

Financial Statements of

PENDER GROWTH FUND INC.

And Independent Auditors' Report thereon

Year ended December 31, 2019

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of **Pender Growth Fund Inc.** are the responsibility of management. They have been prepared in accordance with International Financial Reporting Standards. 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"

David Barr
Chief Executive Officer
PenderFund Capital Management Ltd.

"Gina Jones"

Gina Jones
Chief Financial Officer
PenderFund Capital Management Ltd.

April 23, 2020



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INDEPENDENT AUDITORS' 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, 2019 and December 31, 2018
- 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 significant accounting policies

(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, 2019 and December 31, 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

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 "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' 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.

Other Information

The Manager 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 the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' 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 auditors' 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 International Financial Reporting Standards ("IFRS"), 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.

Auditors' 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 auditors' 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 auditors' 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 auditors' 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.

KPMG LLP

The engagement partner on the audit resulting in this auditors' report is Duane Tup Chong.

Vancouver, Canada
April 23, 2020

PENDER GROWTH FUND INC.

Statements of Financial Position

As at December 31, 2019 and 2018

	Notes	2019	2018
Assets			
Cash		\$ 8,199,875	\$ 17,653
Interest receivable		491,123	-
Prepaid expenses		4,546	2,525
Other receivable		73	-
Receivable for investments sold		-	68,260
Investments		25,345,146	17,644,890
		\$ 34,040,763	\$ 17,733,328
Liabilities			
Due to related parties	4	\$ 105,753	\$ 451,302
Accounts payable and accrued liabilities		100,815	76,718
Payable for investments purchased		1,178	-
		207,746	528,020
Shareholders' equity			
Class C common shares:			
Contributed capital	6	19,769,587	5,204,759
Retained earnings		14,063,430	12,000,549
Total Shareholders' Equity		\$ 33,833,017	\$ 17,205,308
Number of shares outstanding	6	8,083,329	4,152,545
Total shareholders' equity per share		\$ 4.19	\$ 4.14

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, 2019 and 2018

	Notes	2019	2018
Revenue:			
Dividend income		\$ 7,098	\$ -
Interest income		627,733	225
Securities lending income		110	3,145
Foreign exchange gain (loss)		(7,586)	2,987
Changes in fair value of investments:			
Net realized gain (loss)		591,257	-
Net change in unrealized appreciation (depreciation)		1,923,769	(678,949)
<hr/>			
Total revenue		3,142,381	(672,592)
Expenses:			
Management fees	4	633,499	472,524
Administration expenses		180,365	132,690
Auditing and professional fees		94,790	45,310
Legal fees		55,648	29,535
Custody and recordkeeping fees		53,672	47,839
Directors' fees		38,541	24,842
Transaction costs		22,985	-
<hr/>			
Total expenses		1,079,500	752,740
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Net income (loss)		\$ 2,062,881	\$ (1,425,332)
Net income (loss), per share:			
Class C shares		\$ 0.31	\$ (0.35)
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Weighted average number of non-redeemable			
Class C shares outstanding		6,571,489	4,152,545

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

PENDER GROWTH FUND INC.

Statements of Changes in Equity

Years ended December 31, 2019 and 2018

Class C Shares	Notes	2019	2018
Balance, beginning of year		\$ 17,205,308	\$ 18,630,640
Net income (loss)		2,062,881	(1,425,332)
Capital transactions	6(c)	14,564,828	-
Balance, end of year		\$ 33,833,017	\$ 17,205,308

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

PENDER GROWTH FUND INC.

