

Financial Statements of

PENDER GROWTH FUND INC.

Years ended December 31, 2016 and 2015

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of **Pender Growth Fund Inc.** (formerly Pender Growth Fund (VCC) Inc.) are the responsibility of management. They have been prepared in accordance with International Financial Reporting Standards. Management has developed and maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to produce relevant, reliable and timely financial information, including the accompanying financial statements.

The Board of Directors discharges its duties relating to the financial statements primarily through the activities of its Audit Committee, which is composed of members of the Board of Directors. The Audit Committee has responsibility for reviewing and approving the value of the net assets of the Fund. The Audit Committee meets with management and the external auditors to review both the financial statements and the findings of the audit. The external auditors have unrestricted access to the Audit Committee. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or re-appointment of the external auditors.

These financial statements have been approved by the Board of Directors and have been audited by KPMG LLP, Chartered Professional Accountants, on behalf of the shareholders. The auditors' report outlines the scope of their audit and their opinion on the financial statements.

"David Barr"

David Barr
Chief Executive Officer
Pender Growth Fund Inc.

"Kelvin Kwong"

Kelvin Kwong
Chief Financial Officer
Pender Growth Fund Inc.

March 28, 2017



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Pender Growth Fund Inc. (formerly Pender Growth Fund (VCC) Inc.)

We have audited the accompanying financial statements of Pender Growth Fund Inc., which comprise the statements of financial position as at December 31, 2016 and 2015, the statements of comprehensive income, changes in net assets attributable to non-redeemable shares and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

The Manager's Responsibility for the Financial Statements

The Manager is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Pender Growth Fund Inc. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

March 28, 2017
Vancouver, Canada

PENDER GROWTH FUND INC.

Statements of Financial Position

As at December 31, 2016 and 2015

	Notes	2016	2015
Assets			
Cash		\$ 1,322,426	\$ 407,498
Dividend and interest receivable		-	18,623
Receivable for investments sold		146,605	882,992
Investments		16,703,435	12,937,725
		18,172,466	14,246,838
Liabilities			
Accounts payable and accrued liabilities		77,438	48,921
Due to related parties	4	54,746	40,952
Redemptions payable		3,987	-
		136,171	89,873
Net assets, before amounts attributable to holders of redeemable and convertible shares, and non-redeemable shares		18,036,295	14,156,965
Net assets attributable to holders of redeemable and convertible shares classified as liabilities per class:	5		
Class B Shares - redeemable component		-	1,053,265
Class R Shares		-	5,373,825
		-	6,427,090
Net assets , attributable to holders of non-redeemable shares		\$ 18,036,295	\$ 7,729,875
Net assets, attributable to holders of non-redeemable shares classified as equity per class is comprised of:	5		
Class B Shares - non-redeemable component		\$ -	\$ 492,110
Class C Shares		18,036,295	7,237,765
		\$ 18,036,295	\$ 7,729,875
Net assets / redemption price per share:			
Class B Shares - redeemable and non-redeemable components		\$ -	\$ 6.10
Class C Shares		4.34	1.94
Class R Shares		-	4.16

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

Approved on behalf of the Board of Directors:

"J. Kelly Edmison" Director

"Ian Power" Director

PENDER GROWTH FUND INC.

