

Unaudited Condensed Interim Financial Statements of

**PENDER GROWTH FUND INC.**

Three months ended March 31, 2019

# PENDER GROWTH FUND INC.

Condensed Interim Statements of Financial Position (Unaudited)

	Notes	March 31, 2019	December 31, 2018
<b>Assets</b>			
Cash		\$ 8,971	\$ 17,653
Receivable for investments sold		66,815	68,260
Investments		18,256,006	17,644,890
		18,331,792	17,730,803
<b>Liabilities</b>			
Accounts payable and accrued liabilities		80,573	76,718
Due to related parties	4	661,276	448,777
		741,849	525,495
<b>Shareholders' equity</b>			
Class C Common shares:			
Contributed capital	5	5,204,759	5,204,759
Retained earnings		12,385,184	12,000,549
<b>Total Shareholders' Equity</b>		<b>\$ 17,589,943</b>	<b>\$ 17,205,308</b>
Number of shares outstanding	5	4,152,545	4,152,545
Total shareholders' equity per share		\$ 4.24	\$ 4.14
Subsequent events	10		

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

Approved on behalf of the Board of Directors:

(signed) "Kelly Edmison" Director

(signed) "David Barr" Director

# PENDER GROWTH FUND INC.

Condensed Interim Statements of Comprehensive Income (Unaudited)

	Notes	Three months ended March 31, 2019	Three months ended March 31, 2018
Revenue:			
Interest income		\$ 28	\$ 106
Foreign exchange gain (loss)		(1,445)	(3,084)
Changes in fair value of investments:			
Net change in unrealized appreciation (depreciation)		611,116	(45,847)
Total revenue		609,699	(48,825)
Expenses:			
Management fees	4	114,335	121,254
Administration expenses		35,721	29,495
Legal fees		32,434	3,184
Audit fees		22,051	11,200
Custody and recordkeeping fees		13,263	9,722
Directors' fees		7,260	6,210
Total expenses		225,064	181,065
Net income (loss)		\$ 384,635	\$ (229,890)
Net income (loss), per share:			
Class C shares		\$ 0.10	\$ (0.05)
Weighted average number of non-redeemable Class C shares outstanding			
		4,152,545	4,152,545

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

## PENDER GROWTH FUND INC.

Condensed Interim Statements of Changes in Equity (Unaudited)

Class C shares	Three months ended March 31, 2019	Three months ended March 31, 2018
Balance, beginning of period	\$ 17,205,308	\$ 18,630,640
Net income (loss)	384,635	(229,890)
Balance, end of period	\$ 17,589,943	\$ 18,400,750

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

# PENDER GROWTH FUND INC.

Condensed Interim Statements of Cash Flows (Unaudited)

	Three months ended March 31, 2019	Three months ended March 31, 2018
Cash provided by (used in):		
Operating:		
Net income (loss)	\$ 384,635	\$ (229,890)
Adjustments for:		
Interest income	(28)	(106)
Foreign exchange (gain) loss	1,445	3,084
Net change in unrealized (appreciation) depreciation on investments	(611,116)	45,847
Increase (decrease) in receivable for investments sold	1,445	54,425
Increase (decrease) in accounts payable and accrued liabilities	3,855	12,644
Increase (decrease) in due to related parties	212,499	(3,121)
	(7,265)	(117,117)
Interest received	28	106
Net cash used in operating activities	(7,237)	(117,011)
Financing:	-	-
Net increase (decrease) in cash during the period	(7,237)	(117,011)
Cash, beginning of period	17,653	307,878
Increase (decrease) due to exchange rate fluctuations on cash	(1,445)	(3,084)
Cash, end of period	\$ 8,971	\$ 187,783

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

# PENDER GROWTH FUND INC.

Condensed Interim Schedule of Investment Portfolio (Unaudited)

