

Unaudited Semi-Annual Financial Statements of

PENDER GROWTH FUND INC.

Six months ended June 30, 2018

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)

As at June 30, 2018 and December 31, 2017

	Notes	2018	2017
Assets			
Cash		\$ 60,219	\$ 307,878
Receivable for investments sold		65,840	136,974
Other receivable		471	-
Investments		18,111,158	18,323,839
		18,237,688	18,768,691
Liabilities			
Accounts payable and accrued liabilities		53,276	73,345
Due to related parties	4	151,222	43,558
Redemptions payable		23,253	21,148
		227,751	138,051
Net assets , attributable to holders of non-redeemable shares			
		\$ 18,009,937	\$ 18,630,640
Net assets per non-redeemable Class C share	6	\$ 4.34	\$ 4.49

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

Approved on behalf of the Board of Directors:

"Kelly Edmison" Director "Dave Barr" Director

PENDER GROWTH FUND INC.

Statements of Comprehensive Income (Unaudited)

Six months ended June 30, 2018 and 2017

	Notes	2018	2017
Revenue:			
Interest income		\$ 158	\$ 7,462
Securities lending income	5	1,498	-
Foreign exchange gain (loss)		(5,507)	(29,081)
Changes in fair value of investments:			
Net realized gain (loss)		-	1,146,717
Net change in unrealized appreciation (depreciation)		(212,681)	455,089
Total revenue		(216,532)	1,580,187
Expenses:			
Management fees	4	240,617	253,439
Administration expenses		70,142	78,314
Legal fees		29,268	19,820
Custody and recordkeeping fees		26,284	20,297
Audit fees		25,439	24,904
Directors' fees		12,421	14,520
Performance fees		-	16,981
Transaction costs		-	785
Total expenses		404,171	429,060
Increase (decrease) in net assets attributable to holders of non-redeemable shares			
		\$ (620,703)	\$ 1,151,127
Increase (decrease) in net assets attributable to holders of non-redeemable shares per class:			
Class C Shares		\$ (620,703)	\$ 1,151,127
Increase (decrease) in net assets attributable to holders of non-redeemable shares per share:			
Class C Shares		\$ (0.15)	\$ 0.28

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, 2018 and 2017

Class C shares	2018	2017
Balance, beginning of period	\$ 18,630,640	\$ 18,036,295
Increase (decrease) in net assets attributable to holders of non-redeemable shares	(620,703)	1,151,127
Capital transactions	-	-
Balance, end of period	\$ 18,009,937	\$ 19,187,422

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, 2018 and 2017

	2018	2017
Cash provided by (used in):		
Operating:		
Increase (decrease) in net assets attributable to holders of non-redeemable shares:	\$ (620,703)	\$ 1,151,127
Adjustments for:		
Interest income	(158)	(7,462)
Foreign exchange (gain) loss	5,507	29,081
Net realized (gain) loss on sales of investments	-	(1,146,717)
Net change in unrealized (appreciation) depreciation of investments	212,681	(455,089)
Receivable for investments sold	71,134	4,913
Other receivable	(471)	-
Accounts payable and accrued liabilities	(20,069)	(33,845)
Due to related parties	107,664	5,931
Redemptions payable	2,105	17,161
	(242,310)	(434,900)
Proceeds on disposal of investments	-	1,494,207
Purchase of investments	-	(281,335)
Interest received	158	105
	(242,152)	778,077
Financing:	-	-
Net increase (decrease) in cash during the period	(242,152)	778,077
Cash, beginning of period	307,878	1,322,426
Effect of exchange rate fluctuations on cash	(5,507)	(29,081)
Cash, end of period	\$ 60,219	\$ 2,071,422

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

PENDER GROWTH FUND INC.

