

Financial Statements of

PENDER SELECT IDEAS FUND

Year ended December 31, 2017



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INDEPENDENT AUDITORS' REPORT

To the Unitholders of Pender Select Ideas Fund

We have audited the accompanying financial statements of Pender Select Ideas Fund which comprise the statement of financial position as at December 31, 2017, the statements of comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

The Manager's Responsibility for the Financial Statements

The Manager is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Manager, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Pender Select Ideas Fund as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

March 28, 2018
Vancouver, Canada

PENDER SELECT IDEAS FUND

Statements of Financial Position

As at December 31, 2017, with comparative information for 2016

	Notes	2017	2016
Assets			
Cash		\$ 651,822	\$ 670,724
Subscriptions receivable		130,000	10,000
Dividends receivable		1,039	905
Interest receivable		4,653	10,798
Other receivable	4	10,373	-
Investments		6,152,768	3,598,278
		6,950,655	4,290,705
Liabilities			
Management and administration fees payable	4	1,218	1,680
Other payable		15,855	-
Distributions payable to holders of redeemable units		1,946	5,484
Performance fee payable		-	12,946
		19,019	20,110
Net assets , attributable to holders of redeemable units		\$ 6,931,636	\$ 4,270,595
Net assets attributable to holders of redeemable units per series:			
Series A		\$ 958,089	\$ 536,614
Series B		5,569	5,000
Series F		4,242,430	2,344,142
Series G		110,323	5,000
Series O		1,615,225	1,379,839
		\$ 6,931,636	\$ 4,270,595
Net assets attributable to holders of redeemable units per unit:			
Series A		\$ 11.57	\$ 10.59
Series B		11.12	10.00
Series F		11.46	10.53
Series G		11.00	10.00
Series O		11.64	10.91

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

Approved on behalf of the Manager, PenderFund Capital Management Ltd.:

"David Barr" Director

"J. Kelly Edmison" Director

PENDER SELECT IDEAS FUND

Statements of Comprehensive Income

For the year ended December 31, 2017, with comparative information for 2016

	Notes	2017	2016
Revenue:			
Dividend income		\$ 14,562	\$ 71,427
Interest income		4,567	15,183
Foreign exchange gain (loss)		(12,887)	4,593
Changes in fair value of investments:			
Net realized gain		522,452	518,173
Net change in unrealized appreciation (depreciation)		160,163	221,824
Total revenue		688,857	831,200
Expenses:			
Management fees	4	7,561	5,442
Administration fees		22,244	13,651
Performance fees		98,092	12,946
Transaction costs		16,378	16,318
Other taxes		15,855	-
Withholding taxes		960	8,826
Total expenses		161,090	57,183
Increase in net assets attributable to holders of redeemable units			
		\$ 527,767	\$ 774,017
Increase in net assets attributable to holders of redeemable units per series:			
Series A		\$ 56,258	\$ 107,420
Series B		617	-
Series F		254,840	396,966
Series G		6,427	-
Series O		209,625	269,631
		\$ 527,767	\$ 774,017
Increase in net assets attributable to holders of redeemable units per unit:			
Series A		\$ 0.85	\$ 2.08
Series B		1.23	-
Series F		0.90	1.98
Series G		0.71	-
Series O		1.68	4.00

