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No securities regulatory authority has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence. No underwriter has been involved in the preparation of this prospectus or performed any review of the contents hereof.

Continuous Distribution

October 5, 2007

PRELIMINARY PROSPECTUS

PENDER

PENDER GROWTH FUND (VCC) INC.

A Venture Capital Corporation

Class A Common Shares, Series 2

Offering Price:	Pricing Net Asset Value per Series 2 Share
Minimum Subscription:	\$2,500

This Prospectus qualifies the distribution of Class A Common Shares, Series 2 (the "Series 2 Shares") in the capital of Pender Growth Fund (VCC) Inc. (the "Fund"). The Series 2 Shares are offered on a continuous basis priced in accordance with the Pricing Net Asset Value per Series 2 Share as determined on: (a) the last business day of any week; (b) the last day of any fiscal year of the Fund; or (c) the last day in each year in which a contribution made to an RRSP is deductible in respect of the preceding year, which first falls on or occurs immediately after the date on which a properly completed subscription for Series 2 Shares is received by the Fund. See "Plan of Distribution".

The Fund is registered as a venture capital corporation under the Small Business Venture Capital Act (British Columbia) (the "SBVCA"). The SBVCA Administrator has authorized the Fund to issue up to \$7,000,000 of its Shares during the period from February 16, 2007 to February 15, 2008, up to a further \$7,000,000 of its Shares during the period from February 16, 2008 to February 15, 2009, and up to a further \$7,000,000 during the period from February 16, 2009 to February 15, 2010. The Fund may apply to the SBVCA Administrator for additional equity capital once the \$7,000,000 has been raised under the respective time frames. There can be no assurance that the Fund will be authorized to raise additional equity capital after the respective time frames.

The Fund invests in eligible small businesses (as defined in the SBVCA) primarily in the technology sector in British Columbia, with a focus on emerging, high-growth businesses. The Fund is currently invested in 14 such companies. The manager of the Fund is PenderFund Capital Management Ltd. (the "Manager") whose principals have extensive experience in the capital markets in British Columbia. The Manager is a wholly-owned subsidiary of Pender Financial Group Corporation, a Vancouver-based publicly traded merchant bank focused exclusively on the technology market in British Columbia. See "Management and Administration – The Manager."

An investment in the Series 2 Shares is highly speculative in nature, carrying significant risks and should be undertaken only by investors who have sufficient financial resources to enable them to assume such risks and who have no need for immediate liquidity of their investment. See "Risk Factors". Series 2 Shares should not be purchased by persons who cannot afford the possibility of the loss of their entire investment and an investment in the Series 2 Shares should not constitute a major portion of an individual's portfolio.

There is no market through which these securities may be sold and purchasers may not be able to resell securities purchased under this Prospectus. The Fund's Articles provide that the Series 2 Shares are non-redeemable for at least five years except in very limited circumstances. The Fund's ability to meet a redemption request is subject to certain conditions which, if not met, may result in a redemption request being suspended, delayed or declined by the Fund. Please refer to "Share Capital – Series 2 Shares - Suspension of Redemptions". There are additional requirements under the SBVCA with respect to when the Series 2 Shares may be redeemed which might further extend this period. There can be no assurance that, at the end of such period, the Fund will be in a position to redeem the Series 2 Shares. See "Share Capital – Series 2 Shares". The Fund is prohibited from making redemptions in certain circumstances and the Fund may, in certain other circumstances, suspend redemptions for substantial periods. Accordingly, an investment in the Fund is appropriate only for investors who are prepared to leave their money in the Fund for a long period of time and who have the capacity to absorb a loss of some or all of their investment. See "Risk Factors".

There is no minimum amount which must be raised by the Fund pursuant to this Offering. If the proceeds of this Offering are relatively small, the operating costs of the Fund and the overhead portion of its ongoing expenses may result in a substantial reduction or even elimination of the returns which would otherwise be available to investors from those investments which the Fund is able to make. See "Fees and Expenses – Fund Fees and Expenses" and "Risk Factors".

Subscriptions for Series 2 Shares will be received, subject to rejection or allotment in whole or in part, by the Fund and the right is reserved by the Fund to close the subscription books at any time without notice. The Series 2 Shares are offered on a continuous basis, subject to sufficient equity capital authorization from the SBVCA Administrator. See "Plan of Distribution".

The Fund is not a mutual fund for securities law purposes and the rules designed to protect investors who purchase securities of mutual funds, such as rules directed at ensuring liquidity and diversification of investments, and certain other investment restrictions and practices applicable to mutual funds, do not apply to the Fund.

Individuals resident in British Columbia who purchase Series 2 Shares and corporations having a permanent establishment in British Columbia that purchase Series 2 Shares may be eligible for Tax Credits. In addition under the provisions of the SBVCA, a British Columbia resident individual who is the Annuitant under an RRSP or an RRIF will also be entitled to Tax Credits in respect of Series 1 Shares that are initially acquired by the RRSP or RRIF. See "Income Tax Considerations". Investors should consult their own tax advisors respecting their eligibility for and their ability to use Tax Credits. The Series 2 Shares will generally be qualified investments for trusts governed by RRSPs or RRIFs. See "Income Tax Considerations". As the Fund itself will be required to satisfy any income tax liabilities that may arise with respect to its net realized taxable capital gains and/or other investment income, rather than being able to, in effect, transfer those liabilities to its shareholders, an investment in the Fund may be less appropriate for a trust governed by an RRSP or RRIF than an investment in a fund that is able to, in effect, transfer its income tax liabilities to its shareholders. See "Income Tax Considerations". In addition to tax benefits, prospective investors should fully assess the investment merits of the Series 2 Shares.

The Province of British Columbia in no way passes on the merits of an investment in the Series 2 Shares.

No underwriter has been involved in the preparation of this Prospectus or performed any review of the contents of the Prospectus.

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Venture Capital Program Summary

The venture capital programs operating under the Small Business Venture Capital Act ("SBVCA") encourage early stage or "seed" equity capital investment in small businesses by offering Investors resident in the Province of British Columbia refundable tax credits. The Investment Capital Branch is the operating name for the government department which delivers the investment incentive program as set out in the SBVCA. This program is designed to encourage arm's length investors to make equity investments in businesses operating in sectors which result in export enhancement, import replacement or otherwise diversify the economy of British Columbia. The Equity Capital Program encourages investment in small businesses throughout the Province of British Columbia while the Community Venture Capital Program encourages investment in small businesses operating outside of the Greater Vancouver and Capital Regional Districts.

The Province of British Columbia provides investors with a tax credit incentive equal to 30% of their investment in a special holding company called a venture capital corporation, which in turn invests in one or more businesses that meet the eligibility criteria of the SBVCA.

Investors who require further information on the provisions of the SBVCA and Regulations are advised to consult their own professional advisors or contact the Investment Capital Branch staff.

In registering the Fund under the SBVCA, the Province of British Columbia makes no representations with respect to any tax considerations discussed in this document, other than with respect to those dealing with the British Columbia tax credit available in respect of the purchase of Shares of the Fund.

The Province of British Columbia in no way guarantees the value of any shares issued by a VCC registered under the SBVCA. Nor does it in any way express an opinion as to the financial condition of the issuing company, the merits of an investment in shares of the issuing company, or the merits of the issuing company's investments in eligible small businesses.

The review of this Prospectus by the Investment Capital Branch's staff was limited specifically to the requirements of the SBVCA only and any other matters which concern investors should be reviewed with their own personal advisors.

PROSPECTUS SUMMARY

The following is a summary only and reference is made to more detailed information appearing elsewhere in this Prospectus. Capitalized terms used but not defined in this summary are defined in the Glossary.

The Offering

Offering: Class A Common Shares, Series 2 of the Fund (the "Series 2 Shares").

Offering Price Pricing Net Asset Value per Series 2 Share.

The Pricing Net Asset Value per Series 2 Share of the Fund on any Valuation Date is determined by dividing the Pricing Net Asset Value of the Fund on that date by the total number of Shares of the Fund outstanding on that date. The Pricing Net Asset Value of the Fund differs from the Net Asset Value of the Fund calculated in accordance with generally accepted accounting principles for financial reporting purposes. In addition, the method used by the Fund to determine Pricing Net Asset Value per Share may not be directly comparable to pricing methods used by venture capital funds (such as labour sponsored funds) based in other provinces of Canada. See "Plan of Distribution – Purchase of Series 2 Shares – Calculation of Pricing Net Asset Value" and "Plan of Distribution – Purchase of Series 2 Shares – Calculation of Pricing Net Asset Value per Series 2 Share".

Minimum Investment: Minimum initial subscription: \$2,500.

Redemption: The Series 2 Shares are redeemable generally only on or after the fifth anniversary of the date of issuance thereof (the "Redemption Date"). On the Redemption Date, the Series 2 Shares will be redeemed at a price per Series 2 Share which is equal to the Pricing Net Asset Value per Share on the Valuation Date which falls on or occurs immediately after the date on which the Fund receives or is deemed to have received a fully completed Redemption Request, plus any dividends then declared and unpaid. The Fund may be prohibited from honouring and/or may decline Redemption Requests in certain circumstances. There are two instances in which early redemption of Series 2 Shares may be permitted. Reinvestment Redemptions may be made at any time during the one month period preceding the Redemption Date, provided that the Series 2 shareholder is concurrently resubscribing for Series 2 Shares on terms and conditions acceptable to the Fund and, secondly, in the case of the death of a Series 2 shareholder, Series 2 Shares may qualify for Permitted Early Redemption at any time prior to the Redemption Date at the Board's sole discretion. In the circumstances of a Permitted Early Redemption, it is the Fund's policy to deduct from the Redemption Price any portion of the shareholder's Tax Credit which becomes repayable by the Fund as a result of the redemption. See "Share Capital – Series 2 Shares."

Tax Credits Individuals who purchase Series 2 Shares and are resident in British Columbia at the date of subscription are eligible to receive a refundable Tax Credit equal to 30% of the purchase price of the Series 2 Shares acquired, subject to an annual maximum Tax Credit of \$60,000 (\$200,000 investment). Any Tax Credit in excess of \$60,000 may be carried forward and utilized, subject to the limitation of \$60,000 in any of the four subsequent taxation years. To the extent that the Tax Credit of an individual Investor exceeds the amount of British Columbia tax payable by the Investor, the individual Investor will be entitled to a refund equal to the amount of the Tax Credit minus the amount of British Columbia tax payable, subject to the \$60,000 annual limitation. Investors must check their own personal tax situation and status in order to confirm that the foregoing is applicable to them. See "Income Tax Considerations."

Generally, Tax Credits are granted in respect of the taxation year when the Fund receives the cash for the Series 2 Shares purchased during the calendar year or before the end of February in the following year. In the event that the Fund exceeds its equity allocation before the end of February in the year following a taxation year, the Fund may continue to sell Series 2 Shares under this Prospectus. However, in this situation, Investors will only be eligible for Tax Credits for the following taxation year. Subject to the availability of allocation, Investors who subscribe for Series 2 Shares at any time prior to March 1, 2008, will receive Tax Credits for the taxation year ended December 31, 2007, subject to compliance with income tax laws and the individual Investor's particular circumstances.

The Fund

The Fund was incorporated under a predecessor to the Business Corporations Act on March 7, 1994 under the name of FutureFund Capital (VCC) Corporation, and was registered as a venture capital corporation ("VCC") under the Small Business Venture Capital Act (the "SBVCA") on July 8, 1994. See "Pender Growth (VCC) Inc." The Fund changed its name from FutureFund Capital (VCC) Corporation to Pender Growth Fund (VCC) Inc. on August 15, 2003.

Investment Objectives

The Fund invests in Eligible Small Businesses ("ESBs") in British Columbia with the objective of realizing long term capital appreciation through the prudent application of its capital. The Fund contributes to increased employment, exports and diversification of the British Columbia economy by making investments in ESBs in information technology, communications or life sciences, or involved in the commercialization of other proprietary technologies.

The Fund is the first of its kind in British Columbia to focus principally on expansion and restructuring opportunities within the technology sector. The Fund differentiates itself from other venture capital corporations and labour sponsored venture capital corporations by focusing on ESBs that are at relatively later stages of business development and that offer investors improved liquidity through either existing public listings or near term liquidity events.

The Manager

PenderFund Capital Management Ltd. (the "Manager") has been retained by the Fund to provide management services relating to investing in ESBs. The Manager is currently a wholly owned subsidiary of Pender Financial Group Corporation ("Pender Financial"). However, Pender Financial has entered into a binding letter agreement with Messrs. Kelly Edmison, William A. Rand and David Barr (collectively the "ERB Group") dated October 2, 2007 pursuant to which Pender Financial has agreed to sell all of the issued and outstanding shares of the Manager to the ERB Group (the "Transaction"). The Transaction will result in a change of control of the Manager. The directors of the Manager currently consist of Messrs Edmison and David Roberts. The officers of the Manager currently consist of Messrs Edmison, Roberts and Barr. Upon completion of the Transaction Mr. Roberts will resign as a director and officer of the Manager and Mr. Edmison and Mr. Barr will be appointed as directors and officers of the Manager and Mr. Rand will be appointed as a director of the Manager. The closing of the Transaction is subject to the execution of a definitive agreement and the completion of certain conditions precedent including the acceptance of the TSX Venture Exchange and the SBVCA Administrator to the Transaction. The closing date for the completion of the Transaction has yet to be determined by the parties. There can be no assurance that the Transaction will close. As of the date of this Prospectus, Pender Financial owns no Series 1 Shares and 1,000 Series 2 Shares that represent an aggregate of 0.035% of the issued Shares of the Fund. The Manager is well qualified to identify and secure such opportunities since its principals and the principals of Pender Financial have significant experience in corporate restructuring and structuring private placements in public companies. See "Management and Administration – The Manager".

The Manager may also, at the request of the Board of Directors of the Fund, provide support services for the marketing of the Fund and the distribution of its Shares. The Fund has agreed to pay to the Manager an annual

management fee and a performance fee and to remunerate the Manager for any additional requested services provided. See "Fees and Expenses – Fund Fees and Expenses – Management Fees".

Board of Directors

The Board of Directors currently consists of five Directors, David Roberts, Kelly Edmison, Cameron Belsher, Ian Power and Wendy Porter. The three Directors who are independent of both the Fund and the Manager ("Independent Directors") are Ian Power, Cameron Belsher and Wendy Porter. The other two Directors, Kelly Edmison and David Roberts, are also officers of the Fund and directors, officers and indirect shareholders of the Manager. Upon completion of the Transaction Mr. Roberts will resign as a director and officer of the Manager and will become an Independent Director. See "Management and Administration – Board of Directors".

The Board has overall responsibility for all investments and divestitures made by the Fund, as well as for the establishment of appropriate investment and divestiture policies and the implementation of appropriate procedures with respect to the Fund's investment and divestiture processes. See "Management and Administration – Board of Directors".

Pender Financial Group Corporation

Pender Financial Group Corporation (TSX-VE:PDF) is a publicly traded merchant bank focused on technology companies. Pender Financial's strategy is to build long-term value by investing its capital into a relatively few undervalued companies and to actively participate in their development so as to enhance their value and the liquidity of Pender Financial's investment.

Today, Pender Financial is principally engaged in venture capital investment and fund management with a management team that has considerable experience in the technology industry and venture capital markets. Pender Financial also owns 71.3% of ActiveState Software Inc., a company involved in the development and application of tools and services for dynamic languages. In addition, Pender Financial's management team has significant experience in the areas of strategic business development, corporate finance, capital raising and corporate governance, enabling it to add value to portfolio companies as part of its hands-on investment philosophy. Kelly Edmison is a director, officer and shareholder of Pender Financial and David Roberts and David Barr are shareholders of Pender Financial. See "Management and Administration – Pender Financial Group Corporation."

Investment Restrictions

As a VCC regulated by the Small Business Venture Capital Act, the Fund may not make or hold any investments not permitted by the Small Business Venture Capital Act. See "Investment Policy – Investment Restrictions – Statutory Restrictions". Generally, the Fund may only make investments in Eligible Securities of Eligible Small Businesses ("Eligible Investments") and certain other investments permitted under the SBVCA ("Permitted Investments").

Small Business Venture Capital Act Considerations

Before the Fund can raise equity capital and issue shares that entitle Investors to Tax Credits, it must have an authorization from the SBVCA Administrator to do so. This is referred to as "equity allocation" and refers to the amount of equity capital that may be raised by the Fund in a given year on which Tax Credits will be based. All authorizations granted to VCCs are specific with respect to the maximum amount of capital the VCC can raise and with respect to the length of time in which the raising of funds can occur. A VCC may issue only common voting shares without par value that come with no special rights or restrictions except for those that apply to the redemption of shares by the VCC.

The Fund is registered as a venture capital corporation under the Small Business Venture Capital Act (British Columbia) (the "SBVCA"). The SBVCA Administrator has authorized the Fund to issue up to \$7,000,000 of its Shares during the period from February 16, 2007 to February 15, 2008, up to a further \$7,000,000 of its Shares during the period from February 16, 2008 to February 15, 2009 and up to a further \$7,000,000 of its Shares

during the period from February 16, 2009 to February 15, 2010. The Fund may apply to the SBVCA Administrator for additional equity capital once the \$7,000,000 has been raised under the respective time frames. There can be no assurance that the Fund will be authorized to raise additional equity capital after the respective time frames.

No Tax Credits will be issued to investors who purchase shares in a VCC that does not have an authorization to raise equity capital or where such authorization has expired or has been suspended prior to the investors' purchase of shares.

The SBVCA Administrator can extend the authorization period and establish a new expiration date. As there is no assurance that such an extension would always be granted, Investors should verify that they are purchasing their shares in a VCC within a duly authorized period of time.

The amount of Tax Credits that may be issued each year to Eligible Investors is limited by Section 29.1 of the SBVCA and Section 21 of the Regulations to the SBVCA. Please note that this Tax Credit "cap" and the level of demand from program participants may limit the amount of equity capital that the Fund may raise from Investors in the current year. Further, there is no guarantee that the Fund will receive approval to raise additional equity after the expiry date of this authorization.

The Province of British Columbia makes no representations, warranties, agreements or undertakings of any kind which purport to alter or diminish any of its rights arising from the aforementioned sections of the SBVCA and the Regulations to the SBVCA to place limitations on the annual maximum venture capital incentive amount in any calendar year.

There are a variety of situations that can arise to cause a VCC to be in non-compliance with the SBVCA. The SBVCA requires the Fund to invest the funds it has raised in ESBs according to a required "pacing" period. Under the SBVCA, the pacing requirements require that at least 40% of the funds raised by the Fund during a fiscal year be invested by no later than the end of the following fiscal year, and that 80% be invested by no later than the end of the following fiscal year following the original date of the share capital issue. The prescribed period to keep the funds invested is five years from when the eligible investments are made. The result of a failure to comply with the legislation varies depending upon the particular nature of the non-compliance but, essentially, the SBVCA Administrator can require any non-complying VCC to either rectify the circumstances of non-compliance or to pay back the Tax Credits previously issued to its shareholders. See "Small Business Venture Capital Act Considerations". In some circumstances, the directors, officers or major shareholders of a VCC, or a small business, may be held liable to repay Tax Credits to the Province of British Columbia.

Use of Proceeds

There is no minimum amount which must be raised by the Fund pursuant to this Offering. The net proceeds of this Offering will be invested in Eligible Small Businesses in British Columbia in accordance with the investment policy of the Fund. See "Investment Policy". Pending investment in Eligible Small Businesses, the net proceeds of this Offering will be invested in permitted investments as required by the SBVCA. See "Investment Policy - Cash Management". Thirty percent of the gross proceeds of this Offering will be deposited in the Investment Protection Account and will be released to the Fund in accordance with the provisions of the Small Business Venture Capital Act. See "Investment Policy - Investment Protection Account".

To the extent that the costs of this Offering, annual management fees and performance fees, sales commissions and servicing commissions, directors' fees and operating expenses of the Fund are not paid out of the investment income of the Fund, the proceeds of the Offering will be used to pay such expenses. In accordance with the regulations to the SBVCA, up to twenty percent of the gross proceeds of this Offering and funds from retained earnings may be used to pay the expenses of the Fund, unless the SBVCA Administrator otherwise approves. See "Use of Proceeds".

Summary of Investment Portfolio

The Fund held the following investments as at August 31, 2007:

Name of Investee Company	Fair Value ⁽¹⁾ August 31, 2007
PUBLICLY LISTED	
Chemokine Therapeutics Corp.	\$ 200,000
Chromos Molecular Systems Inc.	Nil
Gemcom Software International Inc.	5,500,738
IP Applications Corp.	1,971,737
Medical Ventures Corp.	354,375
Municipal Solutions Group Inc.	2,135,123
OSI Geospatial Inc.	500,000
Optimal Geomatics Inc.	247,065
QuestAir Technologies Inc.	132,530
Radiant Communications Corp.	<u>1,485,577</u>
<u>Total Publicly Listed Investments</u>	<u>12,527,145</u>
PRIVATELY HELD	
D-Wave Systems Inc.	
Neuromed Technologies Inc.	
Progressive Solutions Inc.	
Tantalus Systems Corp.	
Total Privately Held Investments	\$ 4,058,330
Total Investments	\$ <u>16,585,475</u>

(1) For valuation methodology, see "Valuation of Investments – Valuation Methodology".

Risk Factors

An investment in the Fund must be considered highly speculative in nature, carrying significant risks and should be undertaken only by Investors who have sufficient financial resources to enable them to assume such risks and who have no need for immediate liquidity of their investment. Persons who cannot afford the loss of their entire investment should not purchase the Series 2 Shares, and an investment in the Series 2 Shares should not constitute a major portion of an individual's portfolio. There can be no assurance that an investment in the Series 2 Shares will earn a specified rate of return or any return in the short or long term and an investment in Shares is not guaranteed by the Province of British Columbia. See "Risk Factors".

Investors should consider the following risk factors before purchasing Series 2 Shares:

- (a) The market in British Columbia for funds that invest in small businesses in British Columbia and provide tax incentives to investors is competitive. There is no minimum on this Offering. Expenses incurred by the Fund may reduce or even eliminate the returns that would otherwise be available to Investors from its investments.
- (b) The Pricing Net Asset Value of the Fund is based principally on the value of the assets in its investment portfolio and, therefore, the value of the Series 2 Shares of the Fund will increase or decrease with the value

of such assets. The Fund's valuation process for its Series 2 Shares is based on inherent uncertainties and the resulting values may differ from values that would have been used had a liquid market existed for the investments.

- (c) The British Columbia government has the discretion to reduce the amount of capital the Fund may raise on a tax incentive basis. The government program under which Tax Credits are provided may not continue in its current form, or at all. The Fund's registration under the SBVCA may be suspended or revoked in certain circumstances, in which case sales of the Series 2 Shares would not qualify for Tax Credits. In each such event, the ability of the Fund to raise additional capital would be impaired, potentially adversely affecting its long-term viability.
- (d) There currently is no market for the Series 2 Shares and it is not expected that any market will develop therefor. If no market develops for the Series 2 Shares, shareholders will not, generally, be able to dispose of their Series 2 Shares other than by way of redemption. The Fund's Articles provide that the Series 2 Shares are non-redeemable for at least five years except in very limited exceptions. The Fund's ability to meet a redemption request is subject to certain conditions which, if not met, may result in a redemption request being suspended, delayed or declined by the Fund. Please refer to "Share Capital – Series 2 Shares - Suspension of Redemptions". There are additional requirements under the SBVCA with respect to when the Series 2 Shares may be redeemed which might further extend this period. In addition, the Fund is prohibited from redeeming Series 2 Shares in certain circumstances and may in those and certain other circumstances decline requests for redemption for substantial periods. The Fund may not have sufficient cash or liquid assets on hand to meet all redemption requests. At the time of the filing of this Prospectus, a maximum of 130,795 Series 1 Shares are subject to redemption in 2007, at a total redemption value of \$1,000,582 based on the Pricing NAV of the Fund as at September 28, 2007. At the present time, the Fund has sufficient funds to pay the redemption monies based on this Pricing NAV of the Fund and expects to redeem these Shares. In addition, an aggregate of 154,656 Series 2 Shares are eligible for redemption in 2008. While the Fund intends to reserve sufficient funds to meet these redemption requests, it is possible that sufficient funds will not be available to meet all redemption requests. Furthermore, because redemption requests must be satisfied from existing assets within the Fund, by paying out funds for redemption, the Fund's available cash for new or follow-on investments is diminished. This limits the Fund's ability to diversify its investments and may have a negative impact on shareholder return.
- (e) The Fund is not a mutual fund. The rules designed to protect investors who purchase securities of mutual funds do not apply to the Fund, and the Fund is not subject to the mutual fund investment restrictions.
- (f) The Fund may become liable to repay Tax Credit amounts, which may reduce the Pricing Net Asset Value of the Fund and impair its ability to carry on business and meet its commitments.
- (g) The Fund faces competition from other capital providers and there can be no assurance that suitable investments in Eligible Small Businesses will be found.
- (h) Investments made by the Fund will generally lack liquidity and involve a longer than usual investment commitment. Losses are typically realized before gains, and the Fund may be required to dispose of investments before any returns are received therefrom.
- (i) The BCSC has granted the Manager registration status as an Adviser under the Securities Act. The Manager's registration status expires on December 31, 2007, and restricts the Manager to providing advisory services to VCCs, prescribed labour-sponsored venture capital corporations and other investment funds whose primary mandate is to make venture capital investments.
- (j) The Fund intends to derive revenue from investments in emerging technology ESBs and may invest in ESBs in other industry sectors in accordance with its Investment Policy. The prospects for success of emerging technology companies depend critically on a number of factors which, given their limited operating histories, are difficult to evaluate. Investments in emerging technology ESBs are inherently risky, and in the case of failed businesses, may result in the total loss of capital invested in an ESB by the Fund.

The technology ESBs in which the Fund invests will typically require additional capital, which the Fund may not be able to provide or which may not be available from other sources.

- (k) Investors are required to rely on the Board of Directors and the Manager to conduct the business of the Fund. The services provided by the directors and officers of the Manager and the professional staff of the Manager will not be exclusive to the Fund and conflicts of interest may arise in the ordinary course of business.
- (l) Issuance of Tax Credits by the SBVCA Administrator is discretionary and cannot be guaranteed. If the Fund contravenes the SBVCA, the SBVCA Administrator may revoke all Tax Credit Certificates issued in respect of the Series 2 Shares and deem them never to have been issued.
- (m) In situations where Series 2 Shares are transferred to an RRSP, RRIF or other registered plan or are redeemed, CRA may reassess the fair market value of the Series 2 Shares as of the date of transfer which would affect the proceeds of disposition received by the transferor and may affect the amount of the deduction available as a result of the transfer.
- (n) The Fund's success depends in part on how much money the Fund raises pursuant to the Offering.
- (o) There can be no assurance that income tax laws or administrative practices will not be changed in a manner which will fundamentally alter the tax consequences to the shareholder's of holding or disposing of the Fund's Shares, or that proposed legislation will be enacted as currently proposed.

Financial Highlights

The following tables show selected key information about the Fund and are intended to help the purchaser understand the Fund's financial performance for the past three years. This information is derived from the Fund's unaudited financial statements for the six months ended June 30, 2007 and from the audited financial statements for the fiscal years ended December 31, 2006, 2005 and 2004. The financial statements of the Fund included in this prospectus are unaudited interim financial statements for the six months ended June 30, 2007 and audited financial statements for the fiscal years ended December 31, 2006, 2005 and 2004.

	Six months ended June 30, 2007	<u>Year ended December 31</u>		
	(unaudited)	2006	2005	2004
GAAP⁽¹⁾ NAV per Share, beginning of period	\$ 7.32	\$ 8.17	\$ 9.11	\$ 9.96
Initial adoption of new accounting policy⁽²⁾	(0.05)			
Increase (decrease) from operations				
Total Revenue	0.05	0.14	0.13	0.10
Total Expense	(0.42)	(0.62)	(0.72)	(1.13)
Realized gain (loss) for the period	(0.13)	0.14	(0.47)	(0.40)
Unrealized gain (loss) for the period	0.72	(0.45)	0.13	0.80
Total increase (decrease) from operations⁽³⁾	0.22	(0.79)	(0.93)	(0.63)
GAAP NAV per Share end of period⁽³⁾⁽⁵⁾	\$ 7.54	\$ 7.32	\$ 8.17	\$ 9.11
Pricing NAV per Share at end of period⁽⁵⁾	\$ 8.50	\$ 7.99	\$ 8.94	\$ 10.08

	Six months ended June 30, 2007	Year ended December 31		
		2006	2005	2004
GAAP Net Assets end of period	\$21,487,759	\$18,037,735	\$16,473,957	\$14,772,811
Number of Shares Outstanding	2,848,303	2,462,820	2,015,266	1,622,459
Management Expense Ratio ⁽⁶⁾	13.61%	10.20%	10.44%	22.04%
<i>Share issue commissions and fees</i>	2.50%	2.30%	2.09%	9.46%
<i>Change in contingent performance fee</i>	5.66%	2.16%	2.50%	2.76%
<i>Management, administrative, and other fees or expenses</i>	5.45%	5.74%	5.84%	9.82%

- (1) GAAP is an abbreviation for Canadian generally accepted accounting principles.
- (2) This illustrates the impact of the adoption of the new accounting policy on January 1, 2007, for valuation of securities on the net assets per unit determined in accordance with Section 3855 of the CICA Handbook.
- (3) NAV per Share is based on the actual number of Shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of Shares outstanding over the financial period.
- (4) The Fund made no distributions from income, dividends, capital gains, or return of capital.
- (5) The difference between Pricing NAV per Share and GAAP NAV per Share is the inclusion of deferred sales and marketing expenses as well as share issue costs, as permitted by the regulatory authorities under which the Fund's Prospectus is governed. The BCSC has issued a temporary exemption to certain investment funds, including the Fund, from the amended valuation policy for financial reporting purposes as set out in Section 3855 of the CICA Handbook as adopted by the Fund on January 1, 2007. For the purposes of Pricing NAV, investments in public companies are valued on the basis of the weighted average closing price over the preceding 21 trading days. For the purposes of GAAP NAV, investments in public companies are valued on the basis of the closing bid price at period-end.
- (6) In accordance with regulatory requirements, the MER for the stated period is based on total expenses with respect to management fees plus other expenses that include costs which were not paid to the Manager during the period. The MER is expressed as an annualized percentage of the weekly average net assets during the period.
- (7) Portfolio turnover information has not been provided as venture funds invest in early-stage companies which, on average, are held for four to six years. Similarly, a trading expense ratio has not been provided as venture funds do not engage in active trading, nor purchase securities in the secondary market.

SUMMARY OF FEES AND EXPENSES

Summary of Fund Expenses

The following is a summary of fees and expenses payable by the Fund:

Management Fees

The Fund pays the Manager an annual management fee equal to 2.75% of the Pricing Net Asset Value of the Fund up to \$100 million and 2.50% of the Pricing Net Asset Value of the Fund in excess of \$100 million, subject to a maximum set by SBVCA regulation of 3% per annum of the aggregate equity capital raised by the Fund, and subject to the limitation set out in Section 8 of the SBVCA that requires 80% of the equity capital raised to be invested in ESBs. This fee is calculated monthly by multiplying the Pricing Net Asset Value of the Fund on the last valuation date in the month in respect of which the fee is payable by the applicable percentage and dividing by twelve. Subject to the limitations set out in the SBVCA, the fee will be paid on receipt of the Manager's invoice. Management fees may remain unpaid if the Fund is not in compliance with the minimum investment requirements under the SBVCA. Management fees that are earned and exceed this provision may be accrued and paid out of retained earnings or net income of the Fund when available. These fees are intended to cover the expenses incurred by the Manager in managing the Fund, save and except as noted below under "Operating Expenses". See "Fees and Expenses – Fund Fees and Expenses – Management Fees."

Performance Fees

The Fund also pays the Manager a performance fee, payable quarterly in arrears, equal to 20% of the amount by which the realized gains for cash and cash income from each portfolio Investment of the Fund exceeds the aggregate of all such performance fees, if any, as have then previously accrued in respect of such portfolio investment. In respect of all Investments made prior to December 31, 2002, the value of the investment for this purpose is the recorded value as set out in the financial statements of the Fund for the financial year ended December 31, 2002. In respect of all Investments made after December 31, 2002, the value of the Investment is the purchase price of the Investment on an Investment by Investment basis. Before a performance fee is paid on any Investment, the following conditions must be satisfied:

- (a) the total net realized and unrealized gains and income of the Fund from its portfolio of Investments from December 31, 2002 must have generated a return greater than the annualized average rate of return on five year guaranteed investment certificates offered by a major Canadian chartered bank plus 2% per annum;
- (b) the compounded annual internal rate of return since the later of the date of investment and December 31, 2002 (including realized and unrealized gains and income) from the principal invested in such Investment with respect to which the performance fee is being paid, must equal or exceed 10% per year; and
- (c) the Fund has, by the end of a calendar quarter, recovered from the Investment with respect to which a fee is being paid, by way of disposition proceeds, dividends, interest or otherwise, an aggregate cash amount that is greater or equal to the recorded value as at December 31, 2002, in respect of Investments acquired before such date or, in respect of Investments acquired after such date, the amount the Fund invested therein.

Any performance fee paid to the Manager in any quarter in respect of any

investment shall not be subsequently refunded by virtue of a reduction in the amount of unrealized gains in the investment.

This performance fee will be calculated and paid quarterly in arrears. See: "Fees and Expenses – Fund Fees and Expenses – Management Fees."

Selling Commissions

The Fund may pay management and selling commissions (the "Selling Commission") at the choice of the Selling Agents, in an amount equal to any one of the following three options:

- 7.5% of the Offering Price of the Series 2 Shares sold pursuant to this Prospectus; or
- 5% of the Offering Price of the Series 2 Shares sold pursuant to this Prospectus plus a trailer fee equal to 0.5% per annum calculated monthly and payable quarterly in arrears of the total Pricing Net Asset Value per Share for all of the Series 2 Shares sold pursuant to this Prospectus; or
- 2.5% of the Offering Price of the Series 2 Shares sold pursuant to this Prospectus plus a trailer fee equal to 1% per annum calculated monthly and payable quarterly in arrears of the total Pricing Net Asset Value per Share for all of the Series 2 Shares sold pursuant to this Prospectus.

In addition, a sales administration fee of up to 1% of the gross proceeds of this Offering will be paid to the Manager of the Fund.

In the event that the Fund does not pay a Selling Commission to a Selling Agent through whom an Investor purchased Series 1 Shares, that Investor may pay per Series 1 Share an amount equal to 92.5% of the Pricing Net Asset Value per Share.

Investors will generally be eligible for a Tax Credit equal to 30% of the price that they pay for Series 1 Shares. See "Income Tax Considerations".

The commissions paid and other costs related to the issuing of Series 2 Shares will be amortized on a straight line basis over five years. As a result, a portion of the Pricing Net Asset Value of the Fund will include a deferred charge, rather than an investment asset. Certain commissions are calculated monthly and paid quarterly. See "Plan of Distribution - Method of Distribution."

Operating Expenses

The Fund will pay all of its operating expenses including, but not limited to, expenses related to portfolio transactions, taxes, legal, audit, transfer agency and registrar fees and other costs of administration, valuation, custodial fees, marketing, security realization, financial and other reports to shareholders and regulatory bodies, Directors' fees and expenses, and certain overhead expenses. The Manager has engaged The Investment Administration Solution, Inc. to provide registrar and transfer agency services and certain other administrative services to the Fund. See "Fees and Expenses - Operating Expenses".

Directors' Fees

Independent Directors currently receive an annual retainer of \$10,000 and a fee of \$500 for each meeting of the Board attended and for each meeting of a committee of the Board attended, except where a committee meeting is coincident with a meeting of the Board. Directors who are not Independent Directors will not

be paid any such fees. All directors are entitled to be reimbursed for reasonable expenses incurred on behalf of the Fund. See "Fees and Expenses – Operating Expenses – Directors' Fees and Expenses".

GST All fees payable by the Fund are exclusive of GST, which is paid by the Fund in addition to such fees, where applicable.

Fee Calculation Percentage fees expressed on a per annum basis (other than the annual performance fee described in under the subheading "Management Fees", above) are calculated each month by multiplying the Pricing Net Asset Value of the Fund on the last Valuation Date in the month by the applicable percentage, and dividing by twelve. See "Fees and Expenses".

SBVCA Act Requirements Pursuant to the SBVCA, the Fund shall not pay any fees or remuneration to any director, officer or shareholder of the Fund, or to any "affiliate" or "associate" (as defined in the SBVCA) of those persons except as permitted by special resolution (as defined in the SBVCA Regulations) voted upon at least annually. Under the SBVCA Regulations, no shareholder of the Fund is permitted to vote on a special resolution approving payment to themselves or to their associates or affiliates.

On May 8, 2007, the disinterested shareholders of the Fund passed a special resolution to approve the payment by the Fund to the Manager of any and all management fees, performance fees and expenses of any kind whatsoever in accordance with the terms of the Management Agreement for the financial year end December 31, 2007, and to approve the payment by the Fund to any director, officer or shareholder of the Fund, or to any "affiliate" or "associate" (as defined in the SBVCA) of those persons of any and all fees and expenses of any kind whatsoever for the financial year end December 31, 2007.

Summary of Investor Expenses

The following is a summary of fees and expenses payable by investors:

Sales Charge Investors do not pay a sales charge to acquire Series 2 Shares.

RRSP and RRIF Fee Fees paid by Investors who hold their own self-directed RRSPs or RRIFs may vary; however, no fee is payable to the Fund in respect of such accounts. The Fund may, on 60 days' notice, establish a nominal fee to be charged in respect of the establishment of an RRSP or RRIF administered through the Registrar and Transfer Agent or other Administrator of the Fund.

Transfer Fees Investors do not pay a fee upon the transfer of Series 2 Shares. The Fund may, on 60 days' written notice, establish a nominal fee to be charged on transfers of Series 2 Shares.

Redemption Fees Investors will not pay a fee upon the redemption of Series 2 Shares. The Fund does, however, reserve the right to establish a nominal fee for redemptions should it find that it needs to incur additional administration than it currently experiences for Investors desiring redemptions. In such case, the Fund will provide 30 days advance notice before implementing such fee.

NSF Fee All NSF cheques will be subject to an NSF fee of \$25.

GLOSSARY

The following terms used in this Prospectus shall have the respective meanings set forth below, unless the context otherwise requires or specifies. Certain other terms are defined elsewhere in this Prospectus.

Administrative Services	Those administrative services, described under "Management and Administration – Administration", which the Fund may from time to time require to properly and effectively conduct its business.
Administrator	Any person who or which from time to time provides any Administrative Services to the Fund.
Affiliate	If used to indicate a relationship between corporations, means any corporation where one is the subsidiary of the other, or both are subsidiaries of the same corporation or each of them is controlled by the same person or the same group of persons or one or more members of an associated group of persons.
Annuitant	As defined in the Federal Tax Act.
Articles	The articles of incorporation of the Fund, as amended from time to time.
Associate	If used to indicate a relationship with a person, means: <ul style="list-style-type: none">(a) a corporation of which the person owns, directly or indirectly, shares carrying 10% or more of the voting rights attached to all outstanding shares of the corporation;(b) a partner of the person;(c) a participant in a joint venture with the person;(d) a trust or estate:<ul style="list-style-type: none">(i) in which the person has, in the opinion of the SBVCA Administrator, a substantial beneficial interest; or(ii) for which the person serves as trustee or in a similar capacity;(e) a Spouse, parent, grandparent, child, grandchild, brother or sister of the person; or(f) a parent, grandparent, child, grandchild, brother or sister of the Spouse of the person residing in the same residence.
Audit Committee	A committee of the Board, composed of at least three Directors, all of whom are, insofar as possible, Independent Directors, which carries out those responsibilities of an audit committee specified by the Business Corporations Act and such other responsibilities as may from time to time be delegated to it by the Board.
BCSC	The British Columbia Securities Commission.
BC Tax Act	The Income Tax Act R.S.B.C. 1996 c. 215, as amended and in force from time to time, and includes all regulations made pursuant to that act.

