

Unaudited Condensed Interim Financial Statements of

PENDER GROWTH FUND INC.

Three months and nine months ended September 30, 2020

NOTICE OF NO AUDITOR REVIEW OF THE INTERIM FINANCIAL STATEMENTS

PenderFund Capital Management Ltd., the Manager of the Pender Growth Fund Inc. (the “Company”), appoints an independent auditor to audit the Company’ Annual Financial Statements. In accordance with Canadian securities laws (National Instrument 51-102 “Continuous Disclosure Obligations”), the Manager must disclose if an auditor has not reviewed the interim Financial Statements.

The Company’ independent auditor has not performed a review of these Interim Financial Statements in accordance with standards established by the Chartered Professional Accountants of Canada.

PENDER GROWTH FUND INC.

Condensed Interim Statements of Financial Position (Unaudited)

	Notes	September 30, 2020	December 31, 2019
Assets			
Cash		\$ 3,900,734	\$ 8,199,875
Divestment proceeds receivable		667,631	-
Interest receivable		61,749	491,123
Prepaid expenses		7,214	4,546
Share repurchase receivable		5,454	-
Dividend receivable		5,227	-
Other receivable		12	73
Investments		34,685,597	25,345,146
		<u>39,333,618</u>	<u>34,040,763</u>
Liabilities			
Due to related parties	4	97,821	105,753
Accounts payable and accrued liabilities		71,927	100,815
Payable for investments purchased		52,234	1,178
		<u>221,982</u>	<u>207,746</u>
Shareholders' equity			
Class C Common shares:			
Contributed capital	7	18,828,253	19,769,587
Retained earnings		20,283,383	14,063,430
Total Shareholders' equity		<u>\$ 39,111,636</u>	<u>\$ 33,833,017</u>
Number of shares outstanding			
Number of shares outstanding	7	7,770,129	8,083,329
Total shareholders' equity per share			
Total shareholders' equity per share		\$ 5.03	\$ 4.19

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

Approved on behalf of the Board of Directors:

"David Barr" Director "Kelly Edmison" Director

PENDER GROWTH FUND INC.

Condensed Interim Statements of Comprehensive Income (Unaudited)

	Note	Three months ended Sept. 30,		Nine months ended Sept. 30,	
		2020	2019	2020	2019
Revenue:					
Dividend income		\$ 61,648	\$ -	\$ 167,955	\$ -
Interest income		47,919	65,179	153,933	102,839
Securities lending income	5	154	-	678	-
Foreign exchange gain (loss)		16	2,110	(8,802)	(674)
Changes in fair value of investments:					
Net realized gain (loss)		2,949,137	125,405	3,982,097	(115,223)
Net change in unrealized appreciation (depreciation)		(22,333)	48,579	2,872,559	815,745
Total revenue		3,036,541	241,273	7,168,420	802,687
Expenses:					
Management fees	4	208,271	175,866	589,876	445,963
Administration expenses		40,686	45,257	158,063	125,873
Transaction costs		22,177	4,695	67,603	5,419
Audit and professional fees		10,770	26,804	46,223	80,104
Directors' fees		13,591	6,210	38,667	21,780
Custody and recordkeeping fees		5,315	14,462	23,375	41,622
Legal fees		4,188	4,761	23,200	59,489
Withholding taxes (recovery)	6	564	-	1,460	-
Total expenses		305,562	278,055	948,467	780,250
Net income (loss)		\$ 2,730,979	\$ (36,782)	\$ 6,219,953	\$ 22,437
Net income (loss), per share:					
Class C shares		\$ 0.35	\$ (0.01)	\$ 0.78	\$ 0.00
Weighted average number of non-redeemable					
Class C shares outstanding		7,787,654	8,083,329	7,925,409	6,117,937

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

PENDER GROWTH FUND INC.

Condensed Interim Statements of Changes in Equity (Unaudited)

		Nine months ended September 30, 2020	Nine months ended September 30, 2019
Class C shares	Note		
Balance, beginning of period		\$ 33,833,017	\$ 17,205,308
Net income (loss)		6,219,953	22,437
Capital transactions	7(c)	(941,334)	14,564,828
Balance, end of period		\$ 39,111,636	\$ 31,792,573

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

PENDER GROWTH FUND INC.