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

PENDER SELECT IDEAS FUND

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units

For the year ended December 31, 2017, with comparative information for 2016

Series A	2017	2016
Balance, beginning of year	\$ 536,614	\$ 537,200
Increase in net assets attributable to holders of redeemable units	56,258	107,420
Unit transactions:		
Proceeds from issue of redeemable units	366,091	27,680
Issued on reinvestment of distributions	15,442	62,248
Amounts paid on redemption of redeemable units	-	(132,300)
	381,533	(42,372)
Distributions paid from:		
Net investment income	-	(467)
Realized gains on sale of investments	(16,316)	(65,167)
Return of capital	-	-
	(16,316)	(65,634)
Balance, end of year	\$ 958,089	\$ 536,614
Series B	2017	2016
Balance, beginning of year	\$ 5,000	\$ -
Increase in net assets attributable to holders of redeemable units	617	-
Unit transactions:		
Proceeds from issue of redeemable units	-	5,000
Issued on reinvestment of distributions	8	-
Amounts paid on redemption of redeemable units	-	-
	8	5,000
Distributions paid from:		
Net investment income	(56)	-
Realized gains on sale of investments	-	-
Return of capital	-	-
	(56)	-
Balance, end of year	\$ 5,569	\$ 5,000
Series F	2017	2016
Balance, beginning of year	\$ 2,344,142	\$ 2,300,002
Increase in net assets attributable to holders of redeemable units	254,840	396,966
Unit transactions:		
Proceeds from issue of redeemable units	1,820,501	744,696
Issued on reinvestment of distributions	117,026	313,968
Amounts paid on redemption of redeemable units	(176,622)	(1,100,123)
	1,760,905	(41,459)
Distributions paid from:		
Net investment income	(780)	(27,256)
Realized gains on sale of investments	(116,677)	(284,111)
Return of capital	-	-
	(117,457)	(311,367)
Balance, end of year	\$ 4,242,430	\$ 2,344,142

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

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Statements of Changes in Net Assets Attributable to Holders of Redeemable Units (continued)

For the year ended December 31, 2017, with comparative information for 2016

Series G	2017	2016
Balance, beginning of year	\$ 5,000	\$ -
Increase in net assets attributable to holders of redeemable units	6,427	-
Unit transactions:		
Proceeds from issue of redeemable units	100,000	5,000
Issued on reinvestment of distributions	1,952	-
Amounts paid on redemption of redeemable units	-	-
	101,952	5,000
Distributions paid from:		
Net investment income	(1,110)	-
Realized gains on sale of investments	(1,946)	-
Return of capital	-	-
	(3,056)	-
Balance, end of year	\$ 110,323	\$ 5,000
Series O	2017	2016
Balance, beginning of year	\$ 1,379,839	\$ 101,428
Increase in net assets attributable to holders of redeemable units	209,625	269,631
Unit transactions:		
Proceeds from issue of redeemable units	102,999	1,062,022
Issued on reinvestment of distributions	127,027	194,212
Amounts paid on redemption of redeemable units	(77,238)	(53,242)
	152,788	1,202,992
Distributions paid from:		
Net investment income	-	(28,076)
Realized gains on sale of investments	(127,027)	(166,136)
Return of capital	-	-
	(127,027)	(194,212)
Balance, end of year	\$ 1,615,225	\$ 1,379,839

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

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Statements of Cash Flows

For the year ended December 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operating:		
Increase in net assets attributable to holders of redeemable units	\$ 527,767	\$ 774,017
Adjustments for:		
Dividend income	(14,562)	(71,427)
Interest income	(4,567)	(15,183)
Foreign exchange (gain) loss	12,887	(4,593)
Change in unrealized (appreciation) depreciation of investments	(160,163)	(221,824)
Net realized gain on sale of investments	(522,452)	(518,173)
Other receivable	(10,373)	-
Management and administration fees payable	(462)	4,823
Distributions payable to holders of redeemable units	(3,538)	4,699
Other payable	15,855	-
Performance fees payable	(12,946)	-
Proceeds on disposal of investments	3,712,491	2,534,925
Amounts paid on purchase of investments	(5,584,366)	(2,922,468)
Dividends received	14,428	71,192
Interest received	10,712	4,393
	(2,019,289)	(359,619)
Financing:		
Proceeds from issue of redeemable units	2,269,591	1,874,398
Payments on redemption of redeemable units	(253,860)	(1,285,665)
Distributions paid to unitholders	(2,457)	(577)
	2,013,274	588,156
Net increase (decrease) in cash	(6,015)	228,537
Cash, beginning of year	670,724	437,594
Effect of exchange rate fluctuations on cash	(12,887)	4,593
Cash, end of year	\$ 651,822	\$ 670,724

