

Unaudited Condensed Interim Financial Statements of

**PENDER GROWTH FUND INC.**

Three months ended March 31, 2020

# PENDER GROWTH FUND INC.

Condensed Interim Statements of Financial Position (Unaudited)

	Notes	March 31, 2020	December 31, 2019
<b>Assets</b>			
Cash		\$ 4,626,010	\$ 8,199,875
Receivable for investments sold		667,631	-
Interest receivable		9,255	491,123
Prepaid expenses		7,001	4,546
Other receivable		2	73
Investments		28,165,103	25,345,146
		33,475,002	34,040,763
<b>Liabilities</b>			
Payable for investments purchased		679,945	1,178
Accounts payable and accrued liabilities		104,138	100,815
Due to related parties	4	100,325	105,753
		884,408	207,746
<b>Shareholders' equity</b>			
Class C Common shares:			
Contributed capital	6	19,480,806	19,769,587
Retained earnings		13,109,788	14,063,430
<b>Total Shareholders' equity</b>		<b>\$ 32,590,594</b>	<b>\$ 33,833,017</b>
Number of shares outstanding	6	7,990,229	8,083,329
Total shareholders' equity per share		\$ 4.08	\$ 4.19

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

Approved on behalf of the Board of Directors:

"Kelly Edmison" Director

"David Barr" Director

# PENDER GROWTH FUND INC.

Condensed Interim Statements of Comprehensive Income (Unaudited)

	Note	Three months ended March 31, 2020	Three months ended March 31, 2019
Revenue:			
Dividend income		\$ 26,842	\$ -
Interest income		65,466	28
Securities lending income		19	-
Foreign exchange gain (loss)		1,236	(1,445)
Changes in fair value of investments:			
Net realized gain (loss)		595,295	-
Net change in unrealized appreciation (depreciation)		(1,300,561)	611,116
Total revenue		(611,703)	609,699
Expenses:			
Management fees	4	188,914	114,335
Administration expenses		66,965	35,721
Transaction costs		28,136	-
Audit and professional fees		27,708	22,051
Custody and recordkeeping fees		13,084	13,263
Directors' fees		10,433	7,260
Legal fees		6,699	32,434
Total expenses		341,939	225,064
Net income (loss)		\$ (953,642)	\$ 384,635
Net income (loss), per share:			
Class C shares		\$ (0.12)	\$ 0.10
Weighted average number of non-redeemable			
Class C shares outstanding		8,054,729	4,152,545

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

## PENDER GROWTH FUND INC.

Condensed Interim Statements of Changes in Equity (Unaudited)

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Class C shares	Note	Note	Three months ended March 31, 2020	Three months ended March 31, 2019
Balance, beginning of period			\$ 33,833,017	\$ 17,205,308
Net income (loss)			(953,642)	384,635
Capital transactions		6(c)	(288,781)	-
Balance, end of period			\$ 32,590,594	\$ 17,589,943

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

# PENDER GROWTH FUND INC.

Condensed Interim Statements of Cash Flows (Unaudited)

	Three months ended March 31, 2020	Three months ended March 31, 2019
Cash provided by (used in):		
Operating:		
Net income (loss)	\$ (953,642)	\$ 384,635
Adjustments for:		
Dividend income	(26,842)	-
Interest income	(65,466)	(28)
Foreign exchange (gain) loss	(1,236)	1,445
Net realized (gain) loss on sales of investments	(595,295)	-
Net change in unrealized (appreciation) depreciation on investments	1,300,561	(611,116)
(Increase) decrease in receivable for investments sold	(667,631)	1,445
(Increase) decrease in prepaid expenses	(2,455)	-
(Increase) decrease in other receivable	71	-
Increase (decrease) in accounts payable and accrued liabilities	3,323	212,499
Increase (decrease) in due to related parties	(5,428)	3,855
	(1,014,040)	(7,265)
Proceeds on disposal of investments	4,059,879	-
Purchase of investments	(6,906,335)	-
Dividend received	26,842	-
Interest received	547,334	28
Net cash used in operating activities	(3,286,320)	(7,237)
Financing:		
Repurchase of shares	(288,781)	-
Net cash used in financing activities	(288,781)	-
Net increase (decrease) in cash during the period	(3,575,101)	(7,237)
Cash, beginning of period	8,199,875	17,653
Increase (decrease) due to exchange rate fluctuations on cash	1,236	(1,445)
Cash, end of period	\$ 4,626,010	\$ 8,971

