

**MANAGEMENT'S DISCUSSION & ANALYSIS**

**PENDER GROWTH FUND INC.**

Three months and nine months ended September 30, 2019

**PENDER**

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## INTRODUCTION

This Management's Discussion and Analysis ("MD&A") dated November 21, 2019 presents a review of the unaudited financial results for Pender Growth Fund Inc. ("Pender" or the "Company") for the three months and nine months ended September 30, 2019 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 unaudited condensed interim financial statements of Pender and the notes thereto for the three months and nine months ended September 30, 2019 (the "Condensed Interim Financial Statements") and the audited financial statements of Pender and notes thereto for the year ended December 31, 2018 (the "Annual Audited Financial Statements"). All amounts shown in this MD&A are presented in Canadian dollars unless otherwise specified.

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

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

### Caution Regarding Forward-Looking Statements

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

In addition, any statement made concerning future performance, strategies or prospects and possible future Company action is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to risks, uncertainties and assumptions about the Company and economic factors, among other things. Forward looking statements in this MD&A include, without limitation: statements with respect to the future performance of the Company's portfolio companies; future transactions involving its portfolio companies (including acquisitions of such portfolio companies); the Company's investment approach, objectives and strategies, including its focus on specific sectors; the structuring of its investments and its expectations regarding the performance of certain sectors.

Forward-looking statements are not guarantees of future performance and actual events and results could differ materially from those expressed or implied in any forward-looking statements. Any number of important factors could contribute to these differences, including but not limited to: the ability of the Company to source additional investments; risks related to the emerging technology sector; 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 its investment objectives and strategies.

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

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

### Non-IFRS Measures

The Company prepares and releases Condensed Interim Financial Statements and Annual Audited Financial Statements in accordance with IFRS. In this MD&A, we complement IFRS disclosures with a number of the key indicators that we use to evaluate the performance and condition of our business. These supplementary key performance indicators include Net Assets, Net Assets per Share, Management Expense Ratio and Trading Expense Ratio. They are not recognized under IFRS nor do they have a standard meaning prescribed by IFRS. We present them to enhance the reader's ability to evaluate the Company. They may not be directly comparable to similar measures used by other companies and readers are cautioned not to view the non-IFRS measures as alternatives to IFRS measures.

#### Net Assets

The Company uses two financial measures that are individually recognized under IFRS, assets and liabilities, to calculate Net Assets, which is a non-IFRS measure. The calculation of Net Assets as at September 30, 2019 and December 31, 2018 is presented in the following table:

Net Assets	September 30, 2019	December 31, 2018
Assets	\$ 31,984,305	\$ 17,733,328
LESS: Liabilities	191,732	528,020
EQUALS Net Assets	\$ 31,792,573	\$ 17,205,308

#### Net Assets per Share

The Company uses three financial measures that are individually recognized under IFRS, assets, liabilities and number of shares outstanding, to calculate Net Assets per Share, which is a non-IFRS measure. The calculation of Net Assets per Share, as at September 30, 2019 and December 31, 2018 is presented in the following table:

Net Assets per Share	September 30, 2019	December 31, 2018
Assets	\$ 31,984,305	\$ 17,733,328
LESS: Liabilities	191,732	528,020
EQUALS Net Assets	\$ 31,792,573	\$ 17,205,308
DIVIDED BY Number of Shares Outstanding	8,083,329	4,152,545
EQUALS Net Assets per Share	\$ 3.93	\$ 4.14

#### Management Expense Ratio

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

#### Trading Expense Ratio

The Company uses Trading Expense Ratio ("TER") to represent the total amount of commissions and other portfolio transaction costs (the "TER Costs") that is borne by each outstanding share. The TER is an annualized percentage calculated by dividing total TER Costs by the average Net Assets.

**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 a primary factor in Pender's investment strategy. Pender will also invest in special situations, using available cash to take advantage of attractive internal rate of return situations, for example. 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 the convergence from current market price to intrinsic value or through the growth of intrinsic value over time, or through a combination of both.

Pender's mandate provides flexibility so that it may invest in securities that 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 dependent 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 September 30, 2019, Pender has investments in a total of eleven (11) Portfolio Companies: six (6) private companies and five (5) 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 time horizon. 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. It may be relatively difficult for Pender to dispose of its investment in a private company rapidly at favourable prices due to 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.

In the current environment, Pender faces competition from a large number of other capital providers and there can be no assurance that suitable investments will be found. Despite this increased availability of private capital, financing for development stage technology companies remains limited and subject to pricing and terms that are based on the performance of the investee company, 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 in the portfolio, industry concentration and the relatively limited number of investments in the portfolio.

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

The risks associated with an investment in Pender are more fully described in its Annual Information Form dated 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 three months ended September 30, 2019 continued to be healthy for private equities and for private technology companies in particular. Private equity buyers have become significant buyers of private technology companies, rivaling strategic buyers. We believe that the continued recent record amounts of fundraising and all-time high valuations bode well for our private Portfolio Companies.

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.

On May 10, 2019 the Company completed a secondary offering of Class C shares on the TSX-V for aggregate proceeds of \$15,015,000. On May 24, 2019 the Company announced the syndicate of agents had exercised their option to purchase over-allotment shares which brought the total gross proceeds from the offering to \$15,330,058. The secondary offering resulted in underwriting fees of \$433,075 and other offering expenses of \$332,155, which resulted in total net proceeds of \$14,564,828. The secondary offering resulted in the issuance of 3,930,784 Class C shares, increasing total outstanding Class C shares to 8,083,329 as at September 30, 2019. The Company intends to use the net proceeds for working capital purposes and to invest in public and private investment opportunities principally in the information technology and telecommunications sectors, in accordance with the Company's investment strategies.