Condensed Interim Statements of Cash Flows (Unaudited)

	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Cash provided by (used in):		
Operating:		
Net income (loss)	\$ 6,219,953	\$ 22,437
Adjustments for:		
Dividend income	(167,955)	-
Interest income	(153,933)	(102,839)
Foreign exchange (gain) loss	8,802	674
Net realized (gain) loss on sales of investments	(3,982,097)	115,223
Net change in unrealized (appreciation) depreciation on investments	(2,872,559)	(815,745)
(Increase) decrease in Divestment proceeds receivable	(667,631)	-
(Increase) decrease in receivable for investments sold	-	27,068
(Increase) decrease in prepaid expenses	(2,668)	(1,282)
(Increase) decrease in share repurchase receivable	(5,454)	-
(Increase) decrease in other receivable	61	-
Increase (decrease) in due to related parties	(7,932)	(347,762)
Increase (decrease) in accounts payable and accrued liabilities	(28,888)	11,474
	(1,660,301)	(1,090,752)
Proceeds on disposal of investments	14,280,322	1,163,401
Purchase of investments	(16,715,061)	(1,523,102)
Dividend received	162,728	-
Interest received	583,307	82,929
Net cash used in operating activities	(3,349,005)	(1,367,524)
Financing:		
Proceeds from issuance of shares	-	15,330,058
Repurchase of shares	(941,334)	(765,230)
Net cash used in financing activities	(941,334)	14,564,828
Net increase (decrease) in cash during the period	(4,290,339)	13,197,304
Cash, beginning of period	8,199,875	17,653
Increase (decrease) due to exchange rate fluctuations on cash	(8,802)	(674)
Cash, end of period	\$ 3,900,734	\$ 13,214,283

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

PENDER GROWTH FUND INC.

Condensed Interim Schedule of Investment Portfolio (Unaudited)

As at September 30, 2020

	Coupon rate/ Exercise price	Maturity/ expiry date	Face value/ Number of shares / units	Cost	Fair value
Publicly listed companies: (50.0%)					
Common shares: (47.6%)					
ADF Group Inc.			522,700	\$ 581,074	\$ 627,240
AgJunction Inc.			1,130,000	151,933	508,500
Alcanna Inc.			320,233	960,699	1,383,407
Diversified Royalty Corp.			649,596	859,347	1,156,281
Dye & Durham Limited			38,000	560,370	844,360
Ebix, Inc.			38,045	741,656	1,043,572
Else Nutrition Holdings Inc.			23,215	52,234	56,645
GreenSpace Brands Inc.			22,828,320	1,483,841	1,084,345
Leaf Group Ltd.			150,000	287,340	1,002,657
MAV Beauty Brands Inc.			262,300	535,686	868,213
Photon Control Inc.			306,423	260,222	432,056
ProntoForms Corporation			3,098,733	1,473,933	2,478,986
Quorum Information Technologies Inc.			1,683,100	1,461,268	1,733,593
Redline Communications Group Inc.			396,153	680,643	192,134
Sangoma Technologies Corporation			778,207	1,045,089	1,968,864
Spartan Delta Corp.			650,200	1,300,400	1,592,990
Sylogist Ltd.			99,190	907,376	1,067,284
TIMIA Capital Corp.			724,500	139,766	123,165
Vigil Health Solutions Inc.			1,514,500	522,323	454,350
				14,005,200	18,618,642
Warrants: (0.0%)					
Newtopia Inc.	1.00	07/11/2022	178,571	-	-
Siyata Mobile Inc.	0.45	12/23/2022	6,896	-	-
Convertible debentures: (2.4%)					
Siyata Mobile Inc.	12.00%	12/23/2021	1,000,000	950,000	950,000
				14,955,200	19,568,642
Private unlisted companies: (38.7%)					
Common shares					
3760073 Canada Corporation (Formerly Navarik Corp.)			1,149,425	1,000,000	
Copperleaf Technologies Inc.			140,596	407,728	
one45 Software Inc.			575,000	575,000	
Preferred shares:					
Checkfront, Inc.			38,973	999,993	
Copperleaf Technologies Inc., Class A, Convertible			117,163	339,773	
DWSI Holdings Inc., Class A (Formerly D-Wave Systems Inc.)			224,144	1,200,000	
Tantalus Systems Corp., Class D, Convertible			136,552	253,430	
Convertible debentures					
Clarius Mobile Health Corp.	8.00%	12/31/2023	1,000,000	1,000,000	
				5,775,924	15,116,955
Less: Transaction costs included in cost of investments				(50,726)	
Total investments (88.7%)				\$ 20,680,398	\$ 34,685,597
Cash (10.0%)					3,900,734
Other assets less liabilities (1.3%)					525,305
Total Shareholders' equity (100.0%)					\$ 39,111,636