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

PENDER SELECT IDEAS FUND

Schedule of Investment Portfolio

December 31, 2017

	Number of shares	Cost	Fair value
Equities:			
Consumer discretionary (4.4%):			
Freshii Inc.	4,760	\$ 28,511	\$ 34,938
LiLAC Group	10,800	333,544	272,667
		362,055	307,605
Consumer staples (4.1%):			
GreenSpace Brands Inc.	201,200	241,440	283,692
		241,440	283,692
Energy (3.7%):			
Neulion Inc.	379,600	202,656	197,392
Questor Technology Inc.	22,300	75,557	60,210
		278,213	257,602
Healthcare (7.8%):			
Medicare Inc.	72,850	483,112	542,733
		483,112	542,733
Industrials (3.8%):			
Colfax Corp.	3,180	137,434	157,861
INSCAPE Corp.	33,542	108,380	103,980
		245,814	261,841
Information technology (39.1%):			
Critical Control Energy Services Corp.	1,255,700	188,455	219,748
Espial Group Inc.	280,197	642,434	563,196
Mattersight Corp.	64,904	247,281	207,370
ProntoForms Corp.	1,646,000	471,245	576,100
Quantum Corp.	59,100	336,749	416,900
Redline Communications Group Inc.	89,400	150,598	142,146
Sierra Wireless Inc.	11,486	310,480	295,190
Siyata Mobile Inc.	92,200	36,880	50,710
Syntel Inc.	8,263	246,834	238,018
		2,630,956	2,709,378
Materials (3.3%):			
Platform Specialty Products Corp.	18,100	304,664	224,970
		304,664	224,970
Real estate (8.4%):			
Consolidated-Tomoka Land Co.	1,550	107,568	123,322
The Howard Hughes Corp.	2,800	398,121	460,529
		505,689	583,851
Telecommunications services (3.8%):			
TeraGo Inc.	60,600	227,856	266,034
		227,856	266,034
Utilities (1.2%):			
Polaris Infrastructure Inc.	4,898	39,184	85,176
		39,184	85,176
Total equities (79.7%)		\$ 5,318,983	\$ 5,522,882

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Schedule of Investment Portfolio (continued)

December 31, 2017

	Coupon rate / price	Maturity / expiry date	Face value / number of shares	Cost	Fair value
Canadian bonds:					
Corporate (4.6%):					
Commonwealth of Puerto Rico	8.00%	2035/07/01	700,000	\$ 242,421	\$ 204,882
GuestLogix Inc.	7.00%	2019/12/31	170,000	82,586	3,400
ViXS Systems Inc.	10.00%	2020/01/12	111,000	111,000	111,000
Total Canadian bonds				\$ 436,007	\$ 319,282
Other investments:					
Warrants (4.5%):					
American International Group	\$ 45.00	2021/01/19	12,800	\$ 299,587	\$ 290,604
Energy Fuels Inc.	3.20	2019/03/14	8,250	-	-
Patient Home Monitoring Corp.	1.80	2018/05/04	14,400	-	-
Siyata Mobile Inc.	0.50	2019/03/16	500,000	-	20,000
Total other investments				\$ 299,587	\$ 310,604
Less: Transaction costs included in cost of investments				(9,615)	-
Total investments (88.8%)				\$ 6,044,962	\$ 6,152,768
Cash (9.4%)					\$ 651,822
Other assets less liabilities (1.8%)					127,046
Total net assets attributable to holders of redeemable units (100.0%)					\$ 6,931,636

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

PENDER SELECT IDEAS FUND

Notes to Financial Statements

For the year ended December 31, 2017, with comparative information for 2016

1. The Fund:

Pender Select Ideas Fund (the "Fund") was formed on September 16, 2014. The Fund is an open-end investment fund governed under the laws of the Province of British Columbia pursuant to the First Amended and Restated Master Trust Agreement (the "Trust Agreement") dated December 30, 2016 between Computershare Trust Company of Canada (the "Trustee") and PenderFund Capital Management Ltd. The Fund invests primarily in a diversified portfolio of equity securities issued by companies listed on major North American stock exchanges, unlisted investment funds, fixed and variable income securities, and derivatives, with the objective of providing shareholders with above-average returns over the long-term. The prime broker of the Fund is TD Securities Inc.