In May 2019, Espial Group Inc. ("Espial"), one of Pender's publicly listed Portfolio Companies was acquired by Enghouse Systems Limited ("Enghouse") for \$1.57 in cash per share, pursuant to the terms of a March 22, 2019 arrangement agreement. The acquisition price represented a 39% premium over the closing price of the Espial shares the day prior to the announcement of the acquisition. Pender no longer owns any securities of Espial.

During the period Pender added one private investment, Newtopia Inc. and three publicly traded companies, Crown Capital Partners Inc., Quorum information Technologies Inc. and Vigil Health Solutions

Inc. into the portfolio. Pender also added to its existing position in one publicly traded company, ProntoForms Corporation (“ProntoForms”).

#### Outlook

We plan to continue to pursue 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 believe that this cycle, like all others before it, will end. The increased volatility that the public markets experienced at the end of 2018 and the quick recovery in the first quarter of 2019 served as a reminder how quickly investor sentiment can shift. More recently, market sentiment has been influenced by developments in the Sino-US trade war and worries about a slowing global economy. Despite market trends, we continue to invest with the goal of leveraging Pender’s advantages, its small asset base and investment flexibility, to the benefit of all shareholders.

### PORTFOLIO OF INVESTMENTS

We are long-term investors and we remain committed to our investment theses for our Portfolio Companies. During the three months ended September 30, 2019 we added one private and three public companies to the portfolio and increased our holdings in one of our public Portfolio Companies.

The one new private company added to the portfolio in the quarter is Newtopia, a software health and wellness platform. The three public companies added to the portfolio are Crown Capital Partners, a specialty finance company, Quorum Information Technologies Inc., a company providing software and service solutions for automotive dealerships and Vigil Health Solutions, a technology platform servicing the seniors’ housing market.

We also divested of our position in Espial in connection with its acquisition by Enghouse earlier in the year.

As at September 30, 2019, the weight of our holdings as a percentage of Net Asset Value had decreased by 43.8% from their weight as at December 31, 2018, as a result of the inflow of capital from the secondary offering of Class C shares completed in the second quarter of 2019.

The majority of Pender’s Net Assets is comprised of private equity investments (51.0%), with publicly traded securities, cash and other liabilities making up the remainder (49.0%). The significant trends and events for Pender’s Portfolio Companies in the three months and nine months ended September 30, 2019 are described in this section.

#### Private Securities

Our investments in private Portfolio Companies continued to hold their value in the three and nine month periods ended September 30, 2019. 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.

As at September 30, 2019, Pender’s largest investment was in One45 Software Inc. (“One45”), a software-as-a-service (“SaaS”) provider of data management software to medical and other healthcare professional schools. We first invested in One45 in 2011, when we acquired it from a public technology company that was looking to divest its non-core assets. One45 was a stable business in a niche market with impressive

customer retention metrics nearing 99%, a testament to the company's product and customer support. However, underneath the seller's corporate umbrella we felt appropriate resources were not being put to use to capture immediate revenue opportunities. Thus, our thesis at the time of investment was that 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.

During the three months and the nine months ended September 30, 2019, One45 remained a market leader in its niche, working to grow its client base. The company has identified a growth opportunity and in 2019 is investing in the development of its newest product with the goal of increasing its addressable market. This investment is funded with the Portfolio Company's own cashflow and the product under development is expected to increase its addressable market. The company is focused on ramping up utilization of the new product with its early adopters. The investment in One45 represents over 25% of Pender's Net Assets.

### **BasicGov Systems, Inc.**

BasicGov Systems, Inc. ("BasicGov") is also a SaaS company, offering modules for licensing, inspection, planning, permitting, code enforcement, fund accounting and payment/billing management to municipalities as well as to 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 of our thesis was that BasicGov's decades of operational expertise in government environments would become a strong competitive advantage as governmental agencies were increasingly demanding customizable, comprehensive end-to-end solutions that were built specific to their needs. From the time of our initial investment and through the third quarter of 2019, the company has significantly grown its revenues but has experienced challenges in its goal of maintaining consistent profitability. These challenges are reflected in BasicGov's current carrying value in the portfolio.

BasicGov is on track to grow its recurring annual contract value in 2019. In 2018, BasicGov added an Executive Chair to its board who continues to assist the CEO in working towards optimizing operations and positioning the company for sustainable long-term growth.

### **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 commercialized 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 notable companies and organizations to help them work toward solving their most advanced optimization problems. This steady execution has led to multiple follow-on financings by prominent global technology investors.

In September 2019 D-Wave announced that its next-generation quantum system will be named Advantage, which is designed to speed the development of commercial quantum applications and power a new

hardware and software platform that will accelerate and ease the delivery of quantum computing applications. In parallel with that announcement, Los Alamos National Laboratory, a long-time customer of D-Wave's, also announced that they have signed a contract to upgrade to the Advantage quantum system when it is available.

D-Wave continues to make progress with new customers and applications. Today there are more than 150 existing early customer-developed applications in areas as diverse as financial modeling, airline scheduling, election modeling, quantum chemistry simulation, automotive design, preventative healthcare, logistics, and more.

### **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 that 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 that our support of Tantalus, and our most recent investment in 2016, was an attractive risk reward opportunity given the company's substantial revenue base, large customer roster and expected cash flow inflection.