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

PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months and nine months ended September 30, 2020

1. Incorporation and nature of operations:

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

The Company has been managed by PenderFund Capital Management Ltd. (the “Manager”) since 2003. The investment objective of the Company is to achieve long-term capital growth from investment in opportunities identified by the Manager.

The Company’s registered office is located at 1830 - 1066 West Hastings Street, Vancouver, British Columbia, V6E 3X2.

2. Basis of preparation:

(a) Statement of compliance:

The annual financial statements of the Company are prepared under International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards (“IAS”) Board. These condensed interim financial statements (“financial statements”) of the Company 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.

The Company qualifies as an investment entity under IFRS 10, *Consolidated Financial Statements*.

These financial statements were authorized for issue by the Company’s Board of Directors on November 19, 2020.

(b) Basis of measurement:

These financial statements have been prepared on a historical cost basis except for investments, which are measured at fair value.

(c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, the Company’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 the Condensed Interim Financial Statements (Unaudited)

Three months and nine months ended September 30, 2020

2. Basis of preparation (continued):

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

The Company 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.

3. Significant accounting policies:

These financial statements follow the same accounting policies and methods of application as the annual audited financial statements as at and for the year ended December 31, 2019.

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 Company. 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 otherwise.

In exchange for these management services, the Company pays a management fee. Effective May 2019, the management fee is equal to 2.50% of the first \$15,000,000 of the value of Net Assets and 1.75% of the value of Net Assets above \$15,000,000. Prior to May 2019 the management fee was 2.50% of the Company's total shareholders' equity per annum on total shareholders' equity of up to \$50,000,000 and 2.00% of the Company's total shareholders' equity in excess of \$50,000,000 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 shareholders' equity 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 total shareholders' equity per share for the most recent preceding year in which a performance fee was earned. The December 31, 2016 total shareholders' equity per share 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 three months ended September 30, 2020, the Company incurred management fees of \$208,271 (September 30, 2019 - \$175,866). For the nine months ended September 30, 2020, the Company incurred management fees of \$589,876 (September 30, 2019 - \$445,963). No performance fee was earned in either of the nine month periods ended September 30, 2020 and 2019. As at September 30, 2020, the Company had an amount payable to the Manager of \$97,821 (December 31, 2019 - \$105,753) in respect of management fees and reimbursement of operating expenses paid on behalf of the Company.

PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months and nine months ended September 30, 2020

4. Related party transactions (continued):

(b) Share holdings:

As at September 30, 2020, the Manager, directors and officers of the Company directly or indirectly held 8.6% (December 31, 2019 – 7.8%) of the Company's Class C Shares.

The aggregate investment by the Company's directors and officers in all investee companies did not exceed 1.0% of the issued and outstanding shares of any investee company.

5. Securities lending transactions:

As at September 30, 2020, the value of securities loaned is \$758,995 (December 31, 2019 – \$1,728,977) and collateral received in respect of securities lending is \$988,476 (December 31, 2019 – \$1,815,438).

Collateral received in respect of 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 Company for the nine months ended September 30, 2020 is presented in the following table. No securities lending income was earned by the Company for the nine months ended September 30, 2019.

	Gross income	Withholding taxes	Agent fees	Securities lending income
2020				
Pender Growth Fund	\$ 1,230	\$ -	\$ 552	\$ 678

The agent fees were paid to the Securities Lending Agent by the Company and represented 40% of the gross securities lending income net of withholding taxes through to March 31, 2020, and 35% of the gross securities lending income net of withholding taxes thereafter.

6. Withholding tax expense:

Certain dividend income received by the Company is subject to withholding tax imposed in the country of origin. During the period, withholding tax rates were between 0% and 35% (2019 – nil).

7. Share capital:

(a) Authorized share capital:

On July 24, 2019, the shareholders approved a resolution deleting the Class B and Class R shares, altering the rights and restrictions of Class C shares to remove references therein to Class R shares, and creating a new class of preferred shares.

PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months and nine months ended September 30, 2020

7. Share capital (continued):

(a) Authorized share capital (continued):

As at September 30, 2020, the authorized capital of the Company consists of:

- (i) An unlimited number of Class C Participating Common Shares ("Class C Shares"); and
- (ii) An unlimited number of Preferred Shares ("Preferred Shares").

Class B Shares:

Class B Shares were non-redeemable but were 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 which 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 shareholders' equity attributed in the same manner as Class C Shares.

All Class B Shares were converted during the year ended December 31, 2016, after which there were no Class B Shares outstanding, and on July 24, 2019 the shareholders approved a resolution deleting the Class B Shares.

Class C Shares:

Class C Shares are not redeemable or convertible. Class C Shares are listed on the TSX Venture Exchange ("TSXV") under the ticker symbol "PTF".

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 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. Accordingly, outstanding Class R Shares, if any, were bifurcated into liability and equity components based on the respective fair value of each component. The full value of the 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, after which there were no Class R Shares outstanding. On July 24, 2019 the shareholders approved a resolution deleting the Class R Shares.

PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months and nine months ended September 30, 2020

7. Share capital (continued):

(a) Authorized share capital (continued):

Preferred Shares:

The Preferred Shares were created on July 24, 2019. As at September 30, 2020, no Preferred Shares have been issued. The special rights and restrictions of the Preferred Shares empower the Board to fix the number of shares in each series of each class of Preferred Shares and to fix the preferences, special rights and restrictions, privileges, conditions and limitations attaching to the shares of that series, before the issuance of shares of any particular series. The Board has the power to fix, among other things, the number of shares constituting any series, the voting powers, designation, preferences and relative participation, optional or other special rights and dividend rate, terms of redemption (including sinking fund provisions), redemption price or prices, conversion rights and liquidation preferences of the shares constituting any series. The issuance of Preferred Shares could affect the rights of the holders of Class C shares.

(b) Issued and fully paid shares:

During the nine months ended September 30, 2020 and 2019, the Company has issued and fully paid Class C shares outstanding as follows:

For the period ended	Balance, beginning of period	Shares issued	Shares repurchased	Balance, end of period
September 30, 2020: Class C	8,083,329	-	(313,200)	7,770,129
September 30, 2019: Class C	4,152,545	3,930,784	-	8,083,329

On February 3, 2020, the Company announced that it had provided TSXV its Notice of Intention to make a Normal Course Issuer Bid through the facilities of the TSXV, subject to TSXV acceptance. As of February 3, 2020, the Company had 8,083,329 Shares outstanding, of which 7,430,877 Shares represented Pender's public float. Under TSXV policies, the Company is entitled to purchase up to a maximum of 743,087 Shares, representing 10% of the Company's public float, over the period that the NCIB is in place. The NCIB was launched on February 10, 2020 following the issuance by the TSXV of their bulletin approving the NCIB and will continue for 12 months thereafter unless terminated earlier in accordance with its terms.

During the nine months ended September 30, 2020, the Company bought back 313,200 shares under its Normal Course Issuer Bid.

PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months and nine months ended September 30, 2020

7. Share capital (continued):

(c) Equity capital:

The changes in shareholders' equity for the nine months ended September 30, 2020 and 2019 are as follows:

	Share capital	Retained earnings (deficit)	Total
Balance, January 1, 2020	\$ 19,769,587	\$ 14,063,430	\$ 33,833,017
Net income (loss)	-	6,219,953	6,219,953
Capital transactions	(941,334)	-	(941,334)
Balance, September 30, 2020	\$ 18,828,253	\$ 20,283,383	\$ 39,111,636

	Share capital	Retained earnings (deficit)	Total
Balance, January 1, 2019	\$ 5,204,759	\$ 12,000,549	\$ 17,205,308
Net income (loss)	-	22,437	22,437
Capital transactions	14,564,828	-	14,564,828
Balance, September 30, 2019	\$ 19,769,587	\$ 12,022,986	\$ 31,792,573

8. Capital management:

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

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

The Company'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.

9. Financial risk management:

The Company 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.

PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months and nine months ended September 30, 2020

9. Financial risk management (continued):

The Company maintains positions in a variety of financial instruments in accordance with its investment objectives and strategies. The Company's investment objective is to achieve long-term capital growth by investing in public and private companies. The Company'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 Company's performance by employing and overseeing professional and experienced portfolio advisors who regularly monitor the Company's positions and market events and diversify investment portfolios within the constraints of the investment guidelines.

Beginning in late 2019, the outbreak of a novel strain of coronavirus ("COVID-19") spread rapidly to many parts of the world. In March 2020, the World Health Organization declared the COVID-19 a global health pandemic. Measures to contain the virus are ongoing and include quarantines, travel restrictions, and the temporary closure of stores and facilities from time to time in most of the world. The negative economic impact of these measures together with the uncertainty of the situation led to significant volatility in equity markets, increasing the Company's exposure to risk, particularly market risk and price risk. While governmental initiatives to reduce the economic impact and more recent measures to reopen economies have a mitigating impact on volatility, investment results will depend, to a large extent, on future developments and new information that may emerge regarding COVID-19, factors which are beyond the Company's control. Given the extent of the crisis, it is difficult to estimate the ultimate impact on the Company or on its individual Portfolio Companies.

The Company will continue to support its Portfolio Companies, to monitor the impact that COVID-19 has on them and to reflect the consequences as appropriate in its accounting and reporting.

(a) Credit risk:

Credit risk represents the risk associated with the inability of a counterparty to fulfill its financial obligations. The Company limits its exposure to credit risk for its excess cash, when applicable, by investing in high quality short-term investments, typically term or other deposits with a large Canadian bank.

The Company is also exposed to credit risk through its investment in loans, convertible and other notes and preferred shares of its investee companies. The Company manages this credit risk through careful selection and monitoring of its investee companies. Receivables relating to the Company's investments are also subject to credit risk and are managed through active review of the portfolio of private unlisted investments.

The Company's maximum exposure to credit risk as at September 30, 2020 is \$5,295,706 (December 31, 2019 - \$3,802,456).

PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months and nine months ended September 30, 2020

9. Financial risk management (continued):

(b) Liquidity risk:

Liquidity risk is the risk that the Company may not be able to settle or meet its obligations on time or at a reasonable price. The Company invests in equity securities and other financial instruments. A portion of the Company'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 Company's policy is to maintain sufficient cash to meet normal operating requirements. It is also the Company's policy that the Manager monitors the Company's liquidity position and that the board of directors reviews it on a quarterly basis.

The following table summarizes the Company's financial liabilities as at September 30, 2020 and December 31, 2019 based on undiscounted contractual cash flows and are all due within one year:

	2020	2019
Due to related parties	\$ 97,821	\$ 105,753
Accounts payable and accrued liabilities	71,927	100,815
Payable for investments purchased	52,234	1,178
	\$ 221,982	\$ 207,746

(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 Company's income or the fair value of their holdings of financial instruments.

(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 Company'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 Company. Accordingly, the Manager does not consider there to be significant interest rate risk on the Company'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 Company primarily invests in Canadian securities. Accordingly, the Company is not subject to significant currency risk.

PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months and nine months ended September 30, 2020

9. Financial risk management (continued):

(c) Market risk (continued):

(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 September 30, 2020, if the fair value of the Company's publicly listed investments had increased or decreased by 10% with all other factors remaining constant, the Company's shareholders' equity would have increased or decreased by approximately \$2,689,000 (December 31, 2019 - \$164,000). Price sensitivity was determined based on portfolio-weighted beta. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

10. 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 Company determines fair values using other valuation techniques.

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

The Company 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 Company can access at the measurement date.
- 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 for the asset or liability that are not based on observable market data (unobservable inputs).

PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months and nine months ended September 30, 2020

10. Fair value of financial instruments (continued):

(a) Valuation models (continued):

The Company 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.

For more complex instruments, the Company uses recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market and may be derived from market prices or rates or 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 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.

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

The table below presents the fair value of financial instruments as at September 30, 2020 and December 31, 2019 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.

	September 30, 2020	December 31, 2019
Level 1:		
Publicly listed companies	\$ 18,618,642	\$ 7,499,203
Level 2:		
Publicly listed companies	-	-
Level 3:		
Publicly listed companies	950,000	950,000
Private unlisted companies	15,116,955	16,895,943
Total Level 3	\$ 16,066,955	\$ 17,845,943
	\$ 34,685,597	\$ 25,345,146

PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months and nine months ended September 30, 2020

10. Fair value of financial instruments (continued):

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

During the nine months ended September 30, 2020, Newtopia Inc. was transferred from level 3 to level 1 of the fair value hierarchy upon becoming publicly traded.

