

Unaudited Semi-Annual Financial Statements of

**PENDER GROWTH FUND INC.**

Six months ended June 30, 2017

**NOTICE OF NO AUDITOR REVIEW OF THE SEMI-ANNUAL FINANCIAL STATEMENTS**

The Board of Directors of Pender Growth Fund Inc. (the "Fund"), appoints an independent auditor to audit the Fund's Annual Financial Statements. In accordance with Canadian securities laws (National Instrument 81-106 "Investment Fund Continuous Disclosure"), the Fund must disclose if an auditor has not reviewed the Semi-Annual Financial Statements.

The Fund's independent auditor has not performed a review of these Semi-Annual Financial Statements in accordance with standards established by the Chartered Professional Accountants of Canada.

# PENDER GROWTH FUND INC.

Statements of Financial Position (Unaudited)

June 30, 2017 and December 31, 2016

	Notes	2017	2016
<b>Assets</b>			
Cash		\$ 2,071,422	\$ 1,322,426
Interest receivable		7,357	-
Receivable for investments sold		141,692	146,605
Investments		17,092,369	16,703,435
		<u>19,312,840</u>	<u>18,172,466</u>
<b>Liabilities</b>			
Due to related parties	4	60,677	54,746
Accounts payable and accrued liabilities		43,593	77,438
Redemptions payable		21,148	3,987
		<u>125,418</u>	<u>136,171</u>
<b>Net assets</b>		<u>\$ 19,187,422</u>	<u>\$ 18,036,295</u>
Net assets per Class C share:		\$ 4.62	\$ 4.34

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

Approved on behalf of the Board of Directors:

"J. Kelly Edmison" Director      "David Barr" Director

# PENDER GROWTH FUND INC.

Statements of Comprehensive Income (Unaudited)

Six months ended June 30, 2017 and 2016

	Notes	2017	2016
<b>Revenue:</b>			
Dividend income		\$ -	\$ 81,000
Interest income		7,462	155
Foreign exchange gain (loss)		(29,081)	(61,640)
Changes in fair value of investments:			
Net realized gain (loss)		1,146,717	(512,391)
Net change in unrealized appreciation (depreciation)		455,089	3,302,059
Impairment of receivables related to investments		-	(18,623)
<b>Total revenue</b>		<b>1,580,187</b>	<b>2,790,560</b>
<b>Expenses:</b>			
Management fees	4	253,439	212,855
Administration expenses		78,314	82,185
Audit fees		24,904	32,562
Custody and recordkeeping fees		20,297	31,999
Legal fees		19,820	10,468
Performance fees	4	16,981	-
Directors' fees		14,520	11,000
Transaction costs		785	-
Trailer fees		-	3,838
<b>Total expenses</b>		<b>429,060</b>	<b>384,907</b>
<b>Increase (decrease) in net assets attributable to holders of non-redeemable shares</b>			
		<b>\$ 1,151,127</b>	<b>\$ 2,405,653</b>
<b>Increase (decrease) in net assets attributable to holders of non-redeemable shares per class:</b>			
Class B Shares - Non-redeemable component		\$ -	\$ 152,954
Class C Shares		1,151,127	2,252,699
		<b>\$ 1,151,127</b>	<b>\$ 2,405,653</b>
<b>Increase (decrease) in net assets attributable to holders of non-redeemable shares per share:</b>			
Class B Shares - Non-redeemable component		\$ -	\$ 0.61
Class C Shares		0.28	0.60

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

## PENDER GROWTH FUND INC.

Statements of Changes in Net Assets Attributable to Holders of Non-Redeemable Shares (Unaudited)

Six months ended June 30, 2017 and 2016

Class B shares - non-redeemable component	2017	2016
Balance, beginning of period	\$ -	\$ 492,110
Increase (decrease) in net assets attributable to holders of non-redeemable shares:	-	152,954
Capital transactions:		
Conversion of shares resulting in redemption of Class B shares	-	(2,282)
Balance, end of period	\$ -	\$ 642,782

  

Class C shares	2017	2016
Balance, beginning of period	\$ 18,036,295	\$ 7,237,765
Increase (decrease) in net assets attributable to holders of non-redeemable shares:	1,151,127	2,252,699
Capital transactions:		
Conversion of shares resulting in issuance of Class C shares	-	13,180
Balance, end of period	\$ 19,187,422	\$ 9,503,644