Board of Directors or the Board	The Board of Directors of the Fund.
Business Corporations Act	The Business Corporations Act (British Columbia), SBC 2002, c. 57, as amended, and in force from time to time, and includes all regulations made pursuant to that act.
Business Day	Any day of the week other than a Saturday, Sunday or a day that is a statutory holiday in the Province of British Columbia.
CRA	The Canada Revenue Agency.
Corporate Tax Credit Recipient	A corporation that subscribes for Series 2 Shares and maintained a permanent establishment in British Columbia at any time in the taxation year of the corporation in which the corporation subscribed for such Series 2 Shares.
Directors or Director	The directors of the Fund, and Director means any one of them.
Eligible Investment	An investment permitted by Section 10 of the SBVCA, being an investment in Eligible Securities of an Eligible Small Business.
Eligible Investor	<p>(a) an individual (other than an estate or trust) who, at the time of his or her subscription or deemed subscription for Series 2 Shares of the Fund, is a resident in British Columbia for purposes of the BC Tax Act, or</p> <p>(b) a corporation that, at any time during the taxation year in which the Series 2 Shares are issued, maintained a permanent establishment in British Columbia.</p>
Eligible Small Business or ESB	<p>means businesses that:</p> <p>(a) are corporations;</p> <p>(b) together with their Affiliates have no more than 100 employees, calculated in a prescribed manner;</p> <p>(c) (unless otherwise prescribed by regulation) pay at least 75% of their wages and salaries, calculated in a prescribed manner, to employees who regularly report to work at operations in British Columbia. This requirement is reduced to 50% if the ESB is engaged in export activity;</p> <p>(d) are substantially engaged (as determined in a manner prescribed by regulation) in British Columbia in one or more of the business activities specified in the SBVCA and/or prescribed by the regulations thereunder (which include those activities in which businesses in which the Fund proposes to invest (see "Investment Objectives", below) will be substantially engaged); and</p> <p>(e) are not engaged in:</p> <p style="margin-left: 40px;">(i) primary resource exploration or extraction;</p> <p style="margin-left: 40px;">(ii) financial services such as providing loans, selling insurance, selling real estate or trading in securities;</p>

- (iii) property management or the rental or leasing of land or improvements;
- (iv) the development or improvement of land;
- (v) agricultural activities, other than non-traditional agricultural activities such as game farming, specialized small crops, livestock and poultry production or high technology enterprises (such as greenhouses or hydroponics crop production, plant propagation, animal genetics or production of breeding stock);
- (vi) retail or commercial services (unless permitted by regulation);
- (vii) restaurant or food services, or
- (viii) the leasing of tangible or intangible personal property to a person for the person's personal consumption or use.

Eligible Security	A security which satisfies the requirements of Subsection 10(d) of the SBVCA and the regulations referenced therein, which are described under "Investment Policy – Investment Restrictions – Statutory Restrictions – Eligibility Restrictions".
Employee Venture Capital Corporation or EVCC	An employee venture capital corporation registered as such under the Employee Investment Act (British Columbia).
Federal Tax Act	The Income Tax Act R.S.C. 1985, c.1 (5th Supp.), as amended and in force from time to time, and includes all regulations thereto made pursuant to that act.
FMV	Fair market value.
Fund	Pender Growth Fund (VCC) Inc., a company incorporated pursuant to the Business Corporations Act and registered as a VCC under the SBVCA.
GAAP	Generally accepted accounting principles in Canada.
Governance Committee	A committee of the Board, composed of at least three Directors, all of whom are, insofar as possible, Independent Directors, which carries out those responsibilities with respect to the corporate governance of the Fund and any other matters which may from time to time be delegated to it by the Board.
Independent Director	A Director of the Fund who is not an employee or officer (other than chairman of the Board) of the Fund or a director, officer or employee of the Manager or of any Affiliate of the Manager, who is not an Associate of any such person, and who deals with the Manager and would, but for being a Director of the Fund, deal with the Fund at arm's length for the purposes of the Federal Tax Act.

Individual Tax Credit Recipient	<p>An individual (other than an estate or trust) who subscribes or is deemed to subscribe for Series 2 Shares and:</p> <p>(a) is resident in British Columbia at the time such Series 2 Shares are subscribed for; and</p> <p>(b) is either resident in British Columbia on the last day of the taxation year in which such Series 2 Shares are subscribed for or has income earned in that taxation year in British Columbia.</p>
Investee	A corporation in which the Fund makes an investment.
Investment	A security or securities of an Investee acquired by or for and on behalf of the Fund at a single time and, for greater certainty, excludes cash and liquid investments managed by the Administrator, and for greater certainty, each tranche of Investment and each type of security invested in an Investee shall be treated as a separate investment, and "make an Investment" means acquire a security or securities comprised in an Investment (and variations thereof have the same meaning, adjusted as may be required by the contexts in which they are used).
Investment Capital Program	The operating name for the British Columbia government department that delivers the investment incentive program set out in the Small Business Venture Capital Act.
Investment Committee	A committee of the Board, composed of at least three Directors, all of whom are, insofar as possible, Independent Directors, which carries out those responsibilities, with respect to investments and divestitures made or proposed to be made by the Fund, which may from time to time be delegated to it by the Board.
Investment Policy	The investment policy of the Fund, as established and revised from time to time by the Board of Directors, including its investment objectives, its investment and divestiture strategies, and the statutory and voluntary restrictions applicable in respect of its investments and proposed investments. See "Investment Policy".
Investment Protection Account or IPA	The investment protection account of the Fund established pursuant to the SBVCA.
Investor	A purchaser of Series 2 Shares of the Fund pursuant to this Prospectus.
LSVCC	A prescribed labour sponsored venture capital corporation, as defined in the Federal Tax Act.

Major Shareholder	<p>In relation to a corporation, means a person whose shares in a corporation, together with the shares, if any, owned by the person's associates and affiliates,</p> <p>(a) carry in the aggregate 10% or more of the voting rights, under any circumstances, attached to shares in the corporation, or</p> <p>(b) carry in the aggregate less than 10% of the voting rights, under any circumstances, attached to shares in the corporation if the person is a member of a common interest group whose members own or hold shares which allow the group to control the corporation.</p>
Management Agreement	The amended and restated management agreement dated June 22, 2006 between the Manager and the Fund pursuant to which the Manager provides management services to the Fund.
Manager	PenderFund Capital Management Ltd., the manager of the Fund.
MER	Management expense ratio.
Net Asset Value of the Fund or NAV of the Fund or GAAP NAV	Net asset value of the Fund for financial reporting purposes calculated in accordance with GAAP
Net Asset Value Per Share or NAV Per Share or GAAP NAV Per Share	Net asset value per share for financial reporting purposes calculated in accordance with GAAP.
Offering	The offering of Series 2 Shares by the Fund pursuant to this Prospectus.
Pender Financial	Pender Financial Group Corporation, the parent company of the Manager.
Permitted Early Redemption	A redemption of Series 2 Shares by the Fund before the fifth anniversary of the date of issuance thereof, upon receipt of notice in writing, satisfactory to the Registrar and Transfer Agent, that the Series 2 Shares have devolved to the holder as a consequence of the death of a registered owner thereof or the death of an Annuitant under an RRSP or RRIF that was the registered owner thereof, or, where the Series 2 Shares are held by an RRSP or RRIF under which the original purchaser thereof or his or her Spouse is the Annuitant, the original purchaser thereof has died.
Permitted Investment	An investment permitted under Subsection 18(1) of the Small Business Venture Capital Act and the regulations referenced therein, as described under "Investment Policy – Investment Restrictions – Statutory Restrictions – Eligibility Restrictions".
Pricing Net Asset Value of the Fund or Pricing NAV of the Fund	At any time means the aggregate value of the assets of the Fund at that time, including any sales commissions and other share issuance costs then unamortized, less the aggregate of the liabilities of the Fund at that time, including an estimate of the performance fee that would be payable to the Manager if all of the investments of the Fund were then disposed of, in each case determined in accordance with the Valuation Methodology of the Fund then in effect. The BCSC has issued a temporary exemption to certain investment funds, including the Fund, from the amended valuation policy for

	financial reporting purposes as set out in Section 3855 of the CICA Handbook as adopted by the Fund on January 1, 2007. For the purposes of Pricing NAV, investments in public companies are valued on the basis of the weighted average closing price over the preceding 21 trading days.
Pricing Net Asset Value per Share or Pricing NAV Per Share	At any time means the Pricing Net Asset Value of the Fund at that time divided by the number of Shares then issued and outstanding.
Redemption Price	The total of the Pricing Net Asset Value per Share determined as at the end of the Valuation Date which falls on or occurs immediately after the date on which a fully completed Redemption Request is received by the Fund and any dividends then declared and remaining unpaid in respect of the Series 2 Shares (with any Redemption Request received after 4:00 p.m. Pacific time on a Valuation Date being deemed, for such purpose, to be received on the following day).
Redemption Request	A request to the Fund by a holder of Series 2 Shares to redeem any Series 2 Shares.
Registrar and Transfer Agent	The Investment Administration Solution Inc. or such other registrar and transfer agent of the Fund as may be appointed by the Board and approved by the SBVCA Administrator from time to time.
Reinvestment Redemption	A redemption of Series 2 Shares during the one month period prior to the fifth anniversary of the date on which such Series 2 Shares were originally issued where the holder thereof is concurrently subscribing for new Series 2 Shares on terms and conditions acceptable to the Fund.
RRIF	A trust governed by a registered retirement income fund, as defined in the Federal Tax Act.
RRSP	A trust governed by a registered retirement savings plan, as defined in the Federal Tax Act.
SBVCA Administrator	The person designated under the Small Business Venture Capital Act to perform the duties of the administrator under that Act.
Securities Act	The Securities Act, R.S.B.C. 1996, c. 418, as amended and in force from time to time, and includes all regulations and rules made pursuant to that act.
Selling Agents	Any person, company or other entity which is registered with the BCSC and who is permitted, either pursuant to its conditions of registration or pursuant to an order of the BCSC, to distribute the Series 2 Shares.
Series 1 Shares	The Class A Common Shares, Series 1 without par value in the capital of the Fund.
Series 2 Shares	The Class A Common Shares, Series 2 without par value in the capital of the Fund, which are being offered for sale under this Prospectus.
Shares	Collectively, the Series 1 Shares and the Series 2 Shares of the Fund.
Small Business Venture Capital Act or SBVCA	The Small Business Venture Capital Act, R.S.B.C. 1996, c. 429, as amended and in force from time to time.
Special Resolution	As defined in the regulations to the SBVCA means:

- (a) a resolution passed by a majority of not less than 1/2 of the votes cast by those shareholders of a company who, being entitled to do so, vote in person or by proxy at a general meeting of the company
 - (i) of which notice as the articles provide, and not being less than 21 days' notice specifying the intention to propose the resolution as a special resolution, has been duly given, or
 - (ii) if every shareholder entitled to attend and vote at the meeting agrees, at a meeting of which less than 21 days' notice has been given, or
- (b) a resolution consented to in writing by every shareholder of a company who would have been entitled to vote in person or by proxy at a general meeting of the company

Spouse

A person who:

- (a) is married to another person, or
- (b) is living and cohabiting with another person in a marriage-like relationship, including a marriage-like relationship between persons of the same gender, and has lived and cohabited in that relationship for a continuous period of at least 12 months.

Tax Credit

The tax credit granted for subscriptions for shares of a company registered as a VCC under the Small Business Venture Capital Act.

Tax Credit Certificate

The certificate issued or to be issued, pursuant to Subsection 20(4) of the Small Business Venture Capital Act, to a Tax Credit Recipient.

Tax Credit Recipient

An Individual Tax Credit Recipient and a Corporate Tax Credit Recipient.

Valuation Date

- (a) the last Business Day of any week;
- (b) the last day of any fiscal year of the Fund; and
- (c) the last day in each year on which a contribution made to an RRSP is deductible in respect of the preceding year.

Valuation Methodology

The methodology by which the Net Asset Value of the Fund, Pricing Net Asset Value of the Fund and the Pricing Net Asset Value per Share are determined, as established and revised from time to time by the Board of Directors. See "Valuation of Investments".

Venture Capital Corporation or VCC

A company registered as such under the Small Business Venture Capital Act.

PENDER GROWTH FUND (VCC) INC.

Pender Growth Fund (VCC) Inc. was incorporated under a predecessor to the Business Corporations Act on March 7, 1994 with an authorized share capital of 100,000,000 common shares (the "Common Shares") under the name FutureFund Capital (VCC) Corp. On August 15, 2003, the name of the Fund was changed to Pender Growth Fund (VCC) Inc. On the same date the Fund also:

- consolidated the Common Shares on a 50 to-one-basis from 100,000,000 Common Shares to 2,000,000 Common Shares and then subsequently increased the authorized Common Shares to 100,000,000 Common Shares;
- increased its authorized share capital by the creation of 100,000,000 Class A Common Shares (the "Class A Common Shares") issuable in series;
- designated the first series of the Class A Common Shares as Class A Common Shares, Series 1 (the "Series 1 Shares") of which the Fund is authorized to issue 1,000,000 Series 1 Shares;
- amended its Articles of Incorporation (the "Articles") to add an exchange right to automatically convert the existing issued and outstanding Common Shares into Series 1 Shares, and then decreased its authorized share capital by the cancellation of the 100,000,000 Common Shares; and
- further increased its authorized share capital by the creation of 10,000,000 Class A Common Shares, Series 2.

On March 29, 2004 the Business Corporations Act came into force and prescribed that all existing companies incorporated under the former Company Act (British Columbia) must transition to the new Business Corporations Act within two years of the Business Corporations Act coming into force. The Fund completed its transition to the Business Corporations Act on August 10, 2005. On May 24, 2005, the Fund adopted new Articles consistent with the provisions of the Business Corporations Act. On May 10, 2006, the Fund amended its Articles to amend the redemption provisions of the rights and restrictions attached to its Shares. On May 1, 2007, the Fund further amended its Articles to provide that a quorum for the transaction of business at a shareholders meeting shall be two persons present in person or by proxy holding at least 1% of the issued shares entitled to be voted at the meeting.

The head office and registered and records office of the Fund is located at Suite 2200 – 885 West Georgia Street, Vancouver, British Columbia V6C 3E8.

The Fund was registered as a venture capital corporation under the Small Business Venture Capital Act on July 8, 1994. The SBVCA authorizes the British Columbia Ministry of Economic Development to register as VCCs companies that are established to make investments in Eligible Small Businesses in accordance with the provisions of the SBVCA, and to provide business and managerial advice to Eligible Small Businesses in which they make or propose to make investments. The SBVCA regulates a VCC's capitalization, Eligible Investments, Permitted Investments and Investment Protection Account. The SBVCA Administrator does not pass on the merits of individual investments made by VCCs.

MANAGEMENT AND ADMINISTRATION

The Board of Directors has overall responsibility for overseeing the management of the Fund. PenderFund Capital Management Ltd. (the "Manager"), a wholly-owned subsidiary of Pender Financial, has day-to-day responsibility for the activities of the Fund. An Administrator or Administrators engaged by the Fund from time to time will have responsibility for providing to the Fund those Administrative Services which the Fund from time to time requires to properly and effectively conduct its business.

The Manager

The Manager, PenderFund Capital Management Ltd., has been retained pursuant to a management agreement (the "Management Agreement") to provide management services relating to the Fund making investments in Eligible Small Businesses. Whenever and to the extent requested by the Board of Directors, the Manager will also provide services to the Fund with respect to the marketing of the Fund and the Shares. The Fund has agreed to pay to the Manager an annual management fee and a performance fee, as described under "Fees and Expenses – Fund Fees and Expenses – Management Fees".

The Manager was incorporated under the Company Act (British Columbia) (replaced by the Business Corporations Act) on November 18, 2002 under the name 658761 B.C. Ltd, it changed its name to Devon Ventures Management Corp. on May 16, 2003, and to PenderFund Capital Management Ltd. on May 28, 2003. Its head office and registered and records office is at Suite 2200 - 885 West Georgia Street, Vancouver, British Columbia V6C 3E8.

The Manager is currently a wholly owned subsidiary of Pender Financial Group Corporation ("Pender Financial"). However, Pender Financial has entered into a binding letter agreement with Messrs. Kelly Edmison, William A. Rand and David Barr (collectively the "ERB Group") dated October 2, 2007 pursuant to which Pender Financial has agreed to sell all of the issued and outstanding shares of the Manager to the ERB Group (the "Transaction"). The Transaction will result in a change of control of the Manager. The directors of the Manager currently consist of Messrs Edmison and David Roberts. The officers of the Manager currently consist of Messrs Edmison, Roberts and Barr. Upon completion of the Transaction Mr. Roberts will resign as a director and officer of the Manager and Mr. Edmison and Mr. Barr will be appointed as directors and officers of the Manager and Mr. Rand will be appointed as a director of the Manager. The closing of the Transaction is subject to the execution of a definitive agreement and the completion of certain conditions precedent including the acceptance of the TSX Venture Exchange and the SBVCA Administrator to the Transaction. The closing date for the completion of the Transaction has yet to be determined by the parties. There can be no assurance that the Transaction will close.

Except for those capabilities brought to the Fund by its Independent Directors and by such staff and/or Administrators as may be hired and/or engaged directly by the Fund and who are independent of the Manager, the Fund will be dependent upon the investment management and general management capabilities of the directors, officers and employees of the Manager.

Pender Financial Group Corporation

Pender Financial (TSX-VE:PDF) is a publicly traded merchant bank focused on technology companies. Pender Financial's strategy is to build long-term value by investing its capital and energy into a relatively few undervalued companies and to actively participate in their development, so as to enhance their value and the liquidity of Pender Financial's investment. Kelly Edmison is a director, officer and shareholder of Pender Financial and David Roberts is a shareholder of Pender Financial and a director and officer of a wholly owned subsidiary of Pender Financial. David Barr, an officer of the Fund, is a shareholder of Pender Financial. See "Conflicts of Interest".

Pender Financial undertakes various types of transactions including investments in companies that are already public, investments in established private companies that have a clear path to liquidity, mergers and acquisitions and investments in technology companies with experienced company builders. Pender Financial also owns 71.3% of ActiveState Software Inc., a company involved in the development and application of tools and services for dynamic languages.

Pender Financial's management team has significant experience in the area of strategic business development, corporate finance, capital raising, and corporate governance, enabling it to add true value to portfolio companies as part of its hands-on investment management philosophy.

Information concerning Pender Financial and the investments that they presently hold can be obtained via its website at www.penderfinancial.com and at www.sedar.com.

Management of the Manager

The primary responsibilities of the senior officers of the Manager are sourcing and identifying investment opportunities, performing due diligence investigations on prospective portfolio companies, structuring and negotiating the terms upon which investments in prospective portfolio companies are to be made and monitoring investments after they have been made.

The name, municipality of residence and position of each of the directors and certain employees of the Manager prior to the completion of the Transaction are:

Name and Municipality of Residence	Position(s) with the Manager
J. Kelly Edmison Vancouver, B.C.	Director and Chairman
David Roberts North Vancouver, B.C.	Director, President and Chief Executive Officer of the Manager
David A. Barr Vancouver, B.C.	Chief Financial Officer and Investment Manager

(1) Upon completion of the Transaction, which will result in a change of control of the Manager, Mr. Roberts will resign as a director and officer of the Manager.

The name, municipality of residence and position of each of the directors and certain employees of the Manager after the completion of the Transaction are:

Name and Municipality of Residence	Position(s) with the Manager
J. Kelly Edmison Vancouver, B.C.	Director and Chief Executive Officer
David A. Barr Vancouver, B.C.	Director and Chief Financial Officer and Investment Manager
William A. Rand Vancouver, B.C.	Director

The following are brief biographical descriptions of the directors and certain employees of the Manager prior to and after the completion of the Transaction:

Kelly Edmison, Chairman and a Director of the Manager

Mr. Edmison has been active in the Vancouver junior tech market for the past 17 years. A graduate of the University of Toronto and Queen's University, Mr. Edmison practiced law for over 20 years. Mr. Edmison spent his early career in Calgary and Hong Kong before joining Ladner Downs (now Borden Ladner Gervais) in 1985 where he practiced securities and commercial law until 1995. Mr. Edmison then established his own practice focused exclusively on representing Vancouver based junior technology companies. During the last five years of Mr. Edmison's practice, companies represented by Mr. Edmison closed over forty financings raising aggregate proceeds in excess of \$200 million. Mr. Edmison has since ceased to practice law.

Mr. Edmison is currently President and Chief Executive Officer of Pender Financial which he founded in 2002 when it had approximately \$3 million of net assets. Pender Financial now has approximately \$8 million of net assets and a total of \$40 million under ownership or management. Mr. Edmison is a director of Pender Financial, Carmanah Technologies Corp. (TSX:CMH), Radiant Communications Inc. (TSX-VE:RCN) and the British Columbia Technology Industry Association and is currently a director and Chairman of the Fund, Icron Technologies Inc. (TSX-VE:IT) and IP Applications Corp. (TSX-VE:IPX). On completion of the Transaction,

Mr. Edmison will become the Chief Executive Officer of the Manager and will resign as the Chairman of the Manager.

David Roberts, President and a Director of the Manager

Mr. Roberts has 26 years of senior operational and investment related experience in British Columbia and has held executive positions and directorships of both public and private technology companies in the information technology, communications and life sciences sectors. Mr. Roberts received a BSc from University College London, England, emigrated to Canada in 1981, and passed the Canadian Securities Course. Mr. Roberts then held a number of senior management positions in the information technology and communications sectors and in 1988 was retained by Science Council of British Columbia as an industry champion as part of the SPARK Initiative. While at the Science Council, Mr. Roberts launched a range of strategic initiatives to accelerate the funding, development and commercialization of technology ventures in British Columbia. Following this, Mr. Roberts was the Chief Financial Officer of ProNet Communications, Inc. an internet services company which he co-founded.

In 1991, Mr. Roberts moved to the life sciences sector and was retained by the Canadian Genetics Diseases Network ("Network") at the University of British Columbia to develop a commercialization plan for discoveries made by Network. Subsequently, Mr. Roberts held the positions of Vice-President Corporate Affairs and Communications and Chief Financial Officer of Kinetek Pharmaceuticals, Inc. where he was responsible for raising over \$20 million from institutional investors that included venture capital and pension fund sources.

Mr. Roberts was Vice-President of Pender Financial from 2002 to 2004. Mr. Roberts has also served as a mentor to the MBA program at the University of British Columbia and on advisory boards to industry organizations that include the Vancouver Enterprise Forum, the British Columbia Institute of Technology, Science Council of British Columbia and New Ventures BC. Mr. Roberts currently serves as a director of the Fund, Municipal Solutions Group, Inc. (TSX-VE:MSZ) and IP Applications Corp. (TSX-VE:IPX). Upon completion of the Transaction, Mr. Roberts will resign as a director and officer of the Manager.

David Barr, Chief Financial Officer and Investment Manager of the Manager

Mr. Barr joined the Fund as an Investment Manager in 2000. Previously, Mr. Barr worked as a consultant to emerging technology companies assisting the companies in development of strategic and financing plans. Mr. Barr holds a Bachelor of Science Degree (Cell Biology and Genetics) from the University of British Columbia and a Masters of Business Administration (Finance & Strategic Management) from Schulich School of Business at York University. Mr. Barr is a CFA charterholder and a member of the CFA Institute. Mr. Barr's responsibilities and duties include assessing business opportunities, due diligence, structuring transactions and liaising with the BC Ministry of Economic Development, which operates the VCC program. Mr. Barr was appointed Chief Financial Officer in November 2005. Upon completion of the Transaction, Mr. Barr will be appointed as a director of the Manager and will continue to act as an officer of the Manager.

William A. Rand, Director of the Manager

Mr. Rand is Chairman of the board of directors of Pender Financial Group Corporation (TSXV:PDF), and has been active in the public markets for the past three decades. Mr. Rand, a graduate of McGill University, Dalhousie Law School and the London School of Economics, practiced securities and commercial law for over twenty years. In 1992, Mr. Rand and his partner, Mr. Brian Edgar, established Rand Edgar Investment Corp. to pursue investment banking and other investment activities. Mr. Rand is a director of twelve public companies including Lundin Petroleum AB, an international oil company; Tenke Mining Corp. with interests in Argentina and the Democratic Republic of the Congo, and Vostok Nafta Investment Ltd., a Stockholm-based investment company focusing on investments in Russia. Mr. Rand is also the chairman of several private companies including Hong Kong Construction Ltd. and New West Fluid Management Inc., and is the principal holder of a number of companies with operations in the Republic of Serbia and Montenegro. Mr. Rand is also a past Associate Governor of Dalhousie University, a past chair and current board member of York House School, a board member of St. George's School and is on the President's Advisory Committee of McGill University. Upon completion of the Transaction, Mr. Rand will be appointed as a director of the Manager.

Services Provided by the Manager

The management services to be provided by the Manager under the Management Agreement will include the overall day-to-day management of the Fund, including, without limitation:

- (a) provide to the Fund such support services as may from time to time be requested by the Board with respect to the promotion and marketing of the Fund (including, without limitation, preparing draft marketing materials, coordinating mailings, arranging for and overseeing marketing activities, including the services of public relations advisers and any applicable services of any Administrator, and participating in marketing activities) and with respect to the distribution of securities of the Fund (including, without limitation, managing the securities regulatory clearance process, obtaining any applicable exemption orders, preparing any applicable disclosure documents, and making any applicable regulatory filings), and, otherwise, to such extent as may from time to time be requested by the Board, assist the Fund and/or the Board with such capital raising activities as may from time to time be engaged in by the Fund;
- (b) assist the Board and/or the Investment Committee, as applicable, with the development of the investment objectives, investment strategies and investment criteria of the Fund, and with ongoing evaluation thereof and with such revisions thereof as may from time to time be determined to be warranted;
- (c) assist the Board in maintaining the Investment and Divestiture Approval Policy of the Fund and assist the Board and/or the Investment Committee, as applicable, in establishing and maintaining any and all plans which may from time to time be required to be established and maintained thereunder with respect to the acquisition and disposition of Investments by the Fund;
- (d) seek out and investigate investment opportunities for the Fund that meet the investment requirements of the SBVCA and do not violate the investment restrictions of the SBVCA;
- (e) analyze and research investment opportunities that meet the investment requirements of the SBVCA and that do not violate the investment restrictions of the SBVCA (using, in each instance, such due diligence procedures as the Manager considers appropriate), to determine whether the prospective Investments meet the investment criteria of the Fund, as established from time to time by the Board and/or the Investment Committee, as applicable;
- (f) assist the Fund in negotiating and structuring, for and on behalf of the Fund, the terms and conditions under which prospective Investments would be made by the Fund, acknowledging that such terms and conditions will ultimately be determined by the Board or the Investment Committee, as applicable;
- (g) assist the Fund in preparing for and submitting to prospective Investees, for and on behalf of the Fund, offers to invest setting out the terms and conditions under which the Fund would be prepared to make such Investments, and use its best efforts to assist the Fund in obtaining acceptance of such offers by the prospective Investees to which they are submitted;
- (h) where the Manager determines it would be desirable or beneficial to do so, arranging partners to co-invest with the Fund;
- (i) arrange for and obtain, where necessary in the reasonable opinion of the Manager, appropriate professional industry and marketing studies, operational analyses, executive searches and other professional advisory studies in respect of Investees and prospective Investees;
- (j) monitor the financial and operating performance of Investees, including monitoring their cash management, financial reporting, budgetary processes and execution of corporate and product strategies through, where warranted and practicable, but not exclusively through, representation on their boards of directors or other controlling entities, and provide reviews thereof to the Board, at least quarterly, which reviews shall report all material failures to comply with the terms under which Investments were acquired known to the Manager;

- (k) review financial and other information obtained from Investees to ascertain whether any material default has occurred under any of the covenants they have made or in respect of any of their obligations and generally supervise compliance with any and all covenants which may be made by Investees in connection with Investments made by the Fund;
- (l) use its best efforts to assist the Fund in effecting, for and on behalf of the Fund, those dispositions of Investments, whether in whole or in part, that the Investment Committee determines to be warranted;
- (m) assist the Board and/or the Audit Committee and/or the Administrator or such other consultant as may from time to time be responsible therefor, as applicable, in establishing the Pricing Net Asset Value of the Fund on each Valuation Date;
- (n) attend all meetings of the Board, the Investment Committee and the Audit Committee (unless excluded by the members, that are not directors or officers of the Manager, of the Board, the Investment Committee or the Audit Committee, as the case may be), with such number of representatives as the Manager reasonably determines, having regard to the matters to be considered at the applicable meeting;
- (o) engage professional advisers for and on behalf of the Fund;
- (p) ensure that appropriate accounting, bookkeeping and clerical records are maintained and preserved with respect to the affairs and operations of the Fund, through oversight of the Administrator, where applicable;
- (q) ensure that a system of accounting is established, maintained and administered in accordance with GAAP, consistently applied, and that there are set aside on the books of the Fund such proper reserves as such accounting principles may from time to time require, through oversight of the Administrator, where applicable;
- (r) ensure compliance by the Fund with the Small Business Venture Capital Act, the Securities Act, the Business Corporations Act and the Income Tax Act, through oversight of the Administrator, where applicable;
- (s) ensure compliance by the Fund with all reporting requirements imposed on the Fund by all applicable federal, provincial and municipal regulatory authorities, statutes, regulations and by-laws, through oversight of the Administrator, where applicable;
- (t) take reasonable administrative steps to obtain and maintain in force such insurance coverage as may from time to time be authorized by the Board and/or the Investment Committee; and
- (u) carry out those residual functions with respect to the day-to-day operations of the Fund that are not of the nature required to be carried out by the Administrator, the Board, the Investment Committee or the Audit Committee.

The Fund pays annual management fees and performance fees to the Manager in consideration for the provision of such services. See "Fees and Expenses – Fund Fees and Expenses – Management Fees".

The Fund may pay amounts directly to officers of the Manager for services rendered with respect to the Management Agreement by such individuals to the Fund. Any such amounts paid will be deducted from the management fees otherwise payable under the Management Agreement.

In addition to any other amounts that may be payable to the Manager under the terms of the Management Agreement, the Fund will also pay to the Manager a sales administration fee of 1% of the gross proceeds of this Offering.

The Investment and Divestiture Approval Policy for the Fund specifies the circumstances under which the Fund may make investments or dispositions without the approval of the Investment Committee and the circumstances

under which investments or dispositions may only be made with the approval of the Board and the Investment Committee. Generally, the policy approved contemplates that, once an initial investment is made in any portfolio company, the Investment Committee will develop and keep updated a follow-on investment plan and a divestiture plan for the securities of that portfolio company and that:

- (a) the Fund may make, without the approval of the Board, any investment or divestiture which is made in accordance with such plans, except those which involve an acquisition from or a disposition to an Affiliate of the Manager; and
- (b) all investments and divestitures may only be made with the approval of the Board, if the amount involved is greater than or equal to \$1 million.

The Management Agreement pursuant to which all such management services, support services and capital raising assistance are to be provided has an initial term ending on December 31, 2013 and will be renewed automatically for further successive terms of four years unless the shareholders of the Fund resolve to terminate the engagement of the Manager at the expiry of any term by a special resolution (as defined in the Business Corporations Act) at a meeting called for that purpose. The Manager may terminate the Management Agreement in certain circumstances and the Fund may terminate the Management Agreement on grounds such as material breach of the agreement by the Manager without remedy within 60 days of the Manager being notified of the breach. In the event the Management Agreement is terminated by either party, other than for a material breach of the Management Agreement by the Manager which is not remedied within 60 days, the Fund will pay to the Manager any management fees then due and owing to the Manager; all reimbursable expenses; the management fee payable in respect of the month in which termination occurs; and the performance fees payable in respect of the quarter in which termination occurs and the following eight quarters. In the event that the Management Agreement is terminated for material breach by the Manager which is not remedied within 60 days, the Fund will pay to the Manager any management fees then due and owing to the Manager; all reimbursable expenses; the management fee payable in respect of the month in which termination occurs; and the performance fees payable to the date that the termination occurs. The Fund has agreed to indemnify the Manager in respect of any claims resulting from any mistakes or errors of judgment or from any act or omission of the Manager in carrying out its duties under the Management Agreement, provided, however, that the Manager will not be indemnified for any claim, as determined by a court of final jurisdiction, resulting from the negligence or wilful misconduct or wilful disregard of the obligations of the Manager.

The Articles of the Fund currently prohibit the Fund from paying any fees or other remuneration to the Manager, unless payment thereof has been approved by an annual special resolution (as defined in the SBVCA Regulations) passed by the shareholders of the Fund. This will remain the case until Pender Financial, of which the Manager is an Affiliate, ceases to be a shareholder of the Fund and each person of whom the Manager may be or be deemed to be an Associate ceases to be a Director, officer and/or shareholder of the Fund. Failure of the Fund to pay any of the fees and/or other remuneration provided for under the Management Agreement as a result of the shareholders of the Fund not having passed the requisite special resolution (as defined in the SBVCA Regulations) regarding payment thereof will not constitute a breach of the Management Agreement. If the shareholders of the Fund fail to approve payment of any of the fees and/or other remuneration provided for under the Management Agreement, the applicable fees and/or other remuneration will continue to accrue, with interest, until the matter is resolved.

Board of Directors

The Board has overall responsibility for all investments and divestitures made by the Fund, as well as for the establishment of appropriate investment and divestiture policies and the implementation of appropriate procedures with respect to the investment and divestiture processes. The Board currently consists of five Directors.

A Director is deemed to be independent of the Fund and the Manager (an "Independent Director") if the Director is not an employee or officer (other than Chairman of the Board) of the Fund or a director, officer or employee of the Manager or of any Affiliate of the Manager, is not an Associate of any such person, and deals with the Manager and would, but for being a Director of the Fund, deal with the Fund at arms' length for the purposes of the Federal Tax Act. Currently three of the five Directors of the Fund, being Cameron Belsher, Ian Power and Wendy Porter are Independent Directors of both the Fund and the Manager, and the Fund and the Manager will use their best

efforts to ensure that, after the terms of the current Directors expire, the majority of the Directors will continue to be independent of both the Fund and the Manager. Kelly Edmison is a director, officer and shareholder of Pender Financial and David Roberts is a shareholder of Pender Financial and a director and officer of a wholly owned subsidiary of Pender Financial. See "Conflicts of Interest".

The Board has constituted an Investment Committee, a Governance Committee and an Audit Committee, and, except as restricted by the Articles of the Fund, may delegate to those committees (and/or any other committee or committees of the Board which may be duly established and constituted) such of its responsibilities as the Board may from time to time determine to be appropriate.

All of the members of each of the Audit Committee, Investment Committee and Governance Committee are independent of both the Fund and the Manager, and the Fund and the Manager will use their best efforts to ensure that the majority of the members of each of the Audit Committee, Investment Committee and Governance Committee will continue to be independent of both the Fund and the Manager.

The name, municipality of residence, office, and principal occupation within the preceding five years of each of the current Directors and executive officers of the Fund are set out below:

Name, Municipality of Residence, Country, and Position(s) with Company	Principal Occupation or Employment During the Past Five Years	Date(s) Served as a Director	Number and Percentage of Series 1 Shares and Series 2 Shares Held as at the Date of this Prospectus⁽¹⁾
DAVID ROBERTS ⁽²⁾ North Vancouver, B.C., Canada President, Chief Executive Officer and Director	President and Chief Executive Officer of PenderFund Capital Management Ltd. from May 2003 to present; Vice President of Pender Financial Group Corporation from May 2002 to 2004; and, President of David Roberts & Associates Ltd. from 1985 to present.	Since May 7, 2003	Nil Series 1 Shares 0% 2,000 Series 2 Shares 0.07%
KELLY EDMISON ⁽²⁾ Vancouver, B.C., Canada Chairman and Director	President, Chief Executive Officer and Director of Pender Financial Group Corporation since February 2002; Principal of Kelly Edmison Law Corporation from January 1997 to February 2002.	Since May 7, 2003	Nil Series 1 Shares 0% 2,000 Series 2 Shares 0.07%
CAMERON BELSHER ⁽³⁾⁽⁴⁾⁽⁵⁾ New Westminster, B.C., Canada Director	Partner with Farris Vaughan Wills & Murphy LLP from 1996 to present.	Since June 25, 2003	Nil Series 1 Shares 0% 2,500 Series 2 Shares 0.09%
IAN POWER ⁽³⁾⁽⁴⁾⁽⁵⁾ Langley, B.C., Canada Director	Chief Financial Officer of Strand Capital Corp. from September 2002 to 2006; Independent consultant in corporate finance and accounting from 1993 to present.	Since March 15, 1994	Nil Series 1 Shares 0% 1,000 Series 2 Shares 0.04%
WENDY PORTER ⁽³⁾⁽⁴⁾⁽⁵⁾ West Vancouver, B.C., Canada Director	Executive Vice-President of Moneris Solutions from 2000 to 2001; President of Vital Merchant Services from 2002 to 2004; Consultant with Focused Management Solutions from 2004 to present.	Since May 30, 2006	Nil Series 1 Shares 0% Nil Series 2 Shares 0%
DAVID BARR Vancouver, B.C., Canada Chief Financial Officer	Chief Financial Officer of the Fund November 2005 to present, Investment Manager of the Fund August 2000 to present.	N/A	Nil Series 1 Shares 0% 300 Series 2 Shares 0.01%

(1) Based on 130,795 Series 1 Shares and 2,710,137 Series 2 Shares issued and outstanding as at October 5, 2007.

- (2) Messrs. Roberts and Edmison are currently directors and officers of the Manager. The Manager is a wholly owned subsidiary of Pender Financial, a public company of which Kelly Edmison is a director, officer and shareholder and David Roberts is a shareholder. Pender Financial owns an aggregate of 1,000 Series 2 Shares. Upon completion of the Transaction, Mr. Roberts will cease to be a director and officer of the Manager and Mr. Barr will become a director, officer and shareholder of the Manager and Mr. Edmison will also become a shareholder of the Manager.
- (3) Members of the Audit Committee.
- (4) Members of the Investment Committee.
- (5) Members of the Governance Committee.

The Fund's Articles prohibit it from paying fees or remuneration of any kind to any of its shareholders, Directors or Officers, or to any Affiliate or Associate of those persons, except as permitted by a Special Resolution. Further, the SBVCA provides that the Fund is prohibited from paying fees or remuneration of any kind to any person who controls directly or indirectly, or who belongs to a group that controls the Fund directly or indirectly, unless such fees or remuneration have been specifically approved by Special Resolution. If the Fund's shareholders fail to pass any of the requisite annual Special Resolutions, those fees and other remuneration provided for in the Management Agreement will continue to accrue, with interest, until the matter is resolved.

The Fund does not, at present, have an Executive Committee.

Each of the Directors of the Fund was elected effective May 8, 2007, and will hold office until the next annual general meeting of the shareholders of the Fund pursuant to the Business Corporations Act, or unless his or her office is earlier vacated in accordance with the Articles of the Fund, or with the provisions of the Business Corporations Act.

Independent Directors will receive compensation from the Fund. See "Fees and Expenses – Fund Fees and Expenses – Directors' Fees and Expenses". Those Directors and officers of the Fund who are not Independent Directors will be paid by the Manager or, if they are employees of the Fund, will be paid by the Fund in that capacity only. None of the Directors or officers of the Fund and none of their respective Associates is or has, since its inception, been indebted to the Fund.

The Articles provide for the indemnification of the Directors and officers of the Fund from and against liability and costs in respect of any action or suit brought against them in connection with the execution of their duties of office, subject to certain limitations.

The biographical descriptions of David Roberts and Kelly Edmison are provided earlier. Mr. Roberts and Mr. Edmison are both independent contractors of the Manager. Mr. Roberts devotes approximately 50% of his time to the affairs of the Fund and Mr. Edmison devotes approximately 75% of his time to the affairs of the Fund. Mr. Roberts and Mr. Edmison have not entered into non-disclosure agreements or non-competition agreements with the Fund. All directors of the Fund are required, in accordance with the Business Corporations Act, to act honestly, in good faith and in what they reasonably believe to be in the best interests of the Fund.

The following are biographical descriptions of the Independent Directors and the Executive Officers of the Fund.

Cameron Belsher has practiced corporate, securities and commercial law in Vancouver for over 19 years. A graduate of Osgoode Hall Law School, Mr. Belsher began his career at Ladner Downs (now Borden Ladner Gervais) where he became a partner and joined Farris, Vaughan Wills & Murphy LLP as a partner in 1996. Mr. Belsher has been named by the Lexpert/American Media Guide for several years as one of the top 500 lawyers in Canada and one of only three lawyers in Vancouver named in the area of corporate finance, securities and mergers and acquisitions. He was also recently named by Lexpert as one of the country's Top 100 Canada-U.S. cross border deal lawyers. Mr. Belsher has extensive experience in public and private financings and mergers and acquisitions for senior and junior market issuers, with particular emphasis in the technology sector. Mr. Belsher, who has extensive experience in corporate governance, is the chairman of the Fund's Governance Committee.

Ian D. Power has been a Chartered Accountant in Vancouver for over 28 years. A graduate of the University of British Columbia, Mr. Power qualified for his Chartered Accountant designation and practiced public accounting

with Arthur Anderson & Co for five years. Mr. Power has been Chief Financial Officer of a number of Vancouver based high technology companies including Norsat International, Starcom International Inc. and Brookdale International Systems Inc. Mr. Power was also the Chief Financial Officer of the Fund from inception until May 2003. Mr. Power was also Chief Financial Officer of Strand Capital Corp, a real estate development finance company focused on the Western United States, from September 2002 to February 2007. Mr. Power is the chairman the Fund's Audit Committee.

Wendy Porter holds an MBA degree from the Schulich Business School at York University Ms. Porter currently provides consulting and contract services in the areas of strategy, compensation, electronic payments and financial services for national and international clients. Ms. Porter held several senior positions with the Bank of Montreal from 1986 to 2000 and with Moneris Solutions (a joint venture of the Merchant Services Divisions of the Royal Bank of Canada and the Bank of Montreal) during 2000 and 2001. From 2002 to 2004, Ms. Porter was the President of Vital Merchant Services of Sacramento, California. Ms. Porter currently serves on the Boards of Directors of both Vivonet Inc. and Radiant Communications, Inc. and acts as the chair of the Compensation Committee of Radiant Communications. Ms. Porter is Chair of the Fund's Investment Committee.