Statements of Cash Flows

Years ended December 31, 2019 and 2018

	2019	2018
Cash provided by (used in):		
Operating:		
Net income (loss)	\$ 2,062,881	\$ (1,425,332)
Adjustments for:		
Dividend income	(7,098)	-
Interest income	(627,733)	(225)
Foreign exchange (gain) loss	7,586	(2,987)
Net realized (gain) loss on sales of investments	(591,257)	-
Net change in unrealized (appreciation) depreciation on investments	(1,923,769)	678,949
(Increase) decrease in prepaid expenses	(2,021)	(2,525)
(Increase) decrease in other receivable	(73)	-
(Increase) decrease in receivable for investments sold	68,260	68,714
Increase (decrease) in due to related parties	(345,549)	407,744
Increase (decrease) in accounts payable and accrued liabilities	24,097	(17,775)
	(1,334,676)	(293,437)
Proceeds on disposal of investments	3,463,750	-
Purchase of investments	(8,647,802)	-
Dividend income	7,098	-
Interest received	136,610	225
Net cash provided by (used in) operating activities	(6,375,020)	(293,212)
Financing		
Proceeds from issuance of shares	15,330,058	-
Share issuance cost	(765,230)	-
Net cash provided by (used in) financing activities	14,564,828	-
Net increase (decrease) in cash during the year	8,189,808	(293,212)
Cash, beginning of year	17,653	307,878
Increase (decrease) due to exchange rate fluctuations on cash	(7,586)	2,987
Cash, end of year	\$ 8,199,875	\$ 17,653

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

PENDER GROWTH FUND INC.

Schedule of Investment Portfolio

Year ended December 31, 2019

	Coupon rate/ Exercise price	Maturity/ expiry date	Face value/ number of shares/units	Cost	Fair value
Publicly listed companies: (25.0%)					
Common shares (22.2%):					
ADF Group Inc.			470,600	\$ 520,248	\$ 611,780
Crown Capital Partners Inc.			83,221	612,375	631,647
ProntoForms Corporation			3,067,233	1,453,462	1,686,978
Quorum Information Technologies Inc.			1,840,400	1,597,836	2,374,116
Redline Communications Group Inc.			396,153	680,643	475,384
Sangoma Technologies Corp.			452,600	748,011	1,126,974
Sylogist Ltd.			15,241	152,552	150,124
Vigil Health Solutions Inc.			1,320,000	454,547	442,200
				6,219,674	7,499,203
Warrants: (0.0%)					
Siyata Mobile Inc.	0.45	12/23/2022	1,000,000	-	-
Convertible debentures: (2.8%)					
Siyata Mobile Inc.	12.00%	12/23/2021	1,000,000	950,000	950,000
				7,169,674	8,449,203
Private unlisted companies: (49.9%)					
Common shares:					
BasicGov Systems, Inc.			11,711,712	2,296,171	
Copperleaf Technologies Inc.			140,596	407,728	
Navarik Corp.			1,149,425	1,000,000	
One45 Software Inc.			575,000	575,000	
Preferred shares:					
Copperleaf Technologies Inc., Convertible			117,163	339,773	
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	
Special warrants:					
Newtopia Inc.	1.00	07/11/2022	357,143	250,000	
Convertible debentures:					
BasicGov Systems, Inc.	15.00%	Demand	745,000	745,000	
				7,067,102	16,895,943
Less: transaction costs included in cost of investments				(24,269)	-
Total investments (74.9%)				\$ 14,212,507	\$ 25,345,146
Cash (24.2%)					8,199,875
Other assets less liabilities (0.9%)					287,996
Total Shareholders' Equity (100.0%)					\$ 33,833,017

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

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2019

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 1830 - 1066 West Hastings Street, Vancouver, British Columbia, V6E 3X2.

2. Basis of preparation:

(a) Statement of compliance:

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

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 April 23, 2020.

(b) Basis of measurement:

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

(c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, the Company’s functional currency.

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2019

2. Basis of preparation (continued):

(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.

Total shareholders' equity which is calculated using IFRS for financial reporting purposes may be different from the monthly reported net asset value per share ("Reported NAV")

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.

On January 31, 2020, the Company announced a \$2.0 million reduction in carrying value of one of the Company's private portfolio companies which had accepted a term sheet for a significant equity financing at a lower level than its prior equity financings. This represented a reduction in Reported NAV of approximately \$0.24 per share. On February 28, 2020, the Company further reduced the carrying value of the private portfolio company by \$1.9 million to reflect the expected economics of the alternate financing the portfolio company was working to close at that time. This represented a further reduction in Reported NAV of approximately \$0.23 per share. There can be no assurance that the portfolio company will be able to close this alternate financing or any other financing. While the determination to recognize the reduction in carrying value of the private portfolio company was made based on information available in January and February 2020, the reduction has been recognized in the Company's financial statements effective as of December 31, 2019, as the determination was made before the Company's financial statements were authorized for issue. This results in total shareholders' equity being significantly lower than Reported NAV published as at December 31, 2019. For purposes of determining Reported NAV, the two reductions in carrying value were recognized effective January 31, 2020 and February 28, 2020, respectively.

