

Financial Statements of

PENDER GROWTH FUND INC.

Years ended December 31, 2017 and 2016

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of **Pender Growth Fund 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 27, 2018



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Pender Growth Fund Inc.

We have audited the accompanying financial statements of Pender Growth Fund Inc., which comprise the statements of financial position as at December 31, 2017 and 2016, the statements of comprehensive income, changes in net assets attributable to holders of 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 the 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, 2017 and 2016, 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

Vancouver, Canada
March 27, 2018

PENDER GROWTH FUND INC.

Statements of Financial Position

As at December 31, 2017 and 2016

	Notes	2017	2016
Assets			
Cash		\$ 307,878	\$ 1,322,426
Receivable for investments sold		136,974	146,605
Investments		18,323,839	16,703,435
		18,768,691	18,172,466
Liabilities			
Accounts payable and accrued liabilities		73,345	77,438
Due to related parties	4	43,558	54,746
Redemptions payable		21,148	3,987
		138,051	136,171
Net assets , attributable to holders of non-redeemable shares			
		\$ 18,630,640	\$ 18,036,295
Net assets per non-redeemable Class C shares			
		\$ 4.49	\$ 4.34

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

Approved on behalf of the Board of Directors:

"Ian Power" Director

"J. Kelly Edmison" Director

PENDER GROWTH FUND INC.

Statements of Comprehensive Income

Years ended December 31, 2017 and 2016

	Notes	2017	2016
Revenue:			
Dividend income		\$ -	\$ 81,000
Interest income		214	190
Foreign exchange loss		(56,752)	(26,050)
Changes in fair value of investments:			
Net realized gain (loss)		718,386	5,899,593
Net change in unrealized appreciation (depreciation)		727,410	5,126,126
Impairment of receivables related to investments		-	(18,623)
Total revenue		1,389,258	11,062,236
Expenses:			
Management fees	4	499,522	540,541
Administration expenses		129,994	175,815
Custody and recordkeeping fees		48,284	64,937
Audit fees		48,204	53,209
Legal fees		37,820	36,952
Directors' fees		25,891	311,500
Transaction costs		5,198	3,625
Trailer fees		-	7,597
Total expenses		794,913	1,194,176
Increase in net assets attributable to holders of non-redeemable shares			
		\$ 594,345	\$ 9,868,060
Increase in net assets attributable to holders of non-redeemable shares per class:			
Class B Shares - non-redeemable component		\$ -	\$ 561,156
Class C Shares		594,345	9,306,904
		\$ 594,345	\$ 9,868,060
Increase in net assets attributable to holders of non-redeemable shares per share:			
Class B Shares - non-redeemable component		\$ -	\$ 2.36
Class C Shares		0.14	2.48

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, 2017 and 2016

Class B Shares - non-redeemable component	2017	2016
Balance, beginning of year	\$ -	\$ 492,110
Increase in net assets attributable to holders of non-redeemable shares	-	561,156
Capital transactions:		
Conversion of shares resulting in redemption of Class B Shares	-	(1,053,266)
Balance, end of year	\$ -	\$ -

Class C Shares	2017	2016
Balance, beginning of year	\$ 18,036,295	\$ 7,237,765
Increase in net assets attributable to holders of non-redeemable shares	594,345	9,306,904
Capital transactions:		
Conversion of shares resulting in issuance of Class C Shares	-	1,491,626
Balance, end of year	\$ 18,630,640	\$ 18,036,295

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

PENDER GROWTH FUND INC.

Statements of Cash Flows

Years ended December 31, 2017 and 2016

	2017	2016
Cash provided by (used in):		
Operating:		
Increase in net assets attributable to holders of non-redeemable shares	\$ 594,345	\$ 9,868,060
Adjustments for:		
Dividend income	-	(81,000)
Interest income	(214)	(190)
Foreign exchange loss	56,752	26,050
Net realized (gain) loss	(718,386)	(5,899,593)
Net change in unrealized (appreciation) depreciation	(727,410)	(5,126,126)
Impairment of receivables related to investments	-	18,623
Receivable for investments sold	9,631	736,387
Accounts payable and accrued liabilities	(4,093)	28,517
Due to related parties	(11,188)	13,794
Redemptions payable	17,161	-
	(783,402)	(415,478)
Proceeds on disposal of investments	1,517,600	8,175,437
Purchase of investments	(1,692,208)	(915,429)
Dividends received	-	81,000
Interest received	214	190
	(957,796)	6,925,720
Financing:		
Disbursements upon redemption of Class R shares	-	(5,984,742)
Net increase (decrease) in cash during the year	(957,796)	940,978
Cash, beginning of year	1,322,426	407,498
Effect of exchange rate fluctuations on cash	(56,752)	(26,050)
Cash, end of year	\$ 307,878	\$ 1,322,426

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

PENDER GROWTH FUND INC.

