MANAGEMENT'S DISCUSSION & ANALYSIS

PENDER GROWTH FUND INC.

Year ended December 31, 2019

PENDER

TABLE OF CONTENTS

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") dated April 23, 2020 presents a review of the financial results for Pender Growth Fund Inc. ("Pender" or the "Company") for the year ended December 31, 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 audited financial statements of Pender and notes thereto for the year ended December 31, 2019 (the "Annual Audited Financial Statements"). All amounts shown in this MD&A are presented in Canadian dollars unless otherwise specified.

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

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

Caution Regarding Forward-Looking Statements

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

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

Forward-looking statements are not guarantees of future performance and actual events and results could differ materially from those expressed or implied in any forward-looking statements. Any number of important factors could contribute to these differences, including but not limited to: the ability of the Company to source additional investments; risks related to the emerging technology sector; 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 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. Total shareholders' equity which is calculated using IFRS for financial reporting purposes may be different from the monthly reported net asset value per share ("Reported Net Asset Value").

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, 2019 and December 31, 2018 is presented in the following table:

Net Assets	December 31, 2019	December 31, 2018
Assets	$ 34,040,763	$ 17,733,328
LESS: Liabilities	207,746	528,020
EQUALS Net Assets	$ 33,833,017	$ 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 December 31, 2019 and December 31, 2018 is presented in the following table:

Net Assets per Share	December 31, 2019	December 31, 2018
Assets	$ 34,040,763	$ 17,733,328
LESS: Liabilities	207,746	528,020
EQUALS Net Assets	$ 33,833,017	$ 17,205,308
DIVIDED BY Number of Shares Outstanding	8,083,329	4,152,545
EQUALS Net Assets per Share	$ 4.19	$ 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 may 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 December 31, 2019, Pender has investments in a total of 16 Portfolio Companies: seven (7) private companies and nine (9) 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. Approximately half of Pender’s investment portfolio is comprised of 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.

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 sources 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, among other factors, and what is available may be on terms unfavourable to existing shareholders of these companies.

Beginning in late 2019, the outbreak of a novel strain of coronavirus ("COVID-19") in China spread rapidly, resulting in quarantines, travel restrictions, and widespread closure of businesses and facilities in most of the world. In March 2020, the World Health Organization declared COVID-19 a pandemic. Any potential impact on investment results will depend, to a large extent, on future developments and new information that may emerge regarding the duration and severity of COVID-19 and the actions taken by government authorities and other entities to contain the COVID-19 virus or to treat its impact, factors which are beyond our control.

Other risks factors 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 "TSXV") under the ticker "PTF". An active trading market for the Class C Shares may not be available, which could significantly impact the liquidity of those shares. The Net Assets per Share of the Class C Shares fluctuates with the Net Assets per Share of the Company, which could adversely affect the ability of a holder of the Class C Shares to dispose of them. Even if an active trading market for Class C Shares is available, the market price of such shares may not enable shareholders to dispose of their shares at a reasonable price relative to the Net Assets per Share of the shares.

The risks associated with an investment in Pender are more fully described in its Annual Information Form dated April 23, 2020 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 2019 calendar year proved to be a very healthy one for private equities and for private technology companies in particular. Private equity buyers were significant buyers of private technology companies, rivaling strategic buyers and we saw record amounts of fundraising and all-time high private equity valuations.

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 TSXV for aggregate proceeds of $15,015,000. On May 24, 2019 the Company announced the syndicate of agents had exercised their option to purchase over-allotment shares which brought the total gross proceeds from the offering to $15,330,058. The secondary offering resulted in underwriting fees of $433,075 and other offering expenses of $332,155, for total net proceeds of $14,564,828. As a result of the secondary offering, 3,930,784 Class C shares were issued, increasing total outstanding Class C shares to 8,083,329 as at December 31, 2019. The Company intends to continue 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 year Pender added two private companies, Newtopia Inc. and Copperleaf Technologies Inc., as well as eight publicly listed companies, ADF Group Inc., Carbonite Inc., Crown Capital Partners Inc., Quorum information Technologies Inc., Sangoma Technologies Corp, Siyata Mobile Inc., Sylogist Ltd., and Vigil Health Solutions Inc. to the portfolio. Pender also added to its existing position in one publicly traded Portfolio Company, ProntoForms Corporation ("ProntoForms"). In December, Pender sold Carbonite Inc., one of its recently acquired publicly traded Portfolio Companies, after the announcement of its upcoming acquisition.