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

# PENDER GROWTH FUND INC.

Statements of Cash Flows (Unaudited)

Six months ended June 30, 2017 and 2016

	2017	2016
Cash provided by (used in):		
Operating:		
Increase (decrease) in net assets attributable to holders of non-redeemable shares:	\$ 1,151,127	\$ 2,405,653
Adjustments for:		
Dividend income	-	(81,000)
Interest income	(7,462)	(155)
Foreign exchange (gain) loss	29,081	61,640
Net realized (gain) loss on sales of investments	(1,146,717)	512,391
Net change in unrealized (appreciation) depreciation of investments	(455,089)	(3,302,059)
Impairment of receivables related to investments	-	18,623
Receivable for investments sold	4,913	63,639
Due to related parties	5,931	1,202
Accounts payable and accrued liabilities	(33,845)	(14,655)
Redemptions payable	17,161	-
	(434,900)	(334,721)
Proceeds on disposal of investments	1,494,207	11,088
Purchase of investments	(281,335)	-
Dividends received	-	81,000
Interest received	105	155
	778,077	(242,478)
Financing:		
Redemption of redeemable shares	-	(12,741)
Net increase (decrease) in cash during the period	778,077	(255,219)
Cash, beginning of period	1,322,426	407,498
Effect of exchange rate fluctuations on cash	(29,081)	(61,640)
Cash, end of period	\$ 2,071,422	\$ 90,639

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

# PENDER GROWTH FUND INC.

Schedule of Investment Portfolio (Unaudited)

June 30, 2017

	Par value/ number of shares	Cost	Fair value
<b>Publicly listed investments:</b>			
Common shares:			
Calyx Bio-Ventures Inc.	233,928	\$ 451,724	\$ 16,375
Espial Group Inc.	446,427	843,333	1,049,104
Redline Communications Group Inc.	43,153	112,213	60,414
VendTek Systems Inc.	42,000	252,000	210
		1,659,270	1,126,103
<b>Private unlisted investments:</b>			
Common shares:			
BasicGov Systems, Inc.	11,711,712	2,296,171	
Navarik Corp.	1,149,425	1,000,000	
One45 Software Inc.	575,000	575,000	
Tantalus Systems Corp.	689,758	2,046,676	
Preferred shares:			
D-Wave Systems Inc., Convertible	1,120,720	1,200,000	
Tantalus Systems Corp., Cumulative, Convertible, 10.00%	388,889	446,754	
Warrants:			
BasicGov Systems, Inc., \$2.00, 2017/12/31	15,000	-	
BasicGov Systems, Inc., \$1.57, 2019/06/13	40,000	-	
Loans and convertible debentures:			
BasicGov Systems, Inc., 15.00%, Convertible, Demand	745,000	745,000	
Cantronic Systems Inc., Demand	500,000	500,000	
Tantalus Systems Corp., Convertible, 5.00%, 2018/04/12	250,000	253,450	
Tantalus Systems Corp., Convertible, 5.00%, 2019/11/30	190,120	253,430	
		9,316,481	15,966,266
		\$ 10,975,751	\$ 17,092,369

## Summary of Private Unlisted Investments

Stage of development & number of holdings	#	Cost	Unrealized gain (loss)	Fair value	% Cost	% Fair value
Early stage	5	\$ 3,541,171	\$ (1,625,000)	\$ 1,916,171	38	12
Expansion stage	7	5,775,310	8,274,785	14,050,095	62	88
	12	\$ 9,316,481	\$ 6,649,785	\$ 15,966,266	100	100

  

Industry sector & number of holdings	#	Cost	Unrealized gain (loss)	Fair value	% Cost	% Fair value
Software & services	7	\$ 5,116,171	\$ 5,765,216	\$ 10,881,387	55	68
Technology hardware & equipment	5	4,200,310	884,569	5,084,879	45	32
	12	\$ 9,316,481	\$ 6,649,785	\$ 15,966,266	100	100

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

# PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2017

---

## 1. Incorporation and nature of operations:

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

The Fund has been managed by PenderFund Capital Management Ltd. (the "Manager") since 2003. The investment objective of the Fund is to achieve long-term capital appreciation through prudent application of its investment strategy. The Fund's investment strategy is to invest in companies that have the potential to substantially improve their profitability.

