

Financial Statements of  
**PENDER GROWTH FUND INC.**

And Independent Auditor's Report thereon

Year ended December 31, 2023

## 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 IFRS Accounting Standards. PenderFund Capital Management Ltd. (the “Manager”) 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 is responsible for ensuring the Manager fulfils its responsibility. The Audit Committee meets with the Manager and the external auditors to review both the financial statements and the findings of the audit prior to the submission of the financial statements to the Board of Directors. 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"*

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David Barr  
Chief Executive Officer  
PenderFund Capital Management Ltd.

*"Gina Jones"*

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Gina Jones  
Chief Financial Officer  
PenderFund Capital Management Ltd.

April 4, 2024



**KPMG LLP**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of Pender Growth Fund Inc.

### ***Opinion***

We have audited the financial statements of Pender Growth Fund Inc. (the "Company"), which comprise:

- the statements of financial position as at December 31, 2023 and December 31, 2022
- the statements of comprehensive income for the years then ended
- the statements of changes in equity for the years then ended
- the statements of cash flows for the years then ended
- and notes to the financial statements, including a summary of material accounting policy information (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023 and December 31, 2022, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards.

### ***Basis for Opinion***

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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



## **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matter to be communicated in our auditor's report.

### ***Valuation of certain financial instruments that are not quoted in an active market***

#### ***Description of the matter***

We draw attention to Note 2(d), Note 3(a)(ii) and Note 11 to the financial statements. The Company holds certain financial instruments that are not quoted in an active market of \$11,591,723 where the Company uses valuation models that use significant unobservable market inputs including revenue multiples.

#### ***Why the matter is a key audit matter***

We identified the valuation of certain financial instruments that are not quoted in an active market as a key audit matter. This matter represented an area of significant risk of material misstatement due to a high degree of subjectivity required to evaluate the Company's significant unobservable inputs in determining the fair value. Significant auditor judgement was required to evaluate the results of audit procedures related to the significant unobservable inputs.

#### ***How the matter was addressed in the audit***

The primary procedures we performed to address this key audit matter included the following:

With the involvement of valuation professionals with specialized skills, industry knowledge and relevant experience, we tested the valuation of certain financial instruments that are not quoted in an active market. We did this by comparing the selected revenue multiples to third-party industry data for comparable public company multiples.

#### ***Other Information***

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.



We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

### ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

*KPMG LLP*

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditor's report is Nik Assanand

Vancouver, Canada  
April 4, 2024

# PENDER GROWTH FUND INC.

Statements of Financial Position

As at December 31, 2023 and 2022

	Notes	2023	2022
<b>Assets</b>			
Cash		\$ 1,102,966	\$ 1,552,667
Income taxes receivable	12	546,626	3,502,595
Divestment proceeds receivable		177,485	1,916,139
Interest receivable		21,507	162,932
Prepaid expenses		9,113	6,770
Due from related parties	5	-	3,023,368
Investments	4, 5, 11	72,826,136	66,299,539
<b>Total assets</b>		<b>74,683,833</b>	<b>76,464,010</b>
<b>Liabilities</b>			
Share repurchase payable		25,708	13,186
Accounts payable and accrued liabilities		175,898	142,880
Due to related parties	5	4,596,049	-
Interest payable		-	31,864
Deferred income tax liability	12	-	1,536,825
Loan payable	9	-	4,500,000
<b>Total liabilities</b>		<b>4,797,655</b>	<b>6,224,755</b>
<b>Shareholders' equity</b>			
Class C Common shares:			
Contributed capital	7	16,059,937	17,442,542
Retained earnings		53,826,241	52,796,713
<b>Total Shareholders' Equity</b>		<b>\$ 69,886,178</b>	<b>\$ 70,239,255</b>
Number of shares outstanding	7	7,368,229	7,569,929
<b>Total shareholders' equity per share</b>		<b>\$ 9.48</b>	<b>\$ 9.28</b>

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.