Statements of Comprehensive Income

Years ended December 31, 2016 and 2015

	Notes	2016	2015
Revenue:			
Dividend income		\$ 81,000	\$ 48,600
Interest income		190	177,335
Foreign exchange gain (loss)		(26,050)	236,293
Changes in fair value of investments:			
Net realized gain (loss)		5,899,593	3,306,696
Net change in unrealized appreciation (depreciation)		5,126,126	39,942
Impairment of receivables related to investments		(18,623)	-
Total revenue		11,062,236	3,808,866
Expenses:			
Management fees	4	540,541	420,618
Directors' fees		311,500	30,500
Administrative expenses		175,815	142,879
Custody and recordkeeping fees		64,937	60,261
Audit fees		53,209	38,220
Legal fees		36,952	7,776
Trailer fees		7,597	9,654
Transaction costs		3,625	32
Total expenses		1,194,176	709,940
Increase (decrease) in net assets attributable to holders of non-redeemable shares			
		\$ 9,868,060	\$ 3,098,926
Increase (decrease) in net assets attributable to holders of non-redeemable shares per class:			
Class B Shares - non-redeemable component		\$ 561,156	\$ 247,949
Class C Shares		9,306,904	2,850,977
		\$ 9,868,060	\$ 3,098,926
Increase (decrease) in net assets attributable to holders of non-redeemable shares per share:			
Class B Shares - non-redeemable component		\$ 2.36	\$ 0.78
Class C Shares		2.48	0.78

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

Years ended December 31, 2016 and 2015

Class B Shares - non-redeemable component	2016	2015
Balance, beginning of period	\$ 492,110	\$ 395,814
Increase (decrease) in net assets attributable to holders of non-redeemable shares	561,156	247,949
Capital transactions:		
Conversion of shares resulting in redemption of Class B Shares	(1,053,266)	(151,653)
Balance, end of period	\$ -	\$ 492,110

Class C Shares	2016	2015
Balance, beginning of period	\$ 7,237,765	\$ 4,235,135
Increase (decrease) in net assets attributable to holders of non-redeemable shares	9,306,904	2,850,977
Capital transactions:		
Conversion of shares resulting in issuance of Class C Shares	1,491,626	151,653
Balance, end of period	\$ 18,036,295	\$ 7,237,765

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

PENDER GROWTH FUND INC.

Statements of Cash Flows

Years ended December 31, 2016 and 2015

	2016	2015
Cash provided by (used in):		
Operating:		
Increase (decrease) in net assets attributable to holders of non-redeemable shares	\$ 9,868,060	\$ 3,098,926
Adjustments for:		
Dividend income	(81,000)	(48,600)
Interest income	(190)	(177,335)
Foreign exchange (gain) loss	26,050	(236,293)
Net realized (gain) loss	(5,899,593)	(3,306,696)
Net change in unrealized (appreciation) depreciation	(5,126,126)	(39,942)
Impairment of receivables related to investments	18,623	-
Receivable for investments sold	736,387	-
Accounts payable and accrued liabilities	28,517	(5,894)
Due to related parties	13,794	5,095
	(415,478)	(710,739)
Proceeds on disposal of investments	8,175,437	4,036,445
Purchase of investments	(915,429)	(677,629)
Interest received	190	71,030
Dividends received	81,000	48,600
	6,925,720	2,767,707
Financing:		
Disbursements upon redemption of Class R shares	(5,984,742)	(2,979,056)
Net increase (decrease) in cash during the period	940,978	(211,349)
Cash, beginning of period	407,498	382,554
Effect of exchange rate fluctuations on cash	(26,050)	236,293
Cash, end of period	\$ 1,322,426	\$ 407,498

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

PENDER GROWTH FUND INC.

Schedule of Investment Portfolio

December 31, 2016

	Coupon rate / exercise price	Maturity / expiry date	Face value / number of shares	Cost	Fair value
Publicly listed investments:					
Common shares:					
Calyx Bio-Venture Inc.			233,928	\$ 451,724	\$ 17,545
Espial Group Inc.			367,927	661,998	816,798
IWG Technologies Inc.			3,474,900	347,490	1,442,084
Redline Communications Group Inc.			43,153	112,213	66,024
VendTek Systems Inc.			42,000	252,000	210
				1,825,425	2,342,661
Private unlisted investments:					
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., Cum. Conv.	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., Convertible	15.00%		CAD 645,000	645,000	
Cantronic Systems Inc., Demand			CAD 500,000	500,000	
Tantalus Systems Corp., Convertible	5.00%	2018/04/12	USD 250,000	253,450	
Tantalus Systems Corp., Convertible	5.00%	2019/11/30	USD 190,120	253,430	
				9,216,481	14,360,774
				\$ 11,041,906	\$ 16,703,435