The following table shows a reconciliation of all movements in the fair value of financial instruments categorized within Level 3 for the period ended September 30, 2020 and December 31, 2019:

	September 30, 2020	December 31, 2019
Opening balance	\$ 17,845,943	\$ 15,966,266
Amounts paid on purchase of investments	1,999,993	1,947,501
Sales and settlements of investments	(3,416,912)	-
Transfer from Level 3 to Level 1	(250,000)	-
Total gain (loss) recognized in comprehensive income	(112,069)	(67,824)
Ending balance	\$ 16,066,955	\$ 17,845,943

Included in the net change in unrealized appreciation (depreciation) in fair value of investments on the Company's Condensed Interim Statements of Comprehensive Income for the nine months ended September 30, 2020 is a change in unrealized depreciation of \$487,809 (December 31, 2019 – unrealized depreciation \$67,824) related to Level 3 investments.

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

The table below sets out information about significant unobservable inputs used at September 30, 2020 and December 31, 2019 in measuring financial instruments categorized as Level 3 in the fair value hierarchy.

September 30, 2020					
Description	Fair value	Valuation technique	Unobservable input	Enterprise value/ weighted average multiple	Sensitivity to change in significant unobservable input
Unlisted private investments	\$ 5,230,951	Investment cost/ enterprise value	Enterprise value	\$ 5,230,951	The estimated fair value would increase if enterprise value increased
Unlisted private investments	\$10,836,004	Market approach using comparable traded revenue multiples	Revenue multiple	1.9	The estimated fair value would increase if the revenue multiples were higher

PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months and nine months ended September 30, 2020

10. Fair value of financial instruments (continued):

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

December 31, 2019					
Description	Fair value	Valuation technique	Unobservable input	Enterprise value/ weighted average multiple	Sensitivity to change in significant unobservable input
Unlisted private investments	\$ 4,338,026	Investment cost/ enterprise value	Enterprise value	\$ 4,338,026	The estimated fair value would increase if enterprise value increased
Unlisted private investments	\$13,507,917	Market approach using comparable traded revenue multiples	Revenue multiple	2.0	The estimated fair value would increase if the revenue multiples were higher

Significant unobservable inputs are developed as follows:

(i) Enterprise value:

Represents the amount that market participants would pay when purchasing the investee company. The Manager determines this value based on comparable arm's length transactions in shares of the respective company.

(ii) Revenue multiple:

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

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

Although the Company 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

PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months and nine months ended September 30, 2020

10. Fair value of financial instruments (continued):

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

possible assumptions would have the following effects on shareholders' equity at September 30, 2020 and December 31, 2019:

	September 30, 2020	December 31, 2019
Favourable	\$ 4,695,469	\$ 4,283,049
Unfavourable	(4,065,589)	(8,604,650)

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

11. Income taxes:

The Company has not provided for income taxes in the Condensed Interim Statements of Comprehensive Income as its effective tax rate is nil. The Company 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.

As at the end of 2019 tax year-end, the Company has accumulated capital losses of approximately \$5,903,051 (2018 - \$6,394,308) and non-capital losses of approximately \$13,684,986 (2018 - \$13,103,485).

PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months and nine months ended September 30, 2020

11. Income taxes (continued):

Capital losses are available to be carried forward indefinitely. Non-capital losses may be carried forward up to 20 years. The Company'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		749,122
2039		581,501
	\$	13,684,986

12. Involvement with subsidiaries and associates:

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

Entity	Nature and purpose	Interest held by the Company
one45 Software Inc.	Software and services	Investment in common shares

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

September 30, 2020 and December 31, 2019					
Name of Entity	Relationship	Principal place of business	Country of incorporation	Ownership interest	Voting rights
one45 Software Inc.	Subsidiary	Canada	Canada	81% (2019-81%)	81% (2019-81%)

As at December 31, 2019 the Company's interest in BasicGov Systems, Inc., prior to its divestment in January 2020, was an ownership interest of 79% and voting rights of 46%

Furthermore, none of the subsidiaries described in the table above are subject to any restrictions.