On January 31, 2020, the Company announced a $2.0 million reduction in carrying value of one of its private portfolio companies which had accepted a term sheet for a significant equity financing at a lower level than its prior equity financings. This represented a reduction in Reported Net Asset Value of approximately $0.24 per share. On February 28, 2020, the Company further reduced the carrying value of the private portfolio company by $1.9 million to reflect the expected economics of the alternate financing the portfolio company was working to close at the time. This represented a further reduction in Reported Net Asset Value of approximately $0.23 per share. There can be no assurance that the portfolio company will be able to close this alternate financing or any other financing. While the determination to recognize the reduction in carrying value of the private portfolio company was made based on information available in January and February 2020, the reduction has been recognized in the Company's financial statements effective as of December 31, 2019, as the determination was made before the Company's financial statements were authorized for issue. This results in total shareholders' equity being significantly lower than Reported Net Asset Value published as at December 31, 2019. For purposes of determining Reported Net Asset Value, the two reductions in carrying value were recognized effective January 31, 2020 and February 28, 2020, respectively.

On February 10, 2020, the Company launched a Normal Course Issuer Bid (the "NCIB") in accordance with the policies of the TSXV. Under TSXV policies, the Company is entitled to purchase up to the maximum of 743,087 Shares, representing 10% of the Company's public float, over the period that the NCIB is in place. The NCIB will continue until February 10, 2021 unless terminated earlier in accordance with its terms.

Outlook

We plan to continue to pursue our investment objectives with caution. Throughout 2019 we remained cognizant of the late cycle market environment that was fueled by record low interest rates and easy monetary policies. Although the 2019 environment was beneficial for our Portfolio Companies and general market valuations, market sentiment was influenced by developments in the Sino-US trade war and worries about a slowing global economy.

The widening global impact of COVID-19 and the breakdown of OPEC resulted in markets reacting with significant downward volatility and turmoil in late February and into March 2020. Certain industries, like tourism, are expected to be hard hit over the short-term and it may take some time for certain industries to rebound. Any potential impact on investment results will depend, to a large extent, on future developments and new information that may emerge regarding the duration and severity of COVID-19 and the actions taken by government authorities and other entities to contain the COVID-19 virus or to treat its impact, which are beyond our control. Despite market factors, we continue to invest with the goal of leveraging Pender's advantages, its small asset base and investment flexibility, to the benefit of all shareholders.

PORTFOLIO OF INVESTMENTS

We are long-term investors and we remain committed to our investment theses for our Portfolio Companies. During the year ended December 31, 2019 we added two private and eight public companies to the portfolio and increased our holdings in another one of our public Portfolio Companies.

The new private companies added to the portfolio in 2019 were Newtopia Inc. and Copperleaf Technologies Inc. The public companies added to the portfolio were ADF Group Inc., Carbonite Inc., Crown Capital Partners Inc., Quorum Information Technologies Inc., Sangoma Technologies Corp., Siyata Mobile Inc., Sylogist Ltd., and Vigil Health Solutions Inc.

During the year, we wrote down one private portfolio company, we divested of our position in Espial in connection with its acquisition by Enghouse earlier in the year, and we also divested of our position in Carbonite, Inc. at the end of year, after the announcement of its acquisition by OpenText.

As at December 31, 2019, the weight of our holdings as a percentage of Net Asset Value had decreased by 28% 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 are comprised of private companies (49.9%), with publicly listed companies, cash and other assets making up the remainder (50.1%). The significant trends and events for Pender's Portfolio Companies in the year ended December 31, 2019 are described in this section.

Private Unlisted Companies

Our investments in private Portfolio Companies continued to hold their value in the year ended December 31, 2019, with the exception of the write down discussed under "Recent Developments", above. We continue to work with our core positions, aiming to help these Portfolio Companies build their intrinsic value over the long-term.