Schedule of Investment Portfolio (Unaudited)

June 30, 2018

	Coupon rate	Maturity/ expiry date	Face value/ number of shares	Cost	Fair value
Publicly listed investments (11.9%)					
Common shares:					
Espial Group Inc.			661,144	1,278,624	1,018,162
ProntoForms Corporation			1,139,400	412,235	421,578
Redline Communications Group Inc.			396,153	680,643	705,152
				2,371,502	2,144,892
Private unlisted investments (88.7%)					
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	
Preferred shares:					
D-Wave Systems Inc., Class B, Convertible			400,000	400,000	
D-Wave Systems Inc., Class C, Convertible			720,720	800,000	
Tantalus Systems Corp., Class D, Convertible			136,552	253,430	
Convertible and other notes:					
BasicGov Systems, Inc.,	15%	Demand	745,000	745,000	
				6,069,601	15,966,266
Less: Transaction costs included in cost of investments				(5,083)	
Total investments (100.6%)				\$ 8,436,020	\$ 18,111,158
Cash (0.3%)					60,219
Other assets less liabilities (-0.9%)					(161,440)
Total net assets attributable to holders of non-redeemable shares (100.0%)					\$ 18,009,937

Summary of Private Unlisted Investments

Stage of development & number of holdings	#	Cost	Unrealized gain (loss)	Fair value	% Cost	% Fair value
Early stage	2	\$ 3,041,171	\$ (1,125,000)	\$ 1,916,171	50.1	12.0
Expansion stage	5	3,028,430	11,021,665	14,050,095	49.9	88.0
	7	\$ 6,069,601	\$ 9,896,665	\$ 15,966,266	100.0	100.0
Industry sector & number of holdings	#	Cost	Unrealized gain (loss)	Fair value	% Cost	% Fair value
Software and services	4	\$ 4,616,171	\$ 6,265,216	\$ 10,881,387	76.1	68.2
Technology hardware and equipment	3	1,453,430	3,631,449	5,084,879	23.9	31.8
	7	\$ 6,069,601	\$ 9,896,665	\$ 15,966,266	100.0	100.0

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, 2018

1. Incorporation and nature of operations:

Pender Growth Fund Inc. (the "Fund") was incorporated under the laws of the Province 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 growth from investment in opportunities identified by the Manager. The Fund invests primarily in public and private companies based in Canada and the U.S., principally in the information technology and telecommunications sectors, with an emphasis on established businesses requiring capital for growth, expansion or restructuring.

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

2. Basis of preparation:

(a) Statement of compliance:

The annual financial statements of the Fund are prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. These interim financial statements ("financial statements") of the Fund have been prepared in accordance with IAS 34 *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. These financial statements should be read in conjunction with the audited annual financial statements.

These financial statements were authorized for issue by the Fund's Board of Directors on August 27, 2018.

(b) Basis of measurement:

The financial statements have been prepared on a historical cost basis except for investments, investments sold short and derivatives, which are measured at fair value.

(c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, 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 and in any future period affected.

PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2018

2. Basis of preparation (continued):

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

The Fund may hold financial instruments that are not quoted in an active market, including derivatives.

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

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next reporting period is included in Note 9 and relates to the determination of fair value of investments with significant unobservable inputs.

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:

Financial instruments are required to be classified into one of the following categories: amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of the financial instrument. Transaction costs are included in the initial carrying amount of financial instruments except for financial instruments classified as FVTPL in which case transaction costs are expensed as incurred.

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

Financial assets and liabilities are offset and the net amount presented in the Statements of Financial Position only when the Fund has a legal right to offset the amounts and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

A financial asset is measured at amortized cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal interest on the principal amount outstanding.

PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2018

3. Significant accounting policies (continued):

(a) Financial instruments (continued):

(i) Recognition and measurement (continued):

A financial asset is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is both to hold assets to collect contractual cash flows and to potentially sell financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal interest on the principal amount outstanding

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. On initial recognition the Fund may irrevocably elect to measure financial assets that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL when doing so results in more relevant information.

Financial assets are not reclassified subsequent to their initial recognition, unless the Fund changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Fund has not classified any of its financial assets as FVOCI.

A financial liability is generally measured at amortized cost, with exceptions that may allow for classification as FVTPL. These exceptions include financial liabilities that are mandatorily measured at fair value through profit or loss, such as derivatives liabilities. The Fund may also, at initial recognition, irrevocably designate a financial liability as measured at FVTPL when doing so results in more relevant information.

