments since acquisition.

Significant unobservable inputs are developed as follows:

(i) 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 respective company.

(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 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 hold securities which 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**

IFRS 9 - The Company has adopted IFRS 9 Financial Instruments ("IFRS 9") with a date of initial application of January 1, 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"), which it replaces. IFRS 9 specifies the accounting for financial instruments, including classification and measurement, impairment, and hedge accounting. The adoption of IFRS 9 has been applied retrospectively. The nature and effects of the key changes to the

Company's accounting policy are summarized below.

Classification and measurement of financial assets and liabilities:

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The Company may also, at initial recognition, irrevocably designate a financial asset as measured at FVTPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available-for-sale.

A financial liability is generally measured at amortized cost, with exceptions that may allow for classification as FVTPL. These exceptions include financial liabilities that are mandatorily measured at FVTPL, such as derivatives liabilities. The Company may also, at initial recognition, irrevocably designate a financial liability as measured at FVTPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency.

The adoption of IFRS 9 did not result in any measurement differences in the Company's financial assets and liabilities as at the transition date. The following table shows the original classification and measurement categories under IAS 39 and the new classification and measurement categories under IFRS 9 for the Company's financial assets and financial liabilities as at January 1, 2018.

#### CHANGES IN ACCOUNTING POLICIES (CONTINUED)

	Original Classification under IAS 39	New Classification under IFRS 9
<b>Financial assets:</b>		
Cash	Loans and receivables	Amortized cost
Receivable for investments sold	Loans and receivables	Amortized cost
Subscriptions receivable	Loans and receivables	Amortized cost
Dividends receivable	Loans and receivables	Amortized cost
Interest receivable	Loans and receivables	Amortized cost
Other receivables	Loans and receivables	Amortized cost
Investments	FVTPL	FVTPL
<b>Financial liabilities:</b>		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Management and administration fees payable	Other financial liabilities	Amortized cost
Performance fee payable	Other financial liabilities	Amortized cost
Distributions payable to holders of redeemable shares	Other financial liabilities	Amortized cost
Redemptions payable to holders of redeemable shares	Other financial liabilities	Amortized cost
Due to related parties	Other financial liabilities	Amortized cost

#### 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.**

1640–1066 West Hastings St.  
Vancouver BC V6E 3X1

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

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