(e) Comparative information:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current period.

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2019

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Financial instruments:

(i) Recognition and measurement:

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

Financial assets and financial liabilities are recognized initially on the trade date, which is the date on which the 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 intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2019

3. Significant accounting policies (continued):

(a) Financial instruments (continued):

(i) Recognition and measurement (continued):

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 and 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, 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.

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

A financial liability is generally measured at amortized cost, with exceptions that may allow for classification as FVTPL. These exceptions include financial liabilities that are mandatorily measured at 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 subsequently measured at fair value at each reporting period with changes in fair value recognized in the Statements of Comprehensive Income in the period in which they occur. The Company's investments in securities are classified as FVTPL.

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2019

3. Significant accounting policies (continued):

(a) Financial instruments (continued):

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and marketable securities) is based on quoted market prices at the close of trading on the reporting date. The 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 described in note 9(a) as of the date of the event or change in circumstances giving rise to the transfer.

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

(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, subscriptions receivable, dividends receivable, interest receivable, other receivables, accounts payable and accrued liabilities, payable for investments purchased, management and administration fees payable, performance fees payable, redemptions payable to holders of redeemable shares, distributions payable to holders of redeemable shares and balances due to related parties as amortized costs.

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

(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.

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2019

3. Significant accounting policies (continued):

(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.

(e) Securities lending transactions:

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

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

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

(f) 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.

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2019

3. Significant accounting policies (continued):

(g) Income recognition:

Interest income shown on the Statements of Comprehensive Income is recognized on an accrual basis. Dividend income is recognized on the date that the right to receive payment is established, which for quoted equity securities is usually the ex-dividend date. Portfolio transactions are recorded on the trade date. Realized gains and losses arising from the sale of investments are determined on the average cost basis of the respective investments.

(h) Income taxes:

Current tax expense is based on taxable profit for the 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.

(i) New standards and interpretations not yet adopted:

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

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2019

4. Related party transactions:

(a) Management and performance fees:

In accordance with the Third Amended and Restated Management Agreement dated May 1, 2017 ("Management Agreement"), the Manager provides management services in connection with all aspects of the identification, investment, development, active monitoring and ultimate divestment of all investments of the Company. This Management Agreement is in effect until April 30, 2023 and shall be renewed automatically at that date for a further term of four years, unless a vote of shareholders determines otherwise.

In exchange for these management services, the Company pays a management fee. Effective May 2019, the management fee is equal to 2.50% of the first \$15,000,000 of the value of Net Assets and 1.75% of the value of Net Assets above \$15,000,000. Prior to May 1, 2019 the management fee was 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. The management fee is calculated and paid monthly.

The Manager is entitled to a performance fee in certain circumstances, based on achieving certain performance criteria set out in the Management Agreement. The performance fee is calculated as 20% of any net increase in shareholders' equity above an annual hurdle rate of 6%. The performance fee is calculated on an annual basis and is subject to a high water mark, being the year-end total shareholders' equity per share for the most recent preceding year in which a performance fee was earned. The December 31, 2016 total shareholders' equity per share was the initial high water mark. Subject to the accumulation of the hurdle rate in years in which no performance fee is payable, the high water mark will not be reset other than to be adjusted in the event of a subdivision or consolidation of the shares.

For the year ended December 31, 2019, the Company incurred management fees of \$633,499 (December 31, 2018 - \$472,524). No performance fee was earned in the years ended December 31, 2019 and 2018. As at December 31, 2019, the Company had an amount payable to the Manager of \$105,753 (December 31, 2018 - \$451,302) in respect of management fees and reimbursement of operating expenses paid on behalf of the Company.

(b) Share holdings:

As at December 31, 2019, the Manager, directors and officers of the Company directly or indirectly held 7.8% (December 31, 2018 – 14.4%) of the Company's Class C Shares.

As at December 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.

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2019

5. Securities lending transactions:

As at December 31, 2019, the value of securities loaned and collateral received from securities lending is \$1,728,977 (2018 – nil).