(ii) Fair value through profit and loss:

Financial instruments classified as FVTPL are subsequently measured at fair value at each reporting period with changes in fair value recognized in the Statements of Comprehensive Income in the period in which they occur. The Fund's derivative assets and derivative liabilities, investments in securities, and investments sold short are classified as FVTPL.

PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2018

3. Significant accounting policies (continued):

(a) Financial instruments (continued):

(i) Fair value through profit and loss (continued):

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) is 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. In circumstances where there is no closing price, the average of the closing bid and the closing ask price on the valuation date is used. The Fund's policy is to recognize transfers into and out of the fair value hierarchy levels described in Note 9(a) as of the date of the event or change in circumstances giving rise to the transfer.

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

(ii) Amortized Cost:

Financial assets and liabilities classified as amortized cost are recognized initially at fair value plus any directly attributable transaction costs. Subsequent measurement is at amortized cost using the effective interest method, less any impairment losses. The Fund classifies cash and cash equivalents, dividends receivable, interest receivable, subscriptions receivable, balances due from brokers, daily variation margins, receivables for investments sold, other receivables, bank indebtedness, accounts payable and accrued liabilities, management and administration fees payable, performance fees payable, redemptions payable, distributions payable to holders of redeemable shares, balances due to brokers, balances due to related parties and other accrued liabilities as amortized cost.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2018

3. Significant accounting policies (continued):

(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.

Non-redeemable shares are classified as equity and each class is measured at its residual net asset value. Distributions to holders of non-redeemable shares are recognized in the Statements of Changes in Net Assets Attributable to Holders of Non-Redeemable Shares.

(d) Per share amounts:

Net assets 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) Securities lending transactions:

The Fund enters into securities lending transactions which involve the temporary exchange of securities for collateral with a commitment to redeliver the same securities on a future date.

Securities lending transactions are administered by Canadian Imperial Bank of Commerce and The Bank of New York Mellon (collectively the “Securities Lending Agent”). The value of cash or securities held as collateral must be at least 102% of the fair value of the securities loaned, sold or purchased. Income is earned from these transactions in the form of fees paid by the counterparty and, in certain circumstances, interest paid on cash or securities held as collateral. Income earned from these transactions is included in the Statements of Comprehensive Income as Securities lending income and recognized when earned.

Note 5 summarizes the details of securities loaned and collateral received, and presents a reconciliation of the gross amount generated from securities lending to the securities lending income earned by the Fund.

PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2018

3. Significant accounting policies (continued):

(f) 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 Statements of Comprehensive Income.

(g) Income recognition:

Interest income shown on the Statements 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.

(h) Income taxes:

Current tax expense is based on taxable profit for the period. Taxable profit differs from profit as reported in the Statements of Comprehensive Income as certain items of income or expense are never taxable or deductible or are taxable or deductible in a different period than the reporting period. 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 amounts 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.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period 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.

(i) New standards and interpretations not yet adopted:

The Fund has determined there are no IFRS standards that are issued but not yet effective that could materially impact the Fund's financial statements.

PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2018

4. Related party transactions:

(a) Management and performance fees:

In accordance with the Third Amended and Restated Management Agreement dated May 1, 2017 (“Management Agreement”), 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. 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.

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 (prior to May 1, 2017 – 2.75% of the Fund's net asset value per annum). The management fee is calculated and paid monthly.

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 is calculated on an annual basis and is subject to a high water mark, being the year-end net asset value of the shares for the most recent preceding year in which a performance fee was earned. The December 31, 2016 net asset value was the initial 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 be reset other than to be adjusted in the event of a subdivision or consolidation of the shares.

For the period ended June 30, 2018, the Fund incurred management fees of \$240,617 (2017 - \$253,439). No performance fee was earned in the period ended June 30, 2018 (2017 - \$16,981). As at June 30, 2018, the Fund had an amount payable to the Manager of \$151,222 (December 31, 2017 - \$43,558) in respect of management fees and reimbursement of operating expenses paid on behalf of the Fund.

(b) Shareholdings:

As at June 30, 2018, directors and officers of the Manager directly or indirectly held 14% (December 31, 2017 - 16%) of the Fund's Class C Shares.