Statements of Comprehensive Income

Years ended December 31, 2023 and 2022

	Notes	2023	2022
<b>Revenue:</b>			
Interest (reversal) income	6	\$ (15,124)	\$ 278,949
Foreign exchange loss		(1,481)	(2,225)
Changes in fair value of investments:			
Net realized loss		(8,948,170)	(13,556,891)
Net change in unrealized appreciation (depreciation)		17,994,943	(125,989,078)
<b>Total revenue</b>		<b>9,030,168</b>	<b>(139,269,245)</b>
<b>Operating Expenses:</b>			
Management fees	5	887,713	814,101
Transaction costs		210,510	37,749
Administration expenses		209,792	356,646
Audit and professional fees		198,029	220,876
Interest and financing expenses	9	177,448	538,858
Directors' fees		58,976	54,565
Legal fees		27,217	22,720
Custody and recordkeeping fees		15,654	27,785
<b>Total operating expenses</b>		<b>1,785,339</b>	<b>2,073,300</b>
<b>Net operating income (loss) before performance fees</b>		<b>7,244,829</b>	<b>(141,342,545)</b>
<b>Other Items:</b>			
Performance fees	5	693,716	(24,353,179)
Fees waived by the Manager	5	(173,429)	6,088,295
Net amount		520,287	(18,264,884)
Amount of Pender Private Investments Inc.'s ("PPI") performance fee earned by the Manager attributable to the Company's ownership of PPI shares			
	4, 5	7,231,839	25,768,997
Total performance fees adjustment		7,752,126	7,504,113
<b>Net loss before income taxes recovery</b>		<b>(507,297)</b>	<b>(148,846,658)</b>
<b>Income taxes recovery</b>			
Current	12	-	(3,031,126)
Deferred		(1,536,825)	(17,976,570)
Total income taxes recovery		(1,536,825)	(21,007,696)
<b>Net income (loss)</b>		<b>\$ 1,029,528</b>	<b>\$ (127,838,962)</b>
<b>Net income (loss), per share:</b>			
Class C shares		\$ 0.14	\$ (16.85)
<b>Weighted average number of non-redeemable Class C shares outstanding</b>			
		<b>7,519,637</b>	<b>7,588,183</b>

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

## PENDER GROWTH FUND INC.

### Statements of Changes in Equity

Years ended December 31, 2023 and 2022

Class C shares	Note	2023	2022
Balance, beginning of year		\$ 70,239,255	\$ 198,643,655
Net income (loss)	7(c)	1,029,528	(127,838,962)
Share repurchased	7(b)	(1,382,605)	(565,438)
Balance, end of year		\$ 69,886,178	\$ 70,239,255

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

# PENDER GROWTH FUND INC.

Statements of Cash Flows

Years ended December 31, 2023 and 2022

	2023	2022
Cash provided by (used in):		
Operating:		
Net income (loss)	\$ 1,029,528	\$ (127,838,962)
Adjustments for:		
Interest reversal (income)	15,124	(278,949)
Foreign exchange loss	1,481	2,225
Net realized loss on sales of investments	8,948,170	13,556,891
Net change in unrealized (appreciation) depreciation on investments	(17,994,943)	125,989,078
Decrease (increase) in income taxes receivable	2,955,969	(3,502,595)
Decrease in due from related parties	3,023,368	3,220,034
Decrease (increase) in divestment proceeds receivable	1,738,654	(244,690)
(Increase) decrease in prepaid expenses	(2,343)	30,843
(Decrease) increase in interest payable	(31,864)	227
Increase in due to related parties	4,596,049	-
Increase (decrease) in accounts payable and accrued liabilities	33,018	(61,060)
Decrease in deferred income tax liability	(1,536,825)	(17,976,570)
Decrease in income taxes payable	-	(3,031,126)
	2,775,386	(10,134,654)
Proceeds on disposal of investments	6,078,702	23,606,154
Purchase of investments	(3,544,964)	(20,905,653)
	2,533,738	2,700,501
Interest received	112,739	32,439
Net cash provided by (used in) operating activities	5,421,863	(7,401,714)
Financing:		
Repayment of loan payable	(4,500,000)	(500,000)
Repurchase of shares	(1,370,083)	(552,252)
Net cash provided by (used in) financing activities	(5,870,083)	(1,052,252)
Net decrease in cash during the year	(448,220)	(8,453,966)
Cash, beginning of year	1,552,667	10,008,858
Effect of exchange rate fluctuations on cash	(1,481)	(2,225)
Cash, end of year	\$ 1,102,966	\$ 1,552,667