In its last completed fiscal year ended December 31, 2018, Tantalus met budgeted revenue and generated positive EBITDA. During the three months and nine months ended September 30, 2019 Tantalus is tracking towards another EBITDA positive year for 2019.

In May 2019 Tantalus announced the addition of a new load control switch to its existing product portfolio. The new switch provides a compact and cost-effective solution capable of managing residential and commercial electrical loads, which further assists utilities seeking to build a sustainable business model and improve customer service.

Tantalus continues to advance a number of strategic initiatives to deliver additional value to customers and to integrate its 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. Pender first invested in Navarik in 2008.

Navarik faced large declines in revenue coming out of the financial crisis however operations have steadily improved since 2013 and 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. During the three months and nine months ended September 30, 2019, Navarik continued to make significant progress towards its goals with the development of TICit Hub. In Q3 2019 announced the integration of a new global testing, Inspection and certification company to the TICit Hub platform. TICit Hub is the next generation of products by Navarik, designed to further enhance the end-to-end cargo inspection management process, both for the cargo

shipper and for the cargo inspector.

### **Newtopia Inc.**

Newtopia is a provider of a personalized health and wellness platform designed to bring sustainable health and well-being to the workplace. The company's platform offers customized care plans for disease prevention by combining genetic testing, personalized coaching and smart technology, enabling companies to reduce their healthcare costs.

Newtopia announced in September that it intends to apply to list on the TSX Venture Exchange. Pender invested in Newtopia in July 2019 as part of a financing to be used for working capital and general corporate purposes ahead of the planned listing. The company is using its reasonable efforts to complete the listing and filed a preliminary prospectus in September.

### **Publicly Traded Securities**

The volatility that held sway in the public financial markets in the first half of 2019 continued through the third quarter. Crown Capital Partners, Quorum Information Technologies Inc. and Vigil Health Solutions were added to the portfolio in the third quarter of 2019. The traded value of Pender's other two publicly listed Portfolio Companies experienced mixed performance due to market sentiment; an increase for ProntoForms and a decrease for Redline. Overall the traded value of these positions increased during the nine months ended September 30, 2019. We continue to be patient, fundamental investors, and we believe that this market presents good potential opportunities for our public holdings.

### **ProntoForms Corporation – TSX-V:PFM**

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.

In August 2019 ProntoForms released its second quarter 2019 results highlighting that recurring revenue had increased by 26% to US\$3.3 million in the second quarter of 2019, compared to US\$2.6 million in the second quarter of 2018, and this was an increase of 5% compared to US\$3.2 million in the first quarter of 2019.

During the three months ended September 30, 2019, ProntoForms' share price increased by 4% for a total increase of 66% over the nine months ended September 30, 2019.

### **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.

In August 2019 Redline released its second quarter results, reporting that revenues for the second quarter of 2019 were \$5.7 million, a decrease of \$1.6 million or 22% over the same period in 2018 and largely unchanged from Q1 2019. In both time frames, lower comparable sales to the oil and gas sector were

partially offset by increased sales to telecom service providers. Overall gross margin for the second quarter of 2019 was 59%, compared to 55% in the same period in 2018. The increase reflects the product mix which consisted of higher margin sector controller hardware and software keys. Redline reported that its immediate priorities are to generate more sales in attractive verticals, to streamline production and deliveries, and to manage costs.

Redline's share price decreased by 6% during the third quarter of 2019 and remained down 4% for the nine months ended September 30, 2019.

#### **Crown Capital Partners Inc. – TSX:CRWN**

Crown Capital Partners Inc. ("Crown") is a finance company that specializes in providing debt financing to both private and public mid-market businesses. In addition to deploying capital as a principal investor, Crown develops, manages and coinvests in alternative investment funds. We added the business to the portfolio in September 2019.

In August 2019, Crown reported that revenue increased to \$11.0 million for the second quarter of 2019, compared with \$9.0 million in the second quarter of 2018. The year-over-year increase was due mainly to an unexpected recovery of a \$4.0 million which had previously been fully provisioned for.

Crown is a founder-led company focused on segments of the market where there is an ongoing funding gap. This gap is more pronounced during periods in the cycle when many traditional capital providers pull back. Market conditions for deploying capital in Crown's special situations market segment are currently softer than usual due to a heightened level of competition from traditional finance providers, which has resulted in a contraction in the pipeline of potential transactions. As Crown continues to execute its plan and to deploy capital in new originations, it expects to generate growing cash flow and build long-term value for Shareholders.

Crown's share price decreased by 9% during the third quarter of 2019 and down 27% for the nine months ended September 30, 2019.

#### **Vigil Health Solutions Inc. – TSX-V:VGL**

Vigil Health Solutions Inc. ("Vigil") offers a software and hardware technology platform to provide comprehensive solutions to the seniors' housing market. Its product range includes discreet 'mini pendants', a nurse call system, mobile fall, and resident check in. Vigil has established a growing presence in North America and an international reputation for being on the leading edge of systems design and integration. We added the business to the portfolio in August 2019.

In August 2019, Vigil released its fiscal 2020 first quarter results, highlighting that sales bookings for the first quarter of 2020 was up 22% over the same period in fiscal 2019. The company experienced 20% decline in revenue in the quarter, due to a combination of lower bookings in the previous fiscal year and construction schedules negatively impacting revenue and earnings. Vigil reported that it is in the installation phase of a number of larger projects expected to commission in the latter half of fiscal 2020.

Vigil's share price increased by 21% during the third quarter of 2019 and increased by 4% for the nine months ended September 30, 2019.