One45 Software

As at December 31, 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 year ended December 31, 2019, One45 remained a market leader in its niche, working to grow its client base. During 2019 One45 has been investing in the development of its newest product with the goal of increasing its addressable market. This investment has been funded with One45's cashflow and the product under development is now in the early revenue stage and presents a meaningful growth opportunity for the company. One45 is focused on ramping up utilization of the new product with its initial customers. The investment in One45 is a material investment representing over 25% of Pender's Net Assets.

BasicGov Systems

BasicGov Systems, Inc. ("BasicGov"), also a SaaS company, offers 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 the following years. 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. As a result of being early entrants to the market, BasicGov developed the knowledge and expertise that allowed them to be at the forefront of deploying SaaS-based permitting and licensing solutions to state and local governments. From the time of our initial investment and through the fourth quarter of 2019, the company grew its revenues significantly, but experienced challenges in its goal of maintaining consistent profitability.

In 2018, BasicGov added an Executive Chair to its board to assist the CEO in working towards optimizing operations and positioning the company for sustainable long-term growth.

At the end of December 2019, we increased the carrying value of the Company's investment in BasicGov to reflect the terms it had agreed to in a binding agreement to be acquired by a third party. The acquisition was successfully closed in early January 2020 with a positive outcome for BasicGov's investors. We are pleased with our divestment of BasicGov and wish them much success as they advance the company, owned by a company recognized for acquiring, operating and building businesses with high growth potential. BasicGov continues to operate in British Columbia.

Tantalus Systems

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 December 2019 Tantalus announced that it had been selected by Riverside Public Utilities in Southern California as its smart grid solutions partner for its community of 320,000 residents. This new customer joins a growing community of over 170 public power and electric cooperative utilities deploying Tantalus' technology across the United States, Canada and the Caribbean Basin. Their decision is part of a broader trend of public power and electric cooperative utilities who have turned to Tantalus for flexible, expandable systems. Over the past five years, Tantalus has added more than 20 new utility customers per year.

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.

CopperLeaf Technologies

Copperleaf Technologies Inc. (“Copperleaf”) provides decision analytics to companies managing critical infrastructure. Copperleaf’s enterprise software solutions leverage operational and financial data to help its clients make investment decisions that deliver the highest business value. Copperleaf is based in Vancouver and its solutions are distributed and supported by regional staff and partners worldwide.

We invested in Copperleaf in December 2019 in a secondary transaction with one of the company’s long-time shareholders. We believe there is a significant growth opportunity for Copperleaf as it continues to build out its business. In June 2019 Copperleaf announced that it had secured a US$10 million strategic investment from National Grid Partners, the innovation and investment arm of National Grid, one of the world’s largest investor-owned energy companies. Copperleaf has been developing innovative approaches to making asset investment decisions since 2000 and will use the capital to fund innovation and growth into new markets and geographies worldwide.

Navarik

Founded in 2001, Navarik Corp. (“Navarik”) is a 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.

During the year ended December 31, 2019, Navarik continued to make significant progress towards its goals with the development of TICit Hub. With TICit Hub, cargo owners and testing and inspection service providers can collaborate on the same platform, with the value proposition of increased efficiency and data authentication. In Q3 2019 Navarik 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

Newtopia is a provider of a personalized health and wellness platform designed to bring sustainable health and well-being to the workplace. Its platform offers customized care plans for disease prevention 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 TSXV. 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 TSXV has conditionally approved Newtopia’s listing and the company expects to begin trading on or about April 21, 2020.

Publicly Listed Companies

Overall the traded value of the Company's publicly listed companies increased during the year ended December 31, 2019. We continue to be patient, fundamental investors, and we believe that this market presents good potential opportunities for our public company holdings. We are long term investors and we do not believe discussions around quarterly or annual gains or losses add much value. That being said, in the following section, we discuss those investments that had a significant impact on our portfolio during the year. First, we discuss top contributors to our portfolio during the year and key detractors. Second, we discuss new publicly listed companies that we added to the portfolio over the year ended December 31, 2019.