The address of the Fund's head office is 1640 - 1066 West Hastings Street, Vancouver, British Columbia, V6E 3X1.

The Manager of the Fund is PenderFund Capital Management Ltd. (the "Manager").

2. Basis of preparation:

(a) Statement of compliance:

The financial statements of the Fund have been prepared in compliance with International Financial Reporting Standards ("IFRS"). The financial statements were authorized for issue by the Manager on March 28, 2018.

(b) Basis of measurement:

The financial statements have been prepared on a historical cost basis except for investments, investments sold short and derivatives, which are measured at fair value.

(c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, the Fund's functional currency.

(d) Use of estimates and judgment:

The preparation of financial statements, in conformity with IFRS, requires the Manager to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized in the year in which the estimates are revised and in any future year affected.

The Fund may hold financial instruments that are not quoted in an active market, including derivatives.

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

PENDER SELECT IDEAS FUND

Notes to Financial Statements

For the year ended December 31, 2017, with comparative information for 2016

3. Significant accounting policies:

The accounting policies, set out below, have been applied consistently to all years 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: held-for-trading (“HFT”) designated at fair value through profit and loss upon initial recognition (“FVTPL”), available-for-sale, loans and receivables, assets held-to-maturity, and other financial liabilities. All financial instruments are measured at fair value on initial recognition.

Measurement in subsequent years depends on the classification of the financial instrument. Transaction costs are included in the initial carrying amount of the financial instruments, except for financial instruments classified as HFT or FVTPL, in which case transaction costs are expensed as incurred.

Financial assets and financial liabilities HFT or FVTPL are recognized initially on the trade date, which is the date on which the Fund becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognized on the date on which they are originated.

The Fund derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the Statements of Financial Position only when the Fund has a legal right to offset the amount and intends to settle on a net basis or to realize the net asset and settle the net liability simultaneously.

The Fund has not classified any of its financial instruments as available-for-sale or assets held-to-maturity.

(ii) Held-for-trading and fair value through profit or loss:

Financial instruments classified as HFT or FVTPL are subsequently measured at fair value at each reporting year with changes in fair value recognized in the Statements of Comprehensive Income in the year in which they occur. The Fund’s derivatives are classified as HFT. The Fund’s investments and investments sold short are designated as FVTPL.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and marketable securities) are based on quoted market prices at the close of trading on the reporting date. The Fund uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day’s bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances.

PENDER SELECT IDEAS FUND

Notes to Financial Statements

For the year ended December 31, 2017, with comparative information for 2016

3. Significant accounting policies (continued):

(a) Financial instruments (continued):

(ii) Held-for-trading and fair value through profit or loss (continued):

The Fund's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

The fair value of financial assets and liabilities that are not traded in an active market, including more complex 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 others commonly used by market participants and which make the maximum use of observable inputs. Should the value of the financial asset or liability, in the opinion of the Manager, be inaccurate, unreliable or not readily available, the fair value is estimated on the basis of the most recently reported information of a similar financial asset or liability.

(iii) Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent measurement of loans and receivables is at amortized cost, less any impairment losses. The Fund classifies all assets, other than investments and derivatives, as loans and receivables.

(iv) Other financial liabilities:

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost. The Fund classifies all liabilities, other than investments sold short and derivatives, as other financial liabilities.

(b) Redeemable units:

The Fund classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The redeemable units, which are classified as financial liabilities and measured at redemption amount, provide unitholders with the right to require redemption, subject to available liquidity, for cash at a unit price based on the Fund's valuation policies at each redemption date.

(c) Per unit amounts:

Net assets attributable to holders of redeemable units is calculated based on the number of units outstanding at the end of the year. The increase in net assets attributable to holders of redeemable units per unit is calculated by dividing the increase in net assets attributable to holders of redeemable units by the weighted average number of units outstanding during the year.