**Quorum Information Technologies Inc. – TSX-V:QIS**

Quorum Information Technologies Inc. (“Quorum”) offers software solutions to automotive dealerships in both Canada and US. Its core solution is a Dealership Management System (DMS) that automates, integrates and streamlines key processes across departments in a dealership. Through acquisitions, Quorum has added other solutions such as a sales and service Customer Relationship Management system and set of Business Development Center services. We added the business to the portfolio in July 2019.

In August 2019, Quorum released its second quarter results reporting total revenue increased to \$8.2 million, highlighting SaaS revenue in the quarter was \$5.44 million, or 66% of total revenue, and Business Development Centre (“BDC”) revenue was \$1.98 million, or 24% of total revenue. Quorum’s annual run rate based on June 2019 is now \$22.3 million for its SaaS revenue and \$8.5 million for its BDC revenue, and 90% of Quorum’s revenues are under long-term or evergreen contracts.

During the three months ended September 30, 2019, Quorum’ share price increased by 25% for a total increase of 39% over the nine months ended September 30, 2019.

**Portfolio Turnover**

The Company’s portfolio turnover was 0.00% during the three months and 5.82% during the nine months ended September 30, 2019. Our investment portfolio remained unchanged during the year ended December 31, 2018. The portfolio turnover rate is based on the lesser of purchases and proceeds of sales of securities during a period as a percentage of the average value of the Company’s investments in that period. While the portfolio turnover rate is not necessarily related to performance, in general, lower turnover rates result in lower trading costs and may reduce realized capital gains and losses.

**OVERALL PERFORMANCE AND DISCUSSION OF OPERATIONS**

Pender’s goal is to create long-term capital appreciation for its investors, and to continue to build on the 15.5% annualized return since inception on its Class C Shares. We are long-term investors and we remain committed to our investment theses for the eleven (11) Portfolio Companies we held as at September 30, 2019.

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 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 three months ended September 30, 2019, the value of our Net Assets per Share ranged from \$3.93 to \$3.94, while our share price ranged from a high of \$3.80 to a low of \$3.30 per share. During this three-month period the shares traded at prices that ranged from a discount of 3.50% to Net Assets per share to a discount of 16.01%.

During the nine months ended September 30, 2019, the value of our Net Assets per Share ranged from \$3.93 to \$4.24 per share, while our share price ranged from a high of \$4.05 per share to a low of \$3.00 per share. During this nine-month period the shares traded at prices that ranged from a premium of 2.56% to

Net Assets per Share to a discount of 28.42%.

The Company's Net Assets were \$31,792,573 as at September 30, 2019 versus \$31,834,458 as at June 30, 2019. This \$41,885 (-0.1%) decrease for the three months ended September 30, 2019 was attributable to investment performance of \$173,984 offset by operating costs net of income of \$210,766 and \$5,103 of final costs relating to the May 2019 issuance of shares further described in the "Recent Developments" section of this MD&A.

The Company's Net Assets were \$31,792,573 as at September 30, 2019 versus \$17,205,308 as at December 31, 2018. This \$14,587,265 (85%) increase for the nine months ended September 30, 2019 was attributable to an increase of \$700,522 from investment performance, operating costs net of income of \$678,085 and net proceeds of \$14,564,828 from the May 2019 issuance of shares further described in the "Recent Developments" section of this MD&A.

There were no discontinued operations during the three months or the nine months ended September 30, 2019 and 2018.

Please refer to the "Financial Performance" and "Financial Condition" sections of this MD&A for additional details and to the "Past Performance" section of this MD&A for the performance of Class C Shares. The sectors in which the Company was invested as at September 30, 2019 are listed under the "Summary of Investment Portfolio" section of this MD&A.

## SELECTED FINANCIAL INFORMATION

The following tables present selected key financial information about the Company to provide an understanding of the Company's financial condition as at September 30, 2019 compared to September 30, 2018 and to December 31, 2018, 2017 and 2016, as well as the Company's financial performance in the three months ended September 30, 2019 compared to the three months ended September 30, 2018, and the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. This section should be read together with the Condensed Interim Financial Statements and the Annual Audited Financial Statements.

### Supplemental Data

	2019 Q3 (3 months)	2018 Q3 (3 months)	2018	2017	2016
Net Assets (\$000s)	31,793	17,596	17,205	18,631	18,036
Non-Redeemable Class C Shares Outstanding	8,083,329	4,152,545	4,152,545	4,152,545	4,152,545
Net Assets per Share (\$)	3.93	4.24	4.14	4.49	4.34
Closing Market price* (\$)	3.44	4.10	3.10	4.55	3.04
Total increase (decrease) from operations per Share (\$)	(0.01)	(0.10)	(0.35)	0.15	2.48

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

## Financial Performance

	2019 Q3 (3 months)	2018 Q3 (3 months)	2019 Q1-Q3 (9 months)	2018 Q1-Q3 (9 months)
Net realized gain (loss)	\$ 125,405	\$ -	\$ (115,223)	\$ -
Change in net unrealized gain (loss)	48,579	(242,585)	815,745	(455,265)
Foreign exchange gain (loss)	2,110	(4,332)	(674)	(9,839)
Dividend, interest and securities lending income	65,179	695	102,839	2,350
<b>Total income</b>	<b>241,273</b>	<b>(246,222)</b>	<b>802,687</b>	<b>(462,754)</b>
Management fees	(175,866)	(117,424)	(445,963)	(358,042)
Withholding taxes, GST/HST and transactions cost	(4,695)	-	(5,419)	-
Other expenses	(97,494)	(50,779)	(328,868)	(214,332)
<b>Total expenses</b>	<b>(278,055)</b>	<b>(168,203)</b>	<b>(780,250)</b>	<b>(572,374)</b>
<b>Net income (loss) before income taxes</b>	<b>(36,782)</b>	<b>(414,425)</b>	<b>22,437</b>	<b>(1,035,128)</b>
<b>Income tax (recovery)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net comprehensive income</b>	<b>\$ (36,782)</b>	<b>\$ (414,425)</b>	<b>\$ 22,437</b>	<b>\$ (1,035,128)</b>
Management expense ratio	3.44%	3.76%	4.20%	4.19%
Trading expense ratio	0.01%	0.00%	0.02%	0.00%