As at March 31, 2019

	Coupon rate	Maturity/ expiry date	Face value/ number of shares	Cost	Fair value
<b>Publicly listed investments: (13.0%)</b>					
Common shares:					
Espial Group Inc.			661,144	1,278,624	1,024,773
ProntoForms Corporation			1,139,400	412,235	615,276
Redline Communications Group Inc.			396,153	680,643	649,691
				2,371,502	2,289,740
<b>Private unlisted investments: (90.7%)</b>					
Common shares:					
BasicGov Systems, Inc.			11,711,712	2,296,171	
Navarik Corp.			1,149,425	1,000,000	
One45 Software Inc.			575,000	575,000	
Preferred shares:					
D-Wave Systems Inc., Class B, Convertible			400,000	400,000	
D-Wave Systems Inc., Class C, Convertible			720,720	800,000	
Tantalus Systems Corp., Class D, Convertible			136,552	253,430	
Convertible debentures:					
BasicGov Systems, Inc.,	15.00%	Demand	745,000	745,000	
				6,069,601	15,966,266
Less: Transaction costs included in cost of investments				(5,083)	
<b>Total investments (103.7%)</b>				\$ 8,436,020	\$ 18,256,006
Cash (0.1%)					8,971
Other assets less liabilities (-3.8%)					(675,034)
<b>Total Shareholders' Equity (100.0%)</b>				\$	<b>17,589,943</b>

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 ended March 31, 2019

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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.

On May 23, 2018, the shareholders voted in favour of a resolution to change the classification of the Company, such that it would no longer be considered an investment fund for purposes of securities law.

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 invests primarily in public and private companies based in Canada and the U.S., principally in the technology sector, with an emphasis on established businesses requiring capital for growth, expansion or restructuring.

The Company’s registered office is located at 1640 - 1066 West Hastings Street, Vancouver, British Columbia, V6E 3X1.

## 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 May 17, 2019.

### (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.

# PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months ended March 31, 2019

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## 2. Basis of preparation (continued):

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

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

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next reporting period is included in note 8 and relates to the determination of fair value of investments with significant unobservable inputs.

## 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, 2018.

## 4. Related party transactions:

### (a) Management and performance fees:

In accordance with the Third Amended and Restated Management Agreement dated May 1, 2018 ("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 equal to 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 (prior to May 1, 2018 – 2.75% of the Company's total shareholders' equity 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.



# PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months ended March 31, 2019

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## 4. Related party transactions (continued):

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

For the three months ended March 31, 2019, the Company incurred management fees of \$114,335 (March 31, 2018 - \$121,254). No performance fee was earned in the three months ended March 31, 2019 and 2018. As at March 31, 2019, the Company had an amount payable to the Manager of \$661,276 (December 31, 2018 - \$448,777) in respect of management fees and reimbursement of operating expenses paid on behalf of the Company.

### (b) Share holdings:

As at March 31 2019, directors and officers of the Company directly or indirectly held 14.4% (December 31, 2018 – 14.4%) of the Company's Class C Shares. Subsequent to the secondary offering, directors and officers of the Company directly and/or indirectly held 7.6% of the Company's Class C Shares. Please see note 10, Subsequent Event.

As at March 31, 2019, directors and officers of the Company directly or indirectly owned 790,904 shares or 3.1% (December 31, 2018 – 790,904 shares or 3.1%) of issued and outstanding shares of BasicGov Systems, Inc., a Company in which the Company is also invested. The aggregate investment by the Company's directors and officers in all other investee companies did not exceed 1.0% of the any investee company's issued and outstanding shares.

## 5. Share capital:

### (a) Authorized share capital:

The authorized capital of the Company consists of:

- (i) An unlimited number of Class B Convertible Non-Participating Common Shares ("Class B Shares");
- (ii) An unlimited number of Class C Participating Common Shares ("Class C Shares"); and
- (iii) An unlimited number of Class R Senior Participating Redeemable Convertible Preference Shares ("Class R Shares").

#### **Class B Shares:**

Class B Shares are non-redeemable but are convertible into one Class R Share and one Class C Share at any time at the option of the holder.

Class B shares are compound financial instruments which are bifurcated into liability and equity components based on the respective fair value of each component. The fair value of the liability component on initial recognition is \$4.16 per share, with the remaining equity component having shareholders' equity attributed in the same manner as Class C Shares.