David Barr, Chief Financial Officer, joined the Fund as an Investment Manager in 2000 and was appointed Chief Financial Officer on November 26, 2005. Previously, Mr. Barr worked as a consultant to emerging technology companies assisting the companies in development of strategic and financing plans. Mr. Barr holds a Bachelor of Science Degree (Cell Biology and Genetics) from the University of British Columbia and a Masters of Business Administration (Finance & Strategic Management) from Schulich School of Business at York University. Mr. Barr is a CFA charterholder and a member of the CFA Institute. Mr. Barr's responsibilities and duties include assessing business opportunities, due diligence, structuring transactions and liaising with the BC Ministry of Economic Development, which operates the VCC program.

Corporate Cease Trade Orders and Bankruptcies

No Director, officer or promoter of the Fund or to the knowledge of management of the Fund, any shareholder holding a sufficient number of Shares of the Fund to affect materially the control of the Fund is, or within the ten years prior to the date of this Prospectus has been, a director, officer or promoter of any issuer that, while that person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied the issuer access to any statutory exemptions for a period of more than 30 consecutive days or was declared bankrupt or made a proposal under any legislation relating to bankruptcy or insolvency or has been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of that issuer.

Penalties or Sanctions

No Director, officer or promoter of the Fund or to the knowledge of management of the Fund, any shareholder holding a sufficient number of Shares of the Fund to affect materially the control of the Fund has, within the 10 years prior to the date of this Prospectus, been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority; or has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor making an investment decision.

Personal Bankruptcies

No Director, officer or promoter of the Fund or to the knowledge of management of the Fund, any shareholder holding a sufficient number of Shares of the Fund to affect materially the control of the Fund or a personal holding company of any such person has, within the ten years prior to the date of this Prospectus become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or been subject to or instituted any proceedings, arrangement, or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold his or her assets.

Conflicts of Interest

Certain officers or Directors of the Fund are or may become officers or directors of other companies and as such may be presented, from time to time, with situations or opportunities which give rise to apparent conflicts of interest which cannot be resolved by arm's length negotiations but only through exercise by the officers and Directors of such judgment as is consistent with their fiduciary duties to the Fund which arise under the relevant statutory laws and general corporate law. All officers and Directors are aware of their fiduciary responsibilities under corporate law, especially insofar as taking advantage, directly or indirectly, of information or opportunities acquired in their capacities as officers and Directors of the Fund. Any transactions with officers or Directors will only be on terms consistent with industry standards and sound business practice in accordance with the fiduciary duties of those persons to the Fund, and depending upon the magnitude of the transactions and the absence of any disinterested board members, the transactions may be submitted to the shareholders for their approval.

There are no existing or potential conflicts of interest and there have been no transactions within the previous three years from the date of this Prospectus among the Fund, its Directors and officers, principal holders, and persons providing professional services to the Fund, which could reasonably be expected to affect a holder, other than as set out in this Prospectus.

Certain of the Directors currently, or in the future may, serve as directors of, have significant shareholdings in, or provide professional services to other companies and, to the extent that such other companies may participate in ventures with the Fund, the Directors of the Fund may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In addition, when investing in certain Eligible Small Businesses the Fund may, as a condition to the investment, require that a nominee of the Fund, who may be a Director, officer or principal of the Fund, be appointed to such Eligible Small Business' board of directors, thereby creating a potential conflict of interest. Specifically, Mr. Edmison is a director of Radiant Communications Inc. and a director and Chairman of IP Applications Corp. and Mr. Roberts is a director of IP Applications Corp. and Municipal Solutions Group Inc. In the event that such a conflict of interest arises at a meeting of the board of directors, a director who has such a conflict must disclose the nature and extent of his interest to the meeting and abstain from voting for or against the approval of such participation.

Kelly Edmison and David Roberts are both directors and/or officers of the Fund and the Manager. David Barr is an officer of the Fund and the Manager. The Manager is a wholly owned subsidiary of Pender Financial, a public company of which Mr. Edmison is a director, officer and shareholder and Mr. Roberts and Mr. Barr are shareholders. Mr. Roberts is also a director and officer of a subsidiary of Pender Financial. The Manager receives a management fee from the Fund. Upon completion of the Transaction, Mr. Roberts will cease to be a director and officer of the Manager and Mr. Barr will become a director and shareholder of the Manager and Mr. Edmison will also become a shareholder of the Manager. For a description of the Manager's relationship with the Fund, refer to "Management and Administration – The Manager".

The Fund and its affiliates are not limited or affected in their ability to carry on other business ventures for their own accounts and for the accounts of others, and may be engaged in the ownership, acquisition and operation of businesses which compete with the Fund. Investment in the Fund will not carry with it the right for either the Fund or any Investor to invest in any other venture of any affiliates, or to any profit therefrom or to any interest therein.

See "Conflicts of Interest" below for additional information regarding conflicts.

Administration

Pursuant to an agreement, dated September 15, 2003, as amended (the "Registrar and Transfer Agency Agreement"), between the Manager and The Investment Administration Solution Inc., the Manager on behalf of the Fund has engaged The Investment Administration Solution Inc. to maintain its central securities register, act as its transfer agent, receive, process and record purchases of its Shares, assist in preparing summary reports and schedules required for income tax and information returns, and distribute to its shareholders financial statements and other required reports, statements, notices, information circulars, forms of proxies and income tax forms.

The Fund may from time to time engage another Administrator or Administrators, who or which may be independent third-parties or may be the Manager or an Associate or Affiliate of the Manager, to provide to the Fund those administrative services which the Manager has engaged The Investment Administration Solution Inc. to provide to the Fund and/or to provide to the Fund other administrative services. These services may include, without limitation:

- periodically determining the Pricing Net Asset Value of the Fund;⁽¹⁾
- receiving and processing requests for redemptions of its Shares;⁽¹⁾
- recording redemptions of its Shares;⁽¹⁾
- requisition cheques for redemption payments, managing cash reserves;⁽¹⁾
- maintaining books and accounts and a system of accounting;⁽¹⁾
- preparing cheques for redemption payments;⁽¹⁾
- preparing financial data and reconciliations;⁽¹⁾
- preparing summary reports and schedules required for income tax and information returns;⁽¹⁾
- completing forms required by statute or regulation;⁽¹⁾
- preparing annual and quarterly financial statements;⁽¹⁾
- supplying financial statements and other required reports, statements, notices, information circulars and forms of proxies, and income tax forms for delivery to shareholders;⁽¹⁾ and
- applying for and obtaining for qualifying shareholders such tax certificates as may be issuable to them under the Small Business Venture Capital Act, as the Fund may from time to time require to properly and effectively conduct its business (such services, together with those services which the Fund has engaged The Investment Administration Solution Inc. to provide and such other services as may be specified as such by the Board of Directors of the Fund from time to time, being referred to herein as "Administrative Services").

(1) These services are currently provided by the Manager.

The provision of any such Administrative Services to the Fund by the Manager or any Associate or Affiliate of the Manager must be at market rates and on market terms and conditions and must be approved by a majority of the Independent Directors of the Fund. The Articles of the Fund currently prohibit the Fund from paying any fees or other remuneration to the Manager or any Associate or Affiliate of the Manager in consideration for their providing any such Administrative Services to the Fund, unless payment thereof has been approved by an annual special resolution (as defined in the SBVCA Regulations) passed by the shareholders of the Fund. This will remain the case until Pender Financial, of which the Manager is an Affiliate, ceases to be a shareholder of the Fund and each person of whom the Manager may be or be deemed to be an Associate ceases to be a Director, officer and/or shareholder of the Fund.

The Manager has agreed to provide to the Fund, at market rates and on market terms and conditions, all such Administrative Services as the Fund may require, other than those which The Investment Administration Solution Inc. has been engaged to provide, until such time as the size of the Fund requires that another Administrator or other Administrators be engaged to provide some or all of such services. The provision of such Administrative Services to the Fund on such basis by the Manager has been approved by the Independent Directors of the Fund.

EXECUTIVE COMPENSATION

Set out below are particulars of compensation paid to the following persons (the "Named Executive Officers"):

- (a) the Fund's chief executive officer (the "CEO");
- (b) the Fund's chief financial officer (the "CFO");
- (c) each of the Fund's three most highly compensated executive officers, other than the CEO and the CFO who were serving as executive officers at the end of the most recently completed financial year and whose total salary and bonus exceeds \$150,000 per year; and
- (d) any additional individuals for whom disclosure would have been provided under (c) except that the individual was not serving as an officer of the Fund at the end of the most recently completed financial year.

As at December 31, 2006, the end of the most recently completed fiscal year of the Fund, the Fund had three Named Executive Officers: David Roberts, President and Chief Executive Officer; David Barr, Chief Financial Officer; and Russ Wigle, Vice-President, Sales.

Summary of Compensation

The following table is a summary of compensation paid to the Named Executive Officers for each of the Fund's three most recently completed fiscal years.

Named Executive Officer Name and Principal Position	Year ⁽¹⁾	Annual Compensation			Long Term Compensation			All Other Compensation (\$)
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Awards		Payouts	
					Securities Under Option/SARs ⁽²⁾ Granted (#)	Shares or Units Subject to Resale Restrictions (\$)	LTIP Payouts (#)	
David J. Roberts, President & CEO ⁽³⁾	2006	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	2005	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	2004	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Kelly Edmison, Chairman and CFO ⁽³⁾⁽⁴⁾	2006	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	2005	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	2004	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Russ Wigle, Vice-President, Sales ⁽⁵⁾	2006	40,000	27,741 ⁽⁶⁾	Nil	Nil	Nil	Nil	Nil
	2005	40,000	14,880 ⁽⁶⁾	Nil	Nil	Nil	Nil	Nil
	2004	80,000	90,550 ⁽⁶⁾	Nil	Nil	Nil	Nil	Nil
David Barr ⁽⁷⁾ CFO	2006	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	2005	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	2004	N/A	N/A	17,869 ⁽⁸⁾	N/A	N/A	N/A	N/A

(1) Financial year ended December 31.

(2) "SAR" or "stock appreciation right" means a right granted by the Fund, as compensation for services rendered, to receive a payment of cash or an issue or transfer of securities based wholly or in part on changes in the trading price of publicly traded securities of the Fund.

- (3) While the Fund has paid no compensation directly to David Roberts or Kelly Edmison, it has paid management fees to Pender Financial of which Mr. Edmison is a director, officer and shareholder and Mr. Roberts is a shareholder of Pender Financial and a director and officer of several subsidiaries of Pender Financial.
- (4) Mr. Edmison was appointed as CFO of the Fund on October 9, 2003 and resigned from this position on November 26, 2005. Mr. Edmison continues to hold the position of Chairman and is a director of the Fund.
- (5) Mr. Wigle ceased to be an officer of the Fund on August 14, 2007.
- (6) This amount was paid to Mr. Wigle as a commission.
- (7) Mr. Barr was appointed CFO upon the resignation of Mr. Edmison on November 26, 2005. The Fund has paid management fees to Pender Financial of which Mr. Barr is a shareholder. Mr. Barr is also the Chief Financial Officer and Investment Manager of a wholly owned subsidiary of Pender Financial.
- (8) This amount was paid to a company solely owned by Mr. Barr as a consulting fee.

Long-Term Incentive Plans - Awards in Most Recently Completed Fiscal Year

The Fund has no long-term incentive plans in place and therefore there were no awards made under any long-term incentive plan to the Named Executive Officers during the Fund's most recently completed fiscal year. A "Long-Term Incentive Plan" is a plan under which awards are made based on performance over a period longer than one fiscal year, other than a plan for options, SARs (stock appreciation rights) or restricted share compensation.

Options/SARs Granted During the Most Recently Completed Fiscal Year

There were no incentive stock options or SARs granted to the Named Executive Officers granted during this period.

Aggregated Option/SAR Exercises During the Most Recently Completed Fiscal Year and Fiscal Year End Option/SAR Values

There were no exercises of stock options or stock appreciation rights by any of the Named Executive Officers during the most recently completed financial year.

Termination of Employment, Change in Responsibilities and Employment Contracts

There are no compensatory plans or arrangements with the Named Executive Officers resulting from the resignation, retirement or other termination of employment of the Named Executive Officers or from a change of control of the Fund except as set out below. The following describes all employment or consulting contracts of the Fund with the Named Executive Officers.

Compensation of Directors

Except as otherwise disclosed herein, there were no standard arrangements, or other arrangements in addition to or in lieu of standard arrangements, under which the Directors were compensated by the Fund or any subsidiary thereof for services in their capacity as a Director (including any additional amounts payable for committee participation or special assignments), or for services as consultants or experts, during the most recently completed financial year, other than the granting of stock options. During the most recently completed financial year, the Directors' fees payable to the Independent Directors for the financial year ended December 31, 2006 were \$1,500 for the first two quarters of 2006 and \$2,500 per quarter for the third and fourth quarters of 2006. For all four quarters in 2006, it was established that each Director would also receive \$500 per Board meeting of which there were seven Board meetings in 2006. These fees are paid quarterly, subject to the availability of funds. During the most recently completed financial year, an aggregate of \$35,500 was paid or accrued to Directors. No directors fees were paid by the Company to the Named Executive Officers.

All directors are also entitled to be reimbursed for reasonable expenses incurred on behalf of the Fund.

There are no arrangements for compensation with respect to the termination of Directors in the event of a change or control of the Fund.

The Fund is, pursuant to its Articles, prohibited from paying any fees or other remuneration to any Director or officer or shareholder of the Fund, or to any Affiliate or Associate of those persons, except as permitted by an annual special resolution (as defined in the SBVCA Regulations) of the shareholders of the Fund.

The Corporation has entered into an indemnification agreement with each of its directors and officers to indemnify them for any costs and expenses they incur as a result of acting as a director or officer of the Fund or Investee company.

OPTIONS TO PURCHASE SECURITIES

The Fund does not currently have a stock option plan pursuant to which stock options may be granted. Under applicable securities laws, however, the Fund is permitted to grant stock options to certain persons (the "Qualified Persons") such as, without limitation, directors, officers, employees and consultants of the Fund. The Fund has in the past granted stock options to Qualified Persons pursuant to agreements with such Qualified Persons and in accordance with the requirements of the applicable regulatory authorities. The Board of Directors does not at the date of the Prospectus anticipate that it will grant stock options in the future. However, the Board of Directors has the right to revisit this decision in the future.

The following table sets forth certain information concerning options (post-consolidation) granted to the executive officers, directors, employees and consultants of the Fund as at the date of the Prospectus:

Held By	Total Number of Optioned Series 1 Shares	Exercise Price	Market Value on Date of Grant	Expiry Date	Pricing Net Asset Value of Series 1 Shares on September 28, 2007
All executive officers and past executive officers of the Fund as a group and all directors and past Directors of the Fund who are not also executive officers of the Fund as a group (2)	5,000	\$10.00	\$8.00	Sept. 13, 2011	\$7.65
All other employees and past employees of the Fund as a group	Nil	N/A	N/A	N/A	N/A
All consultants of the Fund as a group	Nil	N/A	N/A	N/A	N/A
Any other holders of options	Nil	N/A	N/A	N/A	N/A
TOTAL	<u>5,000</u>	N/A	N/A	N/A	N/A

The aforesaid options are non-assignable stock options and have been granted as incentives and not in lieu of any compensation for services. In exercising the stock options, the optionees may be eligible to receive the 30% tax credit under the SBVCA provided that the Administrator has granted the Fund with sufficient equity capital authorization to allow for the exercise of such options. In the event that such equity capital authorization has not been granted to the Fund, the stock options may still be exercised, however, the optionee will not be entitled to receive the 30% tax credit. All of these options are held by Gordon Skene, the former President and CEO of the Company.

INDEBTEDNESS OF DIRECTORS AND SENIOR OFFICERS

During the last completed fiscal year, no Director, executive officer, senior officer of the Fund or any of their associates has been indebted to the Fund or any of its subsidiaries, nor has any of these individuals been indebted to

another entity which indebtedness is the subject of a guarantee, support in agreement, letter of credit or other similar arrangement or understanding provided by the Fund or any of its subsidiaries.

MANAGEMENT CONTRACTS

The Manager is a wholly-owned subsidiary of Pender Financial, a public company of which Mr. Roberts, the current President and Chief Executive Officer of the Fund, is a shareholder, Mr. Edmison, the current Chairman of the Fund, is also a director, officer and shareholder and Mr. Barr, the Chief Financial Officer of the Fund is a shareholder.

The Fund and the Manager entered into an Amended and Restated Management Agreement dated June 22, 2006. The Management Agreement has an initial term ending December 31, 2013, and shall be renewed automatically for a further term of four years. See "Management and Administration – Services Provided by the Manager" and "Fees and Expenses – Management Fees".

INTEREST OF INSIDERS IN MATERIAL TRANSACTIONS

Except as disclosed herein, since the commencement of the last completed fiscal year, no insider of the Fund, or any associate or affiliate of an insider, had any material interest, direct or indirect, in any transaction or any proposed transaction which has materially affected or would materially affect the Fund or any of its subsidiaries.

GENERAL DEVELOPMENT OF THE BUSINESS

Description

The Fund is engaged in the business of venture capital finance, and its primary business is to make investments in Small Businesses which qualify as Eligible Investments or other forms of Permitted Investments with a primary focus on emerging, high-growth businesses. The Fund's main affairs are managed by the Manager. The Fund, is pursuant to the SBVCA, restricted from carrying on any business except that of assisting the development of Small Businesses by:

- (a) making investments permitted by the SBVCA; and
- (b) providing business and managerial expertise to Small Businesses in which it has made or proposes to make an Eligible Investment.

The Fund's mandate, as established by the Board of Directors, is to provide its shareholders with a diversified portfolio of investments in emerging, high technology companies.

During the last three fiscal years of the Fund ended December 31, 2006, 2005 and 2004, the business of the Fund has developed as set out in the tables below.

Year Ended December 31, 2004

During the fiscal year ending December 31, 2004, the Fund raised an aggregate of \$11,364,751 in equity capital. The following investment activity occurred during fiscal 2004:

Investee Company	Investing Activity	Amount (Invested) or Received During Fiscal 2004
Chemokine Therapeutics Corp.	Purchased 400,000 common shares	(\$400,000)
Gemcom Software International Inc.	Purchased 1,250,000 units ⁽¹⁾	(\$750,000)

Investee Company	Investing Activity	Amount (Invested) or Received During Fiscal 2004
IP Applications Corp.	Purchased 600,000 units ⁽²⁾⁽⁶⁾	(\$600,000)
	Purchased 750,000 common shares ⁽³⁾⁽⁶⁾	(\$750,000)
	Purchased 1,000,000 units ⁽⁴⁾⁽⁶⁾	(\$1,000,000)
Municipal Solutions Group Inc.	Purchased 1,000,000 units ⁽⁵⁾⁽⁶⁾	(\$100,000)
QuestAir Technologies Inc.	Purchased 228,500 common shares	(\$399,875)
Kelsan Technologies Corp.	Disposed of 550,000 preferred shares and 94,149 common shares	\$1,598,919
Kinetek Pharmaceuticals Inc..	Disposed of 375,000 common shares	\$40,039

- (1) Each unit consisted of one common share and one common share purchase warrant. Each warrant entitled the holder to purchase one common share at a price of \$0.90 per share for a period of 24 months.
- (2) Each unit consisted of one common share and one common share purchase warrant. Each warrant entitled the holder to purchase one common share at a price of \$1.25 per share for a period of 12 months.
- (3) The Fund was issued 750,000 warrants at an exercise price of \$1.00 per common share for a period of 24 months.
- (4) Each unit consisted of one common share and one half of one common share purchase warrant and one cashless put warrant. Each whole warrant entitled the holder to purchase one common share at a price of \$1.00 per share for a period of 24 months. Each cashless put warrant had a maximum value of \$0.05 and is only exercisable during the period from December 22, 2005 to December 22, 2006.
- (5) Each unit consisted of one common share and one common share purchase warrant. Each warrant entitled the holder to purchase one common share at a price of \$1.20 per share for a period of 24 months.
- (6) The units, shares and warrants are stated on a post-consolidation basis.

Fiscal Year Ended December 31, 2005

During the fiscal year ended December 31, 2005, the Fund raised an aggregate of \$3,726,531 in equity capital. The following investment activity occurred during fiscal 2005:

Investee Company	Investing Activity	Amount (Invested) or Received
Radiant Communications Corp.	Purchased convertible debentures ⁽¹⁾	(\$1,250,000)
	Purchased 641,026 units ⁽⁹⁾⁽³⁾	(\$1,000,000)
Municipal Solutions Group Inc.	Purchased convertible debentures ⁽²⁾	(\$1,325,000)
IP Applications Corp.	Purchased 1,515,150 common shares ⁽⁴⁾⁽³⁾	(\$500,000)
	Purchased 888,888 units ⁽⁵⁾⁽³⁾	(\$400,000)
	Received 333,333 common shares ⁽⁶⁾⁽³⁾	--
	Purchased convertible debentures ⁽¹⁰⁾	(\$375,000)
Medical Ventures Corp.	Purchased 2,000,000 common shares	(\$500,000)
Chromos Molecular Systems Inc.	Purchased convertible debentures ⁽⁷⁾	(\$125,000)
OSI Geospatial Inc.	Purchased 500 units ⁽⁸⁾	(\$500,000)
Peripheron Technologies Ltd.	Sold 861,111 common shares	\$29,492

- (1) The debentures bore interest at a rate of 12% per annum, had a 36 month term to maturity and were convertible at a price of \$0.45 per common share. The Fund was issued warrants to acquire 1,388,888 common shares of Radiant at a price of \$0.60 per common share for a period of 24 months. On September 30, 2005 the debentures were converted

- into units at \$1.56 per unit with each unit consisting of one common share and one share purchase warrant. Each whole warrant entitled the fund to purchase one common share at a price of \$1.92 in first two years from the date of issue and a price of \$2.40 in the third year from the date of issue.
- (2) \$225,000 of Series B Debentures with an interest rate of 12% for a term of six months to maturity, convertible into Series C Debentures. During the year, the Series B Debentures were converted into Series C Debentures with an interest rate of 6% per annum with a term of 12 months to maturity; \$900,000 of Series A Debentures with an interest rate of 6% for a term of 18 months to maturity, convertible into common shares at a price to be determined; \$200,000 Series D Debentures with an interest rate of 12% for a term of 6 months to maturity, convertible in Series E Debentures
 - (3) Stated on a post-consolidation basis.
 - (4) The Fund surrendered 1,515,150 warrants and received 1,515,150 exchange warrants, each of which entitled the Fund to purchase one common share at a price of \$0.35 in the first year and \$0.40 in the second year.
 - (5) Each Unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant entitled the Fund to purchase one common share at a price of \$0.50 in the first year and \$0.55 in the second year.
 - (6) Early exercise of cashless put warrant.
 - (7) The debenture was convertible into units at a price of \$0.175 per unit. Each unit consists of one common share and 1.5 common share purchase warrants. Each whole warrant entitled the Fund to purchase one common share at a price of \$0.25 for a period of 24 months from the date of conversion onto common shares. The Fund was committed to investing an additional \$375,000 if certain criteria were met by the company. The debenture was extended past its initial expiry date of November 30, 2005 and bore interest at a rate of prime + 3% until conversion on February 2, 2006, upon the acquisition of Targeted Molecular Corp.
 - (8) Each unit consists of 20 preferred shares and 588 share purchase warrants. Each preferred share is convertible into 58.82 common shares. Each warrant entitles the Fund to purchase one common share at a price of \$0.85 for five years.
 - (9) Each Unit consists of one common share and one common share purchase warrant. Each whole warrant entitles the fund to purchase one common share at a price of \$1.92 in the first two years from the date of issue and a price of \$2.40 in the third year from the date of issue
 - (10) The debentures bear interest at a rate of 12% per annum, have a 18 month term to maturity and are convertible into common shares at a price to be determined. The Fund was issued 937,500 warrants to acquire common shares at a price of \$0.50 per common share for the first year from issue and at a price of \$0.55 in the second year from the issue date.

Fiscal Year Ended December 31, 2006

During the fiscal year ended December 31, 2006, the Fund raised an aggregate of \$5,391,243 in equity capital. The following investment activity occurred during fiscal 2006:

Investee Company	Investing Activity	Amount (Invested) or Received
Chromos Molecular Systems Inc.	Purchased 1,875,000 Units ⁽¹⁾ Converted All Convertible Debentures ⁽²⁾	(\$375,000)
Medical Ventures Corp.	Purchased 625,000 Units ⁽³⁾	(\$250,000)
Municipal Solutions Group Inc.	Purchased Convertible Debentures ⁽⁴⁾ Purchased 2,882,245 Common Shares Converted all Convertible Debentures ⁽⁵⁾ Interest Received	(\$400,000) (\$951,141) \$101,141
Gemcom Software International Inc.	Exercised 1,250,000 Warrants	(\$1,125,000)
Optimal Geomatics Inc.	Purchased 2,353,000 Common Shares	(\$800,020)
D-Wave Systems Inc.	Purchased 400,000 Preferred Shares	(\$400,000)
Tantalus Systems Corp.	Received 1,707 Preferred Shares (adjustment to the original purchase price)	Nil

Investee Company	Investing Activity	Amount (Invested) or Received
Gemcom Software International Inc.	Sold 1,233,900 Common Shares Purchased 1,233,900 Common Shares ⁽⁶⁾	\$1,419,108 (\$1,418,985)
Kinexus Bioinformatics Corp	Disposed of 446,428 Common Shares	\$66,964
IP Applications Corp.	Purchased Convertible Debentures ⁽⁷⁾	(\$354,700)
Chromos Molecular Systems Inc.	Purchased Convertible Debentures ⁽⁸⁾	(\$250,000)

- (1) Each Unit consists of one common share and one common share purchase warrant. Each whole warrant entitles the Fund to purchase one common share at a price of \$0.25 for a period of 24 months from the issue date.
- (2) The debentures were converted into units at \$0.175 per unit each unit consists of one common share and one and one-half common share purchase warrants. Each whole warrant entitles the Fund to purchase one common share at a price of \$0.25 for a period of 24 months from the issue date.
- (3) Each Unit consists of one common share and one half of one common share purchase warrant. Each whole warrant entitles the Fund to purchase one common share at a price of \$0.65 for a period of two years from the date of issuance.
- (4) \$400,000 of Series F Debentures with an interest rate of 12% for a term of three months to maturity, convertible into common shares at a price of \$0.33 per share; The Fund also received 1,212,121 common share purchase warrants, each whole warrant entitles the Fund to purchase one common share a price of \$0.33 per share for a period of two years after issuance.
- (5) On April 27, 2006, the Fund converted \$1,725,000 of the debentures into common shares at a price of \$0.33 per share. In addition, the Fund surrendered all of its share purchase warrants.
- (6) The Fund also received 616,950 warrants. Each warrant entitles the Fund to acquire a common share of Gemcom at a price of \$1.45 on or before July 19, 2008.
- (7) The debentures bear interest at a rate of 12% per annum, have an 18 month term to maturity and are convertible into common shares at a price to be determined.
- (8) The debenture bears interest at a rate of 10% per annum.

January 1, 2007 to October 5, 2007

During the period from January 1, 2007 to October 5, 2007, the Fund raised an aggregate of \$3,623,626 in equity capital. The following investment activity occurred during this period:

Investee Company	Investing Activity	Amount (Invested) or Received
Radiant Communications Corp.	Sold 440,000 Common Shares Purchased 440,000 Common Shares	\$396,240 \$396,000
Chromos Molecular Systems Inc.	Sold 250,000 shares	\$25,000
Municipal Solutions Group Inc.	Purchased Convertible Debentures ⁽¹⁾	(\$300,000)
Tantalus Systems Corp.	Purchased shares in a private company ⁽²⁾	(\$500,500)
Municipal Solutions Group Inc.	Converted Debentures ⁽³⁾ Purchased 588,235 Units ⁽⁴⁾ Interest Received	(\$200,000) \$5,129
Chromos Molecular Systems Inc.	Debenture Repaid Interest Received	\$250,000 \$18,774
Municipal Solutions Group Inc.	Demand Promissory Note ⁽⁵⁾	(\$300,000)

Investee Company	Investing Activity	Amount (Invested) or Received
IP Applications Corp.	Demand Promissory Note ⁽⁶⁾	(\$250,000)

- (1) The debentures bear interest at a rate of 12% per annum.
- (2) Tantalus is a privately held corporation.
- (3) The debentures were converted into units at \$0.34 per unit. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire an additional common share of Municipal at the price of \$0.50 for a period of two years.
- (4) Each unit consists of one common share and one half of one common share purchase warrant. Each whole warrant entitles the Fund to purchase one common share at a price of \$0.65 for a period of two years from the date of issuance.
- (5) The loan bears interest at the rate of 18% per annum and matures on February 28, 2008.
- (6) The loan bears interest at the rate of 12% per annum.

Summary of Investments

The Fund's portfolio of Investments as at June 30, 2007 is set out in the table below:

EQUITY INVESTMENTS ⁽¹⁾						
Name of Investee Company and Issuer's %age of Ownership	Listing Status	Date of Investment(s)	Investment Price per Security	Business of the Company	Eligible Investments (at cost)	Fair Value ⁽²⁾ June 30, 2007
Chromos Molecular Systems Inc. 2.6%	Public TSX: CHR	June 2005, August 2005, September 2005, and February 2006	\$0.175 / \$0.20 per share	Develops cellular engineering and therapeutics	\$451,724	Nil
Chemokine Therapeutics Corp. 0.9%	Public TSX: CTI	December 2004	\$1.00 per share	Develops therapeutic proteins	\$400,000	\$228,000
D-Wave Systems Inc. % is confidential	Private	May 2006	\$1.00 per preferred share	Design a quantum computer processor architecture for commercial use	\$400,000	Private ⁽⁵⁾
Gemcom Software International Inc. 8.3%	Public TSX: GCM	Three investments between April 1997 and July 1999, one investment in April 2004 and one investment in May 2006	Prices ranging from \$0.33 to \$1.00 per share	Windows TM software for the exploration and mining industries	\$2,816,566	\$6,038,400
IP Applications Corp. 33.5%	Public TSX-V: IPX	Five investments made in March, September and December 2004 and April and June 2005.	Prices ranging from \$0.33 to \$1.00 per share ⁽³⁾	Provider of internet outsourcing solutions	\$3,250,000	\$1,068,348

EQUITY INVESTMENTS⁽¹⁾

Name of Investee Company and Issuer's %age of Ownership	Listing Status	Date of Investment(s)	Investment Price per Security	Business of the Company	Eligible Investments (at cost)	Fair Value⁽²⁾ June 30, 2007
Medical Ventures Corp. 2.4%	Public TSX-V: MEV	June 2005 February 2006	\$0.25 per share 0.40 per unit	Medical devices for the cardiovascular market	\$750,000	\$459,375
Municipal Solutions Group Inc. 52.2%	Public TSX-V: MSZ	December 2004, February 2005, March 2005, September 2005, February 2006, April 2006, and June 2007	Prices ranging from \$0.33 to \$0.80 per share ⁽³⁾	Develops software packages for local governments	\$3,276,141	\$2,682,147
Neuromed Technologies Inc. % is confidential	Private	December 2000	\$3.57 per share ⁽³⁾	Developing drugs targeted at calcium channels for pain and stroke	\$285,714	Private ⁽⁵⁾
OSI Geospatial Inc. 1.5%	Public TSX:OSI	April 2005	\$0.85 per share	Develops software solutions for navies	\$500,000	\$500,000
Optimal Geomatics Inc. 3.8%	Public TSX:OPG	May 2006	0.34 per share	Providing location-based asset management and engineering solutions to utility customers.	\$800,020	\$305,890
Progressive Solutions Inc. % is confidential	Private	November 1999	\$undisclosed	Management Software for the wood products industry	\$600,000	Private ⁽⁵⁾
QuestAir Technologies Inc. 0.4%	Public TSX: QAR	December 2004	\$1.75 per share	Develops and supplies gas purification systems	\$399,875	\$187,370
Radiant Communications Corp. 15.1%	Public TSX-V: RCN	November 2003, January 2005, September 2005	\$1.56 / \$2.40 per unit ⁽³⁾	Provider of high-speed, IP-based data and communications services	\$2,412,951	\$1,815,705
Tantalus Systems Corp. % is confidential	Private	July 2000, August 2000, March 2001, November 2003, and June 2007	Prices ranging from \$1.38 to \$3.60 per unit ⁽⁴⁾	Two-way wireless burst mode telemetry products for the utilities industry	\$2,046,676	Private ⁽⁵⁾

- (1) The Fund may use a portion of the proceeds of this Offering to make further investments in those companies in which it has already invested.
- (2) For valuation methodology, see "Valuation of Investments – Valuation Methodology".
- (3) Post-consolidation.
- (4) All of the Fund's holdings of Tantalus' preferred shares were subsequently converted into common shares of Tantalus on a one preferred for one common share basis.

(5) The Fund does not disclose the value of holdings in private companies on an individual basis.

CONVERTIBLE DEBENTURE INVESTMENTS

Name of Investee Company	Listing Status	Date of Investment(s)	Amount	Business of the Company	Interest Rate	Fair Value at June 30, 2007 ⁽¹⁾
Chromos Molecular Systems Inc.	Public TSX: CHR	October 2006 ⁽²⁾	\$250,000	Develops immune and gene based cell therapies	10%	\$250,000
IP Applications ⁽³⁾	Public TSX-V: IPX	December 2005 September 2006	\$375,000 \$354,700	Provider of internet outsourcing solutions	12%	\$729,700

(1) For valuation methodology, see "Valuation of Investments – Valuation Methodology". These investments are valued at the greater of cost or fair market value.

(2) The convertible debentures was repaid in full.

(3) In August 2007, the Fund advanced \$250,000 to IP Applications.

WARRANTS

Name of Investee Company	Date of Issue	No. of Warrants	Exercise Price per Share	Expiry Date	Fair Value per Share of the Shares Underlying the Warrants ⁽¹⁾	Value of the Unexercised In the Money Shares that May Be Issued Upon Exercise of the Warrants as at June 30, 2007
Gemcom Software International Inc.	July 2006	616,950	\$1.45		\$1.92	\$289,967
IP Applications Corp.	December 19, 2005	937,500	\$0.55	December 19, 2007	\$0.21	\$Nil
Medical Ventures	February 2006	312,500	\$0.65	February 14, 2008	\$0.175	\$Nil
OSI Geospatial Inc.	April 2005	294,000	\$0.85	April 11, 2010	\$0.85	\$Nil
Peripheron Technologies Ltd.	December 2002	500,000	\$1.88	Perpetual	\$N/A	\$Nil
Radiant Communications Corp.	September 2005	721,154	\$2.40	September 27, 2008	\$1.10	\$Nil

(1) Closing bid price as at June 30, 2007.

Information Technology

Gemcom Software International Inc.

Gemcom Software International Inc. ("Gemcom") is a provider of mine production software and management solutions. Established in 1985, Gemcom delivers technical mining applications, professional services, training and support.

For the year ended March 31, 2007, revenues increased by 93.5% to \$35.8 million and net income increased by 110% to \$4.5 million or \$0.10 per fully diluted share. On August 15th, the company announced its first quarter financial results. The company continued to grow at an impressive rate with revenues of \$12.6 million for the quarter, net income of \$1.4 million for the quarter, and earnings per share of \$0.03. The company is in excellent financial health with greater than \$16.3 million in cash and short term investments at June 30, 2007.

The Fund invested \$2.8 million in common shares and warrants of Gemcom in several rounds with the initial investment in June, 1997. As of June 30, 2007, the Fund held 3,145,000 common shares of Gemcom with a market valuation of \$6,038,400. In addition, the Fund holds 616,950 warrants valued at \$289,967 as of June 30, 2007.

IP Applications Corp.

IP Applications Corp. ("IP Apps") specializes in business process outsourcing in the Internet services market. IP Apps designs, develops and deploys technology to assist the delivery and management of private branded Internet services, web-based applications and back-office infrastructure. IP Apps allows companies to meet their customer demand for Internet services by providing a fully integrated outsourced solution. IP Apps focuses on delivering advanced Internet services so their clients can focus on their core business.

The company reported revenues of \$4.0 million for the six months ended June 30, 2007. During this six month period gross margins increased to 45 percent from 41 percent in the same period in 2006 and operating expenses fell to \$2.3 million from \$3.0 million. As a result of these improvements, the company achieved EBITDA of \$39,450 for the six months ended June 30, 2007. This is the first time the company has reported positive EBITDA for a six month period in over seven years.

As of June 30, 2007, the Fund has made several investments in IP Apps totalling \$3,979,700. The Fund holds 5,087,371 common shares, 937,500 warrants to purchase additional shares of the company and \$729,700 of convertible debentures. As of June 30, 2007, the Fund carries the investment at a total value of \$1,798,048. In August 2007, the Fund advanced \$250,000 to IP Apps in anticipation of a larger financing to be completed in the fourth quarter of 2007.

Municipal Solutions Group Inc.

Municipal Solutions Group Inc. ("Municipal") provides packaged software solutions that manage the everyday business processes of local governments. The solutions are based on 23 years of experience with a product platform that adapts to the changing practices of clients. Branded under the CityView name the company provides a number of out of the box solutions automating practices in Property Information, Permits and Inspections, Planning, Code Enforcement, Business Licensing and Cashiering. CityView Application Builder is a set of application development tools that allows the client to develop applications to match specific needs. Municipal Software offers a range of services from training and customer support of its suite of products to custom development for unique applications.

The company increased annual revenues to \$4.2 million for the year ended December 31, 2006 from \$3.5 million for the year end December 31, 2005, an increase of 20%. On August 22nd, 2007 the company announced continued revenue growth with revenues of \$1.26 million for the quarter ending June 30, 2007, an increase of 54 per cent over the comparable period the previous year.

As of June 30, 2007, the Fund invested \$3,276,141 in common shares in a series of investments including an investment of \$500,000 on June 26, 2007. As of June 30, 2007 the Fund carries the investment at a value of

\$2,682,147. Since June 30, 2007, the Fund has advanced \$300,000 to Municipal secured by way of a demand promissory note.

OSI Geospatial Inc.

OSI Geospatial Inc. (formerly Offshore Systems International Ltd.) ("OSI") is a provider of geospatial intelligence and is a fleet supplier of electronic chart systems and software for navigation and situational awareness. The company is fleet supplier to six NATO navies and their close allies, and its ECPINS® (Electronic Chart Precise Integrated Navigation System) product line is installed or under contract for installation on more than 340 major warships worldwide.

The company's core competency is electronic geography and the production, management and display of many forms of geographic data. The company provides display systems and data for several defence, government and commercial customers, and conducts its operations through three business units: OSI Navigation Systems (moving map display systems and software), OSI Applications (situational awareness products and services for command and control systems) and OSI Geomatics (digital map and electronic chart data production services: land and marine).

Revenue for OSI has grown from \$5.6 million in 2000 to US\$24.1 million in 2006. The company reported revenues of US\$6.1 million for quarter ending May 31, 2007.

The Fund invested \$500,000 in preferred shares of the company, convertible into common shares at \$0.85 per share with a 7% dividend yield. In addition, the Fund received warrants to purchase 294,118 common shares of the company at \$0.85 for a period of five years. As of June 30, 2007, the Fund carries the investment at a value of \$500,000.

Optimal Geomatics

Optimal Geomatics ("Optimal") specializes in providing highly accurate geomatic services and software to a customer-base which is primarily composed of Electric power line and Gas pipeline utilities. Optimal's unique mapping services takes raw data and builds it into highly valuable geospatial information that helps utilities to reduce costs, improve efficiency and better understand risks associated with their assets. The end result is customer-specific enterprise data that is immediately accessible and has significant value across the organization.

Optimal has grown revenues from \$2.3 million for its fiscal year end Jan 31, 2003 to \$16.5 million for its most recent year end October 31, 2006. For the year end October 31, 2006, Optimal lost \$0.02 per share. For the nine-month period ending July 31, 2007, Optimal reported revenues of \$11.8 million.

The Fund invested \$800,020 on May 18, 2006 in common shares at \$0.34 per share and holds 2,353,000 shares. As of June 30, 2007, the Fund carries the investment at a value of \$305,890.

Progressive Solutions Inc.

Progressive Solutions Inc. ("Progressive Solutions") is a supplier of business software solutions designed specifically for wood products companies. Progressive Solutions' software is installed at over 500 sites. Its customers are both small and Fortune 500 corporations, and include a wide range of primary and secondary wood products manufacturers as well as wood products distributors and brokers. Progressive Solutions' software tracks inventory, transactions and logistics to help customers streamline processes and improve their profitability.

Progressive Solutions is embarking on several initiatives and is expanding into the United Kingdom. In the past, Progressive Solutions has acquired a UK-based company and its complementary product line, opened an office and is marketing two products targeted at the UK and European markets.