Contributors

Quorum Information Technologies Inc. – TSXV: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 believe there are plenty of cross selling opportunities and growth potential for Quorum in the foreseeable future. We added the business to the portfolio in July 2019. During the year ended December 31, 2019, Quorum' share price increased by 87% and Pender's unrealized gain in the business increased by $776K.

Carbonite Inc. (Previously listed on Nasdaq under the ticker CARB)

Carbonite was a software provider of data backup and endpoint protection. Its share prices dropped in July 2019, when Q2 earnings were released, annual guidance was reduced, and the resignation of its CEO was announced. We believed that the business fundaments were still solid and that the market had over-reacted, and we added the business to our portfolio in October 2019. In November 2019, OpenText announced its acquisition of Carbonite for US$23 per share. The acquisition was completed in December 2019 and Pender realized a gain of $706K.

Detractors

On the negative side, the portfolio had three public investments that lost value during the year ended December 31, 2019, but none of them were material. Redline Communications Group Inc. (TSX-RDL) was the largest detractor with $79K of unrealized losses, followed by Virgil Health Solutions Inc. with $12K of unrealized losses and Sylogist Ltd. $2.4K of unrealized losses.

New Publicly Listed Companies

During the year ended December 31, 2019, we added eight public company holdings to the portfolio. We discussed two of them, Quorum and Carbonite, above. Below we briefly discuss each of the other six new names, in alphabetical order.

ADF Group Inc. – TSXV:DRX

ADF Group Inc. ("ADF") is a fabricator of structural steel for large structures throughout North America. It specializes in complex buildings such as stadiums, bridges, airports and high rises. ADF has two facilities, one in Quebec and one in Great Falls, Montana. We invested in December 2019 at a point where we believed it was inexpensive, trading at a discount to tangible book value, with record backlog and a strong bidding funnel.

Crown Capital Partners Inc. – TSX:CRWN

Crown Capital Partners Inc. ("Crown") is a finance company that specializes in providing debt financing to both public and private mid-market businesses. In addition to deploying capital as a principal investor, Crown develops, manages and coinvests in alternative investment funds. Crown is a founder-led company focused on segments of the market with an ongoing funding gap. This gap is more pronounced during periods in the cycle when many traditional capital providers pull back. In 2019, market conditions for deploying capital in Crown's special situations market segment were softer than usual due to a heightened level of competition from traditional finance providers, which 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. We added the business to the portfolio in September 2019.

Sangoma Technologies Corporation – TSXV:STC

Sangoma Technologies Corporation delivers Unified Communications solutions, which include on-premise and cloud-based phone systems, telephony services, and Voice -Over-IP solutions. It was founded in 1984 and supplies solutions to Enterprises, small and medium sized businesses, and telecom operators in over 150 countries. We added the business to the portfolio in October 2019.

Siyata Mobile Inc. – TSXV:SIM

Siyata Mobile Inc. develops and provides cellular communications solutions for enterprise customers. It offers vehicle mounted cellular based communications platforms over advanced 4G mobile networks. We participated in the private placement of unsecured convertible debentures in December 2019, received common share purchase warrants together with the convertible debentures.

Sylogist Ltd. – TSXV:SYZ

Sylogist Ltd. provides ERP systems to government organizations such as school districts and the public sector as well as for non-profit organizations and warehouse/distributors. It has approximately 1,000 customers worldwide, mostly in Canada and the US. It uses Microsoft Dynamics as its platform and adds modules and functionality for specific niches. We added the business to the portfolio in December 2019.

Vigil Health Solutions Inc. – TSXV: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.

Portfolio Turnover

The Company's portfolio turnover was 17.9% during 2019 (2018 – 0%). 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 its 17.1% annualized return on its Class C Shares since inception. We are long-term investors and we remain committed to our investment theses for the 16 Portfolio Companies we held as at December 31, 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 prices which are 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, 2019, the value of our Net Assets per Share ranged from $3.93 to $4.66 per share, while our closing share price ranged from a high of $4.05 per share to a low of $2.95 per share. During the year 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 $33,833,017 as at December 31, 2019 versus $17,205,308 as at December 31, 2018. This $16,627,709 (96.6%) increase for the year ended December 31, 2019 was attributable to an increase of $2,515,026 from investment performance, operating costs net of income of $452,145 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 years ended December 31, 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 December 31, 2019 are listed under the "Summary of Investment Portfolio" section of this MD&A.