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

# PENDER GROWTH FUND INC.

Schedule of Investment Portfolio

Year ended December 31, 2023

	Exercise price/ Interest rate	Expiry date/ Maturity date	Issue Currency	Number of shares/units/ Face value (\$)	Cost	Fair value
<b>Publicly listed companies: (80.3%)</b>						
Common shares: (80.3%)						
BuildDirect.com Technologies Inc.			CAD	428,240	\$ 1,969,904	\$ 231,250
Copperleaf Technologies Inc.			CAD	6,889,883	12,219,474	41,614,893
Dye & Durham Limited			CAD	220,000	1,653,300	3,159,200
Kraken Robotics Inc.			CAD	2,566,000	1,334,320	1,667,900
Peloton Interactive, Inc.			USD	102,875	4,983,561	830,155
Pinetree Capital Ltd.			CAD	127,030	505,995	457,308
Quorum Information Technologies Inc.			CAD	1,683,100	1,461,268	1,043,522
Sangoma Technologies Corporation			CAD	539,843	6,405,295	2,288,934
Tantalus Systems Holding Inc.			CAD	523,751	279,556	424,238
TrueContext Corporation (formerly ProntoForms Corporation)			CAD	3,104,354	1,610,599	2,173,048
Zillow Group, Inc.			USD	29,090	2,156,221	2,230,255
					34,579,493	56,120,703
Warrants:						
BuildDirect.com Technologies Inc.	4.23	12/31/2030	USD	89,722	-	-
					34,579,493	56,120,703
<b>Private unlisted companies: (23.9%)</b>						
Common shares/Units:						
General Fusion Inc.			USD	300,000	99,858	
Pender Technology Inflection Fund II Limited Partnership ("PTIF II")			CAD	-	1,030,575	
Preferred shares:						
Catio, Inc.			USD	309,291	347,750	
Checkfront Bookings Inc., Series 2 (formerly Checkfront, Inc.)			CAD	790	114,848	
Checkfront Bookings Inc., Series 3 (formerly Checkfront, Inc.)			CAD	5,299	513,562	
Clarius Mobile Health Corp., Series A1			CAD	1,287,055	1,145,479	
Clarius Mobile Health Corp., Series A2			CAD	365,256	499,999	
DistillerSR Inc. (formerly Evidence Partners Inc.)			CAD	51,295	1,999,992	
General Fusion Inc.			USD	7,328,449	2,439,344	
Jane Software Inc.			CAD	105,083	4,118,326	
Traction Complete Technologies Inc.			CAD	629,232	914,400	
Traction Rec Technologies Inc.			CAD	585,179	914,400	
Convertible Loans:						
Clarius Mobile Health Corp.	10.00%	07/28/2025	CAD	500,000	500,000	
					14,638,533	16,705,433
Less: Transaction costs included in cost of investments					(34,668)	
<b>Total investments (104.2%)</b>					\$ 49,183,358	\$ 72,826,136
Cash (1.6%)						1,102,966
Other assets less liabilities (-5.8%)						(4,042,924)
<b>Total Shareholders' Equity (100.0%)</b>					\$	<b>69,886,178</b>

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

# PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2023

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## 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 IFRS accounting Standards (“IFRS”) as issued by the International Accounting Standards (“IAS”) Board.

These financial statements were authorized for issue by the Company’s Board of Directors on April 4, 2024.

### (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.

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, see note 11 for further discussion.

# PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2023

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### 3. Material accounting policy information:

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 Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount is presented in the Statements of Financial Position only when the Company has a legal right to offset the amounts and intends 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 and/or interest on the principal amount outstanding.

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 and/or 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 Company may irrevocably elect to measure financial assets that otherwise meet the requirements to be measured at amortized cost or at FVOCI as at FVTPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency.

Financial assets are not reclassified subsequent to their initial recognition. Should the Company change its business model for managing financial assets, all affected financial assets would be reclassified on the first day of the first reporting period following the change in the business model.

# PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2023

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### 3. Material accounting policy information (continued):

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

##### (i) Recognition and measurement (continued):

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 FVTPL, such as derivatives liabilities. The Company may also, at initial recognition, irrevocably designate a financial liability as measured at FVTPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency.

##### (ii) Fair value through profit or loss:

Financial instruments classified as FVTPL are initially 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 Company's investments in securities are classified 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) is based on quoted market prices at the close of trading on the reporting date. The Company 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 Company'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.

The fair value of financial assets and liabilities that are not quoted in an active market, including non-publicly traded derivative instruments, 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, market approach, 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.

##### (iii) Amortized cost:

Financial assets and liabilities classified as amortized cost are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, measurement is at amortized cost using the effective interest method, less any impairment losses. The Company classifies cash, receivable for investments sold, income taxes receivable, divestment proceeds receivable, dividends receivable, interest receivable, other receivables, due from related parties, accounts payable and accrued liabilities, payable for investments purchased, management and administration fees payable, performance fees payable, share repurchase payable, due to related parties, income taxes payable, deferred income tax liability and loan payable as amortized cost.

The effective interest method is a method of calculating the amortized cost of a financial asset or

# PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2023

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### 3. Material accounting policy information (continued):

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

##### (iii) Amortized cost (continued):

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.

##### (iv) Fair Value through other comprehensive income:

The Company has not classified any of its financial assets or liabilities as FVOCI.

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

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

#### (c) Shares:

The Company 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 common shares, which are classified as equity, are measured at the residual shareholders’ equity value. Distributions to holders of non-redeemable shares are recognized in the Statements of Changes in Equity.

#### (d) Per share amounts:

Total shareholders’ equity per share is calculated based on the number of shares outstanding at the end of the period. Net income (loss) per share is calculated by dividing the net income (loss) by weighted average number of shares outstanding during the period.

# PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2023

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### 3. Material accounting policy information (continued):

(e) Foreign exchange:

These financial statements of the Company 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 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 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.

(h) New accounting standards adopted:

Effective January 1, 2023, the Company adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2). The amendments require the disclosure of 'material', rather than 'significant', accounting policies. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in this note in certain instances.

# PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2023

## 4. Pender Private Investments Inc.

On May 28, 2021 (the "Effective Date"), the Company completed a transaction (the "WOF Transaction") with the Working Opportunities Fund (EVCC) Ltd. ("WOF"), an investment entity, for the acquisition of WOF's issued and outstanding shares, and WOF was renamed Pender Private Investments Inc. ("PPI"). On the Effective Date of the WOF Transaction, the Company acquired 100% of WOF's Commercialization Series shares for a total cash purchase price of \$508,096 and 97% of WOF's Venture Series shares ("Legacy Shares") for a total cash purchase price of \$25,316,232.

In June 2022, the Company's ownership increased to 98% of the outstanding Legacy Shares, due to the purchase of Legacy Shares held in ineligible accounts in accordance with the terms of the "WOF" Transaction.

Under IFRS, the gain inherent in the difference between the purchase price paid by the Company and the fair value of the assets it acquired is treated as a deferred gain and contra asset under the investments reported in the Statements of Financial Position. On the effective date of the WOF Transaction, a \$32,798,793 deferred gain was recorded by the Company. The deferred gain is being recognized to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the investment. For the year ended December 31, 2023, the Company recognized a \$1,361,896 deferred gain. As at December 31, 2023, the total deferred gain recognized since 2021 was \$29,016,504 (December 31, 2022 - \$27,654,608), the remaining balance as at December 31, 2023 was \$3,782,289 (December 31, 2022 - \$5,144,185).

On August 17, 2023 ("Effective Date of the PPI Transaction"), the Company completed the acquisition of the remaining outstanding Legacy Shares of PPI not previously owned by the Company (the "PPI Transaction") for a total cash purchase price of \$855,490.

On December 31, 2023, the Company completed an amalgamation with PPI in accordance with a short form amalgamation application (the "Amalgamation") under the Business Corporations Act (British Columbia), and the following table summarizes the amounts of the assets and liabilities of PPI at the date of the amalgamation that are now combined with the Company's assets and liabilities:

Cash	\$	7,161
Other assets		649,205
Other liabilities		(168,772)
Investments		53,932,968
	\$	54,420,562

## 5. Related party transactions:

(a) Management and performance fees:

(i) *Management fees:*

In accordance with the Fourth Amended and Restated Management Agreement dated December 31, 2023, (the "Management Agreement"), the Manager provides management services in connection with all

# PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2023

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## 5. Related party transactions:

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

#### (i) *Management fees (continued):*

aspects of the identification, investment, development, active monitoring and ultimate divestment of all investments of the Company. This Management Agreement shall remain in effect for an initial term ending on April 30, 2027 and shall be renewed automatically, in accordance with that agreement, for a further term of four years unless a vote of shareholders determines otherwise. The Fourth Amended and Restated Management Agreement had no substantive changes, the amendment served to consolidate and incorporate all prior amendments into a unified document.

In exchange for these management services, the Company pays a management fee. Effective December 2023, the management fee was set at 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. There were no changes to the management fee prior to December 2023.

The management fee is calculated and paid monthly. For the year ended December 31, 2023, the management fees incurred by the Company were \$887,713 (December 31, 2022 - \$814,101).

#### (ii) *Performance fees:*

The Manager is entitled to a performance fee plus applicable taxes in certain circumstances, based on achieving the performance criteria set out in the Management Agreement. The performance fee is calculated on an annual basis as 20% of any net increase in shareholders' equity above an annual hurdle rate of 6%. The performance fee 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. Subject to accumulation of the hurdle rate in years in which no performance fee is payable and the recalculation discussed in section (iii) below, the high water mark will not be reset other than to be adjusted in the event of a subdivision or consolidation of the shares. Performance fees are accrued during the year, where applicable and annual performance fees as calculated on the last valuation date of the year are payable to the Manager each year upon publication of the Company's audited annual financial statements for the year. The Company did not earn performance fees for the years ended December 31, 2023 and 2022.

#### (iii) *Performance fees – 2021:*

In 2021, the performance fee expense was comprised of the performance fee that arose from the net increase in unrealized appreciation of the Company's holdings of Copperleaf ("2021 Unrealized Performance Fee"); and the performance fee that arose from net realized gains which was paid to the Manager in April 2022.

The Manager, in its sole discretion, decided that the 2021 Unrealized Performance Fee would not be paid upon the publication of the Company's audited annual financial statements, instead it would be recalculated and the accrual and expenses adjusted accordingly, and quarterly payments would be triggered from time to time as gains are realized. The quarterly payments would be equal to the total recalculated performance fee arising from the realized gain on the Company's holdings of Copperleaf while the weight of this holding exceeds 20% of the Company's shareholders' equity. When the Company's Copperleaf holdings are at or below a 20% weighting, the performance fee on the unrealized appreciation on those remaining holdings will be paid to the Manager. The high water mark will be recalculated accordingly.

# PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2023

## 5. Related party transactions (continued):

(a) Management and performance fees (continued):

(iii) *Performance fees – 2021 (continued):*

As at December 31, 2023, the total performance fee payable in this respect was \$4,488,614 (December 31, 2022 - \$4,249,712) of which \$4,401,582 was uncrystallized and \$87,032 was crystallized.