Progressive Solutions is also expanding its product line to address a wider range of industry segments and customer sizes in North America. Weyerhaeuser Company Limited, a large forest products company, recently signed a contract to install Progressive Solutions' business software at all of its wood products facilities in North America.

The Fund invested \$600,000 in preferred shares of Progressive Solutions in November, 1999.

Communications

Radiant Communications Corp.

Radiant Communications Corp. ("Radiant") is a Vancouver based company that provides high-speed, IP-based, data communications services, Internet connectivity, network security, web hosting, web development and marketing services to businesses. Radiant has offices in five major Canadian cities and over 3,000 customers and 14,000 connections.

On August 23, 2007, the company announced record revenue of \$5.4 million for the quarter ended June 30, 2007, an increase of 13.5 per cent compared with the second quarter of 2006 and generated \$256,849 of cash flow from operations. Radiant also announced they successfully signed their first commercial digital voice customers, one of its new product offerings designed to increase revenue growth by leveraging their existing customer base.

As of June 30, 2007, the Fund has made several investments in Radiant totalling \$2,412,951. The Fund holds 1,650,641 common shares and 721,154 warrants to purchase additional shares of the company. As of June 30, 2007, the Fund carries the investment at a value of \$1,815,705.

Tantalus Systems Corp.

Tantalus Systems Corp. ("Tantalus") is developing hardware and software technologies that create a next generation long-range two-way, wireless data communication network specifically designed for electric, water and gas utilities. This communications capability enables utilities to manage their capital-intensive asset base, and to deliver applications and services to their customers.

The Tantalus Utility Network™ ("TUNet") is a combination of hardware technologies that create a 220 MHz wide area network and local area network that provides long-range characteristics. The initial market focus for TUNet is electrical distribution utilities which distribute power from substations to consumers.

On July 5, 2007, the company announced a \$20 million financing to accelerate product development of Smart Grid applications and market expansion. The Fund added to its position by investing \$500,500 in this round of financing.

The Fund has invested a total of \$2,046,676 in common shares of Tantalus in a series of transactions from 2000 to 2007.

Life Sciences

Chemokine Therapeutics Inc.

Chemokine Therapeutics Corp ("Chemokine") is a product-focused biotechnology company developing drugs that harness the therapeutic potential of stem cells through chemokine pathways. Chemokines are a new class of cytokines; proteins which signal biological responses from stem cells that play a critical role in the growth, differentiation and maturation of cells necessary for fighting infection, as well as tissue repair and regeneration. The Company has five products with two lead product candidates in clinical trials; CTCE-0214, for enhancing the immune system, and CTCE-9908, to prevent the spread of cancer and its continued growth.

The Fund invested \$400,000 in common shares of Chemokine in December 2004. At June 30, 2007 the Fund carries the investment at a value of \$228,000.

Chromos Molecular Systems Inc.

Chromos Molecular Systems Inc. ("Chromos") is a biotechnology company committed to the development and commercialization of innovative therapeutic products based on its two proprietary platforms: the Artificial

Chromosome Expression (ACE) System and Rapid Expansion Method (REM). Chromos is using these unique approaches to develop immune- and gene-based cell therapies, and to engineer cell lines for biopharmaceutical production.

On April 3, 2007, the Fund demanded repayment of the principal and interest owing under the convertible debenture advanced to Chromos in October, 2006. On April 11, 2007, the common shares of Chromos were suspended from trading for a failure to meet the continued listing requirements of the Toronto Stock Exchange. As a result, the Fund decreased the market value of its common shares of Chromos to \$nil. On April 12, 2007, Chromos announced a restructuring proposal to the company's creditors and temporary employee layoffs.

As of June 30, 2007, the market value of the Fund's convertible debentures was \$250,000 and the common shares were carried at a value of \$nil. Subsequent to June 30, 2007, the Fund was repaid all principal and accrued interest from its convertible debentures.

Medical Ventures Corp.

Medical Ventures Corp. ("Medical Ventures") develops, manufactures and distributes medical devices and is focused on the development and commercialization of medical devices which clearly address a clinical need in the cardiovascular marketplace. The company has two divisions: PMD tissue products used in cardiac reconstruction and repair and Angiometrx catheter products for the growing interventional cardiology market. The focus in both divisions is the commercialization of the cardiovascular medical devices currently in Medical Ventures' product portfolio, and the development of new products based upon these two core technologies. The company's strategy is to acquire and develop technologies and products that are within two years of commercialization and to increase the value of their technologies through the commercialization process.

The Fund invested \$500,000 in common shares of Medical Ventures in June 2005 and \$250,000 in February 2006. As of June 30, 2007 the Fund carries the investment at a value of \$459,375.

Neuromed Technologies Inc.

Neuromed Technologies Inc. ("Neuromed") develops drugs aimed at large markets currently underserved due to either a lack of suitably effective therapeutics (e.g. neuropathic pain, stroke and epilepsy) or by drugs fraught with considerable side effects (e.g. morphine for severe chronic pain and the benzodiazepines for anxiety). These markets are growing as a result of the aging population.

On April 24, 2007, Neuromed licensed from ALZA Corporation the exclusive U.S. rights to develop and commercialize OROS[®] Hydromorphone, an extended release formulation of a potent opioid analgesic in Phase 3 clinical development. OROS[®] Hydromorphone has been approved in Germany and other European countries and the product received an Approvable Letter from the U.S. Food and Drug Administration (FDA) in October, 2000. Neuromed anticipates that one successful adequate and well-controlled clinical trial will be needed to support approval of OROS[®] Hydromorphone in the U.S.

On August 21, 2007, Neuromed announced the completion of a Series E financing of US\$53.3 million bringing the cumulative amount raised by the company to US\$126 million. The fund did not participate in this financing.

The Fund invested \$285,714 in preferred shares of Neuromed in December 2000.

Proprietary Technology

D-Wave Systems Inc.

D-Wave, is a developer of quantum computers. A quantum computer differs from conventional machines and supercomputers because of its ability to perform operations and solve certain problems at dramatically greater speed. So far, D-Wave has developed technology and owns or has exclusive rights to more than 90 patents and patent

applications worldwide, including 38 issued U.S. patents, covering basic devices, processor architectures and applications.

The Fund invested \$400,000 in preferred shares of D-Wave on May 16, 2006.

QuestAir Technologies Inc.

QuestAir Technologies, Inc. (“QuestAir”) is a developer and supplier of proprietary gas purification systems for several large international markets, including existing markets such as oil refining, biogas production and natural gas processing, and emerging markets such as fuel cell power plants and fuel cell vehicle refuelling stations. The Company has joint development agreements with Exxon Mobil Research and Engineering Company and Shell Hydrogen, and a collaboration with FuelCell Energy.

The Fund invested \$399,875 in common shares of QuestAir in December 2004. As of June 30, 2007 the Fund carries the investment at a value of \$187,370.

INVESTMENT POLICY

The following investment objectives, investment criteria and investment procedures describe the Investment Policy of the Fund.

Overview

The Fund invests in Eligible Small Businesses with the objective of realizing long term capital appreciation through the prudent application of its capital.

The Fund contributes to increased employment, exports and diversification of the British Columbia economy by making investments in Eligible Small Businesses. Such businesses will be involved in either information technology, communications or life sciences, or the commercialization of other proprietary technologies.

Focus

The Fund places special emphasis on investing in companies in the information technology, communications, proprietary products, advanced manufacturing and life sciences sectors where the Manager and its associates have operational expertise, experience and business contacts. In addition, the Fund may invest in ESBs in other industry sectors as investment opportunities arise. The Fund provides these companies with equity capital to increase marketing activities, launch new products, enter new markets and expand production facilities.

The Fund focuses on companies with proven management, growing markets, globally competitive products and proprietary technologies. Generally, prospective companies have revenues and the potential to substantially improve their profitability. The Fund invests in companies that the Manager believes are realistically valued and whose valuations will benefit from additional equity capital that supports expansion or restructuring.

Differentiation

The Fund differentiates itself from other VCCs and LSVCCs by focusing principally on ESBs that are at later stages of business development which provide expansion or restructuring opportunities, and that offer investors improved liquidity through either existing public listings or near term liquidity events. The Fund does not have target weightings of public and private company investments. Rather, it focuses on investments that have the potential for early liquidity. The SBVCA does not impose limitations on public company investments which are ESBs, other than the maximum amount of capital an ESB may receive from VCCs which may not exceed \$5 million per VCC, subject to a \$10 million maximum on a rolling two year basis for investments in an ESB by all VCCs.

Expansion and Restructuring Opportunities in the Technology Sector

The Fund is the first of its kind in British Columbia to focus its new investments specifically on expansion and restructuring opportunities within the technology sector. The Fund targets investments where the Fund can, through its participation, significantly improve the prospects of the business undergoing expansion or restructuring. The Manager believes that a number of Eligible Small Businesses require this type of capital assistance to realize their full commercial potential.

Opportunities in Public Companies

The Fund believes that there are a number of publicly listed companies in British Columbia that qualify as Eligible Investments that have revenues, are at or are approaching profitability, and have already achieved many of the milestones needed to build shareholder value. The Fund believes that these types of investments present an excellent opportunity for capital appreciation because the public markets continue to value many of these companies modestly. Although the Fund may invest in private companies, the Fund currently intends to emphasize private placements in public companies.

The Fund believes that the Manager is qualified to identify and secure such opportunities since its principals and their associates have significant experience in corporate restructuring and structuring private placements in public companies.

Investment Criteria

The Fund invests in Eligible Small Businesses where the prospective company meets as many of the following criteria as possible:

Management

The management team of a prospective company have shown commitment to the venture and are significant equity holders. The management team have significant relevant experience and expertise, and have track records of success within their industry.

Markets

The markets for the company's products are large or have significant potential for growth.

Products

The products are at or near the commercialization stage and have sustainable competitive advantages. The products are globally competitive and have the potential for wide scale acceptance.

Technology

The company has a high value-added component to its products. The products will typically incorporate proprietary technology which is owned by the company.

Profitability

The prospective company has high potential for profit growth. There are clear indications that the company could become substantially more profitable within one to two years. Generally the company is generating revenues from products although it may not yet have reached profitability. In the case of life science companies, the company has products that are approaching commercialization.

Valuation

The prospective company is valued at or below historical levels for comparable companies within its industry. The company's share value has significant potential for growth over the next three years.

Size of Investment

The size of the investment will depend in part on the size of the Fund and the financial requirements of the prospective company but will typically be \$500,000 or more. The Fund will seek to reduce exposure to loss by generally not investing greater than 10% of its funds in any one Eligible Small Business at any one time. However, due to timing of new investments and variations in the book values of the Fund's investments it is possible that the Fund may at any given time have greater than 10% of its portfolio comprised of one investment. In the case of companies that are undergoing a restructuring, the Fund may invest up to 20% of its funds in one Eligible Small Business.

Stage of Development

Generally, the Fund invests primarily in companies at the expansion and restructuring stages as described below.

Expansion Stage

A mid to later stage company which typically has fully commercialized its initial products and is generating sales but requires further capital to expand production, increase its marketing activities, sell its products into new markets or launch new products.

Restructuring Stage

A business which typically has the potential to succeed but requires additional capital and changes in structure, management, staffing or marketing to realize its true business potential. The company requires additional equity capital to re-launch and revitalize its commercial activities.

Portfolio Diversification

The Fund intends to maintain and will continue to diversify its portfolio by investing in a range of Eligible Small Business in different industry sectors to ensure that investment returns are less dependant on business cycles in individual industries. The existing investments of the Fund are set out in the table below.

Name of Investee Company	Fair Value⁽¹⁾ August 31, 2007
PUBLICLY LISTED	
Chemokine Therapeutics Corp.	\$ 200,000
Chromos Molecular Systems Inc.	Nil
Gemcom Software International Inc.	5,500,738
IP Applications Corp.	1,971,737
Medical Ventures Corp.	354,375
Municipal Solutions Group Inc.	2,135,123
OSI Geospatial Inc.	500,000
Optimal Geomatics Inc.	247,065
QuestAir Technologies Inc.	132,530
Radiant Communications Corp.	<u>1,485,577</u>

Name of Investee Company	Fair Value ⁽¹⁾ August 31, 2007
PUBLICLY LISTED	
Total Publicly Listed Investments	\$ 12,527,145
PRIVATELY HELD	
D-Wave Systems Inc.	
Neuromed Technologies Inc.	
Progressive Solutions Inc.	
Tantalus Systems Corp.	
Total Privately Held Investments	\$ 4,058,330
Total Investments	\$ 16,585,475

(1) For valuation methodology, see "Valuation of Investments – Valuation Methodology".

These existing investments have been reviewed by the Audit Committee of the Board and are recorded at their estimated, current market value as at August 31, 2007.

Sourcing

The Fund will depend on the Manager's ability to source attractive investment opportunities. There are a limited number of organizations and individuals involved in the technology investment community in British Columbia. The principals of the Manager are well known in this community as a result of their operating and professional roles with technology companies. These extensive contacts have been developed over the last 20 years and include:

- (a) The management, board of directors and the associates of the Fund and Manager
- (b) Referrals from current or former portfolio companies of the Fund;
- (c) Industry and professional relationships of the principals of the Manager; and,
- (d) Venture capital companies, investment dealers and institutional investment managers, financial intermediaries, merger and acquisition specialists and professional firms.

These contacts provide access to a variety of investment opportunities on a continuing basis. The Manager is also active in directly sourcing and structuring opportunities.

Due Diligence

Initial due diligence will include detailed discussions with the prospective company's management, site visits, reviews of comparable companies, customer interviews, financial reviews, and obtaining the advice of the board and other key industry contacts.

Prospective companies that are favourably reviewed will be subjected to more extensive due diligence which will include financial due diligence, reference checks on management, an in-depth review of the business models of the company, technology and intellectual property reviews and legal due diligence. The evaluation process, from sourcing to investment, will typically take one to three months.

Structuring

The particular form of the Fund's investments in Eligible Small Businesses will be negotiated after taking into account the Fund's size, investment objectives and criteria, the long-term requirements of the Eligible Small

Businesses and tax considerations. In negotiating agreements between the Fund and prospective companies, the Manager will seek to realize capital appreciation by the prudent application of its capital. Depending on the circumstances, the Fund's investments will take the form of either common shares, preferred shares or convertible debt as permitted under the SBVCA. Investments may include warrants to acquire common shares or involve a combination of these instruments.

The Manager will prepare an investment memorandum providing the results of its evaluation due diligence. The Fund may cooperate with other investors in identifying, structuring and negotiating investments. Participation with other investors in well structured attractive investments will increase the Fund's investment opportunities and further diversify its portfolio.

The Fund will structure investments to meet the needs of the companies in which it is investing, while preserving and protecting its capital, and allowing for the greatest appreciation in value and achieving liquidity within three to five years.

Managing Investments

The Manager will monitor individual investments closely to ensure that the interests of the Fund are being protected. Where the Fund holds 10% or more of the issued and outstanding shares of an investee company, a representative of the Manager will typically be on the board of the company, as well as on key committees of the board. The Manager will provide to the Investment and Audit Committees of the Board, on an on-going basis, a report on each portfolio company, a discussion of significant events and management plans with respect to the continued management of the Fund's investment. Where appropriate to achieve long-term capital appreciation, the Fund will encourage its portfolio companies to seek out relationships with strategic investors and industry partners.

Divestiture Strategies

The Manager will continuously evaluate potential liquidity strategies. The Fund favours investments that may be liquid within three to five years of the initial investment of the Fund. Liquidity options for the Fund's portfolio of portfolio companies include public listing transactions (for those portfolio companies which are public companies), initial public offerings or the sale or acquisition of the portfolio companies to or by larger corporate strategic partners (for those portfolio companies which are private companies), and the redemption of preferred shares where applicable to the investment.

Investment/Divestment Procedure

The following is the investment procedure to be followed by the Manager in recommending investment and divestment opportunities to the Fund.

- (a) The Manager identifies potential investment/divestment opportunities.
- (b) The Manager advises the Investment Committee of the Board of the potential opportunity.
- (c) The Investment Committee makes a decision on whether or not to pursue the opportunity.
- (d) The Manager completes due diligence on the opportunity and negotiates the terms of investment/divestment.
- (e) The Manager provides a written report of the potential investment/divestment to the Investment Committee. The written report contains an analysis of the management team, financial structure, valuation, product offering, technology, market, competition and business strategy.
- (f) The Manager provides a recommendation to the Investment Committee based on the written report.
- (g) The Investment Committee either agrees or disagrees to make the investment/divestment.

- (h) The Manager completes the necessary documentation and closes on the investment/divestment.

Monitoring Procedure

The Manager monitors each investment on behalf of the Fund. The Manager reports on each investment quarterly to the Investment Committee of the Fund. These reports highlight changes in the prospects of the Investee companies such as changes in:

- (a) Revenue;
- (b) Profitability;
- (c) Management;
- (d) Technology;
- (e) Markets;
- (f) Valuation; and
- (g) Strategy.

Investment Restrictions

As a VCC regulated by the SBVCA, the Fund may not make or hold any investments not permitted by the SBVCA. See "Statutory Restrictions" below.

Statutory Restrictions

Investments to be made by the Fund are, pursuant to the SBVCA and the regulations thereunder, subject to the following restrictions and requirements:

Eligibility Restrictions

Except for those Permitted Investments specified below, the Fund may only make investments in Eligible Securities of Eligible Small Businesses ("Eligible Investments").

In addition, the Fund may make investments ("Permitted Investments") in:

- (a) securities of Eligible Small Businesses, the equity shares of which would qualify as Eligible Securities;
- (b) liquid reserves on deposit in British Columbia at a savings institution;
- (c) securities, as defined by the Securities Act, that are issued by the government of British Columbia or the government of Canada;
- (d) the Investment Protection Account; and/or
- (e) any other investment prescribed pursuant to the SBVCA.

Under the SBVCA, the Fund is required to have at least 40 percent of its raised equity capital invested in eligible businesses by the end of its next fiscal year and 80 percent within the second fiscal year following the original date of share capital issue.

Should the Fund for any reason divest itself of an "Eligible Investment" prior to the expiration of the statutory five-year period and fall below the minimum investment level requirements, the Fund must reinvest additional funds into another "Eligible Investment" for the remainder of the five-year period or it may face the possibility of program suspension and repayment of Tax Credits."

Industry Restrictions

Unless such investment is or was made with funds that were raised other than through the issue of approved equity capital, the Fund may not make or hold an investment in an ESB if all or part of the proceeds of that investment are directly or indirectly used or intended to be used by the ESB for any of the following purposes:

- (a) lending;
- (b) investment outside British Columbia;
- (c) investment in land, unless the use thereof is incidental or ancillary to the qualifying activities in which the ESB is substantially engaged;
- (d) acquiring securities;
- (e) purchasing goods or services from the Fund, or one of its Directors, Officers or shareholders or from an Associate of one of the Fund's Directors, Officers or shareholders, other than:
 - (i) business or managerial advisory services provided to the ESB at fair market value, or
 - (ii) goods or services that are sold to the ESB at fair market value in the ordinary course of the seller's business as a seller of such goods or services on the open market;
- (f) payment of all or part of a debt obligation, unless:
 - (i) the payment is considered necessary for the financial viability of the ESB by the SBVCA Administrator, or
 - (ii) the debt obligation was incurred with the prior approval of the SBVCA Administrator in anticipation of an investment in the ESB by the Fund;
- (g) as part of a transaction or series of transactions directly or indirectly involving any of the following:
 - (i) the purchase or redemption of previously issued shares of the ESB or any of its Affiliates;
 - (ii) the retirement of any part of a liability to a shareholder of the ESB or any of its Affiliates;
 - (iii) the payment of dividends;
 - (iv) except in prescribed circumstances, the funding of all or part of the purchase by the ESB of all or a substantial portion of the assets of a proprietorship, partnership, joint venture, trust or corporation;
 - (v) the funding of all or part of the purchase by the ESB of any of the assets of a proprietorship, partnership, joint venture, trust or corporation at a price that is greater than the fair market value of the assets purchased; or
 - (vi) other prescribed events; and
- (h) other prescribed purposes.

Related Party Restrictions

The SBVCA also provides that the Fund may not make or hold an investment in an ESB if any of the Shares of the Fund are held by a Major Shareholder who is , or was at any time during the two years immediately preceding the investment:

- (a) a Major Shareholder of the ESB;
- (b) an Associate of a Major Shareholder of the ESB;
- (c) a voting trust where the trustee votes shares of the ESB; or
- (d) the ESB or an Associate or Affiliate of the ESB.

In addition, the Fund may not make or hold an investment in an ESB if the ESB or an Associate, Affiliate, director, officer or shareholder of the ESB provides or has provided, directly or indirectly, as part of any transaction or series of transactions, a loan, guarantee or any other financial assistance to the Fund or a person who is, or was at any time during the two years immediately preceding the investment:

- (a) an Associate or Affiliate of the Fund;
- (b) one of the Fund's Directors, Officers or shareholders;
- (c) a member of a group of persons that controls the Fund; or
- (d) another person, for the purpose of that person making an investment in the Fund.

Control Restrictions

Under the SBVCA, the Fund may not control an ESB in which it invests and the Fund may not make an investment in an ESB where 50% of the shares carrying votes for the election of directors of the ESB are owned, directly or indirectly, or the ESB is controlled, directly or indirectly, by the Fund or by the Fund and any other VCC or VCCs or employee VCC or corporations registered under the Employee Investment Act, either alone or in conjunction with one or more of its or their Associates or Affiliates, their shareholders or their Associates or Affiliates, their directors or their Associates, or their officers or their Associates. There is an exception to this where the SBVCA Administrator considers the ESB to be in financial difficulty and permits the Fund to control it temporarily under such circumstances and on such terms and conditions as the SBVCA Administrator may determine. In certain cases, the Fund has exceeded the 50% threshold and has entered into undertakings with the Administrator that it will not vote greater than a specified number of shares so that it doesn't vote greater than 50% of the shares. The Manager will vote the shares of any investee company in accordance with any such restrictions. The Fund has investments in Municipal Solutions Group Inc., IP Applications Corp. and Radiant Communications Corp. An aggregate of 50% of the issued and outstanding shares of these companies are owned, directly or indirectly by the Fund, its Associates and Affiliates and other VCCs. The Fund has entered into undertakings with the SBVCA Administrator in connection with all three of the above named companies, that it will not vote greater than 50% of the shares that it holds in each of these investee companies.

Capital Restrictions

The SBVCA also provides that the Fund may not make an investment in an Eligible Small Business, if, as a result of the investment, the aggregate of all amounts received by the Eligible Small Business and any Affiliates of the Eligible Small Business from the Fund, directly or indirectly, would be greater than \$5 million, subject to a \$10 million maximum on a rolling two year basis for all VCCs.

Dispositions of Prohibited Investments

If an investment becomes prohibited by virtue of the Eligible Small Business failing to comply with the restrictions imposed by the SBVCA with respect to investment restrictions, related party restrictions, control restrictions or capital restrictions, the Fund must, within six months after the investment became prohibited, dispose of that investment. An exception to this applies if, within the six month period, the circumstances that caused the investment to be prohibited are changed to the extent that it is no longer prohibited. See "Industry Restrictions", "Related Party Restrictions", "Control Restrictions" and "Capital Restrictions".

If an investment becomes prohibited by virtue of the Eligible Small Business ceasing to pay at least 75% of its wages and salaries, calculated in a prescribed manner, which amount is reduced to 50% if the ESB is engaged in export activity, to employees who regularly report to work at operations in British Columbia (the "Salaries Requirement"), or ceases to be substantially engaged (as determined in a manner prescribed by regulation) in British Columbia in one or more of the business activities specified in the SBVCA or prescribed by the regulations thereunder (the "Business in BC Requirement"), the Fund must dispose of its investment within six months after the Eligible Small Business ceases to conform to the Salaries Requirement or the Business in BC Requirement, unless, within the applicable period, the circumstances which caused the investment or the securities to be prohibited change, so that it or they are no longer prohibited. The Fund may request the SBVCA Administrator to relieve the Fund from this requirement to dispose of the investment and the SBVCA Administrator may do so, or may extend the period within which the disposition must be made. To do so, the SBVCA Administrator must be satisfied that:

- (a) the prescribed requirements, if any, are met;
- (b) the breach of the Salaries Requirement or the Business in BC Requirement by the Eligible Small Business was not imminent at the time the Fund made the investment; and
- (c) the Eligible Small Business did not use any of the investment proceeds that it received for any purposes prohibited by the SBVCA. See "Industry Restrictions".

Cash Management

Pending investment in Eligible Investments and/or Permitted Investments in securities of Eligible Small Businesses, the Fund's cash assets (including funds received on the liquidation of investments) will be invested in liquid reserves and/or other liquid securities permitted by the SBVCA and the regulations thereunder, and will earn the rate of return generated by such investments, rather than the rate of return sought from investments in Eligible Securities of Eligible Small Businesses. See "Eligibility Restrictions".

Investment Protection Account

The SBVCA requires each registered VCC to establish a special account, called an investment protection account, and to deposit into it 30% of all equity capital raised by the VCC. The SBVCA Administrator authorizes a payment out of the IPA only if the VCC has made or proposes to immediately make an Eligible Investment. The Fund has established an investment protection account (the "IPA") with HSBC Bank Canada. The funds placed in the IPA in relation to this Prospectus will be released for Eligible Investments as approved by the SBVCA Administrator. Income earned in the IPA need not be invested in Eligible Investments and may be held by the Fund for other investments. If the Fund's registration as a VCC is revoked, the SBVCA Administrator may require the Fund to pay to the Government of British Columbia all or part of the income earned on the funds held in the IPA and which are still in the IPA.

Changes to Investment Objectives, Strategy, Policies and Restrictions

The portions of the Investment Objectives, Strategy, Policies and Restrictions of the Fund that are governed by the SBVCA and the regulations thereunder, and, in particular, the investment restrictions imposed thereby, may only be altered in the event the SBVCA and/or the regulations thereunder are amended by the Government of British

Columbia. In the event that the SBVCA and/or the regulations thereunder are amended, those portions of the Investment Objectives, Strategy, Policies and Restrictions of the Fund that are governed by the SBVCA and/or the regulations thereunder will be altered to reflect any future amendments made thereto. Those portions of the Investment Objectives, Strategy, Policies and Restrictions of the Fund that are not governed by the SBVCA and/or the regulations thereunder may be changed by the Board of Directors of the Fund, in their sole discretion.

PROXY VOTING POLICY

As required by Part 10 of National Instrument 81-106, the Fund has established policies and procedures that it will follow to determine whether, and how, to vote on matters for which the Fund receives, in its capacity as securityholder, proxy materials for a meeting of securityholders of an Investee. The policy provides in part as follows:

Standing Policy for Dealing with Routine Matters

A decision to invest in an Investee is based in part on an assessment of the management of the Investee. Since a decision to invest is generally an endorsement of management of the Investee company, the Manager, on behalf of the Fund, will generally vote with management on routine matters. However, since the Manager must be focused on the best interests of the Fund on an ongoing basis, the Manager must be aware of the potential investment implications of any issue on which shareholders are asked to vote.

Investee proxies most frequently contain proposals to elect corporate directors, to appoint external auditors and set their compensation and adopt or amend management compensation plans. The Manager will exercise the voting rights attached to securities held by the Fund in accordance with the following guidelines:

Boards of Directors

In the case of public Investees, shares will generally be voted in favour of the election of directors for slates which have met the corporate governance requirements applicable to the particular Investee.

In the case of private Investees, the Fund generally has in place a shareholders' agreement under which the majority shareholders have agreed to the composition of the board of directors in advance of a meeting of shareholders. As a result, the Manager will recommend voting in favour of the election of directors as contemplated by any shareholders' agreement entered into with that Investee.

Auditors and Auditors Compensation

In the case of public Investees, the Manager will generally vote in favour of the appointment of auditors and the approval of their compensation if the corporate governance requirements applicable to the particular Investee have been met.

In the case of private Investees, the Manager will generally vote in favour of the appointment of auditors and the approval of their compensation if the composition of the audit committee and any other requirements contained in the shareholders' agreement with the Investee have been satisfied.

Management Compensation

The goal of the Fund is to support compensation arrangements that are tied to long-term corporate performance and shareholder value. These arrangements should induce management to purchase management's interests with those of shareholders. Stock option plans that are overly generous or excessively dilutive to other shareholders will not be supported.

To the extent the Manager believes it should deviate from the foregoing guidelines, it is required to seek guidance from the Investment Committee of the Fund.

Non-Routine Matters

Other issues, including those business issues specific to the Investee or those raised by shareholders of the Investee, will be voted on or not voted on, on a case by case basis, in a manner which the Manager believes is in the best interests of the Fund having regard to the information available to them.

In any particular case, the Manager may seek specific instructions from the Investment Committee of the Fund regarding voting on a matter in question.

Monitoring of Voting by Manager

The Investment Committee of the Fund will review the proxy voting records prepared by the Manager annually to ensure that the Manager is voting proxies in accordance with the guidelines set forth in this Policy.

Proxy Voting Record

Pursuant to National Instrument 81-106, the Fund is required to prepare a proxy voting record on an annual basis for the period ending on June 30 of each year and must post the proxy voting record to its website no later than August 31 of each year.

SMALL BUSINESS VENTURE CAPITAL ACT CONSIDERATIONS

The Fund is a VCC registered under and regulated by the SBVCA.

Before the Fund can raise equity capital and issue Series 2 Shares that entitle the holder to Tax Credits, it must have an authorization from the SBVCA Administrator. All authorizations granted to VCCs such as the Fund are specific both with respect to the maximum amount of equity capital that the VCC can raise and with respect to the length of time in which the raising of funds can occur. **No Tax Credits will be issued to investors who purchase shares in a VCC that does not have an authorization to raise equity capital or where such authorization has expired prior to the investors' purchase of shares.** The SBVCA Administrator can extend the authorization period and establish a new expiration date. As there is no assurance that such an extension would always be granted. Investors should verify that they are purchasing their shares in a VCC within a duly authorized period of time.

The SBVCA Administrator has authorized the Fund to issue up to \$7,000,000 of its Shares during each of the following periods: February 16, 2007 to February 15, 2008, February 16, 2008 to February 15, 2009 and February 16, 2009 to February 15, 2010. The Fund may apply to the SBVCA Administrator for additional equity capital once the \$7,000,000 has been raised under the respective time frames. There can be no assurance that the Fund will be authorized to raise additional equity capital after the respective time frames.

The allocations of equity capital under the program for each year will expire on February 15th of each year. At that time, the VCC may apply for an additional equity capital authorization that is valid until the last day on which contributions may be made to a Registered Retirement Savings Plan ("RRSP") for the previous taxation year.

The ability for the SBVCA Administrator to grant an additional equity capital authorization for a VCC after February 15th of each year depends on the amount of remaining tax credits available for allocation under regulation 21 as set out below.

ADDITIONAL EQUITY CAPITAL AUTHORIZATION – TERMS AND CONDITIONS

The continued allocation of additional equity capital for a VCC comes with the following terms and conditions:

1. The VCC continues to be registered as a VCC in good standing under the SBVCA.

2. The VCC will be raising equity capital in compliance with the *British Columbia Securities Act* and it will submit a copy for branch pre-approval of any Offering Memorandum or Prospectus before being issued to investors.
3. The amount of tax credits that may be issued each year to eligible investors is limited by Section 29.1 of the SBVCA and Section 21 of the Small Business Venture Capital Regulations. Please note this tax credit "cap" and the amount of capital raised during each year by other program participants may limit the amount of tax credits available for the VCC in any particular year. Further, there is no guarantee that the VCC will receive approval to raise additional equity capital after the expiry date of this authorization.
4. In the event the VCC is not granted an extension to raise additional capital from February 15th to the RRSP contribution deadline in each year, it may begin raising capital from eligible investors for the next program year.
5. On the last Friday of each month, the VCC is required to report to the SBVCA branch office the amount of capital it has raised in the current year. From January 1st to the RRSP contribution deadline, the VCC must report these amounts weekly, or upon request by the SBVCA branch, on a daily basis.
6. The continued allocation of equity capital is at the discretion of the SBVCA Administrator.

The VCC may apply for tax credit certificates on behalf of its investors any time after receiving payment for the issued shares. The "Tax Credit Application", with attached Share Purchase Reports, should be filed with the SBVCA Administrator as soon as possible but no later than March 15th of each year. This will allow the SBVCA Administrator to process the applications and issue tax credit certificates prior to the federal tax-filing deadline.

A VCC may issue only common voting shares without par value that come with no special rights or restrictions except for those that apply to the redemption of shares by the VCC. The SBVCA and SBVCA Regulations permit such common voting shares to be issuable in series. No Tax Credits will be issued to investors who purchase shares in a VCC that does not have an authorization to raise equity capital or where such authorization has expired or has been suspended prior to the investors' purchase of shares. In addition there can be no assurance that the Fund will be authorized to issue additional equity capital after February 15, 2010.

The amount of Tax Credits that may be issued each year to Eligible Investors is limited by Section 29.1 of the SBVCA and Section 21 of the Regulations to the SBVCA. Please note that this Tax Credit "cap" and the level of demand from program participants may limit the amount of equity capital that the Fund may raise from Investors in the current year. Further, there is no guarantee that the Fund will receive approval to raise additional equity after the expiry date of this authorization.

The Province of British Columbia makes no representations, warranties, agreements or undertakings of any kind which purport to alter or diminish any of its rights arising from the aforementioned sections of the SBVCA and the Regulations to the SBVCA to place limitations on the annual maximum venture capital incentive amount in any calendar year.

The Fund will apply for a 30% Tax Credit on behalf of all individuals (other than estates or trusts) who subscribe for or are deemed to subscribe for Series 2 Shares under this Offering and are resident in the Province of British Columbia at the date on which they subscribe therefor and all corporations that subscribe for Series 2 Shares under this Offering and have a permanent establishment in the Province of British Columbia ("Eligible Investors").

Tax Credits are, in the discretion of the SBVCA Administrator issued to Eligible Investors in respect of the taxation year when the Fund receives the cash for the Series 2 Shares purchased during the calendar year or on or before the end of February in the following year, provided that, at the time payment is received for the Series 2 Shares for which they have subscribed, the Fund has an approval from the SBVCA Administrator to raise equity capital.

There are a variety of situations that can arise to cause a VCC to not be in compliance with the Small Business Venture Capital Act. The result of a failure to comply with the legislation varies, depending upon the particular nature of the non-compliance, but, essentially, the SBVCA Administrator can require any non-complying venture capital corporation to either rectify the circumstances of non-compliance or to pay back the Tax Credits previously issued to its shareholders. In some circumstances, the directors, officers or major shareholders of a VCC, or a small business, may be held jointly liable to repay Tax Credits to the Province of British Columbia.

The SBVCA provides that the Fund may redeem the Series 2 Shares but that in certain circumstances the Fund may become obliged to pay to the Minister of Finance an amount which is equal to some or all of the 30% tax credit originally given in respect of those Series 2 Shares. The actual amount to be paid would depend upon whether the Series 2 Shares are redeemed for more or less than their original issuance price. In any event, no amount will be payable to the Minister of Finance so long as the Fund has invested the funds it has raised in ESBs within the required "pacing" period, and so long as the funds are kept invested in ESBs for the prescribed period. Under the SBVCA, the pacing requirements require that at least 40% of the funds raised by the Fund during a fiscal year be invested by no later than the end of the first following fiscal year, and that 80% be invested by no later than the end of the second following fiscal year following the original date of the share capital issue. The prescribed period to keep the funds invested is five years from when the eligible investments are made. As such, it is in the Fund's interests to not redeem any Series 2 Shares unless and until these criteria are met. The Fund will take these concerns into account when deciding whether or not to permit a redemption.

At the time of redemption, if the Fund has not fully complied with the requirements to invest the proceeds raised under this Prospectus in accordance with the SBVCA, the Fund may be required to refund part of the Tax Credits to the Provincial Government. This will have the effect of reducing the Pricing Net Asset Value of the Fund at the time of redemption. The Fund is currently in compliance with the investment pacing requirements mandated by the SBVCA.

In registering the Fund under the Small Business Venture Capital Act, the Province of British Columbia makes no representations with respect to any tax considerations discussed in this document other than with respect to those dealing with the British Columbia tax credit available in respect of the purchased shares of the Fund.

The Province of British Columbia in no way guarantees the value of any securities issued by a venture capital corporation registered under the Small Business Venture Capital Act nor does it in any way express an opinion as to the financial condition of the venture capital corporation, the merits of an investment in securities of the venture capital corporation, or the merits of the venture capital corporation's investments in Eligible Small Businesses.

The review of this Prospectus by the Investment Capital Branch staff was limited specifically to the requirements of the Small Business Venture Capital Act only and any other matters which concern investors should be reviewed with their own personal advisers. Prospective purchasers are advised and encouraged to seek independent legal, tax and accounting advice with respect to this investment. Prospective purchasers are also advised that the Fund's solicitors and accountants act for the Fund and do not act for the individual purchaser in this transaction. In addition the Selling Agents' solicitors act for the Selling Agents and do not act for the individual purchaser in this transaction.

The foregoing summary is very general and any purchasers who require further information on the provisions of the Small Business Venture Capital Act or the regulations pursuant thereto are advised to consult their legal advisers.

VALUATION OF INVESTMENTS

Overview

The Audit Committee of the Board is responsible for reviewing and approving, at such times and under such circumstances as are specified by the Board, the Net Asset Value of the Fund calculated for financial reporting purposes and the Pricing Net Asset Value of the Fund and the Pricing Net Asset Value per Share in accordance with this Policy.

The Net Asset Value of the Fund, Pricing Net Asset Value of the Fund and the Pricing Net Asset Value per Share will be determined on the last business day of each week, as well as on June 30 and the last day of each fiscal year of the Fund and on the last day in each year on which a contribution made to an RRSP is deductible in respect of the preceding year (each a "Valuation Date"). These values are determined by the Manager until such time as the size of the Fund permits it to engage another Administrator to be responsible for determining these values. The determination of these values will be based, in part, on information provided by the Manager. These values will be determined in accordance with the valuation methodology (the "Valuation Methodology") specified below.

Valuation Methodology

The valuation methodology currently specified by the Board of Directors as the Valuation Methodology for the Fund is described below.

Net Asset Value of the Fund and Net Asset Value per Share

The Net Asset Value of the Fund is used for financial reporting purposes.

On any date on which a value must be determined (a "Valuation Date"), the Net Asset Value of the Fund is equal to:

- (a) the fair value on that date of the Fund's:
 - (i) current assets;
 - (ii) investments in portfolio companies for which a published market exists. See "Valuation of Investments for which a Published Market Exists"; and
 - (iii) investments in portfolio companies for which no published market exists. See "Valuation of Investments for which no Published Market Exists"; plus
- (b) the book value on that date of any other assets of the Fund; less
- (c) the total liabilities of the Fund on that date, including an estimate of the amount that would be payable to the Manager as a performance fee on that date if all of the Fund's investments in portfolio companies and non-cash reserves were to be disposed of on that date and the obligation to pay such performance fee were to be accelerated to that date.

The Net Asset Value of the Fund will be determined on the last business day of each week, as well as on the last day of each fiscal year of the Fund and on the last day in each year on which a contribution made to an RRSP is deductible in respect of the preceding year. Annually, Ernst & Young LLP will review the Net Asset Value of the Fund, as determined by the applicable Administrator and approved by the Audit Committee, to confirm that the Net Asset Value of the Fund, as so determined and approved, is, in all material respects, reasonable. See "Review and Approval" below. Ernst & Young LLP are the auditors of the Fund.

Valuation of Portfolio Companies for which a Published Market Exists

Investments that are publicly traded securities are valued on the basis of the closing bid price at period-end. A published market means any market on which securities are traded, if the prices are regularly published in a newspaper or financial publication of general and regular paid circulation. Typically securities of public companies in which the Fund invests are listed for trading on either the TSX or TSX Venture Exchange, Canada's principal exchanges for public venture companies.

While the securities of a public company may be listed on a stock exchange, they are not necessarily liquid investments. Although the securities may trade regularly, the volume of trading can often be small relative to the number of securities held by the Fund. This raises the issue of whether the Fund should apply a discount to the published market value of publicly listed securities when determining their market value to calculate the Net Asset

Value of the Fund and the Pricing Net Asset Value. The policy of the Fund is that generally the value of securities, whether publicly listed or privately held, will not be discounted simply because they are illiquid.

The Canadian Venture Capital Association (the "CVCA") recently published guidelines recommending that, depending on the circumstances, illiquid securities should be discounted from 10% to 25%. The directors of the Fund have considered this issue and have decided to continue with the existing policy of not discounting such holdings. The guidelines of the CVCA were designed for venture capital funds that have the majority of their holdings in privately held companies, whereas the Fund holds and will likely continue to hold the majority of its assets in publicly listed securities. If the Fund were to automatically discount its public company holdings, each new investment in a publicly listed company would reduce the Pricing Net Asset Value and Net Asset Value of the Fund as soon as it was made thereby unfairly diluting the holdings of existing shareholders. Since the investment strategy of the Fund is to invest principally in publicly listed securities and the application of a predetermined discount would discourage the Fund from making further such investments, the Fund has not adopted a policy of automatically discounting publicly listed securities.