As at June 30, 2018 and December 31, 2017, directors and officers of the Manager directly or indirectly owned 790,904 shares or 3% of issued and outstanding shares of BasicGov Systems, Inc., a company in which the Fund is also invested. The aggregate investment by the Fund's directors and officers in all other investee companies did not exceed 1% of the any investee company's issued and outstanding shares.

PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2018

5. Securities lending transactions:

The value of securities loaned is \$111,601 and collateral received from securities lending is \$124,099 as at June 30, 2018 (December 31, 2017 – Nil).

Collateral received on securities lending may be comprised of debt obligations of the Government of Canada and other countries, Canadian provincial or territorial governments, governments of states of the United States of America, and evidence of indebtedness of financial institutions whose short-term debt is rated A-1 or R-1 or equivalent by a recognized, widely followed North American credit rating agency.

A reconciliation of the gross amount generated from securities lending transactions to the securities lending income earned by the Fund for the period ended June 30, 2018 is included in the following table. No securities lending income was earned by the Fund for the period ended June 30, 2017.

	Gross income	Withholding taxes	Agent fees	Securities lending income
Pender Growth Fund	\$ 2,587	\$ (91)	\$ (998)	\$ 1,498

All agent fees were paid to the Securities Lending Agent (see Note 3(e)) and represented 40% of the securities lending revenue of the Fund.

6. 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”).

Class B Shares:

Class B Shares are non-redeemable but are 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 which 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.

All Class B Shares were converted during the year ended December 31, 2016. There are no Class B Shares currently outstanding.

PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2018

6. Share capital (continued):

(a) Authorized share capital (continued):

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 of directors.

Class R Shares:

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. Accordingly, outstanding Class R shares, if any, are bifurcated into liability and equity components based on the respective fair value of each component. The full value of a Class R Share was attributed to the liability component with no value attributable to the equity component.

All Class R Shares were redeemed during the year ended December 31, 2016. There are no Class R Shares currently outstanding.

(b) Issued and fully paid shares:

During the periods ended June 30, 2018 and 2017, the Fund had issued and fully paid Class C shares outstanding as follows:

For the period ended	Balance, beginning of period	Redeemed	Exchanged in	Exchanged out	Balance, end of period
June 30, 2018: Class C	4,152,545	-	-	-	4,152,545
June 30, 2017: Class C	4,152,545	-	-	-	4,152,545

PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2018

6. Share capital (continued):

(c) Composition of equity capital:

The Fund's shares are classified as equity and presented in the Statements of Financial Position as net assets attributable to holders of non-redeemable shares. As at June 30, 2018 and December 31, 2017 they comprise:

	2018	2017
Class C Shares:		
Contributed capital	\$ 5,204,759	\$ 5,204,759
Retained earnings	12,805,178	13,425,881
	<u>\$ 18,009,937</u>	<u>\$ 18,630,640</u>

7. 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 investment objective of the Fund is to achieve long-term capital growth from investments in public and private companies.

The Fund's objective in managing capital is to ensure it has the ability to continue to make new investments and to make follow-on investments in companies that it has previously invested in, to have sufficient cash for operations and to continue to operate as a going concern.

8. Financial risk management:

The Fund may be exposed to various financial risks in the normal course of business, associated with its investment objectives and strategies, financial instruments and the markets in which it invests. These risks include credit risk, liquidity risk, and market risk, which consists of currency risk, interest rate risk and other price risk.

The Fund maintains positions in a variety of financial instruments in accordance with its investment objectives and strategies. The Fund's investment objective is to achieve long-term capital growth by investing in public and private companies based in Canada and the U.S., principally in the information technology and telecommunications sectors, with an emphasis on established businesses requiring capital for growth, expansion or restructuring. The Fund also invests in later-stage companies already well-positioned for growth where additional capital is used to expand operations to increase revenue.

The Fund's exposure to financial risk is concentrated in its investment holdings. The Schedule of Investment Portfolio groups securities by asset type. The Manager manages the potential impact of these financial risks on the Fund's performance by employing and overseeing professional and experienced portfolio advisors who regularly monitor the Fund's positions and market events and diversify investment portfolios within the constraints of the investment guidelines.

PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2018

8. Financial risk management (continued):

(a) Credit risk:

Credit risk represents the risk associated with the inability of a counterparty to fulfill its financial obligations. The Fund limits its exposure to credit risk for its excess cash, when applicable, 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 and other notes 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.

The Fund's maximum exposure to credit risk as at June 30, 2018 is \$5,895,720 (December 31, 2017 - \$5,966,854).

(b) Liquidity risk:

Liquidity risk is the risk that the Fund may not be able to settle or meet its obligations on time or at a reasonable price. The Fund invests in equity securities and other financial instruments. A large portion of the Fund's equity holdings are in private unlisted investments for which no active markets exist. Accordingly, timely disposition may not be possible and the realized price may be significantly different from the carrying value.

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, 2018 and December 31, 2017 based on undiscounted contractual cash flows and are all due within one year:

	2018	2017
Accounts payable and accrued liabilities	\$ 53,276	\$ 73,345
Due to related parties	151,222	43,558
Redemption payable	23,253	21,148
	\$ 227,751	\$ 138,051

(c) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices, will affect the Fund's income or the fair value of their holdings of financial instruments.

PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2018

8. Financial risk management (continued):

(c) Market risk (continued):

(i) Interest rate risk:

Interest rate risk is the risk that fair value 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.

(ii) Currency risk:

Currency risk is the risk that the fair value 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.

(iii) Other price risk:

Other price risk is the risk that the fair value of a financial instrument will fluctuate as a result 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 a market. The Manager moderates other price risk through careful selection of investments and through diversification of the investment portfolio.

As at June 30, 2018, if the fair value of the Fund's publicly listed investments had 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 \$214,000 (December 31, 2017 - \$236,000). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

9. 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.

PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2018

9. Fair value of financial instruments (continued):

(a) Valuation models (continued):

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 assets or liabilities that the Fund can access at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Fund uses widely recognized valuation models for determining the fair value of common and relatively simple financial instruments, such as debt securities, mutual fund units and warrants that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple OTC derivatives such as forward foreign currency contracts. The availability of observable market prices and model inputs reduces the need for management judgment and estimation, and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Valuation techniques include discounted cash flow techniques for debt securities and for forward foreign currency contracts, option pricing matrix for warrants and net asset value as published by the fund manager for mutual fund units.

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

In determining fair value for these types of instruments the Manager considers: the history and nature of the business; operating results and financial conditions; the general economic, industry and market conditions; capital market and transaction market conditions; independent valuations of the business; contractual rights relating to the investment; comparable 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 a decline in the value of the investment, as indicated by an assessment of the financial condition of the investment based on operational results, forecasts and other developments since acquisition.

PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2018

9. Fair value of financial instruments (continued):

(a) Valuation models (continued):

The table below presents the fair value of financial instruments as at June 30, 2018 and December 31, 2017 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 Statements of Financial Position.

	2018	2017
Level 1:		
Publicly listed investments	\$ 2,144,892	\$ 2,357,573
Level 3:		
Private unlisted investments	15,966,266	15,966,266
	\$ 18,111,158	\$ 18,323,839

During the periods ended June 30, 2018 and 2017, there were no transfers between any levels of the fair value hierarchy.

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, 2018 and 2017:

	2018	2017
Opening balance	\$ 15,966,266	\$ 14,360,774
Amounts paid on purchase of investments	-	100,000
Total gain recognized in comprehensive income	-	1,505,492
Ending balance	\$ 15,966,266	\$ 15,966,266

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

There is no unrealized appreciation (depreciation) related to Level 3 investments included in the net change in unrealized appreciation in fair value of investments on the Fund's Statements of Comprehensive Income for the period ended June 30, 2018 (2017 – change in unrealized appreciation of \$1,505,492).

PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2018

9. Fair value of financial instruments (continued):

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

The table below sets out information about significant unobservable inputs used at June 30, 2018 and December 31, 2017 in measuring financial instruments categorized as Level 3 in the fair value hierarchy.