Summary of Private Unlisted Investments

Stage of development and number of holdings	#	Cost	Unrealized gain (loss)	Fair value	% Cost	% Fair value
Early stage	5	\$ 3,441,171	\$ (2,210,585)	\$ 1,230,586	37	9
Expansion stage	7	5,775,310	7,354,878	13,130,188	63	91
	12	\$ 9,216,481	\$ 5,144,293	\$ 14,360,774	100	100

Industry sector and number of holdings	#	Cost	Unrealized gain (loss)	Fair value	% cost	% fair value
Software and services	7	\$ 5,016,171	\$ 4,259,630	\$ 9,275,801	54	65
Technology hardware and equipment	5	4,200,310	884,663	5,084,973	46	35
	12	\$ 9,216,481	\$ 5,144,293	\$ 14,360,774	100	100

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

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2016 and 2015

1. Incorporation and nature of operations:

Pender Growth Fund Inc. (formerly, Pender Growth Fund (VCC) 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 March 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 relate to the determination of fair value of investments with significant unobservable inputs.

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2016 and 2015

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

Year ended December 31, 2016 and 2015

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

Year ended December 31, 2016 and 2015

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 year. 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 years 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

Year ended December 31, 2016 and 2015

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 year ended December 31, 2016, 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 Management Agreement dated May 1, 2003 (most recently amended July 22, 2010), 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 2.75% of the Fund's net asset value per annum, calculated and paid monthly.

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2016 and 2015

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. A performance fee is based on a percentage of the Fund's value with the percentage being 20% of the Fund's annual performance exceeding an annual compounded rate of return of 5%. The performance fee will be calculated on an annual basis and be subject to a high water mark.

This Management Agreement is in effect until May 31, 2020 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 year ended December 31, 2016, the Fund paid management fees of \$540,541 (2015 - \$420,618). At December 31, 2016, the Fund had an amount payable to the Manager of \$54,746 (2015 - \$40,952) in respect of management fees and reimbursement of operating expenses paid on behalf of the Fund.

(b) Services provided to investee companies:

For the year ended December 31, 2016, companies within the Fund's investment portfolio paid fees of \$nil (2015 - \$5,000) to the Manager for accounting and administrative services.

(c) Share holdings:

As at December 31, 2016, directors and officers of the Fund held 16% (2015 – 14%) of the Fund's Class C Shares.

As at December 31, 2016 and 2015, 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 for the year ended December 31, 2016.

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

Year ended December 31, 2016 and 2015

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

Class B Shares were compound financial instruments. Accordingly, they were 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 was \$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 were redeemable on an annual basis, with a maximum redemption price of \$4.16. Class R Shares were also convertible to Class C Shares.

Class R Shares were compound financial instruments. The full value of the Class R Share was 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
December 31, 2016:					
Class B	253,189	-	-	(253,189)	-
Class C	3,723,802	-	428,743	-	4,152,545
Class R	1,291,785	(1,438,640)	253,189	(106,334)	-
December 31, 2015:					
Class B	339,920	-	-	(86,731)	253,189
Class C	3,637,071	-	86,731	-	3,723,802
Class R	1,921,173	(716,119)	86,731	-	1,291,785

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2016 and 2015

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 December 31, 2016 and 2015 are comprised of:

	2016	2015
Class B Shares - non-redeemable component:		
Contributed capital	\$ -	\$ 317,011
Retained earnings	-	175,099
	\$ -	\$ 492,110
Class C Shares:		
Contributed capital	\$ 5,204,759	\$ 3,713,133
Retained earnings	12,831,536	3,524,632
	\$ 18,036,295	\$ 7,237,765

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

Year ended December 31, 2016 and 2015

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 December 31, 2016 being \$5,876,578 (2015 - \$5,068,177).