In extraordinary situations where the market price of a publicly listed investment has appreciated significantly yet the volume trading is low, the Board reserves the right to instruct the Manager to apply a discount to the value of the investment. The Audit Committee of the Board will use its discretion to identify such situations and determine appropriate discounts.

Valuation of Portfolio Companies for which no Published Market Exists

The fair market value of the Fund's investments in portfolio companies for which no published market exists are recorded at cost, unless an upward adjustment is considered appropriate and supported by pervasive and objective evidence such as a significant subsequent equity financing by an unrelated, sophisticated investor at a transaction price higher than the carrying value. Downward adjustments to carrying value are made 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 the Fund's acquisition. The amounts at which non-publicly traded securities could be disposed of currently may differ from the carrying value assigned as a substantial period of time may have elapsed since the latest third party equity financing.

The process of valuing venture investments for which no public market exists is inevitably based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments. These differences could be material to the fair values of the investment portfolio.

When dealing with accounting or valuation matters not specifically referred to in this Policy, the Manager, the applicable Administrator, the Audit Committee and the Directors will apply Canadian generally accepted accounting principles or generally accepted valuation principles.

Net Asset Value per Share of the Fund is determined by dividing the Net Asset Value of the Fund by the number of Shares outstanding on the relevant Valuation Date.

Pricing Net Asset Value of the Fund

Pricing Net Asset Value of the Fund is used for Share issue and redemption purposes, but not for accounting purposes. On any Valuation Date, the Pricing Net Asset Value of the Fund is equal to:

- (a) the Net Asset Value of the Fund at that date; plus
- (b) an adjustment for investment valuation from closing bid prices to the weighted average closing price over the preceding 21 trading days; plus
- (c) the balance of the issue costs of the Fund on that date which would remain unamortized on that date if such issue costs of the Fund were to be amortized on a straight-line basis over five years from the date of issuance of the applicable shares. The Fund will calculate its Pricing NAV based on the assumption that

costs associated with the issuance of its Shares are deferred and amortized over a term equal to the expected time to redemption of the Shares. Sales and marketing costs incurred in connection with the continuous distribution of the Fund's Shares are assumed to be deferred and amortized over the shorter of the expected period of benefit or five years.

Since issue costs are associated with the raising of capital that the Fund will typically have available for at least five years, it is appropriate to spread such costs equally over five years from the date of issuance of shares in respect of the issuance for which they were incurred. The five-year term is selected because investors cannot redeem their shares prior to having held such shares for at least five years (except in the case of permitted early redemptions). The BCSC has issued a temporary exemption to certain investment funds, including the Fund, from the amended valuation policy for financial reporting purposes as set out in Section 3855 of the CICA Handbook as adopted by the Fund on January 1, 2007. For the purposes of GAAP NAV, investments in public companies are valued on the basis of the closing bid price at period-end.

Calculation of Pricing Net Asset Value per Share

The Pricing Net Asset Value per Share is the price per Share at which the Fund will in most cases, redeem Shares and is the price per share at which the Fund has issued Shares, subject to a discount of 7.5% for certain Investors for whom the Fund does not pay a selling commission to a selling agent. The Pricing Net Asset Value per Share may differ from the prices at which holders of Shares are able to sell their Shares to third party purchasers.

The Administrator responsible for determining the Pricing Net Asset Value of the Fund has determined the Pricing Net Asset Value per Share on each Valuation Date on which the Pricing Net Asset Value of the Fund is determined, by dividing the Pricing Net Asset Value of the Fund on that date by the total number of Shares of the Fund outstanding on that date.

The Pricing Net Asset Value per Share determined in this manner may not be directly comparable to the pricing methods used by venture capital funds, such as labour sponsored funds, based in other provinces. To assist investors in assessing the difference between Pricing Net Asset Value per Share for purposes of purchasing and redeeming shares and Net Asset Value per Share for financial reporting purposes, the Fund will provide a reconciliation of Pricing Net Asset Value of the Fund and Net Asset Value of the Fund in the notes to its year-end audited and semi-annual unaudited financial statements.

The Pricing Net Asset Value per Share is stated weekly and is published on the Fund's website at www.penderfund.com and is disseminated weekly to The Globe and Mail, The Vancouver Sun and other financial pricing providers.

Review and Approval

The Audit Committee will review, revise (if and as required) and approve the Net Asset Value of the Fund, as determined by the Administrator responsible for determining the Net Asset Value of the Fund:

- (a) on the last Valuation Date prior to the Fund's interim period-end of June 30th;
- (b) on the last day of each fiscal year of the Fund;
- (c) on the last day of each taxation year; and
- (d) on any Valuation Date on which the Net Asset Value of the Fund, as initially determined by the Manager or Administrator, has, as a result of changes to the valuation of investments for which no public market exists, changed by more than 5% in the aggregate from the Net Asset Value of the Fund determined four weeks earlier.

If the Fund acquires positions in private Investees, a qualified independent third party would be engaged to review the Net Asset Value of the Fund on an annual basis, as determined by the applicable Administrator and approved by

the Audit Committee, to confirm that the Net Asset Value of the Fund, as so determined and approved, is, in all material respects, reasonable.

If, on review by the Audit Committee or an independent third party engaged to confirm the reasonableness thereof, the Net Asset Value of the Fund, as determined by the applicable Administrator at any time, is determined to require revision, the Fund will reimburse, for the amounts overpaid, any persons who overpaid for Shares of the Fund as a result of having purchased Shares at a Pricing Net Asset Value per Share that was derived from the Net Asset Value that required revision, and will reimburse, for the amounts underpaid, any persons who were underpaid for Shares of the Fund as a result of having Shares redeemed at a Pricing Net Asset Value per Share that was derived from the Net Asset Value that required revision. Despite the best efforts of the Fund, there is always an element of estimation in the valuation of investments of the Fund.

The Fund engaged independent valuers from Ernst & Young LLP in good standing with the Canadian Institute of Chartered Business Valuators to review the Net Asset Value of the Fund for the periods ended June 30, 2004, 2005 and December 31, 2005 and 2006. The valuator's report to the Audit Committee (now the Audit Committee) concluded that the value of the Fund's portfolio companies for which no published market exists was in all material respects a reasonable estimate as at or within a reasonable period preceding December 31, 2006, calculated in accordance with the Valuation Methodology set forth above. The Net Asset Value of the Fund will be reviewed by annually on an ongoing basis by independent valuers.

The SBVCA Administrator does not approve or substantiate any Net Asset Value or the Pricing Net Asset Value per Share of the Fund which may be determined or approved at any time or from time to time.

FEES AND EXPENSES

Fund Fees and Expenses

The Fund will pay the fees and expenses described below.

Management Fees

Under the Management Agreement, the Manager will be paid a monthly management fee equal to 1/12 of 2.75% of the Pricing Net Asset Value of the Fund on the last Valuation Date in that month, if the Pricing Net Asset Value of the Fund on that day is less than or equal to \$100,000,000; or \$229,166.67 plus 1/12 of 2.5% of the amount by which the Pricing Net Asset Value of the Fund on the last Valuation Date in that month exceeds \$100,000,000, if the Pricing Net Asset Value of the Fund on that day is greater than \$100,000,000, subject to a maximum set by SBVCA regulation of 3% per annum of the aggregate equity capital raised by the Fund, and subject to the limitation set out in Section 8 of the SBVCA that requires 80% of the equity capital raised to be invested in ESBs. This fee will be calculated monthly, by multiplying the Pricing Net Asset Value of the Fund on the last Valuation Date in the month in respect of which the fee is payable by the applicable percentage and dividing by twelve, and will be paid, in arrears, on receipt of the Manager's invoice therefor. Management fees may remain unpaid if the Fund is not in compliance with the minimum investment requirements under the SBVCA. Management fees that are earned and exceed this provision may be accrued and paid out of retained earnings or net income of the Fund when available. These fees are intended to cover the expenses incurred by the Manager in managing our Fund, save and except as noted below under "Fees and Expenses – Fund Fees and Expenses – Operating Expenses". During the fiscal year ended December 31, 2006, the Fund paid management fees of \$603,721. During the six months ended June 30, 2007 the Fund paid management fees of \$336,440.

Amounts received by the Manager as fees from any portfolio company or prospective portfolio company or any affiliate of any portfolio company or prospective portfolio company for services that are within the scope of the Management Agreement, including finders' fees and commitment fees, will be set off against the management fees otherwise payable by the Fund to the Manager. The Manager may, however, with the prior approval of the Board, retain advisory, syndication or similar fees paid by a portfolio company or investors that are not directly related to the Fund's investment in the portfolio company. Any portion of any amount received by any affiliate of the Manager or any director, officer or employee of any affiliate of the Manager as a commitment

fee in respect of any aggregate investment or prospective investment of which an investment or prospective investment by the Fund is a part, which relates to the investment or prospective investment by the Fund and which is not paid over to the Fund, will be set off against the management fees otherwise payable by the Fund to the Manager.

Performance Fees

Under the Management Agreement, the Manager will also be paid a performance fee (the "Performance Fee"), payable quarterly in arrears, equal to 20% of the amount by which the realized gains for cash and cash income from each portfolio Investment of the Fund exceeds the aggregate of all such performance fees, if any, as have then previously accrued in respect of such portfolio Investment.

In respect of all Investments made prior to December 31, 2002 the value of the Investment for this purpose shall be the recorded value as set out in the audited financial statements of the Fund for the financial year ended December 31, 2002. In respect of all Investments made after December 31, 2002, the value of the Investment shall be the purchase price of the Investment on an Investment by Investment basis. Before a Performance Fee is paid on any investment, the following conditions must be satisfied:

- (a) the total net realized and unrealized gains and income of the Fund from its portfolio of Investments since December 31, 2002 must have generated a return greater than the effective annual rate of interest on five year guaranteed investment certificates issued by a major Canadian chartered bank plus 2% per annum;
- (b) the compounded annual internal rate of return since the later of the date of investment and December 31, 2002 (including realized and unrealized gains and income) from the principal invested in such Investment with respect to which the performance fee is being paid, must equal or exceed 10% per year; and
- (c) the Fund must have, by the end of a calendar quarter, recovered from the Investment with respect to which a fee is being paid, by way of disposition proceeds, dividends, interest or otherwise, an aggregate cash amount that is greater or equal to the recorded value as at December 31, 2002, in respect of Investments acquired before such date or, in respect of Investments acquired after such date, the amount the Fund invested therein.

Any Performance Fee paid to the Manager in any quarter in respect of any investment shall not be subsequently refunded by virtue of a reduction in the amount of unrealized gains in the investment.

The Performance Fee will be calculated and paid quarterly in arrears. In the event that the Management Agreement is terminated, the Performance Fee will continue to be payable in respect of the quarter in which termination occurs and each of the following eight quarters.

The Management Fees and the Performance Fee are intended to cover all of the expenses incurred by the Manager in managing the Fund, except travel expenses and expenses incurred by the Manager to obtain such specialized legal, accounting and/or other consulting and/or professional services, to attend such specialized conferences and/or trade shows, and to obtain such specialized research reports, industry and marketing studies, operational analyses, executive searches and other professional advisory studies and/or other specialized information as the Manager may from time to time be required to obtain and/or to attend in order to be able to effectively research and analyze potential investment and divestiture opportunities available to the Fund and/or effectively manage the investment portfolio of the Fund, which will be paid or reimbursed by the Fund. The Manager is also separately reimbursed for all expenses incurred by the Manager in providing such marketing and securities distribution support services and/or assistance with capital raising activities as the Board may from time to time request the Manager to provide. See "Management and Administration – The Manager – Services Provided by the Manager".

As at June 30, 2007, the Fund has accrued for contingent performance fees of \$1,364,639. This sum will be payable to the Manager if certain investments are realized at their current valuations and the Fund's portfolio meets certain defined performance conditions.

Operating Expenses

The Fund will pay all of its operating expenses, including all expenses related to portfolio transactions, security realization, qualifying its securities for distribution, marketing its securities, sales administration, asset valuations, financial and other reporting to shareholders and other administrative services, and all taxes, legal and audit fees, custodial fees (if any), registrar and transfer agency fees, directors' fees and expenses (see "Directors' Fees and Expenses", below), consultants' and professional advisors' fees, sales commissions to dealers (see "Selling Commissions and Share Issue Expenses", below), servicing commissions to dealers (see "Selling Commissions and Share Issue Expenses", below), certain overhead expenses, as well as the fees and expense amounts payable to or for the Manager under the Management Agreement, and, where any such registrar, transfer agency and/or shareholder reporting services and/or other administrative services are provided by an Administrator engaged by the Fund, the fees and expenses of such Administrator. Where any Administrator so engaged is the Manager or any Associate or Affiliate of the Manager, the applicable fees and expenses to be paid by the Fund are, pursuant to the Management Agreement, required to be payable only at market rates and only after provision of the applicable services at such rates and otherwise on market terms and conditions has been approved by a majority of the Independent Directors of the Fund. The Fund has engaged The Investment Administration Solution Inc. to provide the Fund with registrar and transfer agency services and certain other administrative services. See "Management and Administration – Administration".

The Fund is, pursuant to the regulations under the Small Business Venture Capital Act, prohibited from incurring any expense that is to be paid otherwise than out of its retained earnings, unless the SBVCA Administrator is satisfied that such expense is reasonable.

The Fund is, pursuant to its Articles, prohibited from paying any fees or other remuneration to any Director or officer or shareholder of the Fund, or to any Affiliate or Associate of those persons, except as permitted by an annual special resolution (as defined in the SBVCA Regulations) of the shareholders of the Fund. Payment by the Fund to the Manager of the fees and other remuneration provided for under the Management Agreement will be required to be approved by annual special resolutions (as defined in the SBVCA Regulations) of the shareholders of the Fund, until Pender Financial, of which the Manager is an Affiliate, ceases to be a shareholder of the Fund and each person of whom the Manager may be or be deemed to be an Associate ceases to be a Director, officer and/or shareholder of the Fund. Failure to pass any such annual special resolution (as defined in the SBVCA Regulations) will not terminate the Management Agreement or the obligations of the Fund thereunder. Failure of the Fund to pay any fees or other remuneration to the Manager under the Management Agreement because the requisite annual special resolution (as defined in the SBVCA Regulations) has not been passed will not constitute a breach of the Management Agreement by the Fund. If the shareholders of the Fund fail to pass any of the requisite annual Special Resolutions, those fees and other remuneration provided for in the Management Agreement will continue to accrue, with interest, until the matter is resolved. Pursuant to the SBVCA Regulations, shareholders of a venture capital corporation are prohibited from voting on a Special Resolution approving payment to themselves or to any of their Associates or Affiliates. At the Annual and Special Meeting of the shareholders of the Fund held on May 8, 2007, the shareholders of the Fund approved payment of the management fees to the Manager for the financial year ended December 31, 2007.

The investments to be made by the Fund will require a greater commitment to investment analysis, due diligence investigations, and post-investment monitoring than investments in most other securities. In addition, the cost to determine the value of the Fund's investments in portfolio companies for which no published market exists will be greater than valuation costs for mutual funds which invest primarily in listed securities. Consequently, the operating expenses of the Fund will be higher than many mutual funds and some other pooled investment vehicles.

Selling Commissions and Share Issue Expenses

Investors who purchase Series 2 Shares will not pay any sales commissions directly. The Fund may pay the Selling Commission, at the choice of the Selling Agents, in an amount equal to any of the following three options:

- 7.5% of the Offering Price of the Series 2 Shares sold pursuant to this Prospectus; or
- 5% of the Offering Price of the Series 2 Shares sold pursuant to this Prospectus plus a trailer fee equal to 0.5% per annum calculated monthly and payable quarterly in arrears of the total Pricing Net Asset Value per Share for all of the Series 2 Shares sold pursuant to this Prospectus; or
- 2.5% of the Offering Price of the Series 2 Shares sold pursuant to this Prospectus plus a trailer fee equal to 1% per annum calculated monthly and payable quarterly in arrears of the total Pricing Net Asset Value per Share for all of the Series 2 Shares sold pursuant to this Prospectus.

In the event that the Fund does not pay a Selling Commission to a Selling Agent through whom an Investor has purchased Series 2 Shares, that Investor will pay per Series 2 Share an amount equal to 92.5% of the Pricing Net Asset Value per Share.

In addition, a sales administration fee of up to 1% of the gross proceeds of this Offering will be paid to the Manager of the Fund.

The Selling Commission paid and all other costs related to the issuing of Series 2 Shares will be recorded as deferred charges and will be amortized on a straight-line basis over five years. Accordingly, a portion of the Pricing Net Asset Value of the Fund will be constituted by deferred charges, rather than investment assets. See "Plan of Distribution – Method of Distribution".

The trailer fees are calculated monthly and payable quarterly in arrears on the total Pricing Net Asset Value per Share for all of the Series 2 Shares sold pursuant to this Prospectus. Such fee continues to be paid by the Fund for as long as the Investor holds shares in the Fund. The Net Pricing Asset Value per Share will be determined on the last Valuation Date in each month. See " Plan of Distribution – Selling Commission".

Directors' Fees and Expenses

Independent Directors currently receive an annual retainer of \$10,000 and a fee of \$500 for each meeting of the Board attended and for each meeting of a committee of the Board attended, except where a committee meeting is coincident with a meeting of the Board. Directors who are not Independent Directors will not be paid any such fees. All Directors are entitled to be reimbursed for reasonable expenses incurred on behalf of the Fund.

Investor Fees

Investors do not pay a sales charge to acquire Series 2 Shares.

Investors do not pay a fee upon the transfer of Shares. Transfer fees may be imposed by the Board of Directors and, if imposed, will be subject to change from time to time as determined by the Board of Directors, provided that imposition of any such fees and any changes thereof shall be effective only upon 60 days' written notice to the holders of Shares.

Investors do not pay a fee upon the redemption of Shares, except in the case of Permitted Early Redemptions, in respect of which the Fund charges a fee equal to the amount, if any, which the Fund is required, under the Small Business Venture Capital Act and the regulations thereunder, to pay to the Government of British Columbia as a result of its acquiring the Shares redeemed. See "Small Business Venture Capital Act Considerations". Redemption fees are payable to the Fund and are subject to change from time to time as determined by the Board of Directors, provided that any such change shall be effective only upon 60 days' written notice to the holders of Shares.

All NSF cheques will be subject to an NSF fee of \$25.

SHARE CAPITAL

The authorized capital of the Fund consists of 100,000,000 Class A Common Shares without par value issuable in series of which the Fund is authorized to issue up to 1,000,000 Series 1 Shares and up to 10,000,000 Series 2 Common Shares. As at October 5, 2007, the Company had 130,795 Series 1 Shares and 2,710,137 Series 2 Shares issued and outstanding.

The following table sets out the share and loan capital structure of the Fund as at October 5, 2007 and after giving effect to the Offering:

Designation of Security	Amount Authorized or to be Authorized	Amount Outstanding as at October 5, 2007	Amount Outstanding After Giving Effect to the Offering
Class A Common Shares issuable in series	100,000,000	N/A	N/A
Class A Common Shares, Series 1	1,000,000	\$3,320,885 (130,795 Series 1 Shares) ⁽¹⁾	0 ⁽²⁾
Class A Common Shares, Series 2	10,000,000	\$23,267,569 (2,710,137 Series 2 Shares)	\$ 36,797,719 ⁽³⁾⁽⁴⁾ (4,478,784 Series 2 Shares)

(1) On August 15, 2003, the Fund consolidated the Common Shares on a 50 to-one-basis from 100,000,000 Common Shares to 2,000,000 Common Shares and then subsequently increased it back to 100,000,000 Common Shares. On the same date, the Fund increased its authorized share capital by the creation of 100,000,000 Class A Common Shares issuable in series, and designated the first series as the Series 1 Shares of which the Fund is authorized to issue 1,000,000 Series 1 Shares. On the same date the Fund also amended its Articles to add an exchange right to automatically convert the existing issued and outstanding Common Shares into Series 1 Shares. On August 15, 2003 the Fund decreased its authorized share capital by the cancellation of the 100,000,000 Common Shares.

(2) Assumes all Series 1 Shares are redeemed.

(3) This assumes that the Fund raises the remaining \$6,530,150 of the 2007 equity allocation as well as the \$7,000,000 equity allocation for 2008. See "Plan of Distribution – Method of Distribution."

(4) This number assumes that the Series 2 Shares are issued at the Pricing Net Asset Value of \$7.65 per Series 2 Share which was the Pricing Net Asset Value effective as of September 28, 2007.

The following is a summary of the material terms and conditions attached to the Shares of the Fund.

Series 2 Shares

Redemption by Holders

Redemptions of Series 2 Shares are subject to the restrictions set out in the Articles of the Fund. The Series 2 Shares are redeemable generally only on or after the fifth anniversary of the date of issuance thereof (the "Redemption Date"). On the Redemption Date, the Series 2 Shares will be redeemed at a price per Series 2 Share which is equal to the Pricing Net Asset Value per Share on the Valuation Date which falls on or occurs immediately after the date on which the Fund receives or is deemed to have received a fully completed Redemption Request, plus any dividends then declared and unpaid. The Fund may be prohibited from honouring and/or may decline Redemption Requests in certain circumstances. There are two instances in which early redemption of Series 2 Shares may be permitted. Reinvestment Redemptions may be made at any time during the one month period preceding the Redemption Date, provided that the Series 2 shareholder is concurrently resubscribing for Series 2 Shares on terms and conditions acceptable to the Fund and, secondly, in the case of the death of a Series 2 shareholder, Series 2 Shares may qualify for Permitted Early Redemption at any time prior to the Redemption Date at the Board's sole discretion. In the circumstances of a Permitted Early Redemption, it is the Fund's policy to deduct from the Redemption Price any portion of the shareholder's Tax Credit which may become repayable by the Fund as a result of the redemption.

Redemption Price

The Fund will redeem Series 2 Shares for the Redemption Price, which is equal to the total of the Pricing Net Asset Value per Series 2 Share as at the end of the Valuation Date which falls on or occurs immediately after the date on which a fully completed Redemption Request is received by the Fund and any dividends then declared and remaining unpaid in respect of the Series 2 Shares (with any Redemption Request received after 4:00 p.m. Pacific time on a Valuation Date being deemed, for such purpose, to be received on the following day). In the event of the death of a shareholder prior to the fifth anniversary of the issuance of the shareholder's Series 2 Shares, the Board may, in its sole discretion, permit early redemption. In these circumstances, it is the Fund's policy to deduct from the Redemption Price any portion of the shareholder's Tax Credit which becomes repayable by the Fund as a result of the redemption.

Redemption Procedure

A shareholder who is entitled to redeem his, her or its Series 2 Shares must do so in accordance with the following terms and conditions or such other terms and conditions as the Directors may from time to time determine. The shareholder must deliver to the Registrar and Transfer Agent of the Fund or to such other office as may be designated by the Fund for such purpose from time to time, a Redemption Request signed by the shareholder or his or her authorized investment dealer or broker, specifying the number of Series 2 Shares which the shareholder wishes to have redeemed, all in form satisfactory to the Fund or its designate. Forms for Redemption Requests will be available from dealers that have sold Series 2 Shares.

Subject to the restrictions on redemption generally, and the restrictions set forth below under "Suspension of Redemptions", the Fund will, within 30 days of receiving a duly completed Redemption Request in form satisfactory to the Fund, pay or cause to be paid the Redemption Price to or to the order of the holder of the Series 2 Shares being redeemed or the holder's authorized investment dealer or broker, and the Series 2 Shares subject to the Redemption Request will thereupon be and be deemed to be redeemed and will be cancelled. Duly submitted Redemption Requests will be dealt with in the order in which they are received by the Fund. Any redemption of Series 2 Shares need not be made pro rata among every shareholder who holds Series 2 Shares to be redeemed (unless so determined by the Directors in respect of a particular period of time). If the Fund fails to redeem any Series 2 Shares when required to do so, the holder of such Series 2 Shares shall thereafter, in preference or priority to any payment of dividends on the Series 2 Shares, be entitled to payment of the Redemption Price.

The Fund has the right, instead of fulfilling any Redemption Request, to arrange for a third party to purchase the Series 2 Shares described in the Redemption Request for an amount equal to the Redemption Price and otherwise on the same terms that the Fund would have redeemed such Series 2 Shares. If the Fund makes such an arrangement, it will do so at its own expense and act as intermediary or agent in the exchange of payment and instruments of transfer. The purchase of such Series 2 Shares by the third party shall constitute full and complete satisfaction of the Fund's obligation to redeem the Series 2 Shares purchased by the third party.

Notwithstanding the foregoing, the procedure and manner of payment for redemption of any Series 2 Shares may be modified by agreement between the Fund and the holder thereof or his or her authorized agent, investment dealer or broker.

During 2008, an aggregate of 154,656 Series 2 Shares will be eligible for redemption.

Suspension of Redemptions

Pursuant to the Articles of the Fund, the Fund is entitled to decline and refuse to complete Redemption Requests if:

- (a) the amount to be redeemed, when added to the total amount of all previous redemptions of Series 2 Shares of the Fund in the same fiscal year of the Fund, would exceed 20% of the Net Asset Value of the Fund at the end of the immediately preceding fiscal year of the Fund;
- (b) the Fund is not in compliance with the minimum investment requirements under the *Small Business Venture Capital Act* or the redemption would cause the Fund not to be in compliance with the

minimum investment requirements under the *Small Business Venture Capital Act* by reducing its available funds to an amount that is less than the aggregate amount of all future investments it is required to make in order to remain in compliance with such investment requirements;

- (c) the Fund has a working capital deficiency or the redemption would cause the Fund to have a working capital deficiency;
- (d) the Fund is insolvent or the redemption would cause the Fund to be insolvent;
- (e) the redemption would cause the Fund to be in default of its financial obligations under a bona fide arm's length loan agreement; or
- (f) the redemption is otherwise prohibited under applicable law.

The SBVCA provides that the Fund may redeem the Shares but that in certain circumstances the Fund may become obliged to pay to the Minister of Finance an amount which is equal to some or all of the 30% tax credit originally given in respect of those Shares. The actual amount to be paid would depend upon whether the Shares are redeemed for more or less than their original issuance price. In any event, no amount will be payable to the Minister of Finance so long as the Fund has invested the funds it has raised in ESBs within the required "pacing" period, and so long as the funds are kept invested in ESBs for the prescribed period. The pacing requirements require that 40% of the funds raised by the Fund during a fiscal year be invested by no later than the end of the first following fiscal year, and that 80% be invested by no later than the end of the second following fiscal year. The prescribed period to keep the funds invested is five years from when the Eligible Investments are made. As such, it is in the Fund's interests to not redeem any Shares unless and until these criteria are met. The Fund will take these concerns into account when deciding whether or not to permit a redemption.

At the time of redemption, if the Fund has not fully complied with the requirements to invest the proceeds raised under this Prospectus in accordance with the SBVCA, the Fund may be required to refund part of the Tax Credits to the Provincial Government. This will have the effect of reducing the Pricing Net Asset Value of the Fund at the time of redemption. The Fund is currently in compliance with the investment pacing requirements mandated by the SBVCA.

Unless withdrawn, Redemption Requests that are declined by the Fund, in whole or in part, in any of the circumstances described above will remain in effect and will be deemed to have been received by the Fund on the first day on which the applicable circumstances no longer pertain. Declined Redemption Requests deemed to have been received on such day will be deemed to have been received in the order in which they were originally received or deemed to have been received by the Fund, in priority to any other Redemption Requests received by the Fund on such day. The Redemption Price to be paid in respect of any Shares redeemed upon completion of a previously declined Redemption Request will be equal to the Redemption Price that would have been payable in respect of such Shares had the Redemption Request actually been received on the day on which it is deemed to have been received.

Transfer Procedure

There are no restrictions on the transfer of Series 2 Shares issued pursuant to this Prospectus (other than proposed transfers by persons in a position of "control" under the Securities Act). A shareholder who wishes to transfer any of his, her or its Series 2 Shares must deliver to the Registrar and Transfer Agent of the Fund or to such other office as may be designated by the Fund for such purpose from time to time, a request to transfer, signed by the shareholder or his or her authorized investment dealer or broker, specifying the number of Series 2 Shares which the shareholder wishes to have transferred, all in form satisfactory to the Fund or its designate. Notwithstanding the foregoing, the procedure for transfer of any Series 2 Shares may be modified by agreement between the Fund and the holder thereof or his, her or its authorized agent, investment dealer or broker.

Series 1 Shares

The Fund ceased to distribute Series 1 Shares on April 11, 2003. The following sections concerning the redemption provisions of the Series 1 Shares do not apply to the Shares being offered under this Prospectus.

Redemption by Holders

Subject to the Fund's right to decline redemptions as described below under "Suspension of Redemptions", and to the Articles of the Fund, the Series 1 Shares may be redeemed at the Pricing Net Asset Value on the last day of the business week of which the request for redemption was received.

Redemption Price

All issued and outstanding Series 1 Shares will be redeemed at the following prices:

Requests for redemption received by the Fund will be redeemed at the Pricing Net Asset Value per Series 1 Share on the earliest of the last business day of each week, the last day of each annual RRSP season and the last day of the financial year of the Fund following the date a redemption request is received by the Fund, and subject to any prohibitions on redemption, the redemption proceeds will be paid to the shareholder within 30 days of the Fund receiving the redemption request.

Redemption Procedure

A shareholder who is entitled to redeem his, her or its Series 1 Shares must do so in accordance with the following terms and conditions or such other terms and conditions as the Board of Directors may from time to time determine.

- The shareholder must deliver to the Fund or to such other office as may be designated by the Fund for such purpose from time to time a redemption request signed by the shareholder or his or her authorized investment dealer or broker, specifying the number of Series 1 Shares which the shareholder wishes to have redeemed, all in form satisfactory to the Fund or its designate. Forms for redemption requests will be available from the Fund or agents that have sold Series 1 Shares.
- Subject to the restrictions on redemption generally, and the restrictions set forth below under "Suspension of Redemptions", if the Fund receives a duly completed redemption request in a form satisfactory to the Fund, the Fund will pay or cause to be paid the redemption price to or to the order of the holder of the Shares being redeemed or the holder's authorized investment dealer or broker as set out above, and the Series 1 Shares subject to the redemption request will thereupon be and be deemed to be redeemed and will be cancelled.
- If the Fund fails to redeem any Series 1 Shares when requested to do so, the holder of such Series 1 Shares shall thereafter have preference or priority to redemption requests made in subsequent periods.
- A shareholder may withdraw a redemption request at any time prior to the payment of the redemption price for the Series 1 Shares.

The Fund has the right, instead of fulfilling any redemption request, to arrange for a third party to purchase the Series 1 Shares described in the redemption request for an amount equal to the redemption price and otherwise on the same terms that the Fund would have redeemed such Series 1 Shares. If the Fund makes such an arrangement, it will do so at its own expense and act as intermediary or agent in the exchange of payment and instruments of transfer. The purchase of such Series 1 Shares by the third party shall constitute full and complete satisfaction of the Fund's obligation to redeem the Series 1 Shares purchased by the third party.

Notwithstanding the foregoing, the procedure and manner of payment for redemption of any Series I Shares may be modified by agreement between the Fund and the holder thereof or his or her authorized agent, investment dealer or broker.

As at October 5, 2007 the Fund has received requests to redeem an aggregate of 462 Series I Shares. At the time of the filing of this Prospectus, there is a maximum of 130,795 shares subject to redemption, at a total redemption value of \$1,000,582 based on the Pricing NAV of the Fund as at September 28, 2007, 2007. At the present time, the Fund has sufficient funds to pay the redemption monies based on this Pricing NAV of the Fund and expects to redeem these Shares.

Suspension of Redemptions

Pursuant to the Articles of the Fund, the Fund is entitled to decline and refuse to complete redemption requests in whole or in part if:

- (a) at any time a redemption request is received or deemed to be received by the Fund after November 30, 2006 to the extent that the amount to be redeemed, when added to the total amount of all redemptions of Series I Shares in the period from November 30, 2006 to December 31, 2007 and in any subsequent financial year of the Fund would exceed 20% of the Net Asset Value of the Fund at November 30, 2006 or the beginning of that financial year of the Fund, as applicable;
- (b) the Fund is not in compliance with the minimum investment requirements under the Small Business Venture Capital Act or the redemption would cause the Fund not to be in compliance with the minimum investment requirements under the Small Business Venture Capital Act by reducing its available funds to an amount that is less than the aggregate amount of all future investments it is required to make in order to remain in compliance with such investment requirements;
- (c) the Fund has a working capital deficiency or the redemption would cause the Fund to have a working capital deficiency;
- (d) the Fund is insolvent or the redemption would cause the Fund to be insolvent;
- (e) the redemption would cause the Fund to be in default of its financial obligations under a bona fide arm's length loan agreement; or
- (f) the redemption is otherwise prohibited under applicable law.

The SBVCA provides that the Fund may redeem the Shares but that in certain circumstances the Fund may become obliged to pay to the Minister of Finance an amount which is equal to some or all of the 30% tax credit originally given in respect of those Shares. The actual amount to be paid would depend upon whether the Shares are redeemed for more or less than their original issuance price. In any event, no amount will be payable to the Minister of Finance so long as the Fund has invested the funds it has raised in ESBs within the required "pacing" period, and so long as the funds are kept invested in ESBs for the prescribed period. Under the SBVCA, the pacing requirements require that at least 40% of the funds raised by the Fund during a fiscal year be invested by no later than the end of the first following fiscal year, and that 80% be invested by no later than the end of the second following fiscal year following the original date of the share capital issue. The prescribed period to keep the funds invested is five years from when the Eligible Investments are made. As such, it is in the Fund's interests to not redeem any Shares unless and until these criteria are met. The Fund will take these concerns into account when deciding whether or not to permit a redemption.

At the time of redemption, if the Fund has not fully complied with the requirements to invest the proceeds raised under this Prospectus in accordance with the SBVCA, the Fund may be required to refund part of the Tax Credits to the Provincial Government. This will have the effect of reducing the Pricing Net Asset Value of the Fund at the time of redemption. The Fund is currently in compliance with the investment pacing requirements mandated by the SBVCA.

Redemption requests that are declined by the Fund in whole or in part, will remain in effect and will be deemed to have been received by the Fund on the first day of the following period in priority to any other redemption requests received by the Fund on that day.

Unless withdrawn, redemption requests that are declined by the Fund in whole or in part, in any of the circumstances described above will remain in effect and will be deemed to have been received by the Fund on the first day of the following period or financial year of the Fund in which the applicable circumstances no longer pertain in the order in which they were originally received or were deemed to have been received by the Fund and in priority to any other redemption requests received by the Fund on that day. The redemption price to be paid in respect of any Series 1 Shares redeemed upon completion of a previously declined redemption request will be equal to the redemption price to be paid for Series 1 Shares redeemed on the first day of the following period or financial year of the Fund following the decline of the redemption request.

Dividends

Holders of Shares are entitled to receive dividends at the discretion of the Board. See "Dividend Policy".

Voting Rights

Holders of Shares are entitled to receive notice of and attend all meetings of shareholders of the Fund and are entitled to vote at any such meeting. Each Share entitles the holder thereof to one vote per share.

Election of Directors

Holders of Shares are entitled to set the number of and elect all of the Directors of the Fund.

Dissolution

On the liquidation, dissolution or winding-up of the Fund or other distribution of the assets of the Fund for the purpose of winding-up its affairs, the holders of Shares will be entitled to share, according to their respective holdings of Shares, all of the assets of the Fund remaining after all of its liabilities have been paid.

DIVIDEND POLICY

The Fund may from time to time pay, out of monies legally available for payment of dividends, such dividends as the Board of Directors may declare. The Fund does not anticipate declaring any dividends for the foreseeable future. The Board of Directors may consider paying dividends on the Shares in the future when operational circumstances, including earnings, cash flow, financial and legal requirements and business considerations, permit.

PRINCIPAL HOLDERS OF SECURITIES

To the knowledge of the directors and senior officers of the Fund, no person beneficially owns, directly or indirectly or exercises control or direction over, Shares carrying more than 10% of the voting rights attached to all outstanding Shares.

As at October 5, 2007 and prior to the completion of the Offering, the Directors and senior officers of the Fund as a group, beneficially own directly or indirectly no Series 1 Shares, and beneficially own directly or indirectly 10,689 Series 2 Shares that represents 0.38% of the issued and outstanding Series 2 Shares and 0.38% of the total Shares issued and outstanding. Upon completion of the Offering, assuming that all Series 1 Shares are redeemed and that the Fund raises an aggregate of \$13,530,150 at a Pricing Net Asset Value per Series 2 Share equal to \$7.65 per Series 2 Share, the Directors and senior officers of the Fund as a group will beneficially own directly or indirectly 7,500 Series 2 Shares that represents 0.17% of the outstanding Shares on a fully diluted basis.

PLAN OF DISTRIBUTION

Method of Distribution

The Fund is registered as a venture capital corporation under the SBVCA. The SBVCA Administrator has authorized the Fund to issue up to \$7,000,000 of its Shares during each of the following periods: February 16, 2007 to February 15, 2008, February 16, 2008 to February 15, 2009 and February 16, 2009 to February 15, 2010. The Fund may apply to the SBVCA Administrator for additional equity capital once the \$7,000,000 has been raised under the respective time frames. There can be no assurance that the Fund will be authorized to raise additional equity capital after the respective time frames.

The Fund will distribute the Series 2 Shares through Selling Agents and through persons registered as mutual fund dealer subject to the conditions contained in B.C. Instrument 32-505.

Subscriptions for Series 2 Shares will be received, subject to rejection or allotment in whole or in part, by the Fund and the right is reserved by the fund to close the subscription books at any time without notice. The Series 2 Shares are offered on a continuous basis, subject to sufficient equity capital authorization from the SBVCA Administrator.

Purchase of Series 2 Shares

The Series 2 Shares are offered on a continuous basis and are offered at a price determined on the first Valuation Date which falls on or occurs immediately after the date on which a duly completed subscription for Series 2 Shares is received by the Fund, subject to the right of the Fund to suspend offering Series 2 Shares and recommence offering Series 2 Shares at any time it deems appropriate, in its sole discretion. In particular, the Fund may suspend offering Series 2 Shares prior to February 15, 2008, if it has raised \$7,000,000 in equity capital prior to that date, and recommence offering Series 2 Shares on the date, if any, on which the Fund receives approval from the SBVCA Administrator to raise additional equity capital to expire on March 1, 2008. Generally, Investors who purchase Series 2 Shares under this Prospectus prior to March 1, 2008 will be eligible to receive Tax Credits for the taxation year ended December 31, 2007. As at October 3, 2007 the Fund has a remaining allocation of \$6,530,150 for the taxation year ending December 31, 2007. In the event that the Fund exceeds its equity allocation prior to March 1, 2008, the Fund may continue to sell Series 2 Shares under this Prospectus. However, in this situation, Investors will only be eligible for Tax Credits for the taxation year ended December 31, 2008. Investors who acquire Series 2 Shares in this situation through an RRSP or who purchase Series 2 Shares and transfer the Series 2 Shares to an RRSP prior to March 1, 2008 will qualify for an RRSP contribution for the taxation year ended December 31, 2007, subject to compliance with income tax laws and the individual Investor's particular circumstances.

The Series 2 Shares will be issued as of the last Business Day of the week in which the subscription therefor is received. The minimum initial subscription for Shares is \$2,500.

All subscriptions for Series 2 Shares are subject to acceptance or rejection by the Fund and the Fund reserves the right to reject any subscription. Subscriptions must be placed through Selling Agents. The Fund will not accept a subscription placed directly by an Investor.

Share certificates will not be provided. Investors will receive from their respective Selling Agent, within 30 days of share registration, an investment confirmation setting out the number of Series 2 Shares acquired, the price paid per Series 2 Share and the total amount paid.

To be eligible for Tax Credits in respect of the purchase of Series 2 Shares, each Eligible Investor must file with his, her or its tax return the Tax Credit Certificate issued to him, her or it in respect of such purchase. The Registrar and Transfer Agent of the Fund will, on behalf of the Fund, provide all necessary shareholder information to the SBVCA Administrator, who will provide Tax Credit Certificates to Eligible Investors.

Selling Commission

Investors who purchase Series 2 Shares will not pay any sales commissions directly. The Fund may pay the Selling Commission, at the choice of the Selling Agents in an amount equal to any one of the following three options:

- 7.5% of the Offering Price of the Series 2 Shares sold pursuant to this Prospectus; or
- 5% of the Offering Price of the Series 2 Shares sold pursuant to this Prospectus plus a trailer fee equal to 0.5% per annum calculated monthly and payable quarterly in arrears of the Net Asset Value per Share for all of the Series 2 Shares sold pursuant to this Prospectus; or
- 2.5% of the Offering Price of the Series 2 Shares sold pursuant to this Prospectus plus a trailer fee equal to 1% per annum calculated monthly and payable quarterly in arrears of the total Net Asset Value per Share for all of the Series 2 Shares sold pursuant to this Prospectus.

In the event the Fund does not pay a Selling Commission to a Selling Agent through whom an Investor has purchased Series 2 Shares, that Investor will pay per Series 2 Share an amount equal to 92.5% of the Pricing Net Asset Value Per Share.