During the year ended December 31, 2023, the net performance fee increased by \$238,902. The components of the changes related to the 2021 Unrealized Performance Fee accrual for the years ended December 31, 2023 and 2022 are outlined in the table below:

<b>2021 performance fee</b>					
<b>For the year ended December 31, 2023</b>	<b>Balance, beginning of year</b>	<b>Impact of Change in unrealized appreciation</b>	<b>Realized gain (unpaid)</b>	<b>Realized gain (paid)</b>	<b>Balance, end of year</b>
Performance fees	7,409,239	(1,165,284)	116,043	(375,180)	5,984,818
Fees waived by the Manager	(3,159,527)	1,598,539	(29,011)	93,795	(1,496,204)
<b>Net amount</b>	<b>4,249,712</b>	<b>433,255</b>	<b>87,032</b>	<b>(281,385)</b>	<b>4,488,614</b>

<b>2021 performance fee</b>					
<b>For the year ended December 31, 2022</b>	<b>Balance, beginning of year</b>	<b>Impact of Change in unrealized appreciation</b>	<b>Realized gain (unpaid)</b>	<b>Realized gain (paid)</b>	<b>Balance, end of year</b>
Performance fees	36,991,288	(24,702,211)	349,032	(5,228,870)	7,409,239
Fees waived by the Manager	(9,247,822)	6,175,553	(87,258)	-	(3,159,527)
<b>Net amount</b>	<b>27,743,466</b>	<b>(18,526,658)</b>	<b>261,774</b>	<b>(5,228,870)</b>	<b>4,249,712</b>

As at December 31, 2023 the high water mark was \$11.26 (December 31, 2022 - \$11.17) reflecting net realized gains on Copperleaf during the year. As at December 31, 2023, the portion of the high water mark that related to the net unrealized appreciation of the Company's holdings of Copperleaf was \$3.67 (December 31, 2022 - \$3.32).

(iv) *PPI Performance Fee:*

Prior to the PPI Transaction, the Manager also earned a performance fee for the management of PPI (the "PPI Performance Fee"). To avoid fee duplication the manager agreed that the pro-rata part of that performance fee representing the Company's ownership percentage of PPI would be payable to the Company and the Company reflected an accrued PPI performance fee receivable from the Manager in its accounts. Subsequent to the PPI Transaction, the PPI performance fee was discontinued and the accruals for performance fees relating to unrealized gains in PPI were reversed. Accordingly, the Company has reversed the accrued PPI performance fee receivable from the Manager and the balance at December 31, 2023 is \$Nil (December 31, 2022 - \$7,480,711).

# PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2023

## 5. Related party transactions (continued):

(a) Management and performance fees (continued):

(v) *Performance fee summary*

For the year ended December 31, 2023, the net impact of the adjustments (recovery) described in notes 5(a)(iii) and (iv) above was \$4,488,614 (December 31, 2022 – (\$3,230,999)), as summarized in the tables below:

<b>2021 total performance fee adjustment</b>				
<b>For the year ended December 31, 2023</b>	<b>Balance, beginning of year</b>	<b>Impact of Changes</b>	<b>Paid/ payment received</b>	<b>Balance, end of year</b>
Net amount of performance fee	4,249,712	520,287	(281,385)	4,488,614
Amount due from Manager related to performance fees earned from PPI – Unrealized appreciation (depreciation)	(7,480,711)	7,231,839	248,872	-
<b>Total performance fee adjustment</b>	<b>(3,230,999)</b>	<b>7,752,126</b>	<b>(32,513)</b>	<b>4,488,614</b>
<b>2021 total performance fee adjustment</b>				
<b>For the year ended December 31, 2022</b>	<b>Balance, beginning of year</b>	<b>Impact of changes</b>	<b>Paid/ payment received</b>	<b>Balance, end of year</b>
Net amount of performance fee	27,743,466	(18,264,884)	(5,228,870)	4,249,712
Amount due from Manager related to performance fees earned from PPI – Unrealized appreciation (depreciation)	(34,150,813)	26,670,102	-	(7,480,711)
Amount due from Manager related to performance fees earned from PPI – payment received in 2022	-	(901,105)	901,105	-
<b>Total performance fee adjustment</b>	<b>(6,407,347)</b>	<b>7,504,113</b>	<b>(4,327,765)</b>	<b>(3,230,999)</b>

(b) Due to related parties:

As at December 31, 2023, the Company had a balance due to related parties of \$4,596,049 (December 31, 2022 – net balance due from related party \$3,023,368), including the 2021 performance fees of \$4,488,614 described in note 5(a)(iii), \$4,401,582 of which was uncrystallized and \$87,032 of which was crystallized and is payable to the Manager. Also included in the due to related parties balance is \$158,693 for a performance fee that was payable by PPI to the Manager at the time of the Amalgamation, which was combined into the Company's books, and will also be paid upon publication of the Company's audited annual financial statements, and operating expenses recovery of \$51,258 from the Manager on behalf of the Company.

# PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2023

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## 5. Related party transactions (continued):

### (c) Shareholdings:

As at December 31, 2023, the Manager, directors and officers of the Company held 13.4% (December 31, 2022 – 11.6%) of the Company's Class C Shares, directly or indirectly. The aggregate investment by the Company's directors and officers in all Portfolio Companies did not exceed 1.0% of the issued and outstanding shares of any Portfolio Company.

### (d) Investments:

The Company has a commitment to invest \$12,500,000 in PTIF II, a limited partnership managed by a related entity. As at December 31, 2023, the Company had invested \$1,030,575 (8.24% of its total capital commitment) and the unfunded balance is \$11,469,425. PTIF II invests in a concentrated portfolio of business to business and health-focused technology companies at their inflection point.

## 6. Withholding tax expense:

Certain dividend income received by the Company is subject to withholding tax imposed in the country of origin. During the year, withholding tax rates were between 0% and 35% (2022 – between 0% and 35%).

## 7. Share capital:

### (a) Authorized share capital:

As at December 31, 2023, 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 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.

#### **Preferred Shares:**

The Preferred Shares were created on July 24, 2019. As at December 31, 2023 and 2022, 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.

# PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2023

## 7. Share capital (continued):

### (b) Issued and fully paid shares:

During the years ended December 31, 2023 and 2022, the Company has issued and fully paid Class C shares outstanding as follows:

	Balance, Beginning of year	Shares issued	Shares repurchased	Balance, end of year
December 31, 2023 Class C	7,569,929	-	(201,700)	7,368,229
December 31, 2022 Class C	7,616,529	-	(46,600)	7,569,929

Following the expiry of its Normal Course Issuer Bid ("NCIB") on February 11, 2022, the Company launched a new NCIB on the TSXV. Upon this launch, the Company had 7,609,621 shares issued, of which 6,778,397 shares represented its public float. The Company was entitled to purchase up to a maximum of 678,839 shares, representing 10% of its public float, over the one-year period of this NCIB. The NCIB was continued in effect until February 13, 2023.

On February 14, 2023, the Company renewed its NCIB on the TSXV. At the time of this renewal, the Company had 7,568,921 shares issued, of which 6,630,459 shares represented its public float. The Company is entitled to purchase up to a maximum of 663,045 shares, representing 10% of its public float, over the one-year period of this NCIB. The NCIB will continue in effect until February 13, 2024.

During the year ended December 31, 2023, the Company bought back 201,700 shares under its NCIB for a total price of \$1,382,605 (December 31, 2022 – 46,600 shares and \$565,438).

### (c) Equity capital:

The changes in shareholders' equity for the years ended December 31, 2023 and 2022 are as follows:

	Share capital	Retained earnings	Total
Balance, January 1, 2023	\$ 17,442,542	\$ 52,796,713	\$ 70,239,255
Net income	-	1,029,528	1,029,528
Share repurchased	(1,382,605)	-	(1,382,605)
Balance, December 31, 2023	\$ 16,059,937	\$ 53,826,241	\$ 69,886,178

# PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2023

## 7. Share capital (continued):

(c) Equity capital (continued):

	Share capital	Retained earnings	Total
Balance, January 1, 2022	\$ 18,007,980	\$ 180,635,675	\$ 198,643,655
Net loss	-	(127,838,962)	(127,838,962)
Share repurchased	(565,438)	-	(565,438)
Balance, December 31, 2022	\$ 17,442,542	\$ 52,796,713	\$ 70,239,255

## 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. The firm invests in public and private companies based primarily in Canada and the U.S., principally in the technology sector.

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. Loan payable:

In connection with the WOF Transaction described in Note 4, the Company obtained a three-year term loan from a Canadian chartered bank ("Bank"), under a loan agreement dated May 28, 2021, as amended March 31, 2022. The facility provided for a maximum amount of \$10,000,000 to be advanced in one or two tranches (the "Term Loan"). As security for the Term Loan, the Company granted the lender a security interest in all of the shares of PPI held by the Company and its holdings in its public company investments.

On March 31, 2022, the bank swept the \$5,000,000 owing under this first tranche. Concurrently, the Company drew down \$5,000,000 as a second tranche, which bore interest at the rate of Prime plus 2% and had a minimum one-year term and a maturity date of May 28, 2024. Starting from November 1, 2022, the Company was required to make minimum monthly principal repayments of \$250,000. On September 6, 2023, the Company repaid the outstanding principal balance in full and the agreement was terminated. As at December 31, 2023, the balance owing under the Term Loan was \$Nil (December 31, 2022 - \$4,500,000).

# PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2023

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## 10. 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.