QUARTERLY PERFORMANCE

As reported in Pender's unaudited semi-annual financial statements as at June 30, 2019, in the first half of the year the value of the Company's Net Assets went from $17,205,308 to $31,834,458, this 85% increase was attributable to positive investment performance and net proceeds from the secondary offering. An increase in Net Assets per Share by 2.4% from $4.14 to $4.24 in the first quarter of 2019 (Q1) was followed by a 7.1% decline in Net Assets per Share during the second quarter of 2019 (Q2), from $4.24 to $3.94.

In the third quarter of 2019 (Q3) Net Assets per Share went from $3.94 to $3.93, a 0.3% decrease attributable to investment performance and total expenses of the Company. This was followed by a fourth quarter (Q4) increase in Net Assets per Share from $3.93 to $4.19, a 6.6% total increase attributable mainly to investment performance.

During the Q4, the Company's Net Assets were $33,833,017 as at December 31, 2019 versus $31,792,573 as at September 30, 2019. This $2,040,444 increase for the three months ended December 31, 2019 was attributable to investment performance of $1,814,504 and income net of operating costs of $225,940.

SELECTED FINANCIAL INFORMATION

The following tables present selected key financial information about the Company to provide an understanding of the Company's financial condition and financial performance in the year ended December 31, 2019, and for the three preceding financial years. This section should be read together with Annual Audited Financial Statements.

Supplemental Data

	2019	2018	2017	2016
Net Assets ($000s)	33,833	17,205	18,631	18,036
Non-Redeemable Class C Shares Outstanding	8,083,329	4,152,545	4,152,545	4,152,545
Net Assets per Share ($)	4.19	4.14	4.49	4.34
Closing Market Price* ($)	3.75	3.10	4.55	3.04
Total Increase (Decrease) from Operations per Share ($)	0.31	(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	2018	2017	2016
Net realized gain (loss)	$ 591,257	$ -	$ 718,386	$ 5,899,593
Change in net unrealized gain (loss)	1,923,769	(678,949)	727,410	5,126,126
Foreign exchange gain (loss)	(7,586)	2,987	(56,752)	(26,050)
Impairment of receivables	-	-	-	(18,623)
Dividend, interest and securities lending income	634,941	3,370	214	81,190
Total income	3,142,381	(672,592)	1,389,258	11,062,236
Management fees	(633,499)	(472,524)	(499,522)	(540,541)
Withholding taxes, GST/HST and transactions cost	(22,985)	-	(5,198)	(3,625)
Other expenses	(423,016)	(280,216)	(290,193)	(650,010)
Total expenses	(1,079,500)	(752,740)	(794,913)	(1,194,176)
Net income (loss) before income taxes	2,062,881	(1,425,332)	594,345	9,868,060
Income tax (recovery)	-	-	-	-
Net comprehensive income	$ 2,062,881	$ (1,425,332)	$ 594,345	$ 9,868,060
Management expense ratio	3.94%	4.18%	4.28%	6.49%
Trading expense ratio	0.09%	0.00%	0.03%	0.02%

Financial performance for the year ended December 31, 2019

Highlights of the factors contributing to Pender's investment performance in the year ended December 31, 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 year ended December 31, 2019, net realized gain on investments was $591,257 (December 31, 2018 – Nil), attributable to the divestitures of Carbonite Inc. and Espial that are discussed in the "Recent Developments" section of this MD&A, as well as 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 year ended December 31, 2019, Pender's net change in unrealized gain on investments was $1,923,769 (December 31, 2018 – loss of $678,949) 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 year ended December 31, 2019, Pender incurred a foreign exchange loss of $7,586 (December 31, 2018 - a gain of $2,987). 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 $634,941 of dividend, interest and securities lending income during the year ended December 31, 2019 (December 31, 2018 - $3,370 of interest and securities lending income). The increase is due to an increase in interest income received on the divestment of the BasicGov convertible debenture, further described in the "Portfolio of Investments" 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 year ended December 31, 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 TSXV, 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 year ended December 31, 2019 as compared to the same period in 2018. The $633,499 management fee expense in the year ended December 31, 2019 was $160,975 higher than the fee of $472,524 paid in the year ended December 31, 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 3.94% MER for the year ended December 31, 2019 was 0.24% lower than the MER for the year ended December 31, 2018, primarily due to 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 resulted in a TER that is relatively low. The TER for the year ended December 31, 2019 is 0.09% (December 31, 2018 - 0.00%), reflecting the fact that there were very few portfolio transactions during the period (December 31, 2018 – nil) and that their cost was minimal.