In addition, a sales administration fee of up to 1% of the gross proceeds of this Offering will be paid to the Manager of the Fund.

Calculation of Pricing Net Asset Value

On any Valuation Date, the Pricing Net Asset Value of the Fund is equal to:

- (a) the Net Asset Value of the Fund at that date; plus
- (b) an adjustment for investment valuation from closing bid prices to the weighted average closing price over the preceding 21 trading days; plus
- (c) any balance of deferred charges, including operational costs and sales commissions and other costs of issuance of Shares, that is unamortized at that date; plus
- (d) any balance of Performance Fees payable to the Manager that have not met the following two criteria:
 - (i) the total net realized and unrealized gains and income of the Fund from its portfolio of Investments since December 31, 2002 must have generated a return greater than the effective annual rate of interest on five year guaranteed investment certificates issued by a major Canadian chartered bank plus 2% per annum; and
 - (ii) the compounded annual internal rate of return since the later of the date of investment and December 31, 2002 (including realized and unrealized gains and income) from the principal invested in such Investment with respect to which the performance fee is being paid, must equal or exceed 10% per year.

Effective January 1, 2007 the Fund adopted the new recommendations of CICA Handbook Section 3855, *Financial Instruments-Recognition and Measurement*.

As required by this new Section, the Fund has estimated the fair value of its publicly-traded investments on the basis of the closing bid price of each such investment at period-end whereas, prior to January 1, 2007, the Fund had estimated the fair value of its publicly-traded investments on the basis of the weighted average closing market prices over the preceding 21 trading days. The BCSC has issued a temporary exemption to certain investment funds, including the Fund, from the amended valuation policy for financial reporting purposes as set out in Section 3855 of

the CICA Handbook as adopted by the Fund on January 1, 2007. For the purposes of Pricing NAV, investments in public companies are valued on the basis of the weighted average closing price over the preceding 21 trading days.

During the year ended December 31, 2003, the Canadian Institute of Chartered Accountants (the "CICA") issued CICA Handbook Section 1100, "Generally Accepted Accounting Principles". This Section removed industry practice as a source of generally accepted accounting principles (GAAP). Effective January 1, 2004, the change to GAAP requires the Fund to record commissions related to the sale of Series 2 Shares either as a reduction to share capital or as a charge to retained earnings, as appropriate, in the year in which these costs are incurred, and pre-operating costs are charged to income in the year in which they are incurred. These costs were previously deferred and amortized. These changes impact the Fund's calculation of Net Asset Value per Share for the purposes of financial reporting in accordance with GAAP. Notwithstanding the foregoing, the Fund can continue to issue and redeem Series 2 Shares at a price other than Net Asset Value per Share determined in accordance with GAAP provided that such pricing mechanism is fully disclosed and reconciled and described by a term other than "Net Asset Value per Share", which will now be reserved solely for financial reporting purposes in accordance with GAAP.

The Board has determined it appropriate for the Fund to continue to calculate the price on which it will issue and redeem Series 2 Shares in accordance with the Fund's pre-existing Valuation Methodology as it believes that the Fund's share issuance costs, sales commissions, and pre-operating costs relate to the raising of capital that the Fund will typically have available for at least five years. However, pursuant to the changes to the definition of GAAP, the Fund now refers to this price as the "Pricing Net Asset Value per Share", instead of "Net Asset Value per Share", which is now reserved for financial reporting purposes in accordance with GAAP.

To assist Investors in assessing the difference between Net Asset Value per Share for financial reporting purposes and Pricing Net Asset Value per Share for issuing and redeeming purposes, the Fund provides a reconciliation of both calculations in the notes to its year end audited financial statements or in a separate audited schedule thereto. As at June 30, 2007 there was a respective difference of 12.7% between Pricing Net Asset Value per Share and Net Asset Value per Share for GAAP purposes, as summarized in the following reconciliation:

Net asset value in accordance with GAAP, as reported	\$ 21,487,759
Add: deferred sales and marketing costs, deferred share issuance costs and other adjustments, less amortization of deferred costs	\$ 2,717,166
Adjust investments from bid prices to average closing prices	\$ 1,049,472
Pricing net asset value	\$ 24,204,925
Common shares outstanding as at June 30, 2007	2,848,303
Pricing net asset value per share	\$ 8.50
Net asset value per share in accordance with GAAP	\$ 7.54

See note 11 to the financial statements of the Fund included in this Prospectus.

Calculation of Pricing Net Asset Value per Series 2 Share

The Administrator responsible for determining the Net Asset Value of the Fund determines, with the assistance of the Registrar and Transfer Agent of the Fund, will calculate the Pricing Net Asset Value per Series 2 Share of the Fund on each Valuation Date, by dividing the Pricing Net Asset Value of the Fund on that date by the total number of Shares of the Fund outstanding on that date. The Pricing Net Asset Value per Series 2 Share determined in this manner may not be directly comparable to the pricing methods used by venture capital funds, such as labour sponsored fund, based in other provinces. The Pricing Net Asset Value per Series 2 Share is the price per share at which the Fund will, in most cases, redeem Series 2 Shares (see "Share Capital – Series 2 Shares – Redemption by

Holders") and is the price per share at which the Fund issues Series 2 Shares (see above), subject to a discount of 7.5% for certain Investors for whom the Fund does not pay a Selling Commission to a Selling Agent (see "Fees and Expenses – Selling Commissions and Share Issue Expenses" and "Plan of Distribution – Selling Commission"). The Pricing Net Asset Value per Series 2 Share of the Fund may differ from the prices at which holders of Series 2 Shares are able to sell their Series 2 Shares to third party purchasers. (see "Plan of Distribution – Purchase of Series 2 Shares – Calculation of Pricing Net Asset Value") To assist Investors in assessing the difference between Net Asset Value per Share for financial reporting purposes and Pricing Net Asset Value per Share for issuing and redeeming purposes, the Fund will provide a reconciliation of both calculations in the notes to its year end audited financial statements or in a separate audited schedule thereto.

PRIOR SALES

The following table sets forth the date and consideration per share of all Shares issued by the Fund within 12 months prior to the date hereof:

Date of Issuance	Type of Security Issued	Number of Securities Issued	Price per Security	Total Funds Received
October 1, 2006 to June 29, 2007 ⁽¹⁾	Series 2 Shares	555,030	\$8.31 ⁽²⁾	\$4,611,393 ⁽³⁾

- (1) On June 29, 2007 the Fund temporarily suspended sales of Series 2 Shares.
- (2) Average price per share sold through the selling period.
- (3) As at September 30, the Fund had raised \$469,850 under its equity allocation for 2007, leaving an aggregate of \$6,530,150 to be raised under its equity allocation for 2007.

USE OF PROCEEDS

The net proceeds of this Offering will be invested in Eligible Small Businesses in British Columbia in accordance with the investment policy of the Fund. Pending investment in Eligible Small Businesses, the net proceeds of this Offering will be invested in permitted investments as required by the SBVCA. Thirty percent of the gross proceeds of this Offering will be deposited in the Investment Protection Account and will be released to the Fund in accordance with the provisions of the Small Business Venture Capital Act.

To the extent that the costs of this Offering, annual management fees and performance fees, sales commissions and servicing commissions, directors' fees and operating expenses of the Fund are not paid out of the investment income of the Fund, the proceeds of the Offering will be used to pay such expenses. In accordance with the regulations to the SBVCA, up to twenty percent of the gross proceeds of this Offering and funds from retained earnings may be used to pay the expenses of the Fund, unless the SBVCA Administrator otherwise approves.

FINANCIAL HIGHLIGHTS AND MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objectives and Strategy

The Fund invests in ESBs with the objective of long term capital appreciation. Since 2003, the Fund has assembled a diversified portfolio of investments principally in the information technology, communications and life sciences sectors.

The Fund has invested in a number of publicly listed ESBs with an increased emphasis on established businesses undergoing restructuring. In such situations the Fund's capital has been applied as part of a fundamental reorganization of the target company's financial structure and management regime. This approach has the potential to yield attractive returns over time if these companies return to growth and profitability and their valuations

rebound accordingly. This strategy is not without risk, however, since the Fund will necessarily make large investments in companies that are undergoing radical changes to their capital structures and management teams.

This aggressive aspect of the Fund's investment strategy has been offset by making more traditional investments in later-stage companies that are already well positioned for growth and where additional capital can accelerate sales. This balanced approach to building the Fund's portfolio has the potential for significant capital appreciation while offering a measure of downside protection.

Period Ended June 30, 2007

Risk

Over the last six months ended June 30, 2007, no material or significant changes occurred that affected the overall risk level associated with the Fund.

During the six months ended June 30, 2007, the Fund redeemed 41,549 Series 1 common shares for \$341,508. At June 30, 2007, there were 138,564 Series 1 common shares outstanding which are redeemable and which would require \$1,117,794 at the June 30, 2007 Pricing NAV of \$8.50 per share. The Fund is keeping cash on hand in order to meet the potential redemption requirement.

The risks of investing in the Fund include the relatively large portion of early stage technology company investments, industry concentration and the relatively limited number of investments in the portfolio.

The Fund relies on approval from the Ministry of Economic Development to raise additional capital each year. Currently the Fund has an allocation to raise \$7 million per year for each of the next three tax years, 2007, 2008 and 2009. On June 29, 2007 the Fund temporarily suspended sales of Series 2 Shares.

The Fund is suited to investors that have a high tolerance for risk and a long term investment horizon.

The Fund had investments in 16 portfolio companies as at June 30, 2007 (16 at December 31, 2006) and it had three portfolio companies that each represented greater than 10% of the Net Asset Value ("NAV") of the Fund as at June 30, 2007.

Results of operations

Investment activity

During the six month period ended June 30, 2007, the Fund completed two follow-on investments totalling \$1,000,500. The Fund ended the period with 16 venture investments valued at \$18.6 million. Of the fair market value ("FMV") of the venture investment portfolio, 78.2% is represented by public companies and the balance is in private companies. The venture portfolio investments represented 76.9% of the total Pricing NAV of the Fund, while cash and other net assets represented the other 23.1%.

The FMV of the venture portfolio is diversified across several sectors: 70.6% Information Technology, 22.7% Communications, 1.0% Proprietary Products, and 5.7% Life Sciences.

The Fund made these follow-on investments in the period:

- June 2007, \$500,000 in Municipal Solutions Group Inc..
- June 2007, \$500,500 in Tantalus Systems Corp.

In addition, the Fund demanded repayment of its debenture to Chromos Molecular Systems in April 2007. The Fund recovered all principal and accrued interest in August 2007.

Investment performance

During the six month period ended June 30, 2007, the Pricing Net Asset Value per Share of the Fund increased by 0.22%. This performance measure was essentially unchanged since an increase in the carrying values of portfolio companies offset the Fund's operating costs.

The Fund's expenses increased in absolute terms in the six month period ended June 30, 2007 compared to the same period in the previous year. This increase was principally the result of higher expenses related to management and performance fees and the sales and marketing costs. Management fees were higher since they are determined by the Pricing Net Asset of the Fund which increased during the period; performance fees – although a contingent liability that was not paid to the Manager – were higher due to increased valuations of certain investments in the Fund; and, sales and marketing expenses were higher since the Fund sold proportionately more shares in the six month period ended June 30, 2007 than the same period in 2006.

The management expense ratio ("MER") was 13.61% for the six month period ended June 30, 2007 as compared to 13.81% for the same period in 2006. The MER of the Fund includes a provision for performance fees that are a contingent liability of the Fund, however, no performance fees were – in fact – paid during the period.

For the last six months, the Fund outperformed the S&P/TSX Capped Information Technology Index and the Globe Labour-Sponsored Peer Index.

Recent developments

Traditionally venture capital funds generate returns by growing and maturing portfolio investments to a liquidity event where they can be taken public through an initial public offering or acquired by a larger industry player. On average it takes four to six years for a company to mature to the stage where a traditional venture investment can be exited. However, in the case of Venture Capital Corporations ("VCCs") like the Fund, investors have the right to redeem their shares five years after their investment in a VCC. As a result, the Fund must select portfolio investments that have the potential to provide a liquidity event in three to five years – much sooner than traditional venture investments.

The investment strategy of the Fund is to invest in later stage companies or restructuring situations. In both instances, the Fund focuses on relatively mature businesses that are already publicly listed and that have the potential to appreciate in value within a relatively short time. The success of this strategy will be affected by the strength of the broader public markets in general as well as the performance of individual – particularly restructuring – investments.

The Fund has two substantial restructuring investments (IP Applications and Municipal Solutions) which together represent approximately 18.5% of the Fund's Pricing Net Assets. Each of these companies has made solid progress during the six months ended June 30, 2007. The Manager believes that these improvements have yet to be fully reflected in the market prices of shares of these companies.

Related party transactions

The Fund has engaged the Manager as its manager. The management fee paid to the Manager is based on a percentage of Pricing Net Asset. Out of a total MER of 13.61% for the period ended June 30, 2007, the equivalent 3.25% was paid to the Manager, or to affiliates of the Manager, with respect to the management fee and other costs which are payable by the Fund. The Manager may also earn a performance fee that is a contingent liability based on the gains on investments and the cumulative performance of the Fund. This performance fee, although a contingent liability that was not paid during the period, represented the equivalent of a 5.66% MER or 42% of the total MER of 13.61%.

Fiscal Year Ended December 31, 2006

Results of Operations

Investment activity

Over the course of the fiscal year the Fund completed \$6.3 million in venture investments, including \$1.2 million of first time investments in two companies. The Fund ended the year with 16 venture investments valued at \$16.2 million. Of the FMV of the venture investment portfolio, 83.5% is represented by public companies and the balance is in private companies. The venture portfolio investments represented 85.2% of the total NAV of the Fund, while cash and other net assets represented the remaining 14.8%.

The FMV of the venture portfolio is diversified across several sectors: 73.2% Information Technology, 15.0% Communications, 1.7% Proprietary Products, and 10.1% Life Sciences.

The Fund exited its investment in Kinexus during the year that had a cost of \$250,000 for proceeds of \$66,964. The loss incurred by the Fund in this situation illustrated the potential risk associated with venture investments.

Investment performance

Over the past year, the value of the Fund's Shares on a Pricing basis declined 10.6%. The decline in Pricing NAV per Share was due to operating costs and lower carrying values of several key holdings in the Fund's portfolio.

The Fund's total expenses relative to Net Assets were somewhat lower in the past year compared to 2005. This reduction was principally the result of lower costs related to the change in the contingent performance fee that may be payable under certain circumstances.

Under GAAP guidelines the management expense ratio ("MER") of the Fund is required to include: (i) share issue commissions and fees, (ii) any change in the contingent performance fee that may be payable under certain circumstances, and (iii) management, administrative and other fees or expenses.

The total MER was 10.20% for fiscal 2006 compared to 10.44% for 2005. The components of the MER for 2006 were: share issue commissions and fees of 2.30%, change in the contingent performance fee of 2.16%, and management, administrative and other fees or expenses of 5.74%. For the previous year these components were: share issue commissions and fees of 2.09%, change in the contingent performance fee of 2.50%, and management, administrative and other fees or expenses of 5.84%.

For the last fiscal year, the performance of the Fund significantly lagged the S&P/TSX Capped Information Technology and Globe Labour Sponsored Peer indices.

Recent Developments

Traditionally venture capital funds generate returns by growing maturing portfolio investments to a liquidity event where they can be taken public through an initial public offering or acquired by a larger industry player. On average it takes four to six years for a company to mature to the stage where a traditional venture investment can be exited. However, in the case of VCCs like the Fund, investors have the right to redeem their shares five years after their investment in a VCC. As a result, the Fund must make select portfolio investments that have the potential to provide a liquidity event in three to five years much sooner than traditional venture investments.

The investment strategy of the Fund is to invest in later stage companies or restructuring situations. In both instances, the Fund focuses on relatively mature businesses that are already publicly listed and that have the potential to appreciate in value within a relatively short time. The success of this strategy will be affected by the strength of the broader public markets in general as well as the performance of individual — particularly restructuring — investments.

In 2006, the technology market indices in Canada and the United States declined during the first half of the year but recovered strongly in the second half to post net gains at year end of 23.6% for the S&P/TSX Capped Information Technology Index and 9.5% for the NASDAQ Composite Index.

The Fund has a majority of its assets invested in Gemcom Software, Municipal Solutions, IP Applications and Radiant Communications. These and other portfolio companies made significant financial progress during the year however only Gemcom has enjoyed a corresponding appreciation of its share price. The Manager of the Fund believes that the growing intrinsic values of these underlying companies will ultimately be reflected in the market prices of their shares.

Related Party Transactions

The Fund has engaged Pender Capital Management Ltd. as its manager. The management fee paid to the Manager is based on a percentage of Pricing Net Asset. Of a total MER of 10.20% for fiscal 2006, 3.17% was paid to the Manager, or to affiliates of the Manager, with respect to the management fee and other costs which are payable by the Fund. The Manager may also earn a performance fee contingent upon the realized gains and cumulative performance of the Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past three years. This information is derived from the Fund's unaudited interim financial statements for the six months ended June 30, 2007 and audited annual financial statements of the Fund for the fiscal years ended December 31, 2004, 2005 and 2006.

	Six months ended June 30, 2007	Year ended December 31		
	(unaudited)	2006	2005	2004
		(audited)		
GAAP⁽¹⁾ NAV per Share,				
beginning of period	\$ 7.32	\$ 8.17	\$ 9.11	\$ 9.96
Initial adoption of new accounting policy ⁽²⁾	(0.05)			
Increase (decrease) from operations				
Total Revenue	0.05	0.14	0.13	0.10
Total Expense	(0.42)	(0.62)	(0.72)	(1.13)
Realized gain (loss) for the period	(0.01)	0.14	(0.47)	(0.40)
Unrealized gain (loss) for the period	0.60	(0.45)	0.13	0.80
Total increase (decrease) from operations⁽³⁾	0.22	(0.79)	(0.93)	(0.63)
GAAP NAV per Share end of period⁽³⁾⁽⁵⁾	\$ 7.54	\$ 7.32	\$ 8.17	\$ 9.11
Pricing NAV per Share at end of period⁽⁵⁾	\$ 8.50	\$ 7.99	\$ 8.94	\$ 10.08
GAAP Net Assets end of period	\$21,487,759	\$18,037,735	\$16,473,957	\$14,772,811
Number of Shares Outstanding	2,848,303	2,462,820	2,015,266	1,622,459
Management Expense Ratio⁽⁶⁾	13.61%	10.20%	10.44%	22.04%
<i>Share issue commissions and fees</i>	2.50%	2.30%	2.09%	9.46%
<i>Change in contingent performance fee</i>	5.66%	2.16%	2.50%	2.76%
<i>Management, administrative, and other fees</i>			5.84%	9.82%

	Six months ended June 30, 2007	<u>Year ended December 31</u>		
	2007	2006	2005	2004
<i>or expenses</i>	5.45%	5.74%		

- (1) GAAP is an abbreviation for Canadian generally accepted accounting principles.
- (2) This illustrates the impact of the adoption of the new accounting policy on January 1, 2007, for valuation of securities on the net assets per unit determined in accordance with Section 3855 of the CICA Handbook.
- (3) NAV per Share is based on the actual number of shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of shares outstanding over the financial period.
- (4) The Fund made no distributions from income, dividends, capital gains, or return of capital.
- (5) The difference between Pricing NAV per Share and GAAP NAV per Share is the inclusion of deferred sales and marketing expenses as well as share issue costs, as permitted by the regulatory authorities under which the Fund's Prospectus is governed. The BCSC has issued a temporary exemption to certain investment funds, including the Fund, from the amended valuation policy for financial reporting purposes as set out in Section 3855 of the CICA Handbook as adopted by the Fund on January 1, 2007. For the purposes of Pricing NAV, investments in public companies are valued on the basis of the weighted average closing price over the preceding 21 trading days. For the purposes of GAAP NAV, investments in public companies are valued on the basis of the closing bid price at period-end.
- (6) In accordance with regulatory requirements, the management expense ratio for the stated period is based on total expenses with respect to management fees plus other expenses that include costs which were not paid to the Manager. The MER is expressed as an annualized percentage of the weekly average net assets during the period. During 2003 the fund was restructured and delisted from the TSX Venture Exchange, therefore 2003 does not include an MER. (7) Portfolio turnover information has not been provided as venture funds invest in early-stage companies which, on average, are held for four to six years. Similarly, a trading expense ratio has not been provided as venture funds do not engage in active trading, nor purchase securities in the secondary market.

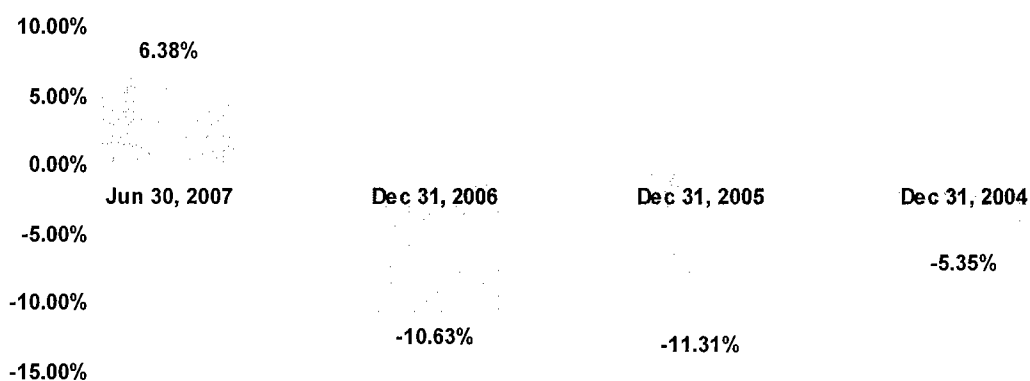
The Fund calculates its MER in accordance with regulatory requirements. This requires that the change in the contingent performance fee for the year be included in the MER calculation. The contingent performance fee is an estimate of the performance fee that would have been payable to the Manager had the Fund's entire venture portfolio been disposed of, and all conditions of payment were met. The performance fee is based only on realized gains, whereas the contingent performance fee is based on unrealized gains. As a result the contingent performance fee is not a legal liability. It may fluctuate significantly from period to period as the valuation of the Fund's venture portfolio changes. This may result in changes in the MER period to period even though the Fund's ongoing operations have not changed and no changes have been made to the Manager's compensation arrangements over the period.

PAST PERFORMANCE

Mutual fund returns are not guaranteed, their values change frequently and past performance may not be repeated nor can it be used as an indicator of future performance. The returns presented do not take into account any early redemption fees that would have reduced returns.

Year by Year Returns

The chart below reflects the Fund's annual performance in each year since inception as at December 31 and the semi-annual period ended June 30, 2007. The chart illustrates how the Fund's performance has changed from year to year and over the semi-annual period. The chart shows in percentage terms how an investment made on January 1 in the previous year would have increased or decreased by December 31 of the following year and June 30 of the semi-annual period. This calculation does not take into account the 30% tax credit received on the purchase price of an investment in shares of the Fund.



Annual Compound Returns

The following table shows the annual compound total return of Shares of the Fund compared with the Globe Labour-Sponsored Peer Index (“Globe Peer Index”) and the S&P/TSX Capped Information Technology Index for each period indicated. The Globe Peer Index is the average, as calculated by Globefund, of returns of all labour sponsored funds and venture capital corporations reported on the Globefund database (see www.globefund.com). It should be noted that the Globe Peer Index is predominantly made up of Labour-Sponsored Funds which hold approximately half of their assets in bonds, cash and other non-venture investments; as a result, the Globe Peer Index may not be an appropriate benchmark against which to measure the performance of Venture Capital Corporations, like the Fund, which have mandates to invest the majority of their assets in venture investments. We believe that the TS&P/TSX Capped Information Technology Index, which consists of technology constituents derived from a pool of S&P/TSX Composite Index stocks (see www.tsx.com), could be considered a more appropriate benchmark.

As there is no appropriate securities market index that reflects the long-term venture capital investment mandate of the Fund, these indices were determined to be the most suitable for the performance comparison purposes required by Form 81-106F1, Content of Annual Management Report of Fund Performance. Returns are calculated to June 30, 2007. For the last six months, the Fund outperformed both the Globe Labour-Sponsored Peer Index and the S&P/TSX Capped Information Technology Index.

	Three Month Return	Six Month Return	One Year Return	Three Year Return	Return since Inception ⁽¹⁾
Pender Growth Fund GAAP NAV per Share	-4.56%	3.01%	-8.94%	-3.07%	n/a
Pender Growth Fund Pricing NAV per Share	-0.47%	6.38%	-5.13%	-5.21%	-4.62%
Globe Peer Index	1.19%	2.06%	3.68%	-0.09%	n/a
S&P/TSX Capped Information Technology Index	6.93%	5.33%	48.21%	-0.79%	n/a

(1) Inception is considered to be August 15, 2003, which was the first date following the re-launch of the Fund on which Pricing Net Asset Value was calculated.

After Tax Credit Return Analysis

Buying shares of the Fund generates a 30% tax credit normally unavailable on the purchase of mutual funds. These tax credits represent a substantial financial benefit which the Manager believes should also be considered when calculating returns.

The following table illustrates compound annual returns on shares held in an RRSP after taking into account the maximum 30% tax credit available. It does not take into account the tax benefits associated with contributing the shares to an RRSP for a tax deduction, as that benefit is available in respect of many investments. Returns are calculated to June 30, 2007.

	Six Month Return	Return since Inception ⁽¹⁾
Purchase Price ⁽²⁾	\$7.99	\$10.21
Tax Credit Rate	30%	30%
Net Capital Invested ⁽³⁾	\$5.59	\$7.15
June 30, 2007 Price	\$8.50	\$8.50
Return (excl. Tax Credit) ⁽⁴⁾	13.3%	-4.6%
Return from Tax Credit ⁽⁵⁾	7.4%	7.4%
After Tax Credit Return ⁽⁵⁾	20.7%	2.8%

- (1) Inception is considered to be August 15, 2003, the first date following the restructuring of the Fund on which the Pricing NAV per Share was calculated.
- (2) In the case of the Six Month Return, this is the purchase price as of January 1, 2006. In the case of the Return since Inception, this is the purchase price as of August 15, 2003. The purchase price is the Pricing NAV per Share.
- (3) Net capital invested equals the purchase price minus the tax credits received on the purchase. It assumes that the tax credits were fully claimed and allowed at the same time as the purchase was made.
- (4) This is the annual, compound return associated with the increase in the Pricing NAV per Share since the time of purchase.
- (5) This is the annual, compound return associated with the increase in the net capital invested over a 5 year period (the typical minimum holding period before redemption can occur). The redemption price for Shares is their full Pricing NAV per Share at redemption, without deduction for any tax credits received by the purchaser. This is illustrated as follows: If there was no growth at all in the Pricing NAV per Share over time, the net capital invested would essentially grow to a redemption claim equal to the purchase price over 5 years. For example, in the "since inception" column, the \$7.15 net capital invested would grow to a redemption claim on the fully purchase price of \$10.21 over 5 years. That represents 7.4% annual, compound growth over that period. Note that the return element in note 4 accounts for the return associated with changes in Pricing NAV per Share over time (which may be negative). The tax credit return element described in this note 5 is the return associated with the tax credits only. When the two return components of note 4 and 5 are added, the sum is the after tax credit return.

PENDER GROWTH FUND (VCC) INC.

Portfolio as of June 30th, 2007

INVESTMENTS

PUBLICLY LISTED

Information Technology

Gemcom Software International Inc.	TSX: GCM	\$ 6,328,367	26.1%
IP Applications Corp.	TSX-V: IPX	1,798,048	7.4%
Municipal Solutions Group, Inc.	TSX-V: MSZ	2,682,147	11.1%
OSI Geospatial Inc.	TSX: OSI	500,000	2.1%
Optimal Geomatics Inc.	TSX-V: OPG	305,890	1.3%

Communications

Radiant Communications Corp.	TSX-V: RCN	1,815,705	7.5%
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Proprietary Products

QuestAir Technologies Inc.	TSX: QAR	187,370	0.8%
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Life Sciences

Chemokine Therapeutics Corp.	TSX: CTI	228,000	0.9%
Chromos Molecular Systems Inc.	TSX: CHR	250,000	1.0%
Medical Ventures Corp.	TSX-V: MEV	459,375	1.9%
		\$ 14,554,902	60.1%

PRIVATELY HELD

Active Pass Pharmaceuticals Inc.			
Brookdale International Systems Inc.			
D-Wave Systems, Inc.			
Neuromed Pharmaceuticals Inc.			
Progressive Solutions Inc.			
Tantalus Systems Corp.			
		\$ 4,062,937	16.8%

TOTAL INVESTMENTS

		\$ 18,617,839	76.9%
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Cash and cash equivalents		\$ 4,235,926	17.5%
Liabilities and other assets		(1,366,006)	-5.6%

NET ASSETS (GAAP)		\$ 21,487,759	
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Adjust investment from bid prices to average closing prices		1,049,472	4.3%
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Deferred Charges		1,667,694	6.9%
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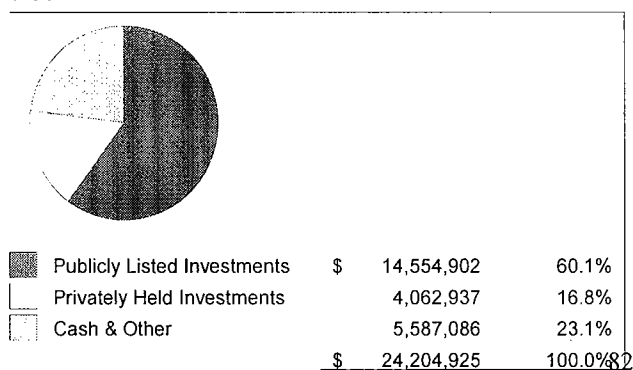
PRICING NET ASSETS

		\$ 24,204,925	100.0%
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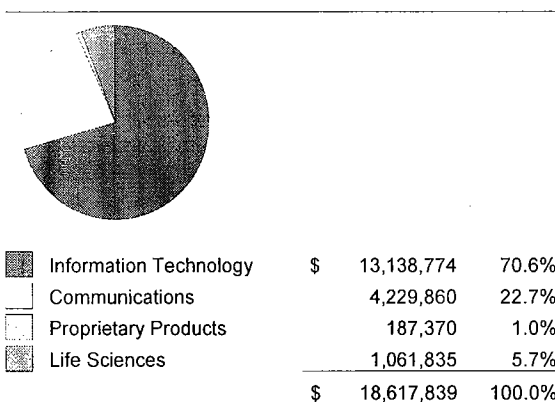
Pricing Net Asset Value per Share		\$ 8.50	
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Total Shares Outstanding		2,848,303	
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ASSET MIX



SECTOR ALLOCATION



SHAREHOLDER FINANCIAL REPORTING

Audited annual financial statements and an annual management report of fund performance will be sent to all holders of Shares. Unless otherwise permitted by applicable law, interim unaudited financial statements, or such other statements as the applicable legislative authority may require or permit, including an interim management report of fund performance will be sent to holders of Shares upon request. Such financial statements will be prepared in accordance with generally accepted accounting principles in Canada and the annual management report of fund performance will reflect the Net Asset Value of the Fund at the end of the fiscal year.

INCOME TAX CONSIDERATIONS

The following is a summary of the principal federal and British Columbia income tax considerations generally applicable to the Fund and to purchasers of Series 2 Shares pursuant to this Prospectus (sometimes hereinafter referred to herein as "Investors" or, individually, as an "Investor"). This summary assumes that the purchaser is an Investor who at all material times is resident in Canada and British Columbia, deals at arm's length and is not affiliated with the Fund and holds Series 2 Shares as capital property all within the meaning of the Federal Tax Act and the BC Tax Act. Series 2 Shares will generally be considered to be capital property to an Investor unless such Investor holds such Series 2 Shares in the course of carrying on a business or has acquired such Series Shares as an adventure in the nature of trade.

The Fund has obtained registration as a VCC under the SBVCA. This summary assumes that the Fund is qualified as a VCC under the SBVCA and will continue to be so qualified hereafter on a continuous basis.

This summary is based on the Federal Tax Act, the BC Tax Act, the SBVCA, all published proposals for amendments to the Federal Tax Act, the BC Tax Act and the SBVCA (the "Proposed Amendments"), and upon the understanding of Management of the prevailing administrative practices of the CRA and the British Columbia Ministry of Finance. This summary does not address all of the federal and British Columbia income tax consequences of an investment in the Shares and also does not address the application of any income tax laws of any province other than British Columbia or any territory or foreign jurisdiction. This summary does not otherwise take into account or anticipate any change in law or administrative practice. No assurances can be given that the Proposed Amendments will be enacted as proposed or that legislative, judicial or administrative changes will not modify or change the statements express herein.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Investor. Each Investor is advised to obtain independent advice regarding the federal and British Columbia income tax consequences of investing, holding and disposing of Series 2 Shares having regard to the Investor's particular circumstances.

Eligibility for Investment

Qualified Investment

While the Fund continues to be a public corporation for the purposes of the Federal Tax Act, its Series 2 Shares will be qualified investments for trusts governed by RRSP's and RRIF's without restriction. (Although the Fund's Shares are no longer listed on a prescribed stock exchange, the Fund will remain a public corporation until it elects not to be a public corporation.)

Should the Fund cease to be a public corporation, its Series 2 Shares will continue to be qualified investments under the Federal Tax Act for an RRSP or a RRIF, except in certain limited situations. A Series 2 Share will not be a qualified investment for a trust governed by an RRSP or RRIF if immediately after the acquisition of the Series 2 Shares by such trust, the annuitant thereunder owns, directly or indirectly, 10% or more of the issued Shares of any class of the capital stock of the Fund or of any other corporation that is related to the Fund, unless the aggregate cost of all such Series 2 Shares is less than \$25,000. In determining whether the 10% and \$25,000 limits are exceeded, each Investor is deemed to own all the Series 2 Shares that are owned by persons with whom the Investor does not deal at arm's length and each beneficiary of a trust or member of a partnership, as the case

may be, is deemed to own that proportion of all such Series 2 Shares owned by the trust or partnership, as the case may be, that the fair market value at that time of the beneficial interest of the beneficiary in the trust or the member's interest in the partnership, as the case may be, is of the fair market value of all beneficial interests in the trust or interests in the partnership, as the case may be.

Series 2 Shares may not be a qualified investment for an RRSP or RRIF if an individual provides services to, or acquires goods from, or is provided services by the Fund or persons related to the Fund and the RRSP or RRIF receives an amount from the Fund in respect of the Series 2 Shares that could reasonably be considered to be on account of, or in lieu or satisfaction of payment for such goods or services. The detailed rules relating to the eligibility for investments are set out in the Federal Tax Act. **Investors should consult their own tax advisors to confirm whether Series 2 Shares are qualified investments for their RRSPs or RRIFs, based upon their particular circumstances.**

Receipt and Claiming of Tax Credit

An individual (other than an estate or trust) or a corporation that is a Tax Credit Recipient will generally be eligible for a Tax Credit equal to 30% of the amount of the price of Series 2 Shares subscribed for pursuant to this Prospectus. A BC resident individual who is the Annuitant under an RRSP or RRIF will be entitled to the Tax Credit in respect of Series 2 Shares that are initially acquired by the RRSP or RRIF. See "Income Tax Considerations – Acquisition by an RRSP" and "Income Tax Considerations – Shares held by a RRIF".

For an individual, a tax credit will be available in respect of the taxation year in which the Series 2 Shares are subscribed for. An individual may elect to treat a subscription occurring in January or February of a calendar year as a subscription in the immediately preceding year, thereby accelerating the use of the Tax Credit.

An Individual Tax Credit Recipient must deduct from tax otherwise payable under the BC Tax Act the lesser of his or her Tax Credit or \$60,000. (This \$60,000 limitation applies in total to all Tax Credits received by an individual from all VCC investments made or deemed to be made in a calendar year.) To the extent that the Tax Credit of an Individual Tax Credit Recipient exceeds the amount of tax otherwise payable under the BC Tax Act, the Individual Tax Credit Recipient will be entitled to a refund of the difference between his or her Tax Credit or \$60,000, as applicable, and the tax otherwise payable under the BC Tax Act by the Individual Tax Credit Recipient. In administering the refund process, the refund may first apply to offset other amounts payable, including arrears under both the Federal Tax Act and the BC Tax Act. If an Individual Tax Credit Recipient has a Tax Credit in excess of \$60,000, the BC Tax Act provides that the excess may be carried forward and utilized, subject to an annual limitation of \$60,000, in any of the four subsequent taxation years. However, if at the time of an Individual Tax Recipient's death, the Tax Credit to which he or she is entitled has not been previously deducted, his or her estate will be entitled to claim an amount equal to the portion of the Tax Credit that has not previously been refunded or credited against taxes otherwise payable.

The BC Tax Act provides that a Corporate Tax Credit Recipient shall deduct from tax otherwise payable under the BC Tax Act an amount equal to the lesser of the Tax Credit and the amount of tax that would otherwise be payable under the BC Tax Act but for the Tax Credit. A Corporate Tax Credit Recipient is not limited to a maximum deduction of \$60,000. A Corporate Tax Credit Recipient will not receive a refund if its Tax Credit exceeds the amount of its tax otherwise payable under the BC Tax Act for the taxation year. A Tax Credit not so utilized by a Corporate Tax Credit Recipient may be carried forward for up to four subsequent taxation years and shall be utilized to the extent that there is tax otherwise payable under the BC Tax Act in any such taxation year.

To claim a Tax Credit, the Tax Credit Recipient must file the Tax Credit Certificate provided by the SBVCA Administrator with his or her or its annual return of income for the taxation year in respect of which the Tax Credit is being claimed and the annual return is filed within 3 years after the end of the taxation year.

The Fund will apply on behalf of the Tax Credit Recipient for a Tax Credit Certificate entitling the Tax Credit Recipient to a Tax Credit.

Because the Fund is registered as a VCC under Part 1 of the SBVCA, the Tax Credit does not reduce the cost of the Series 2 Shares acquired by an Investor nor is the Tax Credit otherwise required to be included in income. Where the Investor is an RRSP or RRIF, no taxable benefit arises as a result of the receipt of a Tax Credit by the annuitant of the RRSP or RRIF.

Adjustment of Income Tax Withheld or Installment Payments

The Tax Credit reduces income taxes otherwise payable under the BC Tax Act. A Tax Credit Recipient may therefore be able to reduce the amount of the tax instalments otherwise payable for the year to which the Tax Credit relates or for a following year. An Individual Tax Credit Recipient who is an employee may be able to reduce the amount of tax withheld by his or her employer from the remuneration paid for the year to which the Tax Credit relates.

Deduction of Interest on Borrowed Money

A reasonable amount of interest that is paid or payable (depending upon the Investor's normal method of computing income) pursuant to a legal obligation to pay interest on borrowed money used to acquire Series 2 Shares should be deductible by an Investor for income tax purposes provided the Series 2 Shares are owned by the Investor for the purpose of earning income.

If an Investor disposes of Series 2 Shares (including Series 2 Shares that are contributed to an individual's RRSP), interest on the borrowed money may cease to be deductible. **Investors should consult their own professional tax advisors to determine when interest paid on money borrowed to acquire Series 2 Shares will be deductible in their particular circumstances.**

Consequences of the Disposition of Shares

An individual or corporate Investor who disposes of or is deemed to dispose of a Series 2 Share will realize a capital gain (or capital loss) in the taxation year of the disposition equal to the amount by which the proceeds of disposition in respect of such Series 2 Share exceeds (or are less than) the aggregate of the Investor's adjusted cost base of such Series 2 Share and all reasonable costs of disposition.

Any capital loss that would otherwise arise on the disposition of Series 2 Shares will be reduced by the amount of Tax Credits received in respect of the Series 2 Shares by the holder or by a person with whom the holder does not deal at arm's length, to the extent that the amount of such Tax Credits have not previously reduced a capital loss in respect of the Series 2 Shares.

A disposition of Series 2 Shares will include a sale of, or contribution-in-kind of shares to, an RRSP or RRIF. Transactions between an Annuitant and his/her RRSP or RRIF must occur at fair market value. Capital losses sustained on the transfer or contribution of Series 2 Shares to an RRSP or RRIF are not allowable capital losses and cannot be used to offset capital gains.

One-half of any capital gain is a taxable capital gain that must be included in computing income for income tax purposes. One-half of any capital loss is an allowable capital loss that may be deducted in computing income, but only against taxable capital gains. Allowable capital losses not deductible in the current year may be deducted against taxable capital gains in computing income for the three preceding or any future taxation years.

Where the Investor is an RRSP or RRIF, gains realized on the disposition of Series 2 Shares within the RRSP or RRIF are not subject to tax currently. However, the full amount of net proceeds realized by an RRSP or RRIF will be included in the Annuitant's income upon withdrawal from the RRSP or RRIF.

Calculation of Adjusted Cost Base

The adjusted cost base of a Series 2 Share will generally be the amount paid by an Investor to acquire the Series 2 Share. The receipt of a Tax Credit does not reduce the cost to the Investor of the Series 2 Share. The cost of any

Series 2 Shares acquired by an Investor pursuant to this Prospectus will be averaged with the cost of all of Series 2 Shares owned by the Investor for purposes of determining the Investor's adjusted cost base of such Series 2 Shares.