The Company's investment objective is to achieve long-term capital growth by investing in public and private companies. The Company maintains positions in a variety of financial instruments in accordance with its investment objectives and strategies. The Schedule of Investment Portfolio groups these investment holdings by asset type. The Company's exposure to financial risk is concentrated in its investment holdings. 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 the investment portfolio within the constraints of the investment guidelines.

The nature of the Company's investing activities exposes it to various risks, including but not limited to inflation and the impact of central bank measures on the economy, the state of M&A markets, geopolitical and other global events, factors that are beyond the Company's control.

Future developments in these challenging areas could impact the Company's results and financial condition and the full extent of that impact remains unknown. Developing reliable estimates and applying judgment continue to be substantially complex. Actual results may differ from those estimates and assumptions.

The Company will continue to support its Portfolio Companies, to monitor the impact that global events have on them and to reflect the consequences as appropriate in its accounting and reporting.

The Company's exposure to financial risks is concentrated in its investment holdings. The Company carries out part of its investment strategy by investing in related entities such as PTIF II. The financial risks associated with the Company's investment strategy are disclosed based on its direct holdings. The Manager's risk management practices include the monitoring of compliance with investment objectives and strategies. The Manager manages the potential effects of these financial risks on the Company's performance by regularly monitoring each position and market and global events and by diversifying investment portfolios within the constraints of the Company's investment objective.

### (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 related to 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 December 31, 2023 was \$15,622,610 (December 31, 2022 - \$14,025,031).

# PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2023

## 10. 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 December 31, 2023 and 2022, based on undiscounted contractual cash flows. The Company's share repurchase payable and Accounts payable and accrued liabilities are due within three months of the reporting date of the Company. The amount of Due to related parties is due in more than one year.

	December 31, 2023	December 31, 2022
Share repurchase payable	\$ 25,708	\$ 13,186
Accounts payable and accrued liabilities	175,898	142,880
Due to related parties	4,596,049	-
Interest payable	-	31,864
Loan payable	-	4,500,000
Total	\$ 4,797,655	\$ 4,687,930

### (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 its holdings of financial instruments. These changes present the risk that markets as a whole may go down in value, including the possibility that markets may go down sharply and unpredictably at times. The value of most investments, and in particular equity securities, is affected by changes in general market conditions. These changes may be caused by corporate developments, general market sentiment, changes in interest rates, changes in the level of inflation, political and economic changes both domestic and foreign, catastrophic events, such as pandemics and outbreaks of disease, natural disasters including those exacerbated by climate change, war, acts of aggression or terrorist events, and other unforeseen events that may cause changes to markets.

#### (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 may contain private debt instruments, the majority of which may be 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, so changes in market interest rates will not impact cash flows of the Company.

# PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2023

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## 10. Financial risk management (continued):

### (c) Market risk (continued):

#### (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 invests primarily in Canadian securities. Accordingly, the Company 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 manages other price risk through careful selection of investments and through diversification of the investment portfolio.

As at December 31, 2023, 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 \$5,551,000 (December 31, 2022 - \$1,164,000). 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.

## 11. 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).

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

# PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2023

## 11. Fair value of financial instruments:

### (a) Valuation models (continued):

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, which are prone to change based on specific events and general conditions in the financial markets, varies depending on the products and 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 December 31, 2023 and 2022 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.

	December 31, 2023	December 31, 2022
<b>Level 1:</b>		
Publicly listed companies	\$ 56,120,703	\$ 9,727,864
<b>Level 3:</b>		
Publicly listed companies – loans	-	800,000
Private unlisted companies	16,705,433	55,771,675
<b>Total Level 3</b>	<b>16,705,433</b>	<b>56,571,675</b>
	<b>\$ 72,826,136</b>	<b>\$ 66,299,539</b>

# PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2023

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

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

During the year ended December 31, 2023, certain financial instruments were transferred from level 3 to level 1 of the fair value hierarchy upon becoming publicly traded and the amalgamation described in Note 4.

The following table shows a reconciliation of movements in the fair value of financial instruments categorized within Level 3 for the years ended December 31, 2023 and 2022:

	December 31, 2023	December 31, 2022
Opening balance	\$ 56,571,675	\$ 157,817,928
Amounts paid on purchase of investments	1,932,052	12,332,042
Sales and settlements of investments	(5,128,268)	(7,831,780)
Transfers from Level 3 to Level 1	(35,247,772)	-
Total loss recognized in comprehensive income	(1,422,254)	(105,746,515)
Ending balance	\$ 16,705,433	\$ 56,571,675

Included in the net change in unrealized depreciation in fair value of investments on the Statements of Comprehensive Income for the year ended December 31, 2023 is a change in unrealized depreciation of \$992,453 (December 31, 2022 – unrealized depreciation \$104,036,114) related to Level 3 investments.

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

The table below sets out information about significant unobservable inputs used at December 31, 2023 and 2022 in measuring financial instruments categorized as Level 3 in the fair value hierarchy.