The address of the Fund's registered office is 1640 - 1066 West Hastings Street, Vancouver, BC, V6E 3X1.

## 2. Basis of preparation:

### (a) Statement of compliance:

The financial statements of the Fund have been prepared in compliance with International Financial Reporting Standards ("IFRS"). These financial statements were authorized for issue by the Fund's Board of Directors on August 28, 2017.

### (b) Basis of measurement:

The financial statements have been prepared on a historical cost basis except for the Fund's investments, which are measured at fair value.

### (c) Functional and presentation currency:

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

### (d) Use of estimates and judgment:

The preparation of financial statements in conformity with IFRS requires the Manager to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized in the period in which the estimates are revised.

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 7 and relates to the determination of fair value of investments with significant unobservable inputs.

# PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2017

---

### 3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Financial instruments:

(i) Recognition and measurement:

The Fund classifies all financial instruments as either held-for-trading (“HFT”), designated at fair value through profit or loss upon initial recognition (“FVTPL”), available-for-sale, loans and receivables, assets held-to-maturity, and other financial liabilities. All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of financial instrument. Transaction costs are included in the initial carrying amount of financial instruments except for financial instruments classified as HFT or FVTPL in which case transaction costs are expensed as incurred.

Financial assets and financial liabilities HFT or at FVTPL are recognized initially on the trade date, which is the date on which the Fund becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognized on the date on which they are originated. The Fund derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Fund has not classified any of its financial instruments as available-for-sale or assets held-to-maturity.

(ii) Held-for-trading and fair value through profit and loss:

Financial instruments classified as HFT or FVTPL are subsequently measured at fair value at each reporting period with changes in fair value recognized in the statement of comprehensive income in the period in which they occur. The Fund’s investments are designated as FVTPL.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and marketable securities) are based on quoted market prices at the close of trading on the reporting date. The Fund uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day’s bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. The Fund’s policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

# PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2017

---

## 3. Significant accounting policies (continued):

### (a) Financial instruments (continued):

#### (ii) Held-for-trading and fair value through profit and loss (continued):

The fair value of financial assets and liabilities that are not traded in an active market, including private unlisted investments, is determined using valuation techniques. Valuation techniques include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and others commonly used by market participants and which make the maximum use of observable inputs. Should the value of the financial asset or liability, in the opinion of the Manager, be inaccurate, unreliable or not readily available, the fair value is estimated on the basis of the most recently reported information of a similar financial asset or liability.

#### (iii) Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent measurement of loans and receivables is at amortized cost, less any impairment losses. The Fund classifies its assets, other than investments, as loans and receivables.

#### (iv) Other financial liabilities:

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method. The Fund classifies its liabilities as other financial liabilities.

### (b) Investments in associates and subsidiaries:

The Fund meets the criteria required to be considered an "investment entity" under IFRS 10, *Consolidated Financial Statements* and, as such, in the cases where the Fund has control or significant influence over a company in its investment portfolio, the Fund values such investments as financial assets at FVTPL.

### (c) Shares:

The Fund classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Where an issued financial instrument is considered a compound financial instrument, it is bifurcated into liability and equity components based on the respective value of each component.

The redeemable shares, which are classified as financial liabilities and measured at redemption amount, provide shareholders with the right to require redemption, subject to available liquidity, for cash at a redemption price based on the Fund's valuation policies at each redemption date. Distributions to holders of redeemable and convertible shares are recognized in comprehensive income when they are authorized and no longer at the discretion of the Manager.

# PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2017

---

### 3. Significant accounting policies (continued):

(c) Shares (continued):

The non-redeemable shares, which are classified as equity are measured at the residual net asset value of the respective share classes. Distributions to holders of non-redeemable shares are recognized in the statement of changes in net assets attributable to holders of non-redeemable shares.

(d) Per share amounts:

Net assets and redemption price per share are calculated based on the number of shares outstanding at the end of the period. Increase (decrease) in net assets attributable to holders of non-redeemable shares per share is calculated by dividing the increase (decrease) in net assets attributable to holders of non-redeemable shares by the weighted average number of shares outstanding during the period.