Redemption of Shares

On a redemption of Series 2 Shares, the Investor will be deemed to receive a dividend equal to the excess of the redemption proceeds over the paid up capital of the Series 2 Shares. The paid up capital of a Series 2 Share is determined from time to time on an average basis as the total of all subscription proceeds received on all issuances of Series 2 Shares (less the paid up capital attributable to Series 2 Shares previously redeemed) divided by the number of Series 2 Shares outstanding. The deemed dividend will be taxed as described below under "Dividends".

The redemption of a Series 2 Share is also treated as a disposition, with the proceeds of disposition as otherwise determined being reduced by the amount of the deemed dividend. The gain or loss will be calculated with reference to these adjusted proceeds of disposition and the adjusted cost base of the Series 2 Shares, as more fully described above under "Consequences of the Disposition of Shares".

Minimum Tax

The Federal Tax Act provides for an alternative minimum tax to be payable by individuals if their minimum tax calculated as required exceeds their tax otherwise payable. The federal minimum tax rate of 15.5% is applied on the amount by which an individual's "adjusted taxable income" exceeds the individual's basic exemption of \$40,000.

Adjusted taxable income consists of amounts which are normally taxable (some of which are subject to certain adjustments for purposes of this calculation), plus amounts which are normally not taxable, less permitted deductions (some of which are also subject to certain adjustments for purposes of this calculation).

The Tax Credits do not affect the calculation of adjusted taxable income. The Tax Credit will reduce BC income taxes otherwise payable even where minimum tax is payable under the Federal Tax Act.

Dividends

Dividends (other than capital dividends) paid on Series 2 Shares and received, or deemed to be received, by an individual, will be included in computing the individual's income subject to the gross-up and dividend tax credit rules in the Federal Tax Act applicable to dividends from taxable Canadian corporations

Dividends (other than capital dividends) paid on Shares and received, or deemed to be received, by a corporation, will be included in computing the corporation's income. However, the recipient corporation will generally be entitled to deduct an equivalent amount. Investors that are private corporations or other corporations controlled by or for the benefit of an individual or related group of individuals, may be liable for a refundable tax under Part IV of the Federal Tax Act equal to one-third of the amount of the dividend. This tax is refundable upon the payment of sufficient taxable dividends by such corporation. Investors that are corporations other than private corporations may be liable for tax under Part IV.1 of the Federal Tax Act equal to 10% of the amount of the dividend. Where corporations are subject to tax under both Part IV and Part IV.1, all or a portion of the tax payable under Part IV.1 will be deductible from the tax payable under Part IV.

To the extent that the Fund has a positive balance in its capital dividend account, it may elect to pay a capital dividend. A capital dividend would be received tax-free by an individual or corporate recipient. In general, the Fund may have a positive balance in its capital dividend account if the amount of the non-taxable portion of capital gains realized by the Fund and capital dividends received by the Fund exceeds the non-taxable portion of capital losses realized by the Fund and capital dividends paid by the Fund. A holder of a Series 2 Share which is an RRSP or RRIF is exempt from tax on the amount of any dividend.

A holder of a Series 2 Share which is an RRSP or RRIF is exempt from tax on the amount of any dividend. However, the full amount (excluding the gross up) of any dividends will be included in an Annuitant's taxable income without an entitlement to the dividend tax credit when withdrawn from an RRSP or RRIF.

The Fund will issue to the holders of Series 2 Shares a tax reporting form (T5 Supplementary) relating to all taxable dividends paid by the Fund.

Shares and RRSPs, RRIFs and Other Plans

This discussion applies to an RRSP for which Series 2 Shares are a qualified investment (see "Income Tax Considerations – Eligibility for Investment – Qualified Investment" above). Series 2 Shares may be held in an RRSP under which the Individual Tax Credit Recipient is the Annuitant or a Spousal RRSP under which the Spouse of such individual is the Annuitant. The individual may acquire the Series 2 Shares directly from the Fund and then transfer or contribute them to the RRSP or may cause the RRSP to acquire the Series 2 Shares directly from the Fund. Where Series 2 Shares are acquired directly by an RRSP, the individual who is the Annuitant under the RRSP will be entitled to a Tax Credit in respect of those Series 2 Shares, assuming the other conditions are met. The following discussion deals with the different options available for holding Series 2 Shares in an RRSP or RRIF. **The income tax consequences to an individual Investor of holding his or her Series 2 Shares through an RRSP and of either transferring Shares to such RRSP or causing the RRSP to acquire the Series 2 Shares directly will depend on the individual Investor's particular circumstances. Individual Investors are encouraged to consult their own professional tax advisors as to the particular income tax consequences of acquiring or holding Series 2 Shares in an RRSP or RRIF.**

Acquisition by an RRSP

An Investor may acquire Series 2 Shares into his or her RRSP, in the following ways:

- An Investor may direct that an RRSP purchase Series 2 Shares directly from the Fund. In this case, the Investor, as the annuitant of the RRSP, will be entitled to a Tax Credit in respect of the Series 2 Shares purchased by the RRSP.
- If the Investor has sufficient RRSP deduction limit, he or she may contribute funds directly into the RRSP which can then purchase the Series 2 Shares directly from the Fund. This type of acquisition entitles the Investor to a Tax Credit in respect of the Series 2 Shares.
- An Investor may purchase Shares directly from the Fund, which entitles the Investor to a Tax Credit in respect of the Series 2 Shares, and subsequently make an in-kind contribution to the RRSP by transferring the Series 2 Shares to the RRSP at their fair market value.

If the Investor has sufficient RRSP deduction limit, the transfer of Series 2 Shares to the RRSP will qualify as a deductible contribution to the RRSP. If the Investor does not have a sufficient RRSP deduction limit, the transfer of the Series 2 Shares to the RRSP will not constitute a deductible contribution for the Investor. (In this case, the Investor may have to take additional consideration from his RRSP or otherwise address the tax consequences of an over contribution.) The Investor's proceeds of disposition and the RRSP's cost of acquisition of any Series 2 Shares transferred or contributed by an Investor to the RRSP will be the fair market value of the Series 2 Shares at the time of the transfer.

The determination of the fair market value of the Series 2 Shares at the time of the transfer is a factual matter. The current administrative practice of the CRA is that it will treat the fair market value of Series 2 Shares as the original cost where the Series 2 Shares are transferred to an RRSP or RRIF by an individual within 30 days of the date the Series 2 Shares were first acquired by the individual. Accordingly, an Investor who is an individual can transfer his or her Series 2 Shares to an RRSP, or RRIF or a Spousal RRSP as applicable within 30 days of the original acquisition date of such Series 2 Shares without realizing a capital gain or loss. Management of the Fund is of the view that the fair market value of the Series 2 Shares is the Pricing Net Asset Value per Series 2 Share as determined by the Board as at the relevant Valuation Date. However, the CRA has the right to review and challenge the

fair market value of a Series 2 Share. The Pricing Net Asset Value per Series 2 Share will fluctuate over time in accordance with changes to the value of our investments in applicable ESBIs. An Investor who wishes to acquire Series 2 Shares and to transfer them to an RRSP on a date subsequent to their acquisition should take into account the potential risk of realizing a capital gain or unusable capital loss upon such transfer. See "Income Tax Considerations – Consequences of the Disposition of Shares".

Shares held by a RRIF

An Investor can transfer his or her Series 2 Shares to a RRIF. The transfer of Series 2 Shares from an individual to a RRIF under which the individual or the Spouse is the Annuitant will result in the disposition of the Series 2 Shares and (except as described in the following paragraph) have the same tax consequences described above in relation to transfers of Series 2 Shares by an individual to an RRSP. The transfer of the Series 2 Shares to the RRIF by an Investor will not impact on the ability to claim Tax Credits which will be available to the Individual Tax Credit Recipient on the same basis as if the Series 2 Shares were not transferred to the RRIF.

There is no tax deduction available for a contribution of Series 2 Shares to a RRIF. The Federal Tax Act requires that a minimum percentage of the assets of a RRIF be withdrawn in each year. An individual must plan such RRIF's investments in such a way as to allow withdrawal of the required amount in each year. Because of the restrictions placed on the redemption of Series 2 Shares by the Fund, an Annuitant of a RRIF may be unable to withdraw the required amount in cash. If sufficient liquid assets are not available in the RRIF to make the necessary annual withdrawal, then a portion of the Series 2 Shares may have to be withdrawn in lieu of cash.

LIF's, LIRAS and LRIF's

The discussion set out above in relation to RRSPs will also apply to a locked-in retirement account ("LIRA") which qualifies as an RRSP for income tax purposes. The discussion provided above in relation to RRIFs will also apply to a life income fund ("LIF") and a locked-in retirement income fund ("LRIF") which qualifies as a RRIF for income tax purposes. A participant in an LIF, LRIF or LIRA should verify whether his or her plan qualifies as a RRIF or an RRSP for income tax purposes.

Taxation of the Fund

Federal Taxation

Calculation of Income and Taxes

For each taxation year the Fund will be required to calculate income or loss and file income tax returns and pay income tax on its taxable income.

Dividends Received

Dividends received by the Fund from taxable Canadian corporations will generally not be subject to income tax under Part I of the Federal Tax Act. Provided that the dividends are received by the Fund from a corporation that is an eligible investment of the Fund, the Fund will not be subject to Part IV tax in respect of the dividend.

Capital Gains and Losses

The Fund has historically treated transactions involving shares of its eligible investment corporations as being on income account. To December 31, 2006, the Fund has incurred non-capital losses of \$6,955,250 from both its operations and securities transactions. These losses, which expire in varying amounts from 2006 through 2007, are available to offset income during the carry-forward period that may be realized from dispositions of securities currently owned by the Fund.

While the Fund remains a public corporation headquartered in British Columbia, income derived from operations and dispositions of securities (to the extent not offset with non-capital losses carried forward) will attract combined federal and

provincial income taxes at a rate of 34.12% for 2007 and 32.50% for 2008, with further reductions in tax rates in 2009, 2010 and 2011.

The Fund is not currently a "mutual fund corporation" under the Federal Tax Act. Subject to detailed rules specified in the Federal Tax Act, investment funds that are mutual fund corporations can avoid entity level taxes on capital gains by making distributions to shareholders. The effect of such distributions is to transfer to the shareholders the income tax liabilities the investment fund would otherwise have in respect of their net realized taxable capital gains. As a result, holders of the shares of such investment funds that are RRSPs or RRIFs, which are exempt from tax, and holders of the shares of such investment funds that are otherwise able to offset the income tax liabilities, may benefit from an increased net asset value per share to the extent that the investment fund is able to maintain an increased net asset value as a result of having so reduced its income tax liabilities. The Fund will not be able to provide this same benefit to the holders of its Series 2 Shares. In this respect the Fund is different from most other types of investment funds and an investment in the Fund may be less appropriate for an RRSP or RRIF than an investment in a fund that is able to, in effect, transfer its income tax liabilities to its shareholders.

Interest and Other Investment Income

Interest and investment income (other than dividends received on shares of taxable Canadian corporations) will be included in computing the Fund's income for a year.

If the Fund is a financial intermediary corporation, as defined by Subsection 191(1) of the Federal Tax Act, the Fund will not be subject to tax under Part VI.1 of the Federal Tax Act in respect of taxable dividends paid by the Fund. Provided that no shareholder or group of shareholders not dealing at arm's length owns more than 10% of the fair market value of the Shares, the Fund will be a financial intermediary corporation because it will be a prescribed venture capital corporation under the Federal Tax Act. If the Fund is not a financial intermediary corporation, Part VI.1 tax may be payable by the Fund in respect of dividends paid to a shareholder or group of shareholders not dealing at arm's length that own more than 10% of the fair market value of the Shares (unless those shareholders have a substantial interest in the Fund as defined by Subsection 191(2) of the Federal Tax Act). If tax is payable under Part VI.1 of the Federal Tax Act, an amount equal to 9/4 of the amount payable will be deductible by the Fund in computing its taxable income under the Federal Tax Act.

Issue Expenses

The issue expenses of the Fund are deductible at the rate of 20% per year on a straight-line basis subject to a pro rata reduction in the year incurred based on a proportion of a number of days in the taxation year.

British Columbia Taxation of the Fund

For the purposes of provincial corporate income tax, the Fund's aggregate income will be attributed to, and taxable in those provinces in which it is earned. The Fund does not expect to earn any significant amount of income attributable to any province other than British Columbia for its 2007 fiscal year and future years. The British Columbia tax treatment of the Fund will parallel the federal tax treatment discussed above under the heading "Income Tax Considerations – Taxation of the Fund – Federal Taxation".

Liability for Repayment of Tax Credits

If the Fund's registration is revoked under the SBVCA, or the Fund resolves to wind-up or dissolve the corporation, directly or indirectly acquires one or more of its Series 2 Shares prior to the permitted redemption date under the SBVCA, or conducts other ineligible transactions or events specified under the SBVCA, the Fund may be required to pay to the British Columbia Minister of Finance all or part of the Tax Credits issued in respect thereof. See "Share Capital – Series 2 Shares – Suspension of Redemptions" and "Share Capital – Series 1 Shares – Suspension of Redemptions".

RISK FACTORS

An investment in the Fund must be considered speculative, carrying significant risks and should be undertaken only by investors who have sufficient financial resources to enable them to assume such risks and who have no need for immediate liquidity of their investment. Series 2 Shares should not be purchased by persons who cannot afford the loss of their entire investment, and an investment in Series 2 Shares should not constitute a major portion of an individual's portfolio. There is no guarantee that an investment in Series 2 Shares will earn a specified rate of return or any return in the short or long term and an investment in Series 2 Shares is not guaranteed by the Province of British Columbia. Investors should consider the following risk factors before purchasing Series 2 Shares.

The market in British Columbia for funds that invest in small businesses in British Columbia and provide tax incentives to investors is competitive. There is no minimum on this Offering. Expenses incurred by the Fund may reduce or even eliminate the returns that would otherwise be available to investors from the investments of the Fund.

The Fund invests in rapidly growing small businesses in British Columbia and provides Investors with tax incentives. This market includes venture capital corporations ("VCCs"), employee venture capital corporations ("EVCCs"), and federal labour-sponsored venture capital corporations, all of which compete for investment dollars. A single dominant EVCC has existed since 1992 and a second EVCC has recently been registered. Competition may be increased in the future if additional VCCs, with shares that have attributes similar to those of the Fund, and/or additional EVCCs are registered by the provincial government. There is no guarantee that investors will choose to invest in the Fund. There is no minimum amount which must be raised by the Fund pursuant to this Offering. The amount of equity capital raised under this Offering may only permit the Fund to make a limited number of investments. In the event that the proceeds of this Offering are relatively small, the costs of this Offering, and the overhead portion of its ongoing expenses may, notwithstanding such efforts as may be made to minimize those expenses, result in a substantial reduction or even elimination of the returns that would otherwise be available to investors from those investments which the Fund is able to make.

The British Columbia government has the discretion to reduce the amount of capital the Fund may raise on a tax incentive basis. The government program under which Tax Credits are provided may not continue in its current form, or at all. The Fund's registration under the SBVCA may be suspended or revoked in certain circumstances, in which case sales of the Shares would not qualify for Tax Credits. In each such event, the ability of the Fund to raise additional capital would be impaired, potentially adversely affecting its long-term viability.

The Fund is registered as a venture capital corporation under the SBVCA. The SBVCA Administrator has authorized the Fund to issue up to \$7,000,000 of its Shares during each of the following periods: February 16, 2007 to February 15, 2008, February 16, 2008 to February 15, 2009 and February 16, 2009 to February 15, 2010. The Fund may apply to the SBVCA Administrator for additional equity capital once the \$7,000,000 has been raised under the respective time frames. There can be no assurance that the Fund will be authorized to raise additional equity capital after the respective time frames. There are no assurances that the Fund will receive authorizations to issue additional Shares in subsequent years, that the amounts of equity capital that the Fund is authorized to raise will not be reduced, or that the Investment Capital Program will continue to operate or continue to provide a 30% Tax Credit or a maximum annual Tax Credit of \$60,000 for individuals or an unlimited annual Tax Credit for corporations. Any reduction in the amounts of equity capital that the Fund is authorized to raise and any changes which may occur in the legislation relating to the provision of Tax Credits for investments in VCCs could adversely affect the Fund's ability to attract future investment. As a result, the availability of funds for investment by the Fund could be reduced, decreasing its ability to fulfill its investment objectives and potentially adversely affecting its long-term viability. The Fund's registration under the Small Business Venture Capital Act may be suspended or revoked if it does not comply with the requirements of the SBVCA, which could occur, for example, if the Fund is unable to invest its assets in Eligible Investments within the time period(s) specified by the SBVCA. Tax Credits would not be available in respect of purchases of Shares while registration of the Fund is suspended or after it is revoked, limiting the ability of the Fund to attract additional investment, potentially decreasing its ability to fulfill its investment objectives and adversely affecting its long-term viability.

There currently is no market for the Series 2 Shares and it is not expected that any market will develop therefor. If no market develops for the Series 2 Shares, shareholders will not, generally, be able to dispose of their Series 2 Shares other than by way of redemption. The Fund's ability to meet a redemption request is subject to certain conditions which, if not met, may result in a redemption request being suspended, delayed or declined by the Fund. The Fund may not have sufficient assets to meet redemption requests. Fulfilling redemption requests may adversely affect the value of the Fund.

There currently is no market for the Series 2 Shares and it is not anticipated that any market will develop therefor. Shareholders may not be able to dispose of their Series 2 Shares, except by requesting redemption thereof. Except in very limited circumstances, shareholders are not entitled to request redemption of their Series 2 Shares until five years after the date of issuance thereof. Although a shareholder may be entitled to request a redemption of Series 2 Shares, the financial position of the Fund may prohibit it from completing a request for redemption or may permit it to decline a request for redemption. The Fund may also decline a request for redemption in certain other circumstances, for example, if the amount sought to be redeemed, when added to the total amount of all previous redemptions of Series 2 Shares in the same fiscal year of the Fund, exceeds a certain percentage of the Pricing Net Asset Value of the Fund at the end of its immediately preceding fiscal year.

If requests for redemption exceed the liquid assets of the Fund at any time, the Fund may be required to dispose of investments before they have been held for a sufficient time to achieve their anticipated, or any, returns. If a request for redemption is declined and not withdrawn, it will be deemed to have been received on the day on which the circumstances which prohibited its being completed when received first abate, in the order in which it was originally received or deemed to have been received, in priority to any other requests for redemption received on that day. In such event the Redemption Price to be paid in respect of the Shares to be redeemed will be equal to the Redemption Price which would have been payable had the request for redemption been received on that day, which may be substantially different from the Redemption Price that would have been payable had the request for redemption been completed when it was originally received.

The Fund may not have sufficient cash or liquid assets on hand to meet all redemption requests. At the time of the filing of this Prospectus, there is a maximum of 130,795 Series 1 Shares subject to redemption this year, at a total redemption value of \$1,000,582 based on the Pricing NAV of the Fund as at September 28, 2007. At the present time, the Fund has sufficient funds to pay the redemption monies based on this Pricing NAV of the Fund and expects to redeem these Shares. In addition, in 2008 an aggregate of 154,656 Series 2 Shares will become eligible for redemption. While the Fund intends to reserve sufficient funds to meet these redemption requests, it is possible that sufficient funds will not be available to meet all redemption requests. Furthermore, because redemption requests must be satisfied from existing assets within the Fund, by paying out funds for redemption, the Fund's available cash for new or follow-on investments is diminished. This limits the Fund's ability to diversify its investments and may have a negative impact on shareholder return.

The Fund is not a mutual fund, the rules designed to protect investors who purchase securities of mutual funds do not apply to the Fund, and the Fund is not subject to the mutual fund investment restrictions.

The Fund is not a mutual fund and the rules designed to protect investors who purchase securities of mutual funds will not apply to the Fund. In particular, rules directed at ensuring liquidity and diversification of investments and certain other investment restrictions and practices normally applicable to mutual funds do not apply. The Fund may take positions in small businesses which represent a larger percentage of their equity than a mutual fund would be permitted to take, and this may increase the risk per investment.

In addition, because the Fund is not a mutual fund, it is not subject to the mutual fund investment restrictions.

Unlike a mutual fund, the Fund is permitted to invest more than 10% of its net assets in illiquid securities, and may invest in more than 10% of its assets in any one Eligible Small Business, may provide guarantees for Eligible Small Businesses, and may purchase options and debt securities, among other things. As an illustration of this risk, in the period ended June 30, 2005, the Fund made additional investments on IP Applications bringing the total amount invested in the company to \$3,250,000. This position is the largest restructuring investment of the Fund and represented 19.8% of the Fund's Pricing Net Assets at June 30, 2005. Due to the size of this holding, the Pricing Net Asset Value per Share of the Fund is particularly sensitive to the market price of shares of IP Applications. As

at the date of the Prospectus a one cent price change in the shares of IP Applications will affect the Pricing Net Asset Value per Share of the Fund by approximately four cents.

The Fund may become liable to repay Tax Credit amounts, which may impair its ability to carry on business and meet its commitments.

The Small Business Venture Capital Act prescribes circumstances in which the Fund may become liable to repay to the Government of British Columbia all or part of the Tax Credits that are provided to investors. If the Fund should become obligated to repay all or part of the Tax Credits that have been provided to its investors, its ability to carry on its business and meet its commitments as they fall due may be seriously impaired. The value of the Shares of the Fund may be significantly affected by the repayment provisions of Section 22 of the Small Business Venture Capital Act. In addition, the repayment of any Tax Credits by the Fund will reduce the Pricing Net Asset Value of the Fund.

The Fund faces competition from other capital providers and there can be no assurance that suitable investments in Eligible Small Businesses will be found.

The Fund faces competition from other capital providers, including VCCs, EVCCs, LSVCCs, venture capital firms and strategic investors, all of which compete for investment opportunities. These competitors may limit the Fund's opportunities to acquire interests in Eligible Small Businesses of a quality and business focus that are attractive to the Fund. The Fund may be required to invest in Eligible Small Businesses otherwise than in accordance with its Investment Policy in order to meet its investment pacing requirements. If the Fund is required to invest other than in accordance with its investment strategy, its ability to achieve its desired rates of return may be adversely affected.

Investments made by the Fund will generally lack liquidity and involve a longer than usual investment commitment. Losses are typically realized before gains, and the Fund may be required to dispose of investments before any returns are received therefrom.

Investments of the kind to be made by the Fund by their nature involve a longer commitment than that typical for other types of investments. It is anticipated that most of its investments will require between three to seven years to mature and generate the returns expected by Investors. The investments of the Fund are likely to mature at different times, creating fluctuations in the Pricing Net Asset Value per Share of the Fund. In addition, certain of the Fund's investments may not mature and generate the returns expected, and losses on unsuccessful investments are often realized before gains on successful investments are realized. The Fund expects to invest in securities of Eligible Small Businesses that have not conducted initial public offerings or otherwise distributed their securities to the public, for which there is no public market and no assurance that a liquid public market or a listing on a stock exchange will develop or be obtained. The Fund will invest principally in publicly listed Eligible Small Businesses whose shares may be thinly traded on a stock exchange. The lack of liquid public markets or stock exchange listings for the securities expected to be acquired by the Fund could have a material adverse effect on the value thereof and the return on investment which the Fund is able to provide.

The British Columbia Securities Commission has granted the Manager registration status as an Adviser under the Securities Act until December 31, 2007.

The BCSC has granted the Manager registration status as an adviser under the Securities Act. This order allows the Manager to provide investment management services to the Fund until December 31, 2007. The Manager must make an application to the BCSC for registration as an Adviser on annual basis. There can be no assurance that the Manager will be successful in renewing its application as an Adviser under the Securities Act after December 31, 2007. If the Manager is unsuccessful in its application to register as an Adviser, the Fund will have to incur additional costs and hire an employee who is registered under the Securities Act to provide investment advice to the Fund.

The Pricing Net Asset Value of the Fund will be based principally on the value of the assets in its investment portfolio and, therefore, the value of the Shares of the Fund will increase or decrease with the value of such assets. The Fund's valuation process for its Shares is based on inherent uncertainties and the resulting values may differ from values that would have been used had a liquid market existed for the investments.

The Pricing Net Asset Value of the Fund will be based primarily on the value of the assets in the Fund's portfolio and, therefore, the value of the Shares will increase or decrease with the value of such investments. The value of the Fund's assets may fluctuate with general economic conditions, including the level of interest rates, corporate earnings, economic activity, the value of the Canadian dollar and other factors. Given the requirement that the Fund invest in Eligible Small Businesses, the risks associated with fluctuations in the value of its assets may be amplified, as such businesses may be affected more than larger businesses by external events, including downturns in general economic conditions.

The Fund offers Shares for sale at the Pricing Net Asset Value per Share on the Valuation Date which is or next follows the date on which a subscription therefor is received by the Fund. The Pricing Net Asset Value per Share of the Fund will be based, likely in significant part, on estimates of the fair value of the Fund's investments in Eligible Small Businesses for which there is no published market. The process by which estimates thereof are made is inevitably based on inherent uncertainties, and the resulting values may differ from values that would have been used had a ready market existed for such investments. To the extent that estimates made of the fair value of the Fund's investments prove, on eventual realization, to have been higher than the actual value of the Fund's investments, new shareholder investment will provide a benefit to existing investors; similarly, to the extent that estimates made of the fair value of the Fund's investments prove, on eventual realization, to have been lower than the true value of the Fund's investments, new shareholder investment will, as a consequence of the resulting dilution, be a detriment to existing investors.

The Fund intends to derive revenue from investments in emerging technology ESBs made in accordance with its Investment Policy. The prospects for success of emerging technology companies depend critically on a number of factors which, given their limited operating histories, are difficult to evaluate. Investments in emerging technology ESBs are inherently risky. The technology ESBs in which the Fund invests will generally require additional capital, which the Fund may not be able to provide or which may not be available from other sources.

The technology ESBs in which the Fund expects to invest are typically at an early stage of development. They will generally have limited operating histories upon which to base evaluations of their prospects. The business activities of ESBs tend to be speculative and may be adversely affected by factors outside their control, such as the markets and the economy generally. The Fund will largely be dependent on the ability of the management of the ESBs in which it invests to successfully implement their business plans. Emerging stage technology ESBs are often developing products that require significant additional development, testing and investment prior to any final commercialization. There can be no assurance that any of the technology ESBs in which the Fund invests will be successful in identifying, developing, and marketing new products and/or services, or enhancing their existing products and/or services, or that the market will consider the products or services developed and marketed by any of them to be superior or equivalent to existing or future competitive products or services.

Existing and potential competitors of ESBs in which the Fund invests and providers of alternative technologies may have substantially greater product or service development capabilities, substantially greater financial, technical, marketing and other resources and may succeed in developing products or services earlier than such ESBs or in developing products or services that are better or more effective than those developed or proposed to be developed by such ESBs. The success of a technology ESB in which the Fund invests may also depend upon its ability to protect its intellectual property rights. Where such an ESB relies upon a combination of trade secrets and confidentiality, nondisclosure and non-competition arrangements with its employees, representatives and other entities with which it deals to protect its product-related know-how, there can be no assurance that they will provide meaningful protection. There can be no assurance that any of the ESBs in which the Fund invests will achieve profitability in the anticipated timeframe or at all or that any of them will be commercially successful over the long term. As the Small Business Venture Capital Act prohibits the Fund from controlling any of the ESBs in which it invests, the success of such ESBs may depend on factors which the Fund cannot influence.

The Fund's sources of cash flow are substantially dependent upon the success of the ESBs in which it invests. There is no guarantee that any ESB will pay any dividends to the Fund or that there will be any capital appreciation from the Fund's investments in ESBs. To the extent that ESBs do not provide cash returns to the Fund, the Fund may not be able to redeem Shares. The value of the assets of the Fund may be materially affected by the failure of one or more of the ESBs in which the Fund invests.

The ESBs in which the Fund expects to invest will generally anticipate incurring significant costs to fund their development, marketing and sales initiatives, technology improvements and other enhancements to their businesses, will often project significant operating losses, and will, in order to achieve their business objectives, generally have and continue to have capital requirements in excess of their available resources. There can be no assurance that any additional financing required by an ESB in which the Fund invests can be obtained or that, if obtained, will be at a reasonable cost and on reasonable terms. Where an ESB experiences delays in meeting its anticipated funding schedule, its ability to timely implement its business plan may be compromised and it may be forced to limit or discontinue product development, reduce sales and marketing efforts and/or forego attractive business opportunities.

There can be no assurance that the Fund will be able to provide any of the additional capital which may be required by any of the ESBs in which it invests. If the Fund is unable to raise additional capital after it has met its investment pacing requirements, the Fund will be reliant on third parties to provide any additional capital which may be required by ESBs in which it has invested, in order to be able to realize on such investments. The terms on which such additional capital may be available may substantially reduce the value of the investment of the Fund in an ESB to which it is provided. The ability of the Fund to raise capital is dependent upon a number of factors including the state of the capital markets and legislative allocations.

Investors will be required to rely on the Board of Directors and the Manager and Pender Financial to conduct the business of the Fund. As such, conflicts of interest may arise in the ordinary course of business.

Investors will be required to rely on the business judgment, expertise and integrity of the Board of Directors and the Manager. The Fund must rely substantially upon the knowledge and expertise of the Manager, and the resources of Pender Financial made available to it, in entering into any investment agreement or investment arrangements with Eligible Small Businesses, in determining the composition of the Fund's investment portfolio, and in determining when and whether to dispose of securities owned by the Fund. Kelly Edmison and David Roberts are directors and officers of the Fund and the Manager. Upon completion of the Transaction, Mr. Roberts will cease to be a director and officer of the Manager and Mr. Barr will become a director, officer and shareholder of the Manager and Mr. Edmison will also become a shareholder of the Manager. David Barr is also an officer of the Fund. Kelly Edmison is also a director, officer and shareholder of Pender Financial and David Roberts and David Barr are both shareholders of Pender Financial. The death or disability of any of them could adversely affect the ability of the Fund to achieve its objectives.

The Directors and officers of the Fund will not be devoting all of their time to the affairs of the Fund, but will be devoting such time as may be required to effectively manage the Fund. Certain of the Directors and officers of the Fund are engaged and will continue to be engaged in the search for investments for themselves and on behalf of others, including other private and public corporations, and Pender Financial. Accordingly, conflicts of interest may arise from time to time. Any conflicts will be subject to the procedures and remedies under the Business Corporations Act. See "Conflicts of Interest" below for further details.

Issuance of Tax Credits by the SBVCA Administrator is discretionary and cannot be guaranteed. If the Fund contravenes the SBVCA, the SBVCA Administrator may revoke all of the Tax Credit Certificates issued in respect of the Shares and deem them never to have been issued.

Tax Credit Certificates are issued at the discretion of the SBVCA Administrator. There can be no assurance that Tax Credit Certificates will be issued, even if all of the stated requirements therefor have been met. The SBVCA Administrator will issue Tax Credit Certificates to investors in the Fund only if the Fund complies with the Small Business Venture Capital Act and the regulations thereunder. The SBVCA Administrator is also entitled to revoke Tax Credit Certificates where the Small Business Venture Capital Act and/or the regulations thereunder have been contravened. In such case, investors would not be entitled to Tax Credits in respect of the Shares purchased.

In situations where Shares are transferred to an RRSP, RRIF or other registered plan or are redeemed, CRA may reassess the fair market value of the Shares as of the date of transfer which would affect the proceeds of disposition received by the transferor and may affect the amount of the deduction available as a result of the transfer.

In situations where Shares are transferred to an RRSP, RRIF, LIRA, LIF or LRIF, are contributed to an RRSP or are redeemed, CRA may reassess the fair market value of the applicable Shares as of the date of such transfer, contribution or redemption. Such a reassessment will affect the proceeds of disposition received by the RRSP contributor and may affect the amount of the deduction available as a result of the contribution. The Shares may not be qualified investments where the Annuitant or persons not at arm's length to the Annuitant own or are deemed to own more than 10% of any class of the shares of the Fund or any corporation related to the Fund.

The Fund's success depends in part on how much money the Fund raises pursuant to the Offering.

The smaller the amount of funds the Fund raises pursuant to this Offering, the more impaired and limited is the Fund's ability to negotiate and enter into investment agreements with Investees and to diversify the Fund's investments and this may have a material negative impact on a shareholder's return. There exists the risk that the Fund's intended investment guidelines and business strategy may not be fully met, depending on the Fund's success in raising funds pursuant to this Offering and depending on the Fund's ability to find suitable technology and life science companies that meet all the Fund's investment guidelines. The greater the funds raised pursuant to this Offering, the greater and better quality investment opportunities should be available to the Fund.

There is a risk that some or all of the investment guidelines may not be satisfied in any investment in which the Fund enters into. The Fund will seek investment opportunities that, at the time the investment is made, seem to offer the Fund the best risk/reward opportunity. The Fund may or may not achieve this. The effect of investing in Investees not in compliance with the investment guidelines cannot be accurately predicted but may have a material negative impact on a shareholder's return.

There is no minimum amount which the Fund must raise pursuant to this Offering.

The use of proceeds and the dollar amounts of each item in this Prospectus are estimates only. The actual use will vary from the estimates and such variation may be significant. Any negative variation may leave the Fund and an Investee short of capital and such shortage may cause the Fund and its Investee's business to fail or require additional funds at uncompetitive or uneconomic prices, and the Fund may have no return, or repayment on the Fund's investment.

There can be no assurance that income tax laws or administrative practices will not be changed in a manner which will fundamentally alter the tax consequences to the shareholder's of holding or disposing of the Fund's Shares, or that proposed legislation will be enacted as currently proposed.

The Federal Tax Act contains a number of broadly worded anti-avoidance provisions, which may affect the availability of tax deductions. There may be disagreements with the Canada Revenue Agency with respect to certain tax consequences of an investment in the Fund's Shares, or the contribution of the Fund's Shares to an RRSP or RRIF, which may adversely affect the shareholder. Shareholders are advised to obtain independent tax and legal advice as to both the federal and provincial income tax consequences of the purchase of the Fund's Shares, prior to purchasing any of the Fund's Shares, as such consequences can vary depending upon the particular circumstances.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The Fund has retained the Manager to provide investment advice and recommendations to the Fund. See "Management and Administration of the Fund – The Manager". The Manager is a wholly-owned subsidiary of Pender Financial Group Corporation. Kelly Edmison and David Roberts are each directors and officers of the Fund and are, as well, each directors, officers and indirect shareholders of the Manager. Kelly Edmison is a director, officer and shareholder of Pender Financial and David Roberts is a shareholder of Pender Financial. See also "Conflicts of Interest".

CONFLICTS OF INTEREST

Fiduciary Duties Generally

There are numerous situations arising during the day to day activities of the Fund which may result in a director or officer of the Fund having an actual, apparent or potential conflict of interest. For example director or officer of the Fund:

- (a) may have an interest in the Manager. In particular, Kelly Edmison and David Roberts are directors and officers of the Manager and David Barr is an officer of the Manager. Upon completion of the Transaction, Mr. Roberts will cease to be a director and officer of the Manager and Mr. Barr will become a director, officer and shareholder of the Manager and Mr. Edmison will also become a shareholder of the Manager;
- (b) may acquire a business opportunity by virtue of his or her relationship with the Fund;
- (c) may acquire or become aware of a business opportunity which may be of value to the Fund, as a result of activities outside the Fund;
- (d) may, as part of an investment by the Fund, become directors or officers of an Investee company, and as a result of that position, receive cash, stock options or other compensation;
- (e) may, concurrently with, before or after investment by the Fund, purchase or sell securities of an Investee company; or
- (f) become a director, officer, shareholder, consultant to, or have some other relationship with a company which competes with the Fund or an Investee company.

The foregoing is not an exhaustive list, but only describes some of the many situations which may result in a director or officer having a conflict. Where a director or officer of the Fund has a conflict, he or she may not be able to act in the best interests of the Fund as a result of the conflict.

The Business Corporations Act and common law imposes fiduciary duties on directors and officers of the Fund which require them to act honestly and in good faith and in the best interests of the Fund and to exercise the care, diligence and skill that a reasonably prudent individual would exercise in comparable circumstances. These laws also provide generally that in the event of a conflict, the conflicted individual must disclose the conflict in writing to the Fund's Board and, if the individual is a director, abstain from voting on the matter in question. In certain circumstances (such as payment of management fees), the matter is submitted to shareholders for approval.

Conflicts of Interest Policy

To supplement the existing fiduciary duties imposed upon directors and officers of the Fund, the Board has adopted a Conflicts of Interest Policy (the "Policy"), the principal terms of which are set out below.

Purpose

This Policy prescribes rules and procedures for identifying and resolving investment related conflicts of interest on the part of the directors and officers of the Fund and the Manager and its directors and officers, and affiliates, and certain other persons. The objective of this Policy is to prescribe an appropriate code of conduct to identify, disclose and manage actual and potential conflicts with a view to ultimately maximizing the value of the Fund. The Committee of the Board designated to monitor the application of this Policy is the Governance Committee.

This Policy does not contemplate all situations or circumstances that may from time to time arise. Directors and others are expected to comply not only with the specific terms of the Policy, but also with its general intent.

Issues or questions arising in connection with the application of this Policy should be addressed to the Governance Committee.

Persons Affected

This Policy applies to:

- (a) all directors and senior officers of the Fund
- (b) the Manager of the Fund; and
- (c) the directors and senior officers of the Manager.

(collectively the "Related Persons").

Adherence to Policy

Directors and senior officers of the Fund are bound by fiduciary duties under applicable laws which require such persons to act honestly and in good faith with a view to the best interests of the Fund and to exercise the care, diligence and skill that a reasonably prudent individual would exercise in comparable circumstances. The principles outlined in this Policy are encompassed within these broader duties. This policy is not intended to replace these broader fiduciary duties.

The Manager and its directors and officers are generally not bound by these same duties to the Fund. The Fund shall ensure that any management agreement between the Fund and the Manager contains a provision which requires the Manager to adhere to this Policy and which requires the Manager to take certain steps to ensure that the directors and officers of the Manager, and associates of these persons adhere to this Policy and any other conflict provisions as may be required by the Fund from time to time.

All Related Persons any other persons specified by the Governance Committee will be required to complete an Acknowledgement On Becoming a Related Person upon accepting office, and to verify adherence to this Policy annually by signing an Annual Acknowledgement.

Definition of Conflict

A conflict of interest may arise if a Related Person has a personal relationship which compromises or may appear to compromise the Related Person's independence or ability to provide an impartial and objective decision, recommendation or assessment of facts in any circumstance. Without limiting the generality of the foregoing, a Related Person will be deemed to have a conflict of interest if:

- (a) it intends to co-invest with the Fund in a company (an "Investee Company");
- (b) it has a prior investment or other relationship such as a consulting arrangement or directorship in an Investee Company;
- (c) it will serve as a director or officer of or consultant to an Investee Company; or
- (d) it will receive fees in the form of cash, securities or some other form from an Investee Company.

Disclosure

Related Persons who have an actual or potential conflict of interest must immediately disclose the conflict in writing to the Governance Committee, and where the Related Person is on the Board of the Fund, request to have entered into the minutes of a meeting of the Board or one of its committees, the nature and extent of the Related Person's interest in a transaction or proposed transaction brought before the Board for discussion.

Board Approval and Conduct of Related Person

Prior to any Related Person proceeding with any transaction in which it has a conflict, the transaction must be approved by the Board of the Fund. If the Related Persons are on the Board of the Fund, they must abstain from voting on the transaction. Generally, the Related Persons shall remove themselves from the decision making process or from otherwise influencing the decision in respect of the transaction. Related Persons may vote on transactions relating primarily to their remuneration as directors of the Fund or relating to directors' indemnities and insurance.

Policies for Specific Conflict Situations

The following outlines the position of the Fund in respect of certain common conflict of interest situations. All of the following cases are subject to the disclosure and approval requirements set forth above unless otherwise specified.

Investment Opportunities and Co-Investing

Generally speaking, if a Related Person learns of an investment opportunity primarily through its association with the Fund, the investment opportunity belongs to the Fund. Related Persons shall disclose all such opportunities to the Manager or a member of the Fund's Investment Committee.

The Fund shall have the first opportunity to complete the investment. If the Fund declines the investment in whole or in part, the investment opportunity will then be offered to others including Related Persons who may participate in the investment on terms no better than were offered to the Fund.

Generally, investment opportunities which come to the attention of Related Persons other than through their association with the Fund do not belong to the Fund, and subject to any agreement or legal obligation to the contrary, Related Persons are not required to disclose or offer these opportunities to the Fund. The Management Agreement provides that if the Manager (or other member of the Pender Financial group) becomes aware of any investment opportunity which it believes meets the investment criteria of the Fund, it will, subject to certain exemptions, offer that opportunity to the Fund at least pro-rata with the Manager, according to the monies which each of them then has available to invest in such an investment.