PENDER SELECT IDEAS FUND

Notes to Financial Statements

For the year ended December 31, 2017, with comparative information for 2016

3. Significant accounting policies (continued):

(d) Foreign exchange:

The financial statements of the Fund are denominated in Canadian dollars. Foreign denominated investments and other foreign denominated assets and liabilities are translated into Canadian dollars using the exchange rates prevailing on each valuation date. Purchases and sales of investments, as well as income and expense transactions denominated in foreign currencies, are translated using exchange rates prevailing on the date of the transaction. Foreign currency gains and losses are recognized in the Statements of Comprehensive Income.

(e) 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.

(f) Income taxes:

The Fund qualifies as a unit trust under the *Income Tax Act (Canada)*. All of the Fund's net income for tax purposes and net capital gains realized in any period are required to be distributed to unitholders such that no income tax is payable by the Fund. As a result, the Fund does not record income taxes.

(g) New standards and interpretations not yet adopted:

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2017, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Fund.

IFRS 9 deals with recognition, derecognition, classification and measurement of financial instruments and its requirements represent a significant change from the existing requirements in IAS 39 - *Financial Instruments: Recognition and Measurement*, in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. A financial asset would be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables.

The standard is effective for annual periods beginning on or after January 1, 2018. The Fund intends to adopt IFRS 9 in its financial statements for the financial reporting periods beginning on January 1, 2018.

PENDER SELECT IDEAS FUND

Notes to Financial Statements

For the year ended December 31, 2017, with comparative information for 2016

3. Significant accounting policies (continued):

(g) New standards and interpretations not yet adopted (continued):

Based on the Manager's assessment, this standard is not expected to have a material impact on the classification of financial assets and financial liabilities of the Fund. This is because:

- the financial instruments currently measured at FVTPL under IAS 39 that were designated into this category, because they are managed on a fair value basis in accordance with a documented investment strategy, will be mandatorily measured at FVTPL under IFRS 9; and
- other financial instruments currently measured at amortised cost under IAS 39 will continue to be classified as such under IFRS 9.

4. Related party transactions:

The Fund pays a management fee to the Manager in respect of Series A, Series B and Series G units of the Fund. The management fee is calculated as an annualized percentage of the NAV of Series A, Series B and Series G units of the Fund. The annual management fee percentage for Series A, Series B and Series G are 1.00%, 2.00% and 1.00%, respectively. The Fund does not pay a management fee to the Manager in respect of Series F or Series O units of the Fund.

The Manager is also entitled to a performance fee in respect of Series A, Series B, Series F and Series G units, in certain circumstances, based on achieving certain performance criteria set out in the Fund's management agreement. The performance fee is equal to 25% for Series A and Series F, and 20% for Series B and Series G, of the net increase, if any, in the respective series' net asset value in excess of the respective series' previous high watermark and an annualized 6% minimum return threshold. The high watermark is the highest year-end series net asset value for the respective series on which a performance fee has previously been paid. The performance fee will be calculated monthly and paid semi-annually.

The Fund pays the Manager an administration fee equal to 0.50% of NAV of Series A, Series B, Series F and Series G of the Fund. In exchange for the fee, the Manager will pay for the Fund's operating costs (including GST/HST, registrar and transfer agency fees, custody fees, unitholder servicing costs, costs of offering documents, regulatory fees, audit and legal fees, and other administrative and operating expenses) other than portfolio-related expenses such as interest, carrying costs, withholding and other taxes and transaction costs.

No management, performance or administrative fees are charged to the Fund in respect of Series O units. Such fees are negotiable and paid by Series O unitholders outside of the Fund.

As at December 31, 2017, parties related to the Manager directly or indirectly held 8% (2016 - 5%) of the Fund's outstanding units. As at December 31, 2017 and 2016, the aggregate investment in all investee companies owned by the Manager's directors and officers did not exceed 1% of the respective investee companies' issued and outstanding shares.