Financial Highlights

Net Assets per Share (Note 1)	2019	2018	2017	2016
Net Assets per Share (beginning of period)	$4.14	$4.49	$4.34	$1.94
Increase (decrease) from operations:				
Total revenue	0.09	0.00	0.00	0.02
Total expenses	(0.16)	(0.18)	(0.19)	(0.30)
Realized gains (losses)	0.09	0.00	0.17	1.48
Unrealized gains (losses)	0.29	(0.17)	0.17	1.28
Total increase (decrease) from operations	0.31	(0.35)	0.15	2.48
Distributions:				
From income (excluding dividends)	-	-	-	-
From dividends	-	-	-	-
From capital gains	-	-	-	-
Return of capital	-	-	-	-
Total annual distributions	-	-	-	-
Net Assets per Share (end of period)	$4.19	$4.14	$4.49	$4.34
Ratios and Supplemental Data				
Total net asset value ($000s)	$33,833	$17,205	$18,631	$18,036
Number of shares outstanding	8,083,329	4,152,545	4,152,545	4,152,545
Closing market price	$3.75	$3.10	$4.55	$3.04

Note 1 - Net assets per share is based on the number of shares outstanding at the relevant time. The increase (decrease) from operations per share is based on the weighted-average number of shares outstanding during the period. Therefore, the beginning of period net assets plus the increase (decrease) from operations will not sum to the end of period net assets.

Financial Condition

	December 31, 2019	December 31, 2018
Assets		
Investments	$ 25,345,146	$ 17,644,890
Cash	8,199,875	17,653
Interest receivable	491,123	-
Prepaid expenses	4,546	2,525
Other receivable	73	-
Receivable for investments sold	-	68,260
Total assets	34,040,763	17,733,328
Liabilities		
Due to related parties	105,753	451,302
Accounts payable and accrued expenses	100,815	76,718
Payable for investment purchased	1,178	-
Total liabilities	207,746	528,020
Shareholders' equity	$ 33,833,017	$ 17,205,308

(a) Investments

As at December 31, 2019, Pender's investments of $25,345,146 comprised publicly listed Portfolio Companies valued at $8,449,203 and private unlisted Portfolio Companies valued at $16,895,943. The increase of $7,700,256 from the investments balance at December 31, 2018 is a result of the deployment of capital into investments in two private- and eight public Portfolio Companies new to the portfolio, the purchase of additional shares of ProntoForms. Other factors included the increase in the unrealized appreciation of Portfolio Companies that resulted from the overall positive markets during the period, offset partially by the disposition of shares of Espial and Carbonite and the increase in unrealized depreciation of private investments on the write down of one private Portfolio Company. Please refer to the "Recent Developments" section of this MD&A as well as the "Portfolio of Investments" section for a discussion of the Company's investments and significant factors that affected them in the year ended December 31, 2019.

(b) Cash

Pender typically holds cash balances to invest in securities and pay expenses. Cash balances are monitored daily by the Manager. The $8,199,875 cash balance at December 31, 2019 was $8,182,222 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 TSXV 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 and Carbonite, publicly listed Portfolio Companies, was partially offset by the Company's deployment of cash into investments in two private and eight public Portfolio Companies new to the portfolio, the purchase of additional shares of ProntoForms, all described under "Recent Developments", as well as the payment of expenses and accounts payable.

(c) Interest Receivable

The $491,123 interest receivable balance relates to interest on a convertible debenture issued to a private Portfolio Company.

(d) 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 year ended December 31, 2019 the balance decreased by $68,260, to nil upon Pender receiving all outstanding payments.