<b>December 31, 2023</b>					
Description	Fair value	Valuation technique	Unobservable input	Revenue multiple	Sensitivity to change in significant unobservable input
Unlisted private investments	\$11,591,723	Market approach	Revenue multiple	3.0x – 12.0x	The estimated fair value would increase if revenue multiple increased

# PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2023

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

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

December 31, 2022					
Description	Fair value	Valuation technique	Unobservable input	Revenue multiple	Sensitivity to change in significant unobservable input
Unlisted private investments	\$7,317,168	Market approach	Revenue multiple	3.0x - 22.0x	The estimated fair value would increase if revenue multiple increased

Significant unobservable inputs are developed as follows:

(i) 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.

(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 possible assumptions would have the following effects on shareholders' equity as at December 31, 2023 and 2022:

	December 31, 2023	December 31, 2022
Favourable	\$ 1,159,172	\$ 731,717
Unfavourable	(1,159,172)	(731,717)

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 unlisted private investments valued by revenue multiple.

(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.

# PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2023

## 12. Income taxes:

The Company's provision for income taxes recovery for the years ended December 31, 2023 and 2022 is summarized as follows:

	2023	2022
Combined federal and provincial statutory income tax rate	27.00%	27.00%
Income taxes recovery calculated at statutory tax rate	\$ (136,970)	\$ (40,188,598)
Adjustments resulting from:		
Non-taxable portion of realized losses	1,208,003	1,830,180
Non-taxable portion of unrealized (appreciation) depreciation	(2,429,117)	17,008,826
Utilization of capital losses and other items	(178,741)	341,896
Income taxes recovery	\$ (1,536,825)	\$ (21,007,696)

The taxation year-end of the Company is December 31. During the year, the Company received an income tax refund of \$3,502,595 (2022 – 3,502,595) for the 2021 tax year because of the non-capital and capital losses carryback to the 2021 tax year.

As at the end of the 2023 tax year, the Company had capital losses of \$9,055,209 (2022 - \$Nil) and non-capital losses of \$58,095,220 (2022 - \$376,847). As part of the Amalgamation, \$2,093,335 non-capital losses and \$53,797,637 restricted non-capital losses are carried over from PPI. The \$53,797,637 restricted non-capital losses that carried forwarded from PPI's change of control, which occurred with the WOF Transaction, cannot be applied against capital gains or business investment income.

Capital losses are available to be carried forward indefinitely. Non-capital losses are available for carry forward to future years up to a maximum of 20 years. The Company's non-capital losses expire as follows:

Expiry year	Amount
2026-2039	\$ 53,797,637
2040	452,334
2041	2,017,848
2042	1,827,401
	\$ 58,095,220

As at December 31, 2023, the Company had deferred income tax liability of \$Nil (December 31, 2022 - \$1,536,825). The components of deferred income tax liability as at December 31, 2022 are as follows:

	2023	2022
Performance fees payable (receivable) not yet realized	\$ -	\$ (872,370)
Non-taxable portion of unrealized (gains) losses	-	(762,157)
Non-capital losses carried forward	-	97,702
Non-capital losses carried forward acquired from amalgamation	-	-
Capital losses carried forward	-	-
Deferred income tax liability	\$ -	\$ (1,536,825)

# PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2023

## 12. Income taxes (continued):

No deferred tax assets have been recognized on the statement of financial position where the Company has concluded that it is not probable that the benefit of recognized deferred income tax assets will be realized prior to their expiry. As such, the Company has not recognized deferred tax assets on the following items:

	2023	2022
Performance fees payable (receivable) not yet realized	\$ 1,211,926	\$ -
Non-taxable portion of unrealized (gains) losses	8,614,389	-
Non-capital losses carried forward	595,148	-
Non-capital losses carried forward acquired from amalgamation	15,090,562	-
Capital losses carried forward	1,222,453	-
<b>Deferred tax assets not recognized</b>	<b>\$ 26,734,478</b>	<b>\$ -</b>

## 13. Involvement with subsidiaries and associates:

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

Entity	Nature and purpose	Interest held by the Company
Pender Technology Inflection Fund II Limited Partnership	Private equity investment	Limited partnership interest

The tables below set out interests held by the Company in unconsolidated subsidiaries and associates for the years ended December 31, 2023 and 2022. The maximum exposure to loss is the carrying amount of the financial assets held.

<b>December 31, 2023</b>					
Name of Entity	Relationship	Principal place of business	Country of incorporation	Ownership interest	Voting rights
Pender Technology Inflection Fund II Limited Partnership	Associate	Canada	Canada	15%	N/A

  

<b>December 31, 2022</b>					
Name of Entity	Relationship	Principal place of business	Country of incorporation	Ownership interest	Voting rights
Pender Private Investments Inc.	Subsidiary	Canada	Canada	98%	98%
Pender Technology Inflection Fund II Limited Partnership	Associate	Canada	Canada	25%	N/A

Furthermore, the subsidiary described in the table above is not subject to any restrictions.