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

A reconciliation of the gross amount generated from securities lending transactions to the securities lending income earned by the Company for the year ended December 31, 2019 and 2018 is presented in the following table.

2019	Gross income	Withholding taxes	Agent fees	Securities lending income
Pender Growth Fund Inc.	\$ 183	\$ -	\$ (73)	\$ 110

2018	Gross income	Withholding taxes	Agent fees	Securities lending income
Pender Growth Fund Inc.	\$ 5,581	\$ (340)	\$ (2,096)	\$ 3,145

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

6. Share capital:

(a) Authorized share capital:

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

As at December 31, 2019, 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”).

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2019

6. Share capital (continued):

(a) Authorized share capital (continued):

Class B Shares:

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

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

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

Class C Shares:

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

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

Class R Shares:

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

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

All Class R Shares were redeemed during the year ended December 31, 2016, subsequent to which there were no Class R Shares outstanding, and on July 24, 2019 the shareholders approved a resolution deleting the Class R Shares.

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2019

6. Share capital (continued):

(a) Authorized share capital (continued):

Preferred Shares:

The Preferred Shares were created on July 24, 2019. As at December 31, 2019, no Preferred Shares have been issued. The special rights and restrictions of the Preferred Shares empower the Board to fix the number of shares in each series of each class of Preferred Shares and to fix the preferences, special rights and restrictions, privileges, conditions and limitations attaching to the shares of that series, before the issuance of shares of any particular series. The Board has the power to fix, among other things, the number of shares constituting any series, the voting powers, designation, preferences and relative participation, optional or other special rights and dividend rate, terms of redemption (including sinking fund provisions), redemption price or prices, conversion rights and liquidation preferences of the shares constituting any series. The issuance of Preferred Shares could affect the rights of the holders of Class C shares.

(b) Issued and fully paid shares:

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

	Balance Beginning of year	Issued for cash	Balance end of year
December 31, 2019: Class C	4,152,545	3,930,784	8,083,329
December 31, 2018: Class C	4,152,545	-	4,152,545

(c) Equity capital:

The changes in shareholders' equity for the years ended December 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)	-	2,062,881	2,062,881
Capital transactions	14,564,828	-	14,564,828
Balance, December 31, 2019	\$ 19,769,587	\$ 14,063,430	\$ 33,833,017

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2019

6. Share capital (continued):

(c) Equity capital (continued):

	Share capital	Retained earnings (deficit)	Total
Balance, January 1, 2018	\$ 5,204,759	\$ 13,425,881	\$ 18,630,640
Net income (loss)	-	(1,425,332)	(1,425,332)
Capital transactions	-	-	-
Balance, December 31, 2018	\$ 5,204,759	\$ 12,000,549	\$ 17,205,308

On May 10, 2019 the Company completed a secondary offering (the "Secondary Offering") of 3,850,000 Class C shares on the TSXV for gross proceeds of \$15,015,000. In addition, on May 24, 2019, the underwriters elected to exercise the over-allotment option and an additional 80,784 Class C shares were issued for gross proceeds of \$315,058. The Secondary Offering resulted in underwriting fees of \$433,075 and other offering expenses of \$332,155, which resulted in net proceeds of \$14,564,828.

7. 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.

8. 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.

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2019

8. Financial risk management (continued):

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 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, 2019 is \$3,802,456 (2018 - \$5,898,140).

(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 December 31, 2019 and 2018 based on undiscounted contractual cash flows and are all due within one year:

	2019	2018
Due to related parties	\$ 105,753	\$ 451,302
Accounts payable and accrued liabilities	100,815	76,718
Payable for investments purchased	1,178	-
	<u>\$ 207,746</u>	<u>\$ 528,020</u>

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2019

8. Financial risk management (continued):

(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.

(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 December 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 \$164,000 (2018 - \$168,000). 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.

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2019

9. Fair value of financial instruments:

(a) Valuation models:

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices. For all other financial instruments, the 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 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.