(e) Foreign exchange:

The financial statements of the Fund are denominated in Canadian dollars. Foreign denominated investments and other foreign denominated assets and liabilities are translated into Canadian dollars using the exchange rates prevailing on each valuation date. Purchases and sales of investments, as well as income and expense transactions denominated in foreign currencies, are translated using exchange rates prevailing on the date of the transaction. Foreign currency gains and losses are recognized in the statement of comprehensive income.

(f) Income recognition:

Interest income shown on the statement of comprehensive income is recognized on an accrual basis. Dividend income is recognized on the date that the right to receive payment is established, which for quoted equity securities is usually the ex-dividend date. Portfolio transactions are recorded on the trade date. Realized gains and losses arising from the sale of investments are determined on the average cost basis of the respective investments.

(g) Income taxes:

Current tax expense is based on taxable profit for the period. Taxable profit differs from profit as reported in the statement of comprehensive income as certain items of income or expense are taxable or deductible in other periods or never taxable or deductible. The current tax liability is determined using tax rates that have been enacted or substantially enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the calculation of taxable profit. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for deductible temporary differences or for carry forward of unused tax losses, to the extent that it is probable that the deductions or tax losses can be utilized. The carrying amount of deferred tax assets are reviewed at each reporting date and reduced to the extent it is no longer probable that the income tax asset will be recovered.

# PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2017

---

### 3. Significant accounting policies (continued):

(g) Income taxes (continued):

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability settled, based on tax rates and legislation that have been enacted or substantively enacted at the reporting date. Where applicable, current and deferred taxes relating to items recognized directly in equity are also recognized in equity.

(h) New standards and interpretations not yet adopted:

A number of new standards, amendments to standards and interpretations are not yet effective for the six months ended June 30, 2017, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statement of the Fund, with the possible exception of IFRS 9 - *Financial Instruments*.

IFRS 9 deals with recognition, derecognition, classification and measurement of financial instruments and its requirements represent a significant change from the existing requirements in IAS 39 - *Financial Instruments: Recognition and Measurement*, in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. A financial asset would be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables.

The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Fund intends to adopt IFRS 9 in its financial statements for the financial reporting periods beginning on January 1, 2018.

The Manager is currently in the process of evaluating the potential effect of this standard. The standard is not expected to have a significant impact on the financial statements since the Fund's financial assets are currently measured at fair value or amortized cost.

### 4. Related party transactions:

(a) Management and performance fees:

In accordance with the Third Amended and Restated Management Agreement dated May 1, 2017, the Manager provides management services in connection with all aspects of the identification, investment, development, active monitoring and ultimate divestment of all investments of the Fund. In exchange for these management services, the Fund pays a management fee equal to 2.50% of the Fund's net asset value per annum on net asset value of up to \$50,000,000, and 2.00% of the Fund's net asset value in excess of \$50,000,000 per annum. The management fee is calculated and paid monthly.

# PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2017

---

## 4. Related party transactions (continued):

### (a) Management and performance fees (continued):

The Manager is entitled to a performance fee in certain circumstances, based on achieving certain performance criteria set out in the Management Agreement. The performance fee is calculated as 20% of any net increase in net asset value above an annual hurdle rate of 6%. The performance fee will be calculated on an annual basis and will be subject to a high water mark, with the December 31, 2016 net asset value representing the first high water mark. Subject to the accumulation of the hurdle rate in years in which no performance fee is payable, the high water mark will not otherwise be reset but is adjusted in the event of a subdivision or consolidation of the shares.

This Management Agreement is in effect until April 30, 2023 and shall be renewed automatically at that date for a further term of four years, unless a vote of shareholders determines a different term.

For the period ended June 30, 2017, the Fund paid management fees of \$253,439 (2016 - \$212,855). At June 30, 2017, the Fund had an amount payable to the Manager of \$60,677 (2016 - \$54,746) in respect of management fees and reimbursement of operating expenses paid on behalf of the Fund.

### (b) Share holdings:

As at June 30, 2017, directors and officers of the Fund held 16% (December 31, 2016 - 16%) of the Fund's Class C Shares.