(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 December 31, 2016 and 2015 based on undiscounted contractual cash flows and are all due within one year:

	2016	2015
Accounts payable and accrued liabilities	\$ 77,438	\$ 48,921
Due to related parties	54,746	40,952
Redemption payable	3,987	-
Class B Shares - redeemable component	-	1,053,265
Class R Shares	-	5,373,825
	\$ 136,171	\$ 6,516,963

(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.

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Year ended December 31, 2016 and 2015

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 or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from the aforementioned risks), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Manager moderates other price risk through careful selection of investments and through diversification of the investment portfolio.

As at December 31, 2016, 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 \$234,000 (2015 - \$483,000). 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.

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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 December 31, 2016 and 2015 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:

	2016	2015
Level 1:		
Publicly listed investments	\$ 2,342,661	\$ 4,826,612
Level 3:		
Private unlisted investments	14,360,774	8,111,113
	\$ 16,703,435	\$ 12,937,725

The carrying amount of the Fund's net assets attributable to redeemable and convertible shares also approximates fair value as they are measured at redemption amount and are classified as Level 2 in the fair value hierarchy.

During the years ended December 31, 2016 and 2015, there were no transfers between any levels of the fair value hierarchy.

PENDER GROWTH FUND INC.

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Year ended December 31, 2016 and 2015

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 years ended December 31, 2016 and 2015:

	2016	2015
Opening balance	\$ 8,111,113	\$ 9,643,144
Amounts paid on purchase of investments	253,430	1,723,799
Proceeds on disposal of investments	-	(5,804,331)
Total gain (loss) recognized in comprehensive income	5,996,231	2,548,501
	\$ 14,360,774	\$ 8,111,113

Included in the net change in unrealized appreciation (depreciation) in fair value of investments on the Fund's statement of comprehensive income for the year ended December 31, 2016 is a change in unrealized appreciation of \$5,996,231 (2015 - change in unrealized depreciation of \$714,448) 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 December 31, 2016 and 2015 in measuring financial instruments categorized as Level 3 in the fair value hierarchy.

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	\$ 6,684,524	Investment cost/ enterprise value	Enterprise value	\$ 6,684,524	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

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2016 and 2015

7. Fair value of financial instruments (continued):

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

December 31, 2015					
Description	Fair value	Valuation technique	Unobservable input	Enterprise value/ weighted average multiple	Sensitivity to change in significant unobservable input
Unlisted private investments	\$ 5,121,113	Investment cost/ enterprise value	Enterprise value	\$ 5,121,113	The estimated fair value would increase if enterprise value increased
Unlisted private investments	\$ 2,990,000	Market approach using comparable traded revenue multiples	Revenue multiple	1.2	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 December 31, 2016 and 2015:

	2016	2015
Favourable	\$ 3,825,124	\$ 2,365,911
Unfavourable	(3,819,797)	(1,080,211)

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2016 and 2015

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 increase the value of the Fund. 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. This differs from the provision otherwise obtained by applying the statutory tax rates for the following reasons:

	2016	2015
Combined federal and provincial statutory income tax rate	26.00%	26.00%
Income tax expense (recovery) calculated at statutory tax rate	\$ 2,565,696	\$ 805,721
Adjustments resulting from:		
Non-taxable portion of realized (gains) losses	(766,947)	(429,870)
Non-taxable portion of unrealized (appreciation) depreciation	(1,332,793)	(71,821)
Utilization of capital losses and other items	(465,956)	(304,030)
Income tax expense	\$ -	\$ -

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.

PENDER GROWTH FUND INC.

Notes to Financial Statements

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9. Income taxes (continued):

For income tax purposes the Fund has accumulated net-capital losses of approximately \$1,405,016 (2015 - \$3,197,154) and non-capital losses of approximately \$14,117,757 (2015 - \$14,117,757).

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:

2025	\$	22,301
2026		3,734,985
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
	\$	14,117,757

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.

December 31, 2016 and 2015					
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 years ended December 31, 2016 and 2015, 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.