Schedule of Investment Portfolio

December 31, 2017

	Coupon rate	Maturity / expiry date	Face value / number of shares	Cost	Fair value
Publicly listed investments:					
Common shares:					
Espial Group Inc.			661,144	\$ 1,278,624	\$ 1,328,900
ProntoForms Corporation			1,139,400	412,235	398,790
Redline Communications Group Inc.			396,153	680,643	629,883
				2,371,502	2,357,573
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	
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 debentures:					
BasicGov Systems, Inc.	15.00%	Demand	745,000	745,000	
				6,069,601	15,966,266
Less: transaction costs included in cost of investments				(5,083)	-
				\$ 8,436,020	\$ 18,323,839

Summary of Private Unlisted Investments

Stage of development and 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	12
Expansion stage	5	3,028,430	11,021,665	14,050,095	50	88
	7	\$ 6,069,601	\$ 9,896,665	\$ 15,966,266	100	100

Industry sector and 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	68
Technology hardware and equipment	3	1,453,430	3,631,449	5,084,879	24	32
	7	\$ 6,069,601	\$ 9,896,665	\$ 15,966,266	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, 2017 and 2016

1. Incorporation and nature of operations:

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

The Fund has been managed by PenderFund Capital Management Ltd. (the "Manager") since 2003. The investment objective of the Fund is to achieve long-term capital growth by profiting from investment 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 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 27, 2018.

(b) Basis of measurement:

The financial statements have been prepared on a historical cost basis except for the Fund's 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, 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.

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 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, 2017 and 2016

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.

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 amount and intends to settle on a net basis or to realize the net asset and settle the net liability simultaneously.

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 or 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 Statements 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, 2017 and 2016

3. Significant accounting policies (continued):

(a) Financial instruments (continued):

(ii) Held-for-trading and fair value through profit or 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, other than investments sold short and derivatives, 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 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 Statements of Changes in Net Assets Attributable to Holders of Non-Redeemable Shares.

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2017 and 2016

3. Significant accounting policies (continued):

(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) 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.

(f) 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.

(g) Income taxes:

Current tax expense is based on taxable profit for the year. Taxable profit differs from profit as reported in the Statements 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.

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.

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2017 and 2016

3. Significant accounting policies (continued):

(h) New standards and interpretations not yet adopted:

A number of new standards, amendments to standards and interpretations are not yet effective for the years ended December 31, 2017 and 2016, and have not been applied in preparing these financial statements. None of these will have a significant effect on the financial statement of the Fund, with the possible exception of IFRS 9, *Financial Instruments* (IFRS 9).

The IASB issued the final version of IFRS 9 Financial Instruments which replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

The Fund plans to adopt the new standard on the required effective date. The Fund has performed a high-level impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Fund in the future. Overall, the standard is not expected to have a material impact on the measurement basis of the financial assets held by the Fund since the majority of the financial assets are measured at fair value through profit or loss. No impact on the net assets attributable to holders of non-redeemable shares is expected from the adoption of IFRS 9.

Classification and measurement categories under IFRS 9 are amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVTPL). Consideration of the entity's business model and the contractual cash flows associated with the financial instrument is required under IFRS 9 to determine the classification and measurement categories. The Fund has performed a high-level assessment of the business model and contractual cash flows and does not expect a significant impact on the Fund's financial position from applying the classification and measurement requirements of IFRS 9. The Fund expects to continue measuring at FVTPL all financial assets currently held at fair value. Debt securities are expected to be measured at FVTPL under IFRS 9 as the Fund does not expect to hold the assets to collect contractual cash flows based on its business model.

Trade and other receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Fund expects that these will continue to be measured at amortized cost under IFRS 9. However, the Fund will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortized cost measurement under IFRS 9.

Given the limited exposure of the Fund to credit risk, the impairment standard will not have a significant impact on the financial statements. The Funds have not applied hedge accounting under IAS 39 and will not apply hedge accounting under IFRS 9. Therefore, no impact is expected from the adoption of IFRS 9.

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2017 and 2016

4. Related party transactions:

(a) Management and performance fees:

In accordance with the Management Agreement dated May 1, 2003 (as amended July 22, 2010 and May 1, 2017), the Manager provides management services in connection with all aspects of the identification, investment, development, active monitoring and ultimate divestment of all investments of the Fund. In exchange for these management services, the Fund pays a management fee equal to 2.50% of the Fund's net asset value per annum on net asset value of up to \$50,000,000, and 2.00% of the Fund's net asset value in excess of \$50,000,000 per annum (until 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 will be calculated on an annual basis and will be subject to a high water mark, with the December 31, 2016 net asset value representing the first high water mark. Subject to the accumulation of the hurdle rate in years in which no performance fee is payable, the high water mark will not otherwise be reset but is adjusted in the event of a subdivision or consolidation of the shares.