As at December 31, 2017, the Fund had management and administration fees payable to the Manager of \$1,218 (2016 - \$1,680), and performance fee adjustment receivable of \$10,373 (2016 - performance fee payable of \$12,946).

PENDER SELECT IDEAS FUND

Notes to Financial Statements

For the year ended December 31, 2017, with comparative information for 2016

4. Related party transactions (continued):

From time to time the Manager may reduce the effective management fee payable by some unitholders by reducing the management fee it charges to the Funds, and directing the Funds to make distributions to these unitholders in amounts equal to the management fee reduction.

5. Withholding tax expense:

Certain dividend and interest for distribution purposes received by the Fund is subject to withholding tax imposed on the country of origin. During the year, withholding tax rates were between 0% and 35% (2016 - between 0% and 35%).

6. Redeemable units:

The Fund is authorized to issue an unlimited number of redeemable units in an unlimited number of classes and series. The Fund currently offers the series indicated in the table below. The redeemable unit transactions for the Fund during the years ended December 31, 2017 and 2016 are as follows:

2017	Outstanding units, beginning of year	Units issued	Units issued on reinvestment of distributions	Units redeemed	Outstanding units, end of year
Series A	50,668	30,767	1,340	-	82,775
Series B	500	-	1	-	501
Series F	222,517	152,359	10,215	(14,820)	370,271
Series G	500	9,355	178	-	10,033
Series O	126,488	7,685	10,916	(6,281)	138,808

2016	Outstanding units, beginning of year	Units issued	Units issued on reinvestment of distributions	Units redeemed	Outstanding units, end of year
Series A	54,406	2,572	5,878	(12,188)	50,668
Series B	-	500	-	-	500
Series F	232,555	118,899	29,846	(158,783)	222,517
Series G	-	500	-	-	500
Series O	9,918	103,727	17,803	(4,960)	126,488

7. Capital management:

The redeemable units issued by the Fund represent the capital of the Fund. The Fund is not subject to any internally or externally imposed restrictions on its capital. The Fund's objective in managing capital is to ensure a stable base to maximize returns to all unitholders, and to manage liquidity risk arising from unitholder redemptions.

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Notes to Financial Statements

For the year ended December 31, 2017, with comparative information for 2016

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 or dealer price quotations. For all other financial instruments, the Fund determines fair values using other valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Fund measure fair values 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 fund can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. as derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Fund uses widely recognized valuation models for determining the fair value of common and more 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 over-the-counter derivatives such as forward foreign currency contracts. The availability of observable market prices and model inputs reduces the need for management judgment and estimation, and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets. Valuation techniques include discounted cash flow techniques for debt securities and for forward foreign currency contracts, option pricing matrix for warrants and net asset value as published by underlying fund managers for mutual fund units.

For more complex instruments, the Fund uses recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in the determination of fair value.

PENDER SELECT IDEAS FUND

Notes to Financial Statements

For the year ended December 31, 2017, with comparative information for 2016

8. Fair value of financial instruments (continued):

(a) Valuation models (continued):

In determining fair value for these types of instruments the Manager considers: the history and nature of the business; operating results and financial conditions; the general economic, industry and market conditions; capital market and transaction market conditions; independent valuations of the business; contractual rights relating to the investment; comparable company trading and transaction multiples, where applicable; and other pertinent considerations. Adjustments to the carrying value of the investments may also be determined by the Manager when there is pervasive and objective evidence of a decline in the value of the investment, as indicated by an assessment of the financial condition of the investment based on operational results, forecasts and other developments since acquisition.

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

The table below analyses financial instruments at fair value at the reporting date 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. All fair value measurements are recurring.