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

# PENDER GROWTH FUND INC.

Condensed Interim Schedule of Investment Portfolio (Unaudited)

As at March 31, 2020

	Coupon rate/ Exercise price	Maturity/ expiry date	Face value/ Number of shares / units	Cost	Fair value
<b>Publicly listed companies: (40.4%)</b>					
Common shares: (37.5%)					
ADF Group Inc.			522,700	581,074	365,890
AgJunction Inc.			1,000,000	126,128	105,000
Crown Capital Partners Inc.			89,521	658,743	380,464
Diversified Royalty Corp.			710,000	904,414	1,157,300
Ebix, Inc.			25,000	545,667	534,070
GreenSpace Brands Inc.			22,828,319	1,483,841	913,133
MAV Beauty Brands Inc.			50,000	103,200	99,000
Photon Control Inc.			264,000	210,602	237,600
ProntoForms Corporation			3,098,733	1,473,933	2,262,076
Quorum Information Technologies Inc.			1,840,400	1,597,836	2,484,540
Redline Communications Group Inc.			396,153	680,643	312,961
Sangoma Technologies Corp.			832,907	1,118,548	1,166,070
Sylogist Ltd.			191,490	1,751,724	1,627,665
TIMIA Capital Corp.			724,500	139,766	115,920
Vigil Health Solutions Inc.			1,506,000	520,112	474,390
				11,896,231	12,236,079
Warrants: (0.0%)					
Siyata Mobile Inc.	0.45	12/23/2022	1,000,000	-	-
Convertible debentures: (2.9%)					
Siyata Mobile Inc.	12.00%	12/23/2021	1,000,000	950,000	950,000
				12,846,231	13,186,079
<b>Private unlisted companies: (46.0%)</b>					
Common shares					
Copperleaf Technologies Inc.			140,596	407,728	
Navarik Corp.			1,149,425	1,000,000	
One45 Software Inc.			575,000	575,000	
Preferred shares:					
Checkfront Inc.			38,973	999,993	
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					
Clarius Mobile Health Corp.	8.00%	12/31/2023	500,000	500,000	
				5,525,924	14,979,024
Less: Transaction costs included in cost of investments				(39,131)	
<b>Total investments (86.4%)</b>				\$ 18,333,024	\$ 28,165,103
Cash (14.2%)					4,626,010
Other assets less liabilities (-0.6%)					(200,519)
<b>Total Shareholders' equity (100.0%)</b>				\$	<b>32,590,594</b>

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

# PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months ended March 31, 2020

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## 1. Incorporation and nature of operations:

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

The Company has been managed by PenderFund Capital Management Ltd. (the “Manager”) since 2003. The investment objective of the Company is to achieve long-term capital growth from investment in opportunities identified by the Manager. The Company 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. These condensed interim financial statements (“financial statements”) of the Company have been prepared in accordance with IAS 34 Interim Financial Reporting and do not include all of the information required for full annual financial statements. These financial statements should be read in conjunction with the audited annual financial statements.

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

These financial statements were authorized for issue by the Company’s Board of Directors on May 22, 2020.

### (b) Basis of measurement:

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

### (c) Functional and presentation currency:

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

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

The preparation of financial statements in conformity with IFRS requires the Manager to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized in the period in which the estimates are revised and in any future period affected.

# PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months ended March 31, 2020

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## 2. Basis of preparation (continued):

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

The Company may hold financial instruments that are not quoted in an active market, including derivatives. The determination of the fair value of these investments is the area with the Manager's most significant accounting judgements and estimates in preparing these financial statements.

## 3. Significant accounting policies:

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

## 4. Related party transactions:

### (a) Management and performance fees:

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

In exchange for these management services, the Company pays a management fee. Effective May 2019, the management fee is equal to 2.50% of the first \$15,000,000 of the value of Net Assets and 1.75% of the value of Net Assets above \$15,000,000. Prior to May 2019 the management fee was 2.50% of the Company's total shareholders' equity per annum on total shareholders' equity of up to \$50,000,000 and 2.00% of the Company's total shareholders' equity in excess of \$50,000,000 per annum. The management fee is calculated and paid monthly.

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

For the three months ended March 31, 2020, the Company incurred management fees of \$188,914 (March 31, 2019 - \$114,335). No performance fee was earned in the three months ended March 31, 2020 and 2019. As at March 31, 2020, the Company had an amount payable to the Manager of \$100,325 (December 31, 2019 - \$105,753) in respect of management fees and reimbursement of operating expenses paid on behalf of the Company.



# PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months ended March 31, 2020

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## 4. Related party transactions (continued):

### (b) Share holdings:

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

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

## 5. Securities lending transactions:

As at March 31, 2020, the value of securities loaned and collateral received from securities lending is nil (2019 – 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 three months ended March 31, 2020 is presented in the following table. No securities lending income was earned by the Company for the three months ended March 31, 2019.

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2020	Gross income	Withholding taxes	Agent fees	Securities lending income
Pender Growth Fund	\$ 31	\$ -	\$ 12	\$ 19

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All agent fees were paid to the Securities Lending Agent 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 March 31, 2020, the authorized capital of the Company consists of:

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

# PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months ended March 31, 2020

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## 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 the Condensed Interim Financial Statements (Unaudited)

Three months ended March 31, 2020

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## 6. Share capital (continued):

(a) Authorized share capital (continued):

### Preferred Shares:

The Preferred Shares were created on July 24, 2019. As at March 31, 2020, no Preferred Shares have been issued. The special rights and restrictions of the Preferred Shares empower the Board to fix the number of shares in each series of each class of Preferred Shares and to fix the preferences, special rights and restrictions, privileges, conditions and limitations attaching to the shares of that series, before the issuance of shares of any particular series. The Board has the power to fix, among other things, the number of shares constituting any series, the voting powers, designation, preferences and relative participation, optional or other special rights and dividend rate, terms of redemption (including sinking fund provisions), redemption price or prices, conversion rights and liquidation preferences of the shares constituting any series. The issuance of Preferred Shares could affect the rights of the holders of Class C shares.

(b) Issued and fully paid shares:

During the three months ended March 31, 2020 and 2019, the Company has issued and fully paid Class C shares outstanding as follows:

	Balance beginning of period	Share issued	Share repurchased	Balance end of period
March 31, 2020:				
Class C	8,083,329	-	(93,100)	7,990,229
March 31, 2019:				
Class C	4,152,545	-	-	4,152,545

During the three months ended March 31, 2020, the Company bought back 93,100 shares. On February 3, 2020, the Company announced that it 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 had 8,083,329 Shares outstanding, of which 7,430,877 Shares represented Pender's public float. Under TSXV policies, the Company is entitled to purchase up to 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 the Condensed Interim Financial Statements (Unaudited)

Three months ended March 31, 2020

## 6. Share capital (continued):

(c) Equity capital:

The changes in shareholders' equity for the three months ended March 31, 2020 and 2019 are as follows:

	Share capital	Retained earnings (deficit)	Total
Balance, January 1, 2020	\$ 19,769,587	\$ 14,063,430	\$ 33,833,017
Net income (loss)	-	(953,642)	(953,642)
Capital transactions	(288,781)	-	(288,781)
Balance, March 31, 2020	\$ 19,480,806	\$ 13,109,788	\$ 32,590,594

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

## 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.

# PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months ended March 31, 2020

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## 8. Financial risk management (continued):

The Company maintains positions in a variety of financial instruments in accordance with its investment objectives and strategies. The Company's investment objective is to achieve long-term capital growth by investing in public and private companies based in Canada and the U.S., principally in the information technology and telecommunications sectors, with an emphasis on established businesses requiring capital for growth, expansion or restructuring. The Company also invests in later-stage companies already well-positioned for growth where additional capital is used to expand operations to increase revenue. The Company's exposure to financial risk is concentrated in its investment holdings. The Schedule of Investment Portfolio groups securities by asset type. The Manager manages the potential impact of these financial risks on the Company's performance by employing and overseeing professional and experienced portfolio advisors who regularly monitor the Company's positions and market events and diversify investment portfolios within the constraints of the investment guidelines.

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

As a result of the COVID-19 outbreak, global financial markets have experienced significant volatility. The situation continues to be a dynamic one, with various cities and countries around the world responding in different ways to address the outbreak and recovery.

There are meaningful direct and indirect effects developing that may impact businesses and it is difficult to estimate the ultimate impact or duration of the volatility on the Company's individual Portfolio Companies. The Company will continue to support its Portfolio Companies, to monitor the impact COVID-19 has on them and to reflect the consequences as appropriate in its accounting and reporting.

### (a) Credit risk:

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

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

The Company's maximum exposure to credit risk as at March 31, 2020 is \$4,738,219 (December 31, 2019 - \$3,802,456).

# PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months ended March 31, 2020

## 8. Financial risk management (continued):

### (b) Liquidity risk:

Liquidity risk is the risk that the Company may not be able to settle or meet its obligations on time or at a reasonable price. The Company invests in equity securities and other financial instruments. A large portion of the Company's equity holdings are in private unlisted investments for which no active markets exist. Accordingly, timely disposition may not be possible and the realized price may be significantly different from the carrying value.

The Company's policy is to maintain sufficient cash to meet normal operating requirements. It is also the Company's policy that the Manager monitors the Company's liquidity position and that the board of directors reviews it on a quarterly basis.

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

	2020	2019
Payable for investments purchased	\$ 679,945	\$ 1,178
Accounts payable and accrued liabilities	104,138	100,815
Due to related parties	100,325	105,753
	\$ 884,408	\$ 207,746

### (c) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices, will affect the Company's income or the fair value of their holdings of financial instruments.

#### (i) Interest rate risk:

Interest rate risk is the risk that fair value of a financial instrument will fluctuate because of changes in market interest rates. The Company's investment portfolio contains private debt instruments. As the majority of these debt investments are convertible, the valuation of these private debt instruments is based on the enterprise value of the underlying Company and generally does not change with changes in market interest rates. The interest rates of these instruments are fixed, hence changes in market interest rates will not impact cash flows of the Company. Accordingly, the Manager does not consider there to be significant interest rate risk on the Company's private debt investments.

#### (ii) Currency risk:

Currency risk is the risk that the fair value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company primarily invests in Canadian securities. Accordingly, the Company is not subject to significant currency risk.

# PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months ended March 31, 2020

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## 8. Financial risk management (continued):

(c) Market risk (continued):

(iii) Other price risk:

Other price risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from the aforementioned risks), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in a market. The Manager moderates other price risk through careful selection of investments and through diversification of the investment portfolio.