## Financial performance for the three months ended September 30, 2019

Highlights of the factors contributing to Pender's investment performance in the three months ended September 30, 2019 are presented in the "Portfolio of Investments" section of this MD&A.

## (a) Net realized gain (loss)

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

During the three months ended September 30, 2019, net realized gains on investments were \$125,405 (September 30, 2018 – Nil), attributable to the receipt of the release from escrow of divestiture proceeds from the Company's investment in a private Portfolio Company. The gain represents the funds received in excess of the amount that had been accrued as receivable at the end of the prior quarter.

## (b) 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 periods because the investments that comprise the portfolio generally change each period.

The change in net unrealized gain on investments of \$48,579 during the three months ended September 30, 2019 (September 30, 2018 – loss of \$242,585) was attributable to changes in the traded values of the shares of each of Pender's publicly listed Portfolio Companies.

(c) Foreign exchange gain (loss)

Pender's financial statements are presented in Canadian dollars, so to the extent that it holds US dollar-denominated assets and/or liabilities, it is exposed to fluctuations in currency exchange rates which may result in foreign currency gains and/or losses.

During the three months ended September 30, 2019, Pender incurred a foreign exchange gain of \$2,110 (September 30, 2018 - a loss of \$4,332). At present, the Manager believes that the level of the Company's US dollar-denominated assets does not warrant hedging the exposure to fluctuations in exchange rates.

(d) Dividend, interest and securities lending income

The Company may earn dividends, interest on its investments in securities, interest on its cash balances, and/or income from securities lending. The Company earned interest of \$65,179 during the three months ended September 30, 2019 (September 30, 2018 - interest and securities lending income of \$695).

(e) Management Fees

The Company pays the Manager a management fee which is calculated as a percentage of Net Assets. The fee varies from period to period in proportion to the variance in the average balance of Net Assets. During the three months ended September 30, 2019, the management fees paid by the Company reflected the net effect of changes in both the level of Net Assets and the rates of management fees charged.

The \$14,244,515 net increase in Net Assets in the second quarter of the fiscal year, was primarily due to the Company's May 2019 secondary offering of Class C shares on the TSX-V, as described in the "Recent Developments" and "Financial Condition" sections of this MD&A.

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

The net effect of these changes was an increase in the management fee for the three months ended September 30, 2019 as compared to the three months ended September 30, 2018. Management fee expense of \$175,866 for the three months ended September 30, 2019 was \$58,442 higher than the \$117,424 fee paid in the three months ended September 30, 2018.

(f) Management Expense Ratio

The MER is an annualized percentage calculated by dividing the total of all expenses of the Company other than commissions and other portfolio transaction costs, by its average Net Assets. The 3.44% MER for the three months ended September 30, 2019 was 0.32% lower than the 3.76% MER for the three months ended September 30, 2018. The primary factor contributing to the overall decrease in MER was the net decrease in management fees as a result of the change in rate structure and the increase in the average value of Net Assets on the secondary offering of Class C shares described under "Management Fees" and in the "Recent Developments" and "Financial Condition" sections of this MD&A.

(g) Trading Expense Ratio

The TER is an annualized percentage calculated by dividing the total of all commissions and other portfolio transaction costs by the average Net Assets during the period. The small number of Portfolio Companies and the long-term investment horizon of the Company have historically resulted in a TER that is relatively low.

The TER for the three months ended September 30, 2019 was 0.01% (September 30, 2018 - 0.00%), reflecting the fact that there were very few portfolio transactions during the quarter (September 30, 2018 – none) and that their cost was minimal.

**Financial performance for the nine months ended September 30, 2019**

Highlights of the factors contributing to Pender's investment performance in the nine months ended September 30, 2019 are presented in the "Portfolio of Investments" section of this MD&A.

(a) Net realized gain (loss)

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

During the nine months ended September 30, 2019, net realized losses on investments were \$115,223 (September 30, 2018 – Nil), attributable to the divestiture of Espial that is discussed in the "Recent Developments" section of this MD&A, which was partially offset by the gain on receipt of proceeds in excess of the amount previously accrued as receivable, relating to the release from escrow of divestiture proceeds from the Company's investment in a private Portfolio Company.

(b) Net unrealized gain (loss)

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

During the nine months ended September 30, 2019, Pender's unrealized gain on investments increased by \$815,745 (September 30, 2018 – loss of \$455,265) as overall positive markets resulted in an increase in the traded prices of most of Pender's publicly listed Portfolio Companies. Further, the divestiture of the shares of Espial during the quarter (as discussed in the "Recent Developments" section of this MD&A) resulted in the December 31, 2018 unrealized loss of \$524,919 on Espial being reversed from this line item.