2017	Level 1	Level 2	Level 3	Total
Equities	\$ 5,522,882	\$ -	\$ -	\$ 5,522,882
Bonds	204,882	-	114,400	319,282
Warrants	310,604	-	-	310,604
	\$ 6,038,368	\$ -	\$ 114,400	\$ 6,152,768

2016	Level 1	Level 2	Level 3	Total
Equities	\$ 3,382,187	\$ -	\$ -	\$ 3,382,187
Bonds	-	-	128,000	128,000
Warrants	88,091	-	-	88,091
	\$ 3,470,278	\$ -	\$ 128,000	\$ 3,598,278

The carrying amount of the Fund's net assets attributable to redeemable units also approximates fair value as they are measured at the redemption amount and are classified as Level 2 in the fair value hierarchy. The carrying value of cash, subscriptions receivable, dividends receivable, interest receivable, management fees and accrued expenses, and distributions payable to holders of redeemable units, 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.

There have been no transfers between the levels during the years ended December 31, 2017 and 2016.

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Notes to Financial Statements

For the year ended December 31, 2017, with comparative information for 2016

8. Fair value of financial instruments (continued):

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

The following table shows a reconciliation of all movements in the fair value of financial instruments categorized within Level 3 for the years ended December 31, 2017 and 2016:

	2017	2016
Opening balance	\$ 128,000	\$ 18,450
Purchase of investments	-	175,878
Disposition of investments	(7,400)	-
Total gain (loss) recognized in comprehensive income	(6,200)	(66,328)
	\$ 114,400	\$ 128,000

Included in the change in unrealized appreciation (depreciation) in fair value of investments on the Fund's Statements of Comprehensive Income for the year ended December 31, 2017 is a loss of \$13,600 (2016 – loss of \$66,328) related to Level 3 investments.

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

The table below sets out information about significant unobservable inputs used at December 31, 2017 and 2016 in measuring financial instruments categorized as Level 3 in the fair value hierarchy.

2017					
Description	Fair value	Valuation technique	Unobservable input	Enterprise value/ weighted average multiple	Sensitivity to change in significant unobservable input
Bonds	\$ 114,400	Investment cost/ enterprise value	Enterprise value	\$ 114,400	The estimated fair value would increase if enterprise value increased
2016					
Description	Fair value	Valuation technique	Unobservable input	Enterprise value/ weighted average multiple	Sensitivity to change in significant unobservable input
Bonds	\$ 128,000	Investment cost/ enterprise value	Enterprise value	\$ 128,000	The estimated fair value would increase if enterprise value increased

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.

PENDER SELECT IDEAS FUND

Notes to Financial Statements

For the year ended December 31, 2017, with comparative information for 2016

8. Fair value of financial instruments (continued):

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

Although the Fund believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used to alternative reasonably possible assumptions would have the following effects on the net assets attributable to holders of redeemable units at December 31, 2017 and 2016:

	2017		2016	
Favourable	\$	11,440	\$	12,800
Unfavourable		(11,440)		(12,800)

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 averages of the upper and lower quartiles of the Fund's range of possible estimates. The recalibrated model considers the impact of a 10% increase or decrease in enterprise value.

9. Financial risk management:

(a) Risk management framework:

The Fund maintains positions in a variety of derivative and non-derivative financial instruments in accordance with its investment strategy as set out in the Fund's offering documents.

The investment objective of the Fund is to achieve long-term capital growth by profiting from investment opportunities identified by the Manager. The Fund will invest primarily in Canadian and U.S. securities.

A Fund may be exposed to a variety of financial risks. A Fund's exposure to financial risks are concentrated in its investment holdings. The Schedule of Investment Portfolio for the Fund groups securities by asset type, geographic region and/or market segment. The Manager's risk management practices include the monitoring of compliance to investment objectives and strategies. The Manager manages the potential effects of these financial risks on the Fund's performance by regularly monitoring the Fund's positions and market events and by diversifying investment portfolios within the constraints of the Fund's investment objective.

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Notes to Financial Statements

For the year ended December 31, 2017, with comparative information for 2016

9. Financial risk management (continued):

(b) Credit risk:

Credit risk is the risk that a loss could arise from a security issuer or counterparty to a financial instrument not being able to meet its financial obligations. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. The credit exposure of other assets is represented by their carrying amounts.

Credit risk is managed by the Manager of the Fund through a careful selection of securities and diversification. The Fund's Manager monitors the Fund's overall market positions on a daily basis and positions are maintained within established ranges.