As at March 31, 2020, if the fair value of the Company's publicly listed investments had increased or decreased by 10% with all other factors remaining constant, the Company's shareholders' equity would have increased or decreased by approximately \$1,125,000 (2019 - \$164,000). Price sensitivity was determined based on portfolio-weighted beta. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

## 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).

# PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months ended March 31, 2020

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

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

The Company uses widely recognized valuation models for determining the fair value of common and relatively simple financial instruments, such as debt securities, mutual fund units and warrants that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple OTC derivatives such as forward foreign currency contracts. The availability of observable market prices and model inputs reduces the need for management judgment and estimation, and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

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

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

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

The table below presents the fair value of financial instruments as at March 31, 2020 and December 31, 2019 by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the Statements of Financial Position.

	March 31, 2020	December 31, 2019
<b>Level 1:</b>		
Publicly listed companies	\$ 12,236,079	\$ 7,499,203
<b>Level 2:</b>		
Publicly listed companies	\$ -	\$ -
<b>Level 3:</b>		
Publicly listed companies	\$ 950,000	\$ 950,000
Private unlisted companies	14,979,024	16,895,943
Total Level 3	15,929,024	17,845,943
	<b>\$ 28,165,103</b>	<b>\$ 25,345,146</b>



# PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months ended March 31, 2020

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

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

During the three months ended March 31, 2020 and 2019, there were no transfers between any levels of the fair value hierarchy.

The following table shows a reconciliation of all movements in the fair value of financial instruments categorized within Level 3 for the three months ended March 31, 2020 and March 31, 2019:

	March 31, 2020	March 31, 2019
Opening balance	\$ 17,845,943	\$ 15,966,266
Amounts paid on purchase of investments	1,499,993	-
Sales and settlements of investments	(3,416,912)	-
Total gain (loss) recognized in comprehensive income	-	-
Ending balance	\$ 15,929,024	\$ 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 three months ended March 31, 2020 is a change in unrealized depreciation of \$375,740 (March 31, 2019 - Nil) 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 March 31, 2020 and December 31, 2019 in measuring financial instruments categorized as Level 3 in the fair value hierarchy.

March 31, 2020					
Description	Fair value	Valuation technique	Unobservable input	Enterprise value/ weighted average multiple	Sensitivity to change in significant unobservable input
Unlisted private investments	\$ 5,093,020	Investment cost/ enterprise value	Enterprise value	\$ 5,093,020	The estimated fair value would increase if enterprise value increased
Unlisted private investments	\$10,836,004	Market approach using comparable traded revenue multiples	Revenue multiple	2.0	The estimated fair value would increase if the revenue multiples were higher

# PENDER GROWTH FUND INC.

Notes to the Condensed Interim Financial Statements (Unaudited)

Three months ended March 31, 2020

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

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

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

Significant unobservable inputs are developed as follows:

(i) Enterprise value:

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

(ii) Revenue multiple:

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

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

Although the Company believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used to alternative reasonably

# PENDER GROWTH FUND INC.

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Three months ended March 31, 2020

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

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

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

	March 31, 2020	December 31, 2019
Favourable	\$ 4,655,024	\$ 4,283,049
Unfavourable	(5,645,016)	(8,604,650)

The favourable and unfavourable effects of using alternative reasonably possible assumptions for the valuation of unlisted private investments have been calculated by recalibrating the model values using unobservable inputs based on ranges of possible estimates. The recalibrated model considers:

- The impact of a 10% increase or decrease in enterprise value.
- A change in the revenue multiple to alternative reasonably possible assumptions of 1.0 and 3.0, respectively.

(e) Financial instruments not measured at fair value:

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

## 10. Involvement with subsidiaries and associates:

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

Entity	Nature and purpose	Interest held by the Company
One45 Software Inc.	Software and services	Investment in common shares

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

March 31, 2020 and December 31, 2019					
Name of Entity	Relationship	Principal place of business	Country of incorporation	Ownership interest	Voting rights
One45 Software Inc.	Subsidiary	Canada	Canada	81% (2019-81%)	81% (2019-81%)

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

Furthermore, the subsidiaries in the table above are not subject to any restrictions.