(c) Foreign exchange gain (loss)

Pender's financial statements are presented in Canadian dollars, so to the extent that it holds US dollar-denominated assets and/or liabilities, it is exposed to fluctuations in currency exchange rates which may result in foreign currency gains and/or losses. During the nine months ended September 30, 2019, Pender incurred a foreign exchange loss of \$674 (September 30, 2018 - a loss of \$9,839). At present, the Manager believes that the level of the Company's US dollar-denominated assets

does not warrant hedging the exposure to fluctuations in exchange rates.

(d) Dividend, interest and securities lending income

The Company may earn dividends, interest on its investments in securities, interest on its cash balances, and/or income from securities lending. The Company earned \$102,839 of interest during the nine months ended September 30, 2019 (September 30, 2018 - \$2,350 of interest and securities lending income). The increase is due to the interest income on the net proceeds of \$14,564,828 from the May 2019 issuance of shares further described in the “Recent Developments” section of this MD&A.

(e) Management Fees

The Company pays the Manager a management fee which is calculated as a percentage of Net Assets. The fee varies from period to period in proportion to the variance in the average balance of Net Assets. During the three months ended September 30, 2019, the management fees paid by the Company reflected the net effect of changes in both the level of Net Assets and the rates of management fees charged.

The \$14,244,515 net increase in Net Assets in the second quarter of the fiscal year, was primarily due to the Company’s May 2019 secondary offering of Class C shares on the TSX-V, as described in the “Recent Developments” and “Financial Condition” sections of this MD&A.

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

The net effect of these changes was an increase in the management fee expense for the nine months ended September 30, 2019 as compared to the same period in 2018. The \$445,963 management fee expense in the nine months ended September 30, 2019 was \$87,921 higher than the fee of 358,042 paid in the nine months ended September 30, 2018.

(f) Management Expense Ratio

The MER is an annualized percentage calculated by dividing the total of all expenses of the Company other than commissions and other portfolio transaction costs, by the average Net Assets. The 4.20% MER for the nine months ended September 30, 2019 was 0.01% higher than the MER for the nine months ended September 30, 2018 primarily due to the increased legal and auditing costs related to filings under the Corporate Issuer Regime.

(g) Trading Expense Ratio

The TER is an annualized percentage calculated by dividing the total of all commissions and other portfolio transaction costs by the average Net Assets during the period. The small number of Portfolio Companies and the long-term investment horizon of the Company have resulted in a TER that is relatively low. The TER for the nine months ended September 30, 2019 is 0.02% (September 30, 2018 - 0.00%), reflecting the fact that there were very few portfolio transactions during the period (September 30, 2018 – nil) and that their cost was minimal.

## Financial Highlights

	2019 Q3 (3 months)	2018 Q3 (3 months)	2018	2017	2016
<b>Net Assets per Share</b>					
Net Assets per Share (beginning of period)	\$3.94	\$4.34	\$4.49	\$4.34	\$1.94
<b>Increase (decrease) from operations:</b>					
Total revenue	0.00	0.00	0.00	0.00	0.02
Total expenses	(0.03)	(0.04)	(0.18)	(0.19)	(0.30)
Realized gains (losses)	0.02	0.00	0.00	0.17	1.48
Unrealized gains (losses)	0.00	(0.06)	(0.17)	0.17	1.28
<b>Total increase (decrease) from operations</b>	<b>(0.01)</b>	<b>(0.10)</b>	<b>(0.35)</b>	<b>0.15</b>	<b>2.48</b>
Distributions:					
From income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
<b>Total annual distributions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Assets per Share (end of period)</b>	<b>\$3.93</b>	<b>\$4.24</b>	<b>\$4.14</b>	<b>\$4.49</b>	<b>\$4.34</b>
<b>Ratios and Supplemental Data</b>					
Total net asset value (\$000s)	\$31,793	\$17,596	\$17,205	\$18,631	\$18,036
Number of shares outstanding	8,083,329	4,152,545	4,152,545	4,152,545	4,152,545
Closing market price	\$3.44	\$4.10	\$3.10	\$4.55	\$3.04

## Financial Condition

	September 30, 2019	December 31, 2018
<b>Assets</b>		
Investments	\$ 18,705,113	\$ 17,644,890
Cash	13,214,283	17,653
Receivable for investments sold	41,192	68,260
Interest receivable	19,910	-
Prepaid expenses	3,807	2,525
<b>Total assets</b>	<b>31,984,305</b>	<b>17,733,328</b>
<b>Liabilities</b>		
Accounts payable and accrued expenses	88,192	76,718
Due to related parties	103,540	451,302
<b>Total liabilities</b>	<b>191,732</b>	<b>528,020</b>
<b>Shareholders' equity</b>	<b>\$ 31,792,573</b>	<b>\$ 17,205,308</b>

## (a) Investments

As at September 30, 2019, Pender's investments of \$18,705,113 comprised publicly listed Portfolio Companies valued at \$2,488,847 and private unlisted Portfolio Companies valued at \$16,216,266. The increase of \$1,060,223 from the investments balance at December 31, 2018 is a result of the deployment of capital into investments in one private and three public Portfolio Companies new to the portfolio, the purchase of additional shares of ProntoForms, and the increase in the value of publicly listed Portfolio Companies that resulted from the overall positive markets during the period, offset partially by the disposition of shares of Espial. Please refer to the "Recent Developments" section of this MD&A as well as the "Portfolio of Investments" section for a discussion of the Company's investments and significant factors that affected them in the nine months ended September 30, 2019.