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

For the year ended December 31, 2017, the Fund paid management fees of \$499,522 (2016 - \$540,541). At December 31, 2017, the Fund had an amount payable to the Manager of \$43,558 (2016 - \$54,746) in respect of management fees and reimbursement of other expenses paid on behalf of the Fund.

(b) Share holdings:

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

As at December 31, 2017 and 2016, directors and officers of the Fund directly or indirectly owned 790,904 shares or 3% of issued and outstanding shares of BasicGov Systems, Inc., 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 as at December 31, 2017.

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2017 and 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").

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.

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2017 and 2016

5. Share capital (continued):

(a) Authorized share capital (continued):

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, 2017: Class C	4,152,545	-	-	-	4,152,545
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)	-

(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, 2017 and 2016 are comprised of:

	2017	2016
Class C Shares:		
Contributed capital	\$ 5,204,759	\$ 5,204,759
Retained earnings	13,425,881	12,831,536
	\$ 18,630,640	\$ 18,036,295

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2017 and 2016

6. Financial risk management:

The Fund may be exposed to a variety of financial risks in the normal course of business. 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'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 investment objective of the Fund is to achieve long-term capital growth by profiting from investment 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.

(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, 2017 being \$5,966,854 (2016 - \$5,876,578).

(b) Liquidity risk:

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

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

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

	2017	2016
Accounts payable and accrued liabilities	\$ 73,345	\$ 77,438
Due to related parties	43,558	54,746
Redemption payable	21,148	3,987
	\$ 138,051	\$ 136,171

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2017 and 2016

6. Financial risk management (continued):

(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.

(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, 2017, had the fair value of the Fund's publicly listed investments increased or decreased by 10%, with all other factors remaining constant, the Fund's net assets attributable to holders of non-redeemable shares would have increased or decreased by approximately \$236,000 (2016 - \$234,000). 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.

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2017 and 2016

7. 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 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 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

Year ended December 31, 2017 and 2016

7. Fair value of financial instruments (continued):

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

The table below analyzes financial instruments measured at fair value at December 31, 2017 and 2016 by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the Statements of Financial Position.

	2017	2016
Level 1:		
Publicly listed investments	\$ 2,357,573	\$ 2,342,661
Level 3:		
Private unlisted investments	15,966,266	14,360,774
	\$ 18,323,839	\$ 16,703,435

During the years ended December 31, 2017 and 2016, 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 years ended December 31, 2017 and 2016:

	2017	2016
Opening balance	\$ 14,360,774	\$ 8,111,113
Amounts paid on purchase of investments	100,000	253,430
Total gain recognized in comprehensive income	1,505,492	5,996,231
	\$ 15,966,266	\$ 14,360,774

Included in the net change in unrealized appreciation in fair value of investments on the Fund's Statements of Comprehensive Income for the year ended December 31, 2017 is a gain of \$1,505,492 (2016 - gain of \$5,996,231) related to Level 3 investments.

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2017 and 2016

7. 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 December 31, 2017 and 2016 in measuring financial instruments categorized as Level 3 in the fair value hierarchy.

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
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, 2017 and 2016

7. 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 alternative reasonably possible assumptions would have the following effects on net assets attributable to holders of redeemable and convertible, and non-redeemable shares at December 31, 2017 and 2016:

	2017	2016
Favourable	\$ 6,742,235	\$ 3,825,124
Unfavourable	(4,653,581)	(3,819,797)

The favourable and unfavourable 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

Year ended December 31, 2017 and 2016

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 investment objective of the Fund is to achieve long-term capital growth by profiting from investment 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.

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 Statements 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:

	2017	2016
Combined federal and provincial statutory income tax rate	26.00%	26.00%
Income tax expense (recovery) calculated at statutory tax rate	\$ 154,530	\$ 2,565,696
Adjustments resulting from:		
Non-taxable portion of realized (gains) losses	(93,390)	(764,526)
Non-taxable portion of unrealized (appreciation) depreciation	(174,372)	(1,326,020)
Utilization of capital losses and other items	113,232	(475,150)
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.

For income tax purposes the Fund has accumulated capital losses of approximately \$6,394,308 (2016 - \$6,394,308) and non-capital losses of approximately \$12,357,078 (2016 - \$12,328,702).

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

2026	\$ 1,566,299
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	430,308
	\$ 12,357,078

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2017 and 2016

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

The ownership interest in BasicGov Systems, Inc. represents direct and indirect holdings. During the years ended December 31, 2017 and 2016, the Fund did not provide financial support to subsidiaries and has no intention of provide financial or other support. Furthermore, the subsidiaries in the table above are not subject to any restrictions.