As at June 30, 2017, directors and officers of the Fund directly or indirectly owned 790,904 shares of BasicGov Systems, Inc. (or 3% of the company's shares), an investee company which the Fund is also invested. The aggregate investment in all other investee companies by the Fund's directors and officers did not exceed 1% of the respective investee companies' issued and outstanding shares.

## 5. Share capital:

### (a) Authorized share capital:

The authorized capital of the Fund consists of:

- (i) An unlimited number of Class B Convertible Non-Participating Common Shares ("Class B Shares");
- (ii) An unlimited number of Class C Participating Common Shares ("Class C Shares"); and
- (iii) An unlimited number of Class R Senior Participating Redeemable Convertible Preference Shares ("Class R Shares").

# PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2017

## 5. Share capital (continued):

(a) Authorized share capital (continued):

### Class B Shares:

No Class B Shares are currently outstanding as all Class B Shares were converted during the year ended December 31, 2016.

Class B Shares are not redeemable; however, each Class B Share is convertible into one Class R Share and one Class C Share at any time at the option of the holder.

Class B Shares are compound financial instruments. Accordingly, they are bifurcated into liability and equity components based on the respective fair value of each component. The fair value of the liability component on initial recognition is \$4.16 per share, with the remaining equity component having net assets attributed in the same manner as Class C Shares.

### Class C Shares:

Class C Shares are not redeemable or convertible. Class C Shares are listed on the TSX Venture Exchange under the ticker symbol "PTF". Class C Shares are entitled to the net assets of the Fund on a pro-rata basis after the payment of the redemption value of each outstanding Class R Share on a partially diluted basis.

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

### Class R Shares:

No Class R Shares are currently outstanding as all Class R Shares were redeemed during the year ended December 31, 2016.

Class R Shares are redeemable on an annual basis, with a maximum redemption price of \$4.16. Class R Shares are also convertible to Class C Shares.

Class R Shares are compound financial instruments. The full value of the Class R Share is attributed to the liability component with no value attributable to the equity component.

(b) Issued and fully paid shares:

For the period ended	Balance, beginning of period	Redeemed	Exchanged in	Exchanged out	Balance, end of period
June 30, 2017:					
Class C	4,152,545	-	-	-	4,152,545
June 30, 2016:					
Class B	253,189	-	-	(955)	252,234
Class C	3,723,807	-	5,516	-	3,729,323
Class R	1,291,785	(3,063)	955	(2,619)	1,287,058

# PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2017

## 5. Share capital (continued):

(c) Composition of equity capital:

The Fund's shares classified as equity and presented in the statements of financial position as amounts attributable to holders of non-redeemable shares as at June 30, 2017 and December 31, 2016 are comprised of:

	2017	2016
Class C Shares:		
Contributed capital	\$ 5,204,759	\$ 5,204,759
Retained earnings	13,982,663	12,831,536
	<u>\$ 19,187,422</u>	<u>\$ 18,036,295</u>

## 6. Financial risk management:

The Fund may be exposed to a variety of financial risks. The Fund's exposures to financial risks are concentrated in its investment holdings. The Schedule of Investment Portfolio groups securities by asset type. The Manager's risk management practice includes the monitoring of compliance to investment guidelines. The Manager manages the potential effects of these financial risks to the Fund's performance by regularly monitoring the Fund's positions and market events and by diversifying investment portfolios within the constraints of the Fund's investment objectives.

The Fund invests in companies with the objective of long-term capital appreciation. Since its inception, the Fund has invested in a diversified portfolio of investments principally in the information technology sector.

The Fund has invested in a number of companies with an emphasis on established businesses requiring capital for growth, expansion or restructuring. In each situation, the Fund's capital has been invested to improve the equity value of the investee company, through expansion of sales and marketing, investing in new product development or providing capital needed to stabilize operations. This approach has the potential to yield attractive returns over time if these companies are able to execute on their business plans and improve their growth and profitability. This strategy is not without risk, however, as companies face both internal and external challenges to their business plans.

This aggressive aspect of the Fund's investment strategy has been offset by making more traditional investments in later-stage companies that are well positioned for growth and where additional capital is used to further expand operations to increase revenue.

# PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2017

## 6. Financial risk management (continued):

### (a) Credit risk:

Credit risk represents the risk associated with the inability of a third party to fulfill its payment obligations. The Fund limits its exposure to credit risk for its cash by investing in high quality short-term investments, typically term deposits with a large Canadian bank. The Fund is also exposed to credit risk through its investment in loans, convertible debt securities and preferred shares of its investee companies. The Fund manages this credit risk through careful selection and monitoring of its investee companies. Receivables relating to the Fund's investments are also subject to credit risk and are managed through active review of the portfolio of private unlisted investments.

Such investments represent the main concentration of credit risk for the Fund, and, accordingly, represent the maximum credit risk exposure of the Fund as at June 30, 2017 being \$5,978,928 (December 31, 2016 - \$5,876,578).

### (b) Liquidity risk:

The Fund invests in equity securities and other financial instruments. A large portion of the Fund's equity holdings are in private unlisted investments where active markets do not exist for the timely disposition of such assets and the realized price may be significantly different from their carrying values.

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

The following table summarizes the Fund's financial liabilities as at June 30, 2017 and December 31, 2016 based on undiscounted contractual cash flows and are all due within one year:

	2017		2016	
Due to related parties	\$	60,677	\$	54,746
Accounts payable and accrued liabilities		43,593		77,438
Redemptions payable		21,148		3,987
	\$	125,418	\$	136,171

### (c) Interest rate risk:

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

# PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2017

---

## 6. Financial risk management (continued):

### (d) Currency risk:

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

### (e) Other price risk:

Other price risk is the risk that the fair value of a security will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the security or its issuer, or by factors affecting all similar securities traded in a market.

Price risk is moderated by the portfolio advisor through a careful selection of securities within specified limits and the Funds' price risk is managed through diversification. The portfolio advisor monitors the Fund's overall market positions and positions are maintained within established ranges.

As at June 30, 2017, had the fair value of the Fund's publicly listed investments increased or decreased by 10%, with all other factors remaining constant, the Fund's net assets attributable to holders of non-redeemable shares would have increased or decreased, by approximately \$181,895 (December 31, 2016 - \$392,075). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

## 7. Fair value of financial instruments:

### (a) Valuation models:

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

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

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

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. prices) or indirectly (i.e. derived from prices).
- Level 3: inputs that are unobservable.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

# PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2017

---

## 7. Fair value of financial instruments (continued):

(a) Valuation models (continued):

The Fund uses proprietary valuation models, which are usually developed from 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.

Fair value is determined for investments by the Manager after considering: 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 company 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 an increase or decline in the value of the investment, as indicated by an assessment of the financial condition of the investment based on operational results, forecasts and other developments since acquisition.

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

The table below analyses financial instruments measured at fair value at June 30, 2017 and December 31, 2016 by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position:

	2017	2016
<b>Level 1:</b>		
Publicly listed investments	\$ 1,126,103	\$ 2,342,661
<b>Level 3:</b>		
Private unlisted investments	15,966,266	14,360,774
	<b>\$ 17,092,369</b>	<b>\$ 16,703,435</b>

During the six months ended June 30, 2017 and 2016, there were no transfers between any levels of the fair value hierarchy.

# PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2017

## 7. Fair value of financial instruments (continued):

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

The following table shows a reconciliation of all movements in the fair value of financial instruments categorized within Level 3 for the periods ended June 30, 2017 and 2016:

	2017	2016
Opening balance	\$ 14,360,774	\$ 8,111,113
Amounts paid on purchase of investments	100,000	-
Total gain (loss) recognized in comprehensive income	1,505,492	1,255,207
	<b>\$ 15,966,266</b>	<b>\$ 9,366,320</b>

Included in the net change in unrealized appreciation (depreciation) in fair value of investments on the Fund's statement of comprehensive income for the six months ended June 30, 2017 is a change in unrealized appreciation of \$1,505,492 (2016 - change in unrealized appreciation of \$1,255,207) related to Level 3 investments.

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

The table below sets out information about significant unobservable inputs used at June 30, 2017 and December 31, 2016 in measuring financial instruments categorized as Level 3 in the fair value hierarchy.