(b) Cash

Pender typically holds cash balances to invest in securities and pay expenses. Cash balances are monitored daily by the Manager. The \$13,214,283 cash balance at September 30, 2019 was \$13,196,630 higher than the \$17,653 balance at December 31, 2018, which reflected the fact that Pender was fully invested prior to the May 2019 secondary offering of Class C shares on the TSX-V described in the “Recent Developments” section of this MD&A. The increased cash from the offering and from the disposition of the shares of Espial, a publicly listed Portfolio Company, was partially offset by the Company’s deployment of cash into investments in one private and three public Portfolio Companies new to the portfolio and the purchase of additional shares of ProntoForms, all described under “Recent Developments”, as well as the payment of expenses and accounts payable.

(c) Receivable for investments sold

The receivable for investments sold balance relates to a divestiture of the Company’s investment in a private Portfolio Company. During the nine months ended September 30, 2019 the balance decreased by \$27,068, to \$41,192 upon Pender receiving the payments and new accrual for one more payment.

(d) Accounts payable and accrued expenses

The Company’s accounts payable and accrued expenses balance represent amounts due to third parties for operating expenses. During the nine months ended September 30, 2019, this balance increased by \$11,474 to \$88,192, as accounts payable and accrued expenses increased in the normal course of business.

(e) Due to related parties

The \$103,540 due to related parties at September 30, 2019 comprises management and administration fees owed to the Manager and third-party expenses paid by the Manager on behalf of the Company. This balance will change in any period due to the timing of payments and the change in fees and other expenses due to the Manager. During the nine months ended September 30, 2019 the balance decreased by \$347,762 from the prior year-end balance of \$451,302, as management fees and other operating expenses due to the Manager that had accumulated during 2018 were paid in the period.

(f) Shareholders’ equity

Shareholders’ equity represents the equity in the Company owned by the holders of the 8,083,329 non-redeemable Class C common shares outstanding as at September 30, 2019 (December 31, 2018 - 4,152,545). The increase of 3,930,784 Class C Common Shares reflects the new shares issued on the May 2019 secondary offering of Class C shares on the TSX-V described in the “Recent Developments” section of this MD&A.

**Cash Flows**

For the nine months ended September 30, 2019, Pender's cash balance increased by \$13,196,630, primarily due to net proceeds of \$14,564,828 on the May 2019 secondary offering of Class C shares on the TSX-V described in the "Recent Developments" section of this MD&A. Other sources and uses of cash included the disposition of the shares of a publicly listed Portfolio Company, Espial, the purchase of additional shares of another publicly listed issuer, ProntoForms and other publicly listed portfolio companies. (also described under "Recent Developments"), and the payment of expenses and accounts payable.

**Shareholder Activity**

During the nine months ended September 30, 2019, the Company issued 3,930,784 new shares under a secondary offering of Class C shares on the TSX-V, described in the "Recent Developments" section of this MD&A.

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

More information about the formation and history of the Company is available in its Annual Information Form dated March 19, 2019.

## SUMMARY OF QUARTERLY RESULTS

The tables below show information about Pender's financial performance for the most recently completed eight quarters. In each quarter, the net income or loss is a result of realized and unrealized gains and losses on investments, dividend, interest and securities lending income, and operating expenses. A comparison of the information presented from quarter-to-quarter does not necessarily indicate any meaningful pattern or correlation.

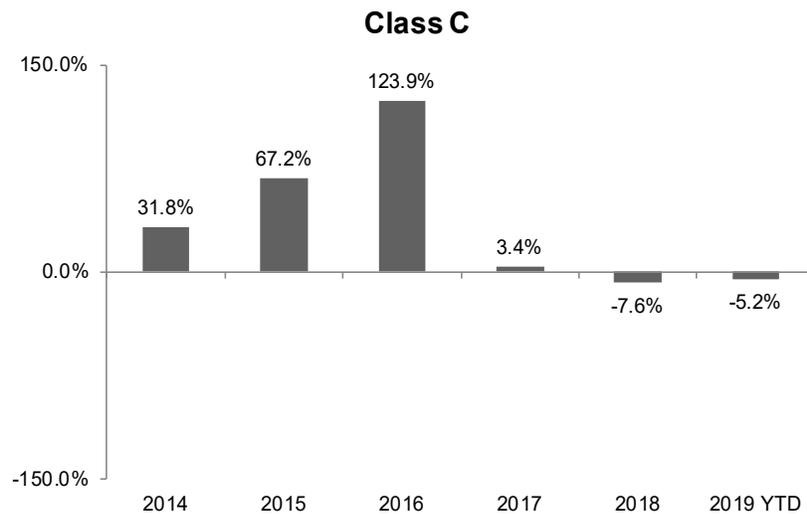
	2019		2019		2019		2018	
	Q3		Q2		Q1		Q4	
Net realized gain (loss)	\$	125,405	\$	(240,628)	\$	-	\$	-
Change in net unrealized gain (loss)		48,579		156,049		611,116		(223,683)
Foreign exchange gain (loss)		2,110		(1,340)		(1,445)		12,825
Dividend, interest and securities lending income		65,179		37,633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