The following table summarizes the maximum exposure to credit risk for the Fund shown as at December 31, 2017 and 2016, categorized by credit ratings.

Credit rating		2017		2016
Below BBB	\$	204,882	\$	-
Unrated		114,400		128,000
	\$	319,282	\$	128,000

(c) Liquidity risk:

Liquidity risk is the risk that the Fund may not be able to settle or meet its obligations on time or at a reasonable price. The Fund is exposed to unitholder redemptions of its units. The units of the Fund are issued and redeemed on demand at the option of the unitholder based on the then current NAV per series of unit.

Liquidity risk is managed by investing the majority of the Fund's assets in investments that are traded in an active market and can be readily disposed. In the case where the Fund holds thinly traded investments, timely disposition of such investments and the realized price may be significantly different from their carrying values.

The Fund's redeemable units are due on demand. The Fund's remaining liabilities are due within one month of the year-end of the Fund.

(d) Interest rate risk:

Interest rate risk is the risk that the market value of the Fund's interest-bearing investments will fluctuate due to changes in market interest rates. The Fund's exposure to interest rate risk is concentrated in its investment in debt securities. Other assets and liabilities are short-term in nature and/or non-interest bearing, which reduce interest rate risk.

PENDER SELECT IDEAS FUND

Notes to Financial Statements

For the year ended December 31, 2017, with comparative information for 2016

9. Financial risk management (continued):

(d) Interest rate risk (continued):

The following table summarizes the exposure to interest rate risk for the Fund shown as at December 31, 2017 and 2016, categorized by maturity date.

Maturity date	2017	2016
1 to 3 years	\$ 114,400	\$ 17,000
3 to 5 years	-	111,000
More than 5 years	204,882	-
	\$ 319,282	\$ 128,000

As at December 31, 2017 and 2016, if the prevailing interest rates had been increased or decreased by 1%, assuming a parallel shift in the yield curve, with all other factors remaining constant, the net assets of the Fund would have decreased or increased by \$37,874 (2016 - \$3,861).

Interest rate sensitivity was determined based on portfolio-weighted, modified duration. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

(e) Currency risk:

Currency risk is the risk that the value of financial assets and liabilities denominated in currencies other than the Canadian dollar, will fluctuate due to changes in foreign exchange rates. Equities in foreign markets and foreign bonds are exposed to currency risk as the prices denominated in foreign currencies are converted to Canadian dollars at the valuation date.

Currency risk is managed by the Manager through a careful selection of securities and diversification within the Fund. The Manager monitors the Fund's overall market positions and positions are maintained within established ranges. The net foreign currency exposure for the Fund at December 31, 2017 and 2016 were:

	2017	2016
US dollar	\$ 2,688,102	\$ 1,699,005

As at December 31, 2017, if the Canadian dollar had strengthened or weakened by 10% in relation to all foreign currencies, with all other factors remaining constant, the net assets of the Fund would have decreased or increased by \$268,810 (2016 - \$169,900).

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Notes to Financial Statements

For the year ended December 31, 2017, with comparative information for 2016

9. Financial risk management (continued):

(f) Other price risk:

Other price risk is the risk that the fair value of a security will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the security or its issuer, or by factors affecting all similar securities traded in a market.

Price risk is moderated by the Manager through a careful selection of securities within specified limits and the Fund's price risk is managed through diversification within the Fund. The Manager monitors the Fund's overall market positions on a daily basis and positions are maintained within established ranges. The Fund's exposure to other price risk as at December 31, 2017 was \$5,833,486 (2016 - \$3,470,278).

As at December 31, 2017, if equity prices had increased or decreased by 10%, with all other factors remaining constant, the net assets of the Fund would have increased or decreased by approximately \$590,000 (2016 - \$496,000).

Price sensitivity was determined based on portfolio-weighted beta. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

10. Income taxes:

As at December 31, 2017 and 2016, the Fund had no capital losses or non-capital losses available for utilization against realized capital gains or non-capital gains in future years.