June 30, 2018					
Description	Fair value	Valuation technique	Unobservable input	Enterprise value/ weighted average multiple	Sensitivity to change in significant unobservable input
Unlisted private investments	\$ 6,198,845	Investment cost/ enterprise value	Enterprise value	\$ 6,198,845	The estimated fair value would increase if enterprise value increased
Unlisted private investments	\$ 9,767,421	Market approach using comparable traded revenue multiples	Revenue multiple	2.0	The estimated fair value would increase if the revenue multiples were higher

December 31, 2017					
Description	Fair value	Valuation technique	Unobservable input	Enterprise value/ weighted average multiple	Sensitivity to change in significant unobservable input
Unlisted private investments	\$ 6,198,845	Investment cost/ enterprise value	Enterprise value	\$ 6,198,845	The estimated fair value would increase if enterprise value increased
Unlisted private investments	\$ 9,767,421	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, 2018

9. Fair value of financial instruments (continued):

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

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 as at June 30, 2018 and December 31, 2017:

	2018	2017
Favourable	\$ 6,742,235	\$ 3,825,124
Unfavourable	(4,653,581)	(3,819,797)

The favorable and unfavorable effects of using alternative reasonably possible 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 2.0 to alternative reasonably possible assumptions of 1.0 and 3.0, respectively.

(e) Financial instruments not measured at fair value:

The carrying value of the Fund's financial instruments, other than investments, investments sold short and derivatives, 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.

PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2018

10. 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, 2017 - \$6,394,308) and non-capital losses of approximately \$12,756,878 (December 31, 2017 - \$12,357,078). 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	\$	1,566,299
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
2037		427,593
2038		402,515
	\$	12,756,878

11. 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 and convertible and other notes
One45 Software Inc.	Software and services	Investment in common shares

PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2018

11. Involvement with subsidiaries and associates (continued):

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, 2018 and December 31, 2017					
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 periods ended June 30, 2018 and 2017, 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.

12. Change in accounting policy:

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

(a) Classification and measurement of financial assets and liabilities:

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The Fund may also, at initial recognition, irrevocably designate a financial asset as measured at FVTPL when doing so results in more relevant information. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available-for-sale.

A financial liability is generally measured at amortized cost, with exceptions that may allow for classification as FVTPL. These exceptions include financial liabilities that are mandatorily measured at fair value through profit or loss, such as derivatives liabilities. The Fund may also, at initial recognition, irrevocably designate a financial liability as measured at FVTPL when doing so results in more relevant information.

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

PENDER GROWTH FUND INC.

Notes to Financial Statements (Unaudited)

Six months ended June 30, 2018

12. Change in accounting policy (continued):

(a) Classification and measurement of financial assets and liabilities (continued):

	Original Classification under IAS 39	New Classification under IFRS 9
Financial assets		
Cash	Loans and receivables	Amortized cost
Receivable for investments sold	Loans and receivables	Amortized cost
Subscriptions receivable	Loans and receivables	Amortized cost
Dividend receivable	Loans and receivables	Amortized cost
Interest receivable	Loans and receivables	Amortized cost
Other receivables	Loans and receivables	Amortized cost
Due from brokers	Loans and receivables	Amortized cost
Derivative assets	Held-for-trading	FVTPL
Investments	FVTPL	FVTPL
Financial liabilities		
Payable for investments purchased	Other financial liabilities	Amortized cost
Distributions payable to holders of redeemable shares	Other financial liabilities	Amortized cost
Redemptions payable to holders of redeemable shares	Other financial liabilities	Amortized cost
Management and administration fees payable	Other financial liabilities	Amortized cost
Interest payable	Other financial liabilities	Amortized cost
Derivative liabilities	Held-for-trading	FVTPL
Investments sold short	FVTPL	FVTPL

(b) Impairment of financial assets:

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. As the Fund measures its financial assets at FVTPL or holds only short-term financial assets at amortized cost, the impairment requirements under the new standard do not impact these financial statements.

(c) Hedge accounting:

As permitted by IFRS 9, an election is available to continue to apply the hedge accounting requirements of IAS 39. However, the Fund has not applied hedge accounting under either standard. Therefore, the hedge accounting requirements under the new standard do not impact these financial statements.