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

# PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months ended March 31, 2019

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## 5. Share capital (continued):

(a) Authorized share capital (continued):

### Class C Shares:

Class C Shares are not redeemable or convertible. Class C Shares are listed on the TSX Venture Exchange ("TSXV") under the ticker symbol "PTF". Class C Shares are entitled to the shareholders' equity of the Company on a pro-rata basis after the payment of the redemption value of each outstanding Class R Share on a partially diluted basis.

Each Class C Share is entitled to one vote in any vote on shareholder matters and is entitled to dividends at the discretion of the Board of Directors.

### Class R Shares:

Class R Shares are redeemable on an annual basis, with a maximum redemption price of \$4.16. Class R Shares are also convertible to Class C Shares.

Class R Shares were compound financial instruments. Accordingly, outstanding Class R Shares, if any, are bifurcated into liability and equity components based on the respective fair value of each component. The full value of 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. There are no Class R Shares currently outstanding.

(b) Issued and fully paid shares:

During the three months ended March 31, 2019 and 2018, the Company has issued and fully paid Class C shares outstanding as follows:

For period ended	Balance, beginning of period	Redeemed	Exchanged in	Exchanged out	Balance, end of period
March 31, 2019:					
Class C	4,152,545	-	-	-	4,152,545
March 31, 2018:					
Class C	4,152,545	-	-	-	4,152,545

# PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months ended March 31, 2019

## 5. Share capital (continued):

(c) Equity capital:

The changes in shareholders' equity for the three months ended March 31, 2019 and 2018 are as follows:

	Share capital	Retained earnings (deficit)	Total
Balance, January 1, 2019	\$ 5,204,759	\$ 12,000,549	\$ 17,205,308
Net income (loss)	-	384,635	384,635
Capital transaction	-	-	-
Balance, March 31, 2019	\$ 5,204,759	\$ 12,385,184	\$ 17,589,943

	Share capital	Retained earnings (deficit)	Total
Balance, January 1, 2018	\$ 5,204,759	\$ 13,425,881	\$ 18,630,640
Net income (loss)	-	(229,890)	(229,890)
Capital transaction	-	-	-
Balance, March 31, 2018	\$ 5,204,759	\$ 13,195,991	\$ 18,400,750

On May 10, 2019 the Company completed a secondary offering of 3,850,000 Class C shares on the TSXV for gross proceeds of \$15,015,000, such that, as a result of this subsequent event, 8,002,545 Class C shares were issued and outstanding. In addition, the Company granted the underwriters an over-allotment option to purchase up to an additional 15%, or 577,500 Class C shares within 30 days of the closing date. Please see note 10, Subsequent Event.

## 6. 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.

# PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months ended March 31, 2019

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## 7. 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 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 based in Canada and the U.S., principally in the information technology and telecommunications sectors, with an emphasis on established businesses requiring capital for growth, expansion or restructuring. The Company also invests in later-stage companies already well-positioned for growth where additional capital is used to expand operations to increase revenue.

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.

### (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 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 March 31, 2019 is \$5,896,695 (December 31, 2018 - \$5,898,140).

# PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months ended March 31, 2019

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## 7. 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 large 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 March 31, 2019 and December 31, 2018 based on undiscounted contractual cash flows and are all due within one year:

	March 31, 2019	December 31, 2018
Accounts payable and accrued liabilities	\$ 80,573	\$ 76,718
Due to related parties	661,276	448,777
	<u>\$ 741,849</u>	<u>\$ 525,495</u>

### (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 ended March 31, 2019

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## 7. 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 March 31, 2019, 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 \$229,000 (December 31, 2018 - \$168,000). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

## 8. 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 ended March 31, 2019

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## 8. 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 are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in the determination of fair value.

In determining fair value for these types of instruments the Manager considers: the history and nature of the business; operating results and financial conditions; the general economic, industry and market conditions; capital market and transaction market conditions; independent valuations of the business; contractual rights relating to the investment; comparable 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.

The table below presents the fair value of financial instruments as at March 31, 2019 and December 31, 2018 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.