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2019

9. Fair value of financial instruments:

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

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

	2019	2018
Level 1:		
Publicly listed companies	\$ 7,499,203	\$ 1,678,624
Level 2:		
Publicly listed companies	\$ -	\$ -
Level 3:		
Publicly listed companies	\$ 950,000	\$ -
Private unlisted companies	16,895,943	15,966,266
Total Level 3	17,845,943	15,966,266
	\$ 25,345,146	\$ 17,644,890

During the years ended December 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 years ended December 31, 2019 and 2018:

	2019	2018
Opening balance	\$ 15,966,266	\$ 15,966,266
Amounts paid on purchase of investments	1,947,501	-
Total gain (loss) recognized in comprehensive income	(67,824)	-
Ending balance	\$ 17,845,943	\$ 15,966,266

Included in the net change in unrealized appreciation (depreciation) in fair value of investments on the Company's Statements of Comprehensive Income for the year ended December 31, 2019 is a change in unrealized depreciation of \$ 67,824 (2018 - Nil) related to Level 3 investments.

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2019

9. Fair value of financial instruments:

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

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

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

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2019

9. Fair value of financial instruments:

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

Significant unobservable inputs are developed as follows:

(i) Enterprise value:

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

(ii) Revenue multiple:

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

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

Although the 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 December 31, 2019 and 2018:

	2019	2018
Favourable	\$ 4,283,049	\$ 8,425,725
Unfavourable	(8,604,650)	(5,022,097)

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 Financial Statements

Year ended December 31, 2019

10. Income taxes:

The Company has not provided for income taxes in its Statements of Comprehensive Income as its effective tax rate is nil. This differs from the provision otherwise obtained by applying the statutory tax rates for the following reasons:

	2019	2018
Combined federal and provincial statutory income tax rate	27.00%	27.00%
Income tax expense (recovery) calculated at statutory tax rate	\$ 556,978	\$ (384,840)
Adjustments resulting from:		
Non-taxable portion of realized (gains) losses	(79,820)	-
Non-taxable portion of unrealized (appreciation) depreciation	(519,418)	183,316
Utilization of capital losses and other items	42,260	201,524
Income tax expense (recovery)	\$ -	\$ -

The Company has not recorded the benefit of deferred tax assets resulting from deductible temporary differences or unused tax loss carry forwards as it is not probable that such deductions or tax losses will be utilized in future years.

For income tax purposes the Company has accumulated capital losses of approximately \$6,394,308 (2018 - \$6,394,308) and non-capital losses of approximately \$13,236,638 (2018 - \$13,103,733).

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

2026	\$ 1,566,299
2027	3,059,028
2029	1,748,428
2030	1,728,090
2031	1,138,041
2032	912,449
2033	634,364
2034	607,498
2035	532,573
2037	427,593
2038	749,122
2039	133,153
	\$ 13,236,638

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2019

11. Involvement with subsidiaries and associates:

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

Entity	Nature and purpose	Interest held by the Company
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.

2019 and 2018					
Name of Entity	Relationship	Principal place of business	Country of incorporation	Ownership interest	Voting rights
BasicGov Systems, Inc.	Subsidiary	Canada	Canada	79% (2018-79%)	46% (2018-46%)
One45 Software Inc.	Subsidiary	Canada	Canada	81% (2018-81%)	81% (2018-81%)

The ownership interest in BasicGov Systems, Inc. represents direct and indirect holdings. During the years ended December 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.

12. Subsequent event:

The acquisition of BasicGov Systems, Inc., one of the Company's private technology portfolio holdings, by a third party (the "Transaction") completed on January 7, 2020. As a result of the Transaction, the Company's total net asset value increased by approximately \$4,200,000 (\$0.52 per share).

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

PENDER GROWTH FUND INC.

Notes to Financial Statements

Year ended December 31, 2019

12. Subsequent event (continued):

Subsequent to December 31, 2019 the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic with various cities and countries around the world responding in different ways to address the outbreak.

There are meaningful direct and indirect effects developing that may impact businesses, including portfolio companies. The Company will continue to support its portfolio companies and monitor the impact COVID-19 has on them and reflect the consequences as appropriate in its accounting and reporting. As a result of the COVID-19 outbreak, global financial markets have experienced significant volatility. Given the extent of the crisis, it is difficult to estimate the ultimate impact or duration of the volatility on the portfolio of the Company.