<b>June 30, 2017</b>					
Description	Fair value	Valuation technique	Unobservable input	Enterprise value/ weighted average multiple	Sensitivity to change in significant unobservable input
Unlisted private investments	\$ 7,370,016	Investment cost/ enterprise value	Enterprise value	\$ 7,370,016	The estimated fair value would increase if enterprise value increased
Unlisted private investments	\$ 8,596,250	Market approach using comparable traded revenue multiples	Revenue multiple	2.0	The estimated fair value would increase if the revenue multiples were higher

# PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2017

## 7. Fair value of financial instruments (continued):

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

December 31, 2016					
Description	Fair value	Valuation technique	Unobservable input	Enterprise value/ weighted average multiple	Sensitivity to change in significant unobservable input
Unlisted private investments	\$ 6,684,254	Investment cost/ enterprise value	Enterprise value	\$ 6,684,254	The estimated fair value would increase if enterprise value increased
Unlisted private investments	\$ 7,676,250	Market approach using comparable traded revenue multiples	Revenue multiple	2.0	The estimated fair value would increase if the revenue multiples were higher

Significant unobservable inputs are developed as follows:

(i) Enterprise value:

Represents the amount that market participants would pay when purchasing the investee company. The Manager determines this value based on 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 company by its revenue and further discounted for considerations such as the lack of marketability and other differences between the comparable peer group and the specific investee company.

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

Although the Fund believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects on net assets attributable to holders of redeemable and convertible, and non-redeemable shares at June 30, 2017 and December 31, 2016:

	2017	2016
Favourable	\$ 3,826,434	\$ 3,825,124
Unfavourable	(3,831,367)	(3,819,797)

# PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2017

---

## 7. Fair value of financial instruments (continued):

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

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

- The impact of a 10% increase or decrease in enterprise value.
- A change in the revenue multiple from 1.2 to reasonably possible alternative assumptions of 1.0 and 2.0, respectively.

(e) Financial instruments not measured at fair value:

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

## 8. Capital management:

The Fund's Class C Shares represent the capital of the Fund. The Fund is not subject to any external or internally imposed restrictions on its capital.

The Fund's investment objective is to achieve long-term capital appreciation through prudent application of its investment strategy. By meeting these overall objectives, the Fund accomplishes several objectives including the ability to make new investments, the ability to make follow-on investments in companies that it has previously invested in, and to have sufficient cash for operations and continue as a going concern.

## 9. Income taxes:

The Fund has not provided for income taxes in its statement of comprehensive income as its effective tax rate is nil. The Fund has not recorded the benefit of deferred tax assets resulting from deductible temporary differences or unused tax loss carry forwards as it is not probable that such deductions or tax losses will be utilized in future years.

For income tax purposes the Fund has accumulated capital losses of approximately \$6,394,308 (December 31, 2016 - \$6,394,308) and non-capital losses of approximately \$11,775,010 (December 31, 2016 - \$12,328,702).

Net-capital losses are available to be carried forward indefinitely. Non-capital losses may be carried forward up to 20 years. The Fund's non-capital losses expire as follows:

---

2026	1,414,539
2027	3,059,028
2029	1,748,428
2030	1,728,090
2031	1,138,041
2032	912,449
2033	634,364
2034	607,498
2035	532,573
	<hr/>
	\$ 11,775,010

---

# PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2017

## 10. Involvement with subsidiaries and associates:

The table below describes the Fund's subsidiaries and associates, which it does not consolidate or account for by the equity method, but in which it holds an interest.

Entity	Nature and purpose	Interest held by the Fund
BasicGov Systems, Inc.	Software and services	Investment in common shares, warrants and convertible debentures
One45 Software Inc.	Software and services	Investment in common shares

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

June 30, 2017 and December 31, 2016					
Name of Entity	Relationship	Principal place of business	Country of incorporation	Ownership interest	Voting rights
BasicGov Systems, Inc.	Subsidiary	Canada	Canada	84%	49%
One45 Software Inc.	Subsidiary	Canada	Canada	81%	81%

The ownership interest in BasicGov Systems, Inc. represents direct and indirect holdings. During the six months ended June 30, 2017 and 2016, the Fund did not provide financial support to subsidiaries and has no intention of provide financial or other support. Furthermore, the subsidiaries in the table above are not subject to any restrictions.