	March 31, 2019	December 31, 2018
<b>Level 1:</b>		
Publicly listed investments	\$ 2,289,740	\$ 1,678,624
<b>Level 3:</b>		
Private unlisted investments	15,966,266	15,966,266
	<b>\$ 18,256,006</b>	<b>\$ 17,644,890</b>

# PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months ended March 31, 2019

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

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

During the three months ended March 31, 2019 and 2018, there were no transfers between any levels of the fair value hierarchy.

The following table shows a reconciliation of all movements in the fair value of financial instruments categorized within Level 3 for the three months ended March 31, 2019 and 2018:

	March 31, 2019	March 31, 2018
Opening balance	\$ 15,966,266	\$ 15,966,266
Amounts paid on purchase of investments	-	-
Total gain recognized in comprehensive income	-	-
Ending balance	\$ 15,966,266	\$ 15,966,266

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

There is no unrealized appreciation (depreciation) related to Level 3 investments included in the net change in unrealized appreciation in fair value of investments on the Company's Statements of Comprehensive Income for the three months ended March 31, 2019 (March 31, 2018 - Nil).

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

The table below sets out information about significant unobservable inputs used at March 31, 2019 and December 31, 2018 in measuring financial instruments categorized as Level 3 in the fair value hierarchy.

March 31, 2019					
Description	Fair value	Valuation technique	Unobservable input	Enterprise value/ weighted average multiple	Sensitivity to change in significant unobservable input
Unlisted private investments	\$ 6,198,845	Investment cost/ enterprise value	Enterprise value	\$ 6,198,845	The estimated fair value would increase if enterprise value increased
Unlisted private investments	\$ 9,767,421	Market approach using comparable traded revenue multiples	Revenue multiple	2.0	The estimated fair value would increase if the revenue multiples were higher



# PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months ended March 31, 2019

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

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

December 31, 2018					
Description	Fair value	Valuation technique	Unobservable input	Enterprise value/ weighted average multiple	Sensitivity to change in significant unobservable input
Unlisted private investments	\$ 6,198,845	Investment cost/ enterprise value	Enterprise value	\$ 6,198,845	The estimated fair value would increase if enterprise value increased
Unlisted private investments	\$ 9,767,421	Market approach using comparable traded revenue multiples	Revenue multiple	2.0	The estimated fair value would increase if the revenue multiples were higher

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.

# PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months ended March 31, 2019

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

(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 at March 31, 2019 and December 31, 2018:

	March 31, 2019	December 31, 2018
Favourable	\$ 8,209,626	\$ 8,425,725
Unfavourable	(5,050,235)	(5,022,097)

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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.

# PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months ended March 31, 2019

## 9. Involvement with subsidiaries and associates:

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

Entity	Nature and purpose	Interest held by the Company
BasicGov Systems, Inc.	Software and services	Investment in common shares and convertible and other notes
One45 Software Inc.	Software and services	Investment in common shares

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.

### March 31, 2019 and December 31, 2018

Name of Entity	Relationship	Principal place of business	Country of incorporation	Ownership interest	Voting rights
BasicGov Systems, Inc.	Subsidiary	Canada	Canada	79%	46%
One45 Software Inc.	Subsidiary	Canada	Canada	81%	81%

The ownership interest in BasicGov Systems, Inc. represents direct and indirect holdings. During the three months ended March 31, 2019 and 2018, the Company did not provide financial support to subsidiaries and has no intention of provide financial or other support. Furthermore, the subsidiaries in the table above are not subject to any restrictions.

## 10. Subsequent Events

On May 10, 2019 the Company completed a secondary offering (the "Secondary Offering") on a commercially reasonable efforts basis of 3,850,000 Class C shares on the TSXV for gross proceeds of \$15,015,000, such that, as a result of this subsequent event, 8,002,545 Class C shares were issued and outstanding.

Underwriting fees of \$417,322 and other expenses related to the Secondary Offering, anticipated to be approximately \$373,479, were incurred and are being paid by the Company.

In conjunction with the Secondary Offering the Company also granted the agents an option (the "Over-Allotment Option) exercisable in whole or in part, to purchase up to an additional 577,500 Class C shares at the offering price of \$3.90, for a period of 30 days from and including the May 10, 2019 closing date.

Effective May 2019, the management fee paid to the Manager was reduced 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.