	2018		2018		2018		2017	
	Q3		Q2		Q1		Q4	
Net realized gain (loss)	\$	-	\$	-	\$	-	\$	(428,331)
Change in net unrealized gain (loss)		(242,585)		(166,833)		(45,847)		512,963
Foreign exchange gain (loss)		(4,332)		(2,423)		(3,084)		4,151
Dividend, interest and securities lending income		695		1,549		106		(7,282)
<b>Total income</b>		(246,222)		(167,707)		(48,825)		81,501
Management fees		(117,424)		(119,364)		(121,254)		(121,956)
Withholding taxes, GST/HST and transactions cost		-		-		-		-
Other expenses		(50,779)		(103,742)		(59,811)		(95,064)
<b>Total expenses</b>		(168,203)		(223,106)		(181,065)		(217,020)
<b>Net income (loss) before income taxes</b>		(414,425)		(390,813)		(229,890)		(135,519)
<b>Income tax (recovery)</b>		-		-		-		-
<b>Net comprehensive income</b>	\$	(414,425)	\$	(390,813)	\$	(229,890)	\$	(135,519)
<b>Net Assets per Share (beginning of period)</b>	\$	4.34	\$	4.44	\$	4.49	\$	4.53
<b>Net Assets per Share (end of period)</b>	\$	4.24	\$	4.34	\$	4.44	\$	4.49

**PAST PERFORMANCE**

To illustrate how the Company’s performance has varied over time, the following bar chart shows the Company’s performance for the nine months ended September 30, 2019 and for each of the previous 12 months periods ended December 31. The past performance of the Company does not necessarily indicate how it will perform in the future.

Past performance for Class C Shares of the Company is calculated based on its 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 for the years prior to 2018 relates to the period when the Company was subject to the Investment Funds Regime. Commencing December 31, 2018, the Company is now subject to the Corporate Issuer Regime. Refer to the “Reporting Regime” section of this MD&A for additional details.



**SUMMARY OF INVESTMENT PORTFOLIO**

Pender's largest Portfolio Company holdings as at the end of the period and the major asset classes in which Pender was invested are indicated below. 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. Please also refer to the "Schedule of Investment Portfolio" in the Condensed Interim Financial Statements.

**Summary of Top 25 Holdings**

	<b>% OF NET ASSETS</b>
Private unlisted investments*	51.0
ProntoForms Corporation	4.4
Redline Communications Group Inc.	1.7
Crown Capital Partners Inc.	1.1
Vigil Health Solutions Inc.	0.5
Quorum Information Technologies Inc.	0.1

**Summary of Composition of the Portfolio**

	<b>% OF NET ASSETS</b>
Software and services	34.2
Technology hardware and equipment	16.0
Information technology	6.1
Health care	1.4
Diversified financial	1.1
<b>TOTAL INVESTMENTS</b>	<b>58.8</b>
Cash	41.6
Other assets less liabilities	(0.4)
<b>TOTAL NET ASSETS</b>	<b>100.0</b>

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

**COMMON SHARES**

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

**SPECIAL WARRANTS**

Newtopia Inc.

**CONVERTIBLE DEBENTURES**

BasicGov Systems, Inc., 15%, Demand

**DIVIDEND POLICY**

The Company does not currently intend to pay regular dividends or other distributions but may do so if, as and when determined by the Board of Directors.

**OUTSTANDING SHARE DATA**

As at September 30, 2019 the Company has 8,083,329 Class C Shares outstanding.

## TRANSACTIONS BETWEEN RELATED PARTIES

As at September 30, 2019, directors and officers of the Company directly and/or indirectly held 7.6% of the Company's Class C Shares, down from 14.4% at the prior quarter end, primarily due to the issuance of 3,930,784 Class C Common Shares on the May 2019 secondary offering on the TSX-V described in the "Recent Developments" section of this MD&A.

As at September 30, 2019, directors and officers of the Company directly and/or indirectly owned 790,904 shares, or 3%, of the issued and outstanding shares of BasicGov Systems, Inc., one of Pender's private Portfolio Companies.

Pender pays management fees and performance fees to the Manager for management and portfolio advisory services.

Effective May 2019, the management fee paid to the Manager was reduced to 2.50% on the first \$15,000,000 of the value of Net Assets and 1.75% on the value of Net Assets above \$15,000,000. Prior to that date, the management fee paid to the Manager was equal to 2.50% of the value of Net Assets up to \$50,000,000 and 2.00% of the value of Net Assets in excess of \$50,000,000. The management fee is calculated and paid monthly. Pender paid management fees of \$445,963 to the Manager for the nine months ended September 30, 2019.

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 nine months ended September 30, 2019 or in respect of the three preceding financial years.

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

## LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2019, the Company was in a strong liquidity position, with cash of \$13,214,283 comprising 41.6% of the value of its Net Assets, and market value of \$2,488,847 or 7.8% of the value of its Net Assets invested in publicly traded securities which could be liquidated with relative ease.

In the nine months ended September 30, 2019, the Company completed a secondary offering of 3,930,784 Class C Common Shares on the TSX-V for net proceeds of \$14,564,828 after offering expenses, as described in the "Recent Developments" section of this MD&A. The Company allocated \$775,000 of the net proceeds to working capital, and plans to continue to invest the remaining funds in Portfolio Companies.

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.

**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 in the "Summary of Investment Portfolio" section of this MD&A.

The determination of the fair value of these investments is the area with the Manager's most significant accounting judgements and estimates in preparing these financial statements.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next reporting period is included in note 8 of the Condensed Interim Financial Statements and/or 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/or 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 holding securities that are not publicly traded. It may be relatively difficult for the Company to dispose of its investment in a private Portfolio Company rapidly at favourable prices in connection with adverse market developments or other factors. The sale of such investments may also be subject to delays and additional costs and may only be possible at substantial discounts.

#### **CHANGES IN ACCOUNTING POLICIES**

The Company has determined there were no changes in accounting policy for the nine months ended September 30, 2019.

#### **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:  
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