(e) Accounts payable and accrued expenses

The Company's accounts payable and accrued expenses balance represent amounts due to third parties for operating expenses. During the year ended December 31, 2019, this balance increased by $24,097 to $100,815, as accounts payable and accrued expenses increased in the normal course of business.

(f) Due to related parties

The $105,753 due to related parties as at December 31, 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 year ended December 31, 2019 the balance decreased by $345,549 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.

(g) 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 December 31, 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 TSXV described in the "Recent Developments" section of this MD&A.

Cash Flows

For the year ended December 31, 2019, Pender's cash balance increased by $8,182,222, primarily due to net proceeds of $14,564,828 on the May 2019 secondary offering of Class C shares on the TSXV described in the "Recent Developments" section of this MD&A. Other sources and uses of cash included the disposition of the shares of publicly listed Portfolio Companies, Espial and Carbonite, and the deployment of capital into publicly listed portfolio companies (also described under "Recent Developments"), including an additional investment in ProntoForms an existing portfolio company, and the payment of expenses and accounts payable.

Shareholder Activity

During the year ended December 31, 2019, the Company issued 3,930,784 new shares under a secondary offering of Class C shares on the TSXV, 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 April 23, 2020.

SUMMARY OF QUARTERLY RESULTS

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

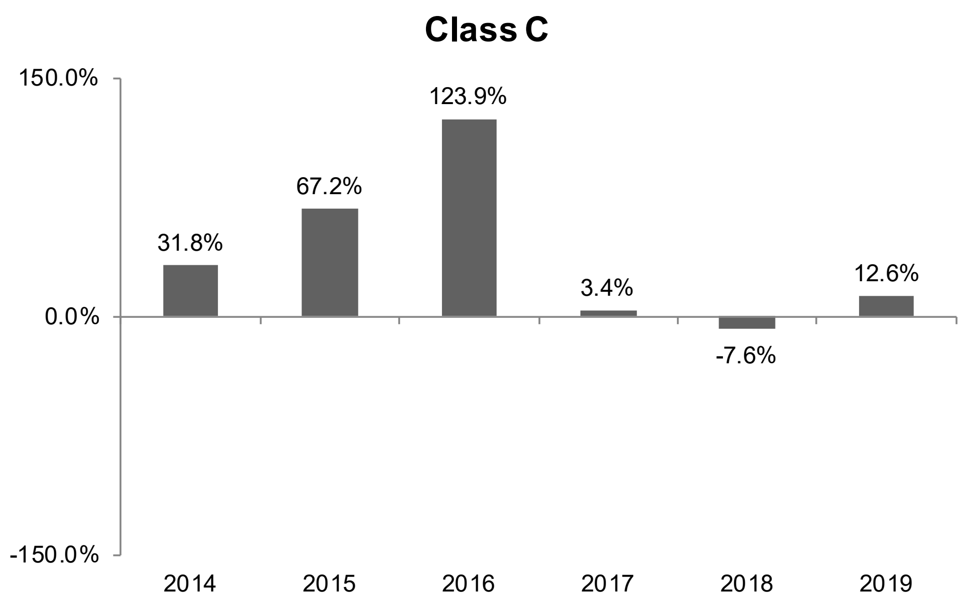
		2019 Q4		2019 Q3		2019 Q2		2019 Q1
Net realized gain (loss)	$	706,480	$	125,405	$	(240,628)	$	-
Change in net unrealized gain (loss)		1,108,024		48,579		156,049		611,116
Foreign exchange gain (loss)		(6,912)		2,110		(1,340)		(1,445)
Dividend, interest and securities lending income		532,102		65,179		37,633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

		2018 Q4		2018 Q3		2018 Q2		2018 Q1
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)
Dividend, interest and securities lending income		1,020		695		1,549		106
Total income		(209,838)		(246,222)		(167,707)		(48,825)
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)
Total expenses		(180,366)		(168,203)		(223,106)		(181,065)
Net income (loss) before income taxes		(390,204)		(414,425)		(390,813)		(229,890)
Income tax (recovery)		-		-		-		-
Net comprehensive income	$	(390,204)	$	(414,425)	$	(390,813)	$	(229,890)
Net Assets per Share (beginning of period)	$	4.24	$	4.34	$	4.44	$	4.49
Net Assets per Share (end of period)	$	4.14	$	4.24	$	4.34	$	4.44

PAST PERFORMANCE

To illustrate how the Company's performance has varied over time, the following bar chart shows the Company's performance for the year ended December 31, 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 Reported Net Asset Value and is not based on its market price on the TSXV. 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 Audited Annual Financial Statements.

Summary of Top 25 Holdings

	% OF NET ASSETS
Private unlisted investments*	49.9
Quorum Information Technologies Inc.	7.0
ProntoForms Corporation	5.0
Sangoma Technologies Corp.	3.3
Siyata Mobile Inc., 12.0%, 12/23/2021	2.8
Crown Capital Partners Inc.	1.9
ADF Group Inc.	1.8
Redline Communications Group Inc.	1.4
Vigil Health Solutions Inc.	1.3
Sylogist Ltd.	0.5

Summary of Composition of the Portfolio

	% OF NET ASSETS
Software and services	43.2
Information technology	22.2
Technology hardware and equipment	3.8
Health care	2.0
Diversified financial	1.9
Materials	1.8
TOTAL INVESTMENTS	**74.9**
Cash	24.2
Other assets less liabilities	0.9
TOTAL NET ASSETS	**100.0**

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

COMMON SHARES
- BasicGov Systems, Inc.
- Copperleaf Technologies Inc.
- Navarik Corp.
- One45 Software Inc.

PREFERRED SHARES
- Copperleaf Technologies Inc., Convertible
- D-Wave Systems Inc., Class B, Convertible
- D-Wave Systems Inc., Class C, Convertible
- Tantalus Systems Corp., Class D, Convertible

SPECIAL WARRANTS
- Newtopia Inc., 1.00, 07/11/2022

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 December 31, 2019 the Company has 8,083,329 Class C Shares outstanding.

TRANSACTIONS BETWEEN RELATED PARTIES

As at December 31, 2019, the Manager, directors and officers of the Company directly and/or indirectly held 7.8% 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 TSXV described in the "Recent Developments" section of this MD&A.

As at December 31, 2019, directors and officers of the Company directly and/or indirectly owned 790,904 shares, or 3.1%, 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. The management fees expenses is $633,499 for the year ended December 31, 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 highwater mark, being the year-end value of Net Assets per Share for the most recent preceding year in which a performance fee was earned. Subject to the accumulation of the hurdle rate in years in which no performance fee is payable, the highwater mark will not be reset other than to be adjusted in the event of a subdivision or consolidation of the shares. No performance fee was paid in respect of the year ended December 31, 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 December 31, 2019, the Company was in a strong liquidity position, with cash of $8,199,875 comprising 24.2% of the value of its Net Assets, and market value of $7,499,203 or 22.2% of the value of its Net Assets invested in publicly traded securities which could be liquidated with relative ease.

In the year ended December 31, 2019, the Company completed a secondary offering of 3,930,784 Class C Common Shares on the TSXV 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 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 contacts. The availability of observable market prices and model inputs reduces the need for management judgment and estimation, and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Company uses recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market and may be derived from market prices or rates or may be estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in the determination of fair value.

In determining fair value for instruments for which there is no public market available the Manager considers: the history and nature of the business; operating results and financial conditions; 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 applicable comparable entity.

(ii) Revenue multiple:

Revenue multiples are selected from comparable public companies based on geographic location, industry, size, target markets, and other factors that the Manager considers to be reasonable. The traded multiples for the comparable companies are determined by dividing the enterprise value of the Portfolio Company by its revenue and may be further discounted for considerations such as the lack of marketability and other differences between the comparable peer group and the specific Portfolio Company.

There are risks associated with holding securities that are not publicly traded. It may be relatively difficult for the Company to dispose of its investment in a private Portfolio Company rapidly at favourable prices in connection with adverse market developments or other factors. The sale of such investments may also be subject to delays and additional costs and may only be possible at substantial discounts.

CHANGES IN ACCOUNTING POLICIES

The Company has determined there were no changes in accounting policy for the year ended December 31, 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.

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