The Fund may adjust the extent to which any investment is accepted by the Fund, based on any investment pacing requirements and/or other investment to which the potential investors are subject, the investment objectives, portfolio compositions and relative capabilities of the potential investors, any customary or accepted industry practices which may be applicable, and any other matters which the Fund determines in good faith to be appropriate. Any investment opportunity that is offered to the Fund and declined by the Investment Committee or the Board may be referred by the Manager to any other person, but only on terms no more favorable than those on which it was offered to the Fund, and the Manager shall be entitled to receive remuneration from any such person for services rendered in arranging such investment as may be made by that person.

Secondary Market Transactions

Pursuant to the provisions of the SBVCA, the Fund can only purchase securities of Investee Companies from the Investee Companies. Related Persons may however wish to purchase or sell securities of Investee Companies in the secondary market. Generally, having Related Persons purchase securities of Investee Companies serves to align the interests of the Fund and the Related Persons to maximize the value of the Fund, and such transactions are typically relatively small compared to the value of the Fund's investment in any Investee Company and accordingly not material to the Fund. Accordingly, the Fund will not object to secondary market purchases by Related Persons in securities of Investee companies provided that such persons comply with applicable insider trading restrictions, and the transactions are conducted through the open market in the normal course. No prior disclosure to or approval by the Fund will be required in respect of such secondary market transactions.

Investments in Companies where Persons Have an Interest

In certain cases, the Fund may wish to invest in companies in which a Related Person has a prior relationship by virtue of being a director, officer, shareholder, adviser or other. Upon becoming aware of any potential investment in such a company, and Related Person shall comply with the disclosure and approval requirements set forth above.

The Fund will not make an investment in a company in which any Related Person has an investment, unless such investment has been presented to the Investment Committee of the Board of the Fund for review, and the Investment Committee has approved the investment. In any determination of the Investment Committee in such circumstances, any Related Person on that committee will abstain from voting in the matter of the investment.

Divestiture Opportunities

As with investment opportunities, divestiture opportunities learned of primarily through the Related Person's association with the Fund, belong to the Fund, and the principles set out above regarding investment opportunities shall apply. Because the Fund may participate in secondary market sales through ordinary stock market transactions on the same basis as Related Persons, the foregoing restriction shall not apply to secondary market sales by Related Persons in securities of Investee companies provided that such persons comply with applicable insider trading restrictions, and the transactions are conducted through the open market in the normal course. No prior disclosure to or approval by the Fund will be required in respect of such secondary market transactions.

Board Positions and Board Compensation

It is common and desirable for representatives of the Fund or the Manager to act as directors or officers of Investee Companies. In so doing, the Fund and the Manager are able to stay better informed regarding the Investee Company's affairs. It is also common for such directors to be compensated for their services, typically by way of cash or incentive stock options. By acting as directors or officer's of Investee Companies, Related Persons take on additional responsibilities for which they may not be compensated by the Fund or the Manager and also take on potential personal liabilities associated with acting as a director or officer of a company. As a result, it is the position of the Fund that compensation paid by Investee Companies to Related Persons in their capacities of directors or officers of the companies shall be retained by the Related Persons provided such compensation arrangements are in accordance with industry norms and are approved by the boards of the Investee Companies. All such compensation arrangements must be disclosed to and approved by the Board of the Fund.

Other Fees from Investee Companies

Occasionally, Related Persons may be asked to perform other services for Investee Companies which are within the ranges of services offered by the Related Person, and which are not generally offered by the Fund or the Manager. Any compensation paid to the Related Person in these circumstances, shall belong to the Related Person.

Proxy Voting

By virtue of owning shares in an Investee Company, the Manager, on behalf of the Fund is entitled to vote those shares at meetings of shareholders. Circumstances may arise where the judgment of the persons making the voting decision may be influenced as a result of a potential or actual conflict of interest. In such circumstances, the Related Person shall pass on the voting authority to another authorized person who does not have a conflict.

Other Conflict Situations

Other potential or actual conflict situation will be handled on a case by case basis.

Public Disclosure of Conflicts

The Fund believes that its investors should be aware of all potential conflicts and accordingly, the Fund should make full disclosure of all potential and actual conflict situations in its information circulars and prospectuses. In particular, the Fund should disclose all interests Related Persons have in Investee Companies.

Confidentiality

Confidential information includes proprietary, technical, business, financial, joint venture and other information regarding the Fund, the Manager or Investee Companies, which the Fund treats as confidential or which is not made available publicly. Any disclosure of such confidential information could be highly detrimental to the interests of the Fund.

Related Persons shall at all times maintain the confidentiality of all information and records that are the property of the Fund and shall not make use of or reveal such information unless and until it becomes a matter of general public knowledge.

An Related Person shall not use confidential information obtained by virtue of the person's association with the Fund for personal gain or to benefit friends, relatives or others.

Related Persons may however use or disclose confidential information if required in discharging their responsibilities or as required by law.

Insider Trading and Reporting

Related Persons should be aware that applicable securities laws prohibit trading in securities of reporting issuers while in possession of undisclosed material information regarding the issuer. These laws also prohibit "tipping" or disclosing such information to third parties unless such disclosure is necessary in the course of business of the Related Person or the issuer in question.

Related Persons who are "insiders" of reporting issuers are also required to report trading in securities of the reporting issuer.

Disclosure of Conflicts

As required by the Conflicts of Interest Policy, the following is a summary of the interests of the directors and officers of the Fund which may give rise to actual, apparent or potential conflicts of interest:

David J. Roberts

Shareholder, President, Chief Executive and Director of the Fund

- (a) Mr. Roberts is a director and officer of the Manager and a shareholder of Pender Financial Group Corp. ("PFGC") the parent Company of the Manager. Upon completion of the Transaction, Mr. Roberts will cease to be a director and officer of the Manager;
- (b) Mr. Roberts is a director and shareholder of IP Applications Corp., a company in which the Fund has made an investment;
- (c) Mr. Roberts is a director and shareholder of Municipal Solutions Group, Inc., a company in which the Fund has made an investment;
- (d) Mr. Roberts is a shareholder of Radiant Communications Corp., a company in which the Fund has made an investment;

- (e) Mr. Roberts is a shareholder of D-Wave Systems Inc., a company in which the Fund has made an investment; and
- (f) Mr. Roberts is a shareholder of Optimal Geomatics Inc., a company in which the Fund has made an investment.

Kelly Edmison

Shareholder, Chairman and Director of the Fund

- (a) Mr. Edmison is a director and officer of the Manager and a director, officer and shareholder of Pender Financial, the parent company of the Manager;
- (b) Mr. Edmison is a director and shareholder of IP Applications Corp., a company in which the Fund has made an investment;
- (c) Mr. Edmison is a shareholder of Medical Ventures Corp., a company in which the Fund has made an investment;
- (d) Mr. Edmison is a director and shareholder of Radiant Communications Corp., a company in which the Fund has made an investment;
- (e) Mr. Edmison, through a family holding company, is a shareholder of Municipal Solutions Group, Inc., a company in which the Fund has made an investment; and
- (f) Mr. Edmison, is a shareholder of D-Wave Systems Inc., a company in which the Fund has made an investment.

Ian Power

Shareholder and Director of the Fund

- (a) Mr. Power is a shareholder of Radiant Communications Corp., a company in which the Fund has made an investment; and
- (b) Mr. Power is a shareholder of Gemcom Software International Inc., a company in which the Fund has made an investment.

Cameron Belsher

Shareholder and Director of the Fund

- (a) Mr. Belsher is a shareholder of and legal counsel to QuestAir Technologies Inc., a company in which the Fund has made an investment; and
- (b) Mr. Belsher is a shareholder of Radiant Communications Corp., a company in which the Fund has made an investment.

Wendy Porter

Director of the Fund

- (a) Ms. Porter is a director and shareholder of Radiant Communications Corp., a company in which the Fund has made an investment; and
- (b) Ms. Porter is a shareholder of Municipal Solutions Group Inc., a company in which the Fund has made an investment.

David Barr
Shareholder and Chief Financial Officer of the Fund

- (a) Mr. Barr is the Investment Manager of the Manager and a shareholder of Pender Financial, the parent company of the Manager. Upon completion of the Transaction, Mr. Barr will also become a director and officer of the Manager;
- (b) Mr. Barr is a shareholder of Municipal Solutions Group, Inc., a company in which the Fund has made an investment;
- (c) Mr. Barr is a shareholder of Radiant Communications Corp., a company in which the Fund has made an investment; and
- (d) Mr. Barr is a shareholder of Optimal Geomatics Inc., a company in which the Fund has made an investment.

Manager/Pender Financial

Pender Financial is a shareholder of IP Applications Corp., Municipal Solutions Group Inc., OSI Geospatial Inc. (formerly Offshore Systems International Ltd.), Radiant Communications Corp., and Optimal Geomatics Inc., companies in which the Fund has made an investment.

Conflicts Between the Fund and the Manager or Pender Financial

As a result of Pender Financial's own investment activities and its current management activities and its potential future venture capital management activities, which are and will be similar to and potentially competitive with those of the Fund, conflicts of interest may arise in the normal course of the Manager managing the business and affairs of the Fund. Kelly Edmison and David Roberts are both directors and/or officers of the Fund and the Manager. The Manager is a wholly owned subsidiary of Pender Financial, a public company of which Kelly Edmison is a director, officer and shareholder and David Roberts is a shareholder. Mr. Roberts is also a director and officer of several subsidiaries of Pender Financial. Upon completion of the Transaction, Mr. Roberts will cease to be a director and officer of the Manager and Mr. Barr will become a director, officer and shareholder of the Manager and Mr. Edmison will also become a shareholder of the Manager and will continue to be an officer of the Manager. The Manager receives a management fee from the Fund. For a description of the Manager's relationship with the Fund, refer to "Management of the Fund – The Manager".

The Management Agreement between the Fund and Manager provides that, generally, if Pender Financial and/or any of its Affiliates become aware of any investment opportunity which they believe meets the investment criteria of the Fund, the Manager will cause that opportunity to be offered to the Fund at least pro-rata with Pender Financial and/or those of its Affiliates to which it is offered, according to the monies which each of them then have available to invest in such an investment. The Management Agreement also provides that, generally, if Pender Financial and/or any of its Affiliates become aware of any divestiture opportunity with respect to any securities of any portfolio company which are held both by the Fund and by Pender Financial and/or any of its Affiliates, the Manager will cause that opportunity to be offered to the Fund at least pro-rata with Pender Financial and/or those Affiliates, according to the numbers or amounts of those securities of that portfolio company which are then held by each of them. The Manager may adjust the extent to which any investment or divestiture opportunity is offered to the Fund, based on any investment pacing requirements and/or other investment or divestiture requirements to which the potential investors or divestors are subject, the investment objectives, portfolio compositions and relative capabilities of the potential investors or divestors, any customary or accepted industry practices which may be applicable, and any other matters which the Manager determines in good faith to be appropriate. Any investment opportunity that is offered to the Fund and declined by the Investment Committee or the Board may be referred by the Manager and/or its Affiliates to any other person, but only on terms no more favourable than those on which it was offered to the Fund, and the Manager and/or its Affiliates shall be entitled to receive remuneration from any such person for services rendered in arranging such investment as may be made by that person.

Positions on Boards with Other Reporting Issuers

In the normal course of providing investment management services, directors and officers of the Manager and employees and partners who provide advice on securities on behalf of the Manager, may act as directors or officers of reporting issuers in which the Fund invests and may also advise the Fund as to trading in securities of those reporting issuers by exercising their discretion and judgment.

Dealing With Confidential Information

The Canadian Securities Administrators have indicated that, in the case of a conflict with other duties, it is their view that a director's or adviser's first responsibility regarding a reporting issuer's confidential information is to the reporting issuer on whose board the director serves or to which the adviser provides advice. To preserve confidentiality, all employees and officers of the Manager are obligated to keep all confidential information they receive about any business in which the Fund invests strictly confidential and are prohibited, except as required by law, from disclosing any of that information to anyone outside of the Manager or its professional advisors or syndicate members similarly bound to confidentiality.

In addition under applicable securities laws, persons in a special relationship with a reporting issuer who possess undisclosed material information about the affairs of the reporting issuer are prohibited from trading in the reporting issuer's securities.

Resolving Conflicts

Where a potential conflict between the interests of the Fund and the interests of a reporting issuer that the Fund has invested in arises, employees and officers of the Manager that serve as directors of the reporting issuer are required to disclose to the board of the reporting issuer that they are managers of the Fund's investment interests and abstain from voting on the matter at the reporting issuer board. This ensures that the reporting issuer is made aware of the different interests and the Manager's employee or officer withdraws from the reporting issuer decision. This is a common procedure for avoiding conflicts authorized by Canadian corporation statutes.

Conflicts Between the Fund and Pender NDI Life Sciences Fund (VCC) Inc.

The Manager is also currently the manager of Pender NDI Life Sciences Fund (VCC) Inc. ("Pender NDI"), a VCC which focuses on investments in the life sciences sector. Situations may arise when an investment opportunity would meet the investment criteria of both the Fund and Pender NDI. In such situations any conflicts of interests will be resolved in accordance with the terms of the Management Agreement. Mr. Roberts is a director and officer of Pender NDI and David Barr is an officer of Pender NDI. Mr. Belsher and Mr. Power are directors of Pender NDI.

Pender NDI has recently announced that it has entered into an agreement with Lions Capital Inc. ("Lions Capital") dated October 2, 2007, pursuant to which the Manager has agreed to assign the management contract between the Manager and Pender NDI to Lions Capital. The closing of this transaction is subject to the execution of a definitive agreement and the certain other conditions including the completion of certain conditions precedent. The closing date for the completion of the Transaction has yet to be determined by the parties. There is no assurance that this transaction will complete.

MATERIAL CONTRACTS

Other than investment and related agreements entered into by the Fund in connection with its investment in Permitted or Eligible Investments, the following is a list of all material contracts to which the Fund is a party and that were entered into in the last two years which remain material to the Fund's business and affairs as of the date of this Prospectus:

- (a) the Amended and Restated Management Agreement referred to under "Management and Administration – The Manager".

Copies of this agreement may be inspected during regular business hours at the head office of the Fund.

LEGAL MATTERS AND LEGAL PROCEEDINGS

Certain legal matters in connection with this Offering will be passed upon by Axium Law Corporation, counsel to the Fund. There are no legal proceedings material to the Fund to which the Fund is a party or to which any of its property is subject and no such proceedings are known to be contemplated.

AUDITORS, REGISTRAR AND TRANSFER AGENT

The auditors of the Fund are Ernst & Young LLP, Chartered Accountants, 700 West Georgia Street, PO Box 10101, Vancouver, British Columbia V7Y 1C7.

The registrar and transfer agent of the Fund is The Investment Administration Solution Inc., Suite 300 – 350 Bay Street, Toronto, Ontario M5H 2S6.

PURCHASERS' STATUTORY RIGHTS

The Securities Act currently provides purchasers with the right to withdraw from an agreement to purchase the securities offered hereby within two business days after receipt, or deemed receipt, of a prospectus and any amendment and further provides a purchaser with remedies for rescission or damages where the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, but such remedies must be exercised by the purchaser within the time limits prescribed by the Securities Act (British Columbia). A purchaser should refer to the applicable provisions of the Securities Act for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENT

We have read the Prospectus of Pender Growth Fund (VCC) Inc. (the "Fund") dated October 5, 2007 relating to the distribution of Class A Common Shares, Series 2 of the Fund. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned Prospectus of our report to the directors of the Fund on the following:

- Statements of net assets as at December 31, 2006 and 2005;
- Statements of operations and deficit for the years ended December 31, 2006 and 2005;
- Statements of changes in net assets for the years ended December 31, 2006 and 2005;
- Statements of cash flows for the years ended December 31, 2006 and 2005; and
- Statements of investment portfolio as at December 31, 2006 and 2005.

Our report is dated January 19, 2007.

Vancouver, Canada,
October ●, 2007

Chartered Accountants

AUDITORS' CONSENT

We have read the Prospectus of Pender Growth Fund (VCC) Inc. (the "Fund") dated October 5, 2007 relating to the distribution of Class A Common Shares, Series 2 of the Fund. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned Prospectus of our report to the directors of the Fund on the following:

- Statement of net assets as at December 31, 2004;
- Statement of operations and deficit for the year ended December 31, 2004;
- Statement of changes in net assets for the year ended December 31, 2004;
- Statement of cash flows for the year ended December 31, 2004; and
- Statement of investment portfolio as at December 31, 2004.

Our report is dated March 18, 2005.

Vancouver, Canada,
October ●, 2007

Chartered Accountants

Financial Statements

Pender Growth Fund (VCC) Inc.

June 30, 2007, December 31, 2006, 2005 and 2004

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AUDITORS' REPORT

To the Directors of
Pender Growth Fund (VCC) Inc.

We have audited the statements of net assets and investment portfolio of **Pender Growth Fund (VCC) Inc.** as at December 31, 2006 and 2005 and the statements of operations and deficit, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2006 and 2005 and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada,
January 19, 2007.

Chartered Accountants

ELLIS FOSTER

CHARTERED ACCOUNTANTS

1650 West 1st Avenue
Vancouver, BC Canada V6J 1G1
Telephone: (604) 734-1112 Facsimile: (604) 714-5916
E-Mail: generaldelivery@ellisfoster.com
Website: www.ellisfoster.com

AUDITORS' REPORT


To the Directors of

PENDER GROWTH FUND (VCC) INC.

We have audited the statements of net assets and investment portfolio of **Pender Growth Fund (VCC) Inc.** as at December 31, 2004, and the statements of operations and deficit, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2004, and the results of its operations, changes in its net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Vancouver, Canada
March 18, 2005

Chartered Accountants

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A partnership of incorporated professionals

*An independently owned and operated member of Moore Stephens North America Inc., a member of Moore Stephens International Limited
- members in principal cities throughout the world*

Pender Growth Fund (VCC) Inc.

STATEMENTS OF OPERATIONS AND DEFICIT

Six Months Ended June 30, 2007 and 2006 (unaudited—note 1). Years Ended December 31, 2006, 2005 and 2004

	Six months ended June 30, 2007 \$	Six months ended June 30, 2006 \$	Year ended December 31,		
			2006 \$	2005 \$	2004 \$
INCOME					
Income from venture investments	64,881	118,641	205,270	125,130	—
Other interest	75,611	71,405	136,345	104,789	123,218
	140,492	190,046	341,615	229,919	123,218
EXPENSES					
Administration and miscellaneous	23,790	23,809	43,632	48,566	79,577
Amortization	697	996	1,992	2,846	2,672
Audit fees	2,417	16,370	57,604	29,626	53,532
Directors' fees	20,000	15,500	35,500	28,000	24,000
Interest and bank charges	596	361	684	881	4,237
Legal fees	10,630	3,359	17,115	8,373	2,339
Management fees	336,440	302,843	603,721	479,066	361,633
Performance fees	585,479	496,884	410,696	368,464	291,122
Rent	12,783	12,460	25,042	22,689	34,893
Sales and marketing costs	77,228	82,996	174,873	150,211	336,584
Shareholder communication	39,317	40,991	41,105	38,203	25,889
Transfer agency and regulatory fees	39,162	25,892	90,329	50,745	111,578
	1,148,539	1,022,461	1,502,293	1,227,670	1,328,056
Loss from operations	(1,008,047)	(832,415)	(1,160,678)	(997,751)	(1,204,838)
Other item					
Gain (loss) on sale of investments	(360,085)	—	333,722	(812,516)	(473,504)
Loss before change in unrealized depreciation of investments	(1,368,132)	(832,415)	(826,956)	(1,810,267)	(1,678,342)
Change in unrealized depreciation of investments	1,966,242	1,162,049	(1,078,442)	219,157	946,180
Increase (decrease) in net assets from operations	598,110	329,634	(1,905,398)	(1,591,110)	(732,162)
Deficit, beginning of period	(6,451,013)	(5,624,057)	(5,624,057)	(3,813,790)	(2,135,448)
Loss before change in unrealized depreciation of investments	(1,368,132)	(832,415)	(826,956)	(1,810,267)	(1,678,342)
Deficit, end of period	(7,819,145)	(6,456,472)	(6,451,013)	(5,624,057)	(3,813,790)
Decrease in net assets from operations per share - basic and diluted					
Loss before change in unrealized depreciation of investments	(0.50)	(0.36)	(0.34)	(1.06)	(1.43)
Change in unrealized depreciation of investments	0.72	0.50	(0.45)	0.13	0.80
Increase (decrease) in net assets from operations	0.22	0.14	(0.79)	(0.93)	(0.63)
Weighted average number of shares outstanding	2,730,554	2,312,416	2,417,021	1,705,266	1,170,347

See accompanying notes

Pender Growth Fund (VCC) Inc.

STATEMENTS OF CHANGES IN NET ASSETS

Six Months Ended June 30, 2007 and 2006 (unaudited—note 1). Years Ended December 31, 2006, 2005 and 2004

	Six months ended June 30, 2007 \$	Six months ended June 30, 2006 \$	Year ended December 31, 2006 2005 2004 \$ \$ \$		
Net assets, beginning of period	18,037,735	16,473,957	16,473,957	14,772,811	5,151,485
Transitional adjustment to unrealized depreciation of investments, beginning of period, pursuant to adoption of new accounting policy [note 3[a]]	(130,144)	—	—	—	—
Increase (decrease) in net assets from operations	598,110	329,634	(1,905,398)	(1,591,110)	(732,162)
Capital transactions					
Proceeds from the issuance of shares	3,608,626	3,783,619	5,391,243	3,726,531	11,364,751
Aggregate amounts paid on redemption of shares	(368,446)	(42,661)	(1,484,702)	(122,965)	(12,284)
Share issue costs	(258,122)	(275,582)	(437,365)	(311,310)	(998,979)
Increase in net assets for the period	3,450,024	3,795,010	1,563,778	1,701,146	9,621,326
Net assets, end of period	21,487,759	20,268,967	18,037,735	16,473,957	14,772,811
Unrealized depreciation of investments					
Unrealized depreciation, beginning of period	(3,237,626)	(2,159,184)	(2,159,184)	(2,378,341)	(3,324,521)
Transitional adjustment to unrealized depreciation of investments, beginning of period, pursuant to adoption of new accounting policy [note 3[a]]	(130,144)	—	—	—	—
Change during the period	1,966,242	1,162,049	(1,078,442)	219,157	946,180
Unrealized depreciation, end of period	(1,401,528)	(997,135)	(3,237,626)	(2,159,184)	(2,378,341)

See accompanying notes

Pender Growth Fund (VCC) Inc.
STATEMENTS OF CASH FLOWS

Six Months Ended June 30, 2007 and 2006 (unaudited—note 1). Years Ended December 31, 2006, 2005 and 2004

	Six months ended June 30, 2007 \$	Six months ended June 30, 2006 \$	Year ended December 31, 2006 2005 2004 \$ \$ \$		
OPERATING ACTIVITIES					
Increase (decrease) in net assets from operations	598,110	329,634	(1,905,398)	(1,591,110)	(732,162)
Items not involving cash:					
Amortization	697	996	1,992	2,846	2,672
Change in unrealized depreciation of investments	(1,966,242)	(1,162,049)	1,078,442	(219,157)	(946,180)
Loss (gain) on sale of investments	360,085	—	(333,722)	812,516	473,504
Other non-cash income	—	—	—	—	(18,788)
	(1,007,350)	(831,419)	(1,158,686)	(994,905)	(1,220,954)
Changes in non-cash working capital:					
Increase in receivables	(68,276)	—	(27,739)	—	—
Decrease (increase) in prepaid expenses and deposits	950	666	(228)	3,684	(5,148)
Increase (decrease) in accounts payable and accrued liabilities	(60,841)	(28,007)	31,333	18,612	48,523
Increase in amount due to related party	585,479	496,884	410,696	80,566	272,276
Cash used in operating activities	(550,038)	(361,876)	(744,624)	(892,043)	(905,303)
INVESTING ACTIVITIES					
Proceeds on disposal of investments	421,240	—	1,486,073	29,492	1,638,958
Purchase of equipment	—	—	—	—	(6,500)
Purchase of investments	(1,396,500)	(4,301,161)	(6,324,846)	(5,975,000)	(4,109,258)
Cash used in investing activities	(975,260)	(4,301,161)	(4,838,773)	(5,945,508)	(2,476,800)
FINANCING ACTIVITIES					
Decrease in loans receivable	—	—	—	—	100,000
Decrease in loans payable	—	—	—	—	(15,000)
Proceeds from share issuances	3,608,626	3,783,619	5,391,243	3,726,531	11,364,751
Redemption of shares	(368,446)	(42,661)	(1,484,702)	(122,965)	(12,284)
Share issue costs—selling commissions	(258,122)	(272,302)	(392,874)	(273,332)	(830,865)
Share issue costs—prospectus	—	(3,280)	(44,491)	(37,978)	(168,114)
Cash provided by financing activities	2,982,058	3,465,376	3,469,176	3,292,256	10,438,488
Net increase (decrease) in cash during the period	1,456,760	(1,197,661)	(2,114,221)	(3,545,295)	7,056,385
Cash, beginning of period	2,779,166	4,893,387	4,893,387	8,438,682	1,382,297
Cash, end of period	4,235,926	3,695,726	2,779,166	4,893,387	8,438,682
Cash is comprised of:					
Cash and cash equivalents	1,863,493	1,489,103	1,203,309	2,912,467	3,683,703
Cash - Investment Protection Account	2,372,433	2,206,623	1,575,857	1,605,920	3,354,979
Cash in escrow	—	—	—	375,000	1,400,000
	4,235,926	3,695,726	2,779,166	4,893,387	8,438,682

See accompanying notes

Pender Growth Fund (VCC) Inc.
STATEMENTS OF INVESTMENT PORTFOLIO

June 30, 2007 (unaudited—note 1), December 31, 2006, 2005 and 2004

	June 30, 2007			December 31, 2006		
	Fair value \$	Cost \$	Unrealized appreciation/ (depreciation) \$	Fair value \$	Cost \$	Unrealized appreciation/ (depreciation) \$
Publicly-traded investments:						
Chemokine Therapeutics Corp. 400,000 common shares	228,000	400,000	(172,000)	332,000	400,000	(68,000)
Chromos Molecular Systems Inc. 2,339,288 common shares	—	451,724	(451,724)	—	—	—
2,589,288 common shares convertible debentures	—	—	—	362,500	500,000	(137,500)
	250,000	250,000	—	250,000	250,000	—
Gemcom Software International Inc. 3,145,000 common shares	6,038,400	2,816,566	3,221,834	4,748,950	2,816,566	1,932,384
616,950 warrants	289,967	—	289,967	37,017	—	37,017
IP Applications Corp. 5,087,371 common shares	1,068,348	3,250,000	(2,181,652)	1,475,339	3,250,000	(1,774,661)
convertible debentures	729,700	729,700	—	729,700	729,700	—
Medical Ventures Corp. 2,625,000 common shares	459,375	750,000	(290,625)	551,250	750,000	(198,750)
Municipal Solutions Group Inc. 8,234,518 common shares	2,182,147	2,776,141	(593,994)	2,470,355	2,776,141	(305,786)
convertible debt	500,000	500,000	—	—	—	—
OSI Geospatial Inc. 10,000 preferred shares	500,000	500,000	—	500,000	500,000	—
Optimal Geomatics Inc. 2,353,000 common shares	305,890	800,020	(494,130)	352,950	800,020	(447,070)
QuestAir Technologies Inc. 228,500 common shares	187,370	399,875	(212,505)	276,485	399,875	(123,390)
Radiant Communications Corp. 1,650,641 common shares	1,815,705	2,412,951	(597,246)	1,419,551	2,750,000	(1,330,449)
	14,554,902	16,036,977	(1,482,075)	13,506,097	15,922,302	(2,416,205)
Privately-held investments:						
Active Pass Pharmaceuticals Inc.		300,000			300,000	
Brookdale International Systems Inc.		350,000			350,000	
D-Wave Systems Inc.		400,000			400,000	
NeuroMed Technologies Ltd.		285,714			285,714	
Progressive Solutions Inc.		600,000			600,000	
Tantalus Systems Corp.		2,046,676			1,546,176	
	4,062,937	3,982,390	80,547	2,660,469	3,481,890	(821,421)
	18,617,839	20,019,367	(1,401,528)	16,166,566	19,404,192	(3,237,626)

Pender Growth Fund (VCC) Inc.
STATEMENTS OF INVESTMENT PORTFOLIO

June 30, 2007 (unaudited—note 1), December 31, 2006, 2005 and 2004

	December 31, 2005			December 31, 2004		
	Fair value	Cost	Unrealized appreciation/ (depreciation)	Fair value	Cost	Unrealized appreciation/ (depreciation)
	\$	\$	\$	\$	\$	\$
Publicly-traded investments:						
Chemokine Therapeutics Corp. 400,000 common shares	468,000	400,000	68,000	400,000	400,000	—
Chromos Molecular Systems Inc. convertible debentures	125,000	125,000	—	—	—	—
Gemcom Software International Inc. 1,895,000 common shares	1,591,800	1,174,932	416,868	966,450	1,174,932	(208,482)
IP Applications Corp. 5,087,371 common shares	1,882,328	3,250,000	(1,367,672)	—	—	—
convertible debentures	375,000	375,000	—	—	—	—
1,515,150 warrants	30,303	—	30,303	—	—	—
2,350,000 common shares	—	—	—	1,645,000	2,350,000	(705,000)
500,000 put warrants	—	—	—	180,000	—	180,000
Medical Ventures Corp. 2,000,000 common shares	860,000	500,000	360,000	—	—	—
Municipal Solutions Group Inc. 125,000 common shares	41,250	100,000	(58,750)	—	—	—
1,000,000 common shares	—	—	—	90,000	100,000	(10,000)
convertible debentures	1,325,000	1,325,000	—	—	—	—
OSI Geospatial Inc. 10,000 preferred shares	500,000	500,000	—	—	—	—
QuestAir Technologies Inc. 228,500 common shares	233,070	399,875	(166,805)	397,590	399,875	(2,285)
Radiant Communications Corp. 9,903,846 common shares	2,277,884	2,750,000	(472,116)	—	—	—
1,250,000 common shares	—	—	—	512,500	500,000	12,500
	9,709,635	10,899,807	(1,190,172)	4,191,540	4,924,807	(733,267)
Privately-held investments:						
Active Pass Pharmaceuticals Inc.	—	300,000	—	—	300,000	—
Brookdale International Systems Inc.	—	350,000	—	—	350,000	—
Kinexus Bioinformatics Corp.	—	250,000	—	—	250,000	—
NeuroMed Technologies Ltd.	—	285,714	—	—	285,714	—
Peripheron Technologies Ltd.	—	—	—	—	842,008	—
Progressive Solutions Inc.	—	600,000	—	—	600,000	—
Tantalus Systems Corp.	—	1,546,176	—	—	1,546,176	—
	2,362,878	3,331,890	(969,012)	2,528,824	4,173,898	(1,645,074)
	12,072,513	14,231,697	(2,159,184)	6,720,364	9,098,705	(2,378,341)

See accompanying notes

Pender Growth Fund (VCC) Inc.
NOTES TO FINANCIAL STATEMENTS

June 30, 2007, December 31, 2006, 2005 and 2004

(Information as at June 30, 2007 and for the six months ended June 30, 2007 and 2006 is unaudited)

1. BASIS OF PRESENTATION

The interim financial statements included herein, presented in accordance with Canadian generally accepted accounting principles and stated in Canadian dollars, have been prepared by the Fund, without audit, pursuant to the rules and regulations of the British Columbia Securities Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with Canadian generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Fund believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the audited financial statements for the years ended December 31, 2006, 2005 and 2004. In management's opinion, all adjustments necessary for fair presentation have been included in these interim financial statements. Interim results are not necessarily indicative of the results expected for the fiscal year. Certain comparative figures have been reclassified to conform to the current period's presentation.

2. INCORPORATION AND NATURE OF OPERATIONS

Pender Growth Fund (VCC) Inc., (the "Fund") was incorporated under the laws of British Columbia on March 7, 1994. The Fund is a Venture Capital Corporation ("VCC") and is restricted from carrying on any business except that of assisting development of small businesses by:

- [a] Making investments permitted by the Small Business Venture Capital Act ("SBVCA"); and
- [b] Providing business and managerial expertise to small businesses in which it has made or proposes to make an eligible investment.

The investment objective of the Fund is to achieve long-term appreciation of capital through the prudent application of its resources. The Fund's investment focus is to invest in companies that have the potential to substantially improve their profitability.

Pender Growth Fund (VCC) Inc.
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3. CHANGES IN ACCOUNTING POLICIES

[a] Effective January 1, 2007 the Fund retroactively adopted, without restatement of prior periods, the new recommendations of CICA Handbook Section 3855, *Financial Instruments—Recognition and Measurement* and CICA Handbook Section 3861, *Financial Instruments—Disclosure and Presentation*. Upon transition to these Sections, and for any acquisition of financial instruments thereafter, entities are required to determine the most appropriate classification for each financial instrument. Financial assets are classified into one of four categories—held for trading, held to maturity, available-for-sale, or loans and receivables. Financial liabilities are classified as held for trading or other liabilities.

The Fund has classified its venture investments as available-for-sale. Specifically, as required by this new Section, the Fund has estimated the fair value of its publicly-traded investments on the basis of the closing bid price of each such investment at period-end whereas, prior to January 1, 2007, the Fund had estimated the fair value of its publicly-traded investments on the basis of the weighted average closing market prices over the preceding 21 trading days. As a result of this policy, the Fund recorded a transitional adjustment to unrealized depreciation of investments of \$130,144 as at January 1, 2007.

The Fund has classified its cash and cash equivalents as held for trading, its receivables as loans and receivables, and its payables and accrued liabilities as other liabilities.

CICA Handbook Section 3855 also requires that transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities by the Fund, be charged to income from operations in the period incurred. There is no impact on net assets, results of operations or earnings per share as a result of this change in accounting policy.

[b] Effective January 1, 2007, the Fund retroactively adopted, without restatement of prior periods, the new recommendations of CICA Handbook Section 1530, *Comprehensive Income*. The transition to this Section has no impact as the Fund does not have comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES

The Fund's accounting policies conform with Canadian generally accepted accounting principles for venture capital funds.

[a] Investments

Investments are recorded at fair value. Investment transactions are accounted for on a trade-date basis. The resulting gains or losses on such transactions are recorded as revenue at that time. Unrealized appreciation or depreciation of investments is recorded in shareholders' equity.

Venture investments in private companies are recorded at cost for one year from the date the investment is made, unless there is a transaction within that year which establishes a different value for the investment or there is a significant change within that year in the Fund's expectations. After one year from the date of the investment, venture investments are recorded at estimated fair value. Changes in values caused by currency fluctuations are included with the unrealized appreciation or depreciation of investments.

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4. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Fair values for investments are determined using the following methods:

- [i] Investments that are publicly traded or can be converted into publicly traded securities are recorded on the basis of the closing bid price at period-end. Prior to January 1, 2007, the Fund had estimated the fair value of its publicly-traded investments on the basis of the weighted average closing market prices over the preceding 21 trading days. Investments in publicly traded securities may be adjusted for factors affecting their orderly disposition.
- [ii] Investments that are not publicly traded securities are recorded at cost unless an upward adjustment is considered appropriate and supported by pervasive and objective evidence such as a significant subsequent equity financing by an unrelated, sophisticated investor at a transaction price higher than the carrying value. Downward adjustments to carrying value are made when there is pervasive and objective evidence of a decline in the value of the investment, as indicated by an assessment of the financial condition of the investment based on operational results, forecasts and other developments since acquisition. The amounts at which non publicly traded securities could be disposed of currently may differ from the carrying value assigned as a substantial period of time may have elapsed since the latest third party equity financing.
- [iii] Warrants and options are valued at their intrinsic value.
- [iv] Convertible debentures are valued at fair value fully converted, or cost, whichever is greater.

The process of valuing venture investments for which no public market exists is inevitably based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments. These differences could be material to the fair value of the investment portfolio.

[b] Cash and cash equivalents

Cash and cash equivalents consist of cash balances and highly liquid short-term investments.

[c] Equipment

Equipment is comprised of computer and office equipment and is recorded at cost. Amortization is calculated on a declining-balance basis at 30% per annum.

[d] Income taxes

Income taxes are accounted for using the asset and liability method pursuant to Section 3465, Income Taxes, of *The Handbook of the Canadian Institute of Chartered Accountants*. Future taxes are recognized for the tax consequences of "temporary differences" by applying enacted or substantively enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and tax basis of existing assets and liabilities. The effect on future taxes for a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. In addition, Section 3465 requires the recognition of future tax benefits to the extent that realization of such benefits is more likely than not.

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4. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

[e] Net asset value

Costs associated with the issuance of the Fund's shares have been recorded as a reduction of share capital. Sales and marketing costs have been charged to operations in the year in which they were incurred, in accordance with Canadian generally accepted accounting principles.

[f] Stock-based compensation

The Fund accounts for stock-based compensation in accordance with Section 3870, Stock-Based Compensation and Other Stock-Based Payments, of *The Handbook of the Canadian Institute of Chartered Accountants*.

The Fund applies the fair value method to account for stock-based compensation granted to non-employees. The fair value of stock options is determined according to the Black-Scholes option pricing model with assumptions for risk-free interest rates, dividend yield, volatility factor of expected market price of the Fund's common shares, and the expected life of options.

The Fund does not recognize any compensation expense when stock options are granted to employees and directors. As required, the Fund will disclose pro-forma information regarding net income, as if it had accounted for its employee and director stock options granted under the fair value method.

[g] Loss per share

Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated in accordance with the treasury stock method and is calculated by dividing net earnings (loss) applicable to common shares by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued.

[h] Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from those estimates.

[i] Use of independent valuator

The Fund has engaged its auditors (using qualified valuers) to provide an opinion that the fair value per share, at the fiscal year-end of the Fund, is not materially different from the net asset value per share as determined by the Valuation Committee.

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5. CASH - INVESTMENT PROTECTION ACCOUNT

As required under the SBVCA, a VCC that does not have 80% of its raised equity capital invested in eligible businesses is required to maintain an investment protection account with an amount equal to 30% of the funds raised. When an investment in an eligible business is subsequently made, a drawdown from the account equal to 37.5% of the investment amount is available. These funds cannot be released without the consent of the Administrator of the SBVCA.

6. CASH IN ESCROW

At December 31, 2006, \$nil [2005 - \$375,000; 2004 - \$1,400,000] was held in escrow pursuant to the terms of certain investment agreements, as follows:

- [a] The Fund entered into an investment agreement with Chromos Molecular Systems Inc. to invest a further \$375,000. The transaction completed on February 2, 2006 [note 8[b][i]].
- [b] On January 27, 2005, IP Applications Corp. announced it would not be proceeding with the second tranche of a financing pursuant to the terms of an investment agreement entered into on December 22, 2004, between it and the Fund. Accordingly, the \$500,000 previously deposited into the escrow was returned to the Fund along with accrued interest thereon.
- [c] On April 12, 2005, \$900,000 previously deposited into escrow pursuant to the terms of an investment agreement entered into on December 22, 2004, was invested in convertible secured debentures of Municipal Solutions Group Inc. [note 8[c][ii]].

7. RECEIVABLES

- [a] At June 30, 2007, accrued interest totaling \$17,466 is owed to the Fund by Chromos Molecular Systems Inc. A convertible debenture bears interest at 10% per annum on the principal amount of \$250,000. \$3,395 is owed for legal expense reimbursement.
- [b] At June 30, 2007, \$4,537 interest is accrued on the \$300,000 convertible bridge loan to Municipal Solutions Group Inc. The promissory notes bear interest at 12% per annum.
- [c] At June 30, 2007, interest totaling \$70,617 is owed to the Fund by IP Applications Corp. The convertible debentures bear interest at 12% per annum on the principal amount of \$729,700.

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8. INVESTMENTS

[a] During the six months ended June 30, 2007, the Fund entered into the following transactions:

Publicly-traded investments:

- [i] On January 10, 2007, the Fund sold 440,000 common shares of Radiant Communications Corp. ["Radiant"], for net proceeds of \$396,240, resulting in a loss on disposition of \$336,801. On January 15, 2007, the Fund reinvested \$396,000 in Radiant and received 440,000 common shares.
- [ii] On March 26, 2007, the Fund sold 250,000 shares of Chromos Molecular Systems Inc. at \$0.10 per share for net proceeds of \$25,000, resulting in a loss on disposition of \$23,276.
- [iii] On April 3, 2007, the Fund issued a demand for payment on the \$250,000 convertible, secured bridge loan to Chromos Molecular Systems Inc. [see note 17[b]].
- [iv] In May 2007, the Fund advanced \$300,000 to Municipal Solutions Group Inc. with respect to a \$500,000 private placement. The loan pays 12% interest. The remaining \$200,000 was disbursed on June 22, 2007. See note 17[a] for subsequent completion.

Privately-held investments:

- [i] On June 14, 2007, the Fund invested \$500,500 in shares of Tantalus Systems Corp.

[b] During the year ended December 31, 2006, the Fund entered into the following transactions:

Publicly-traded investments:

- [i] On February 2, 2006, the Fund completed its investment in Chromos Molecular Systems Inc. and invested \$375,000 that had previously been held in escrow. The investment consists of 1,875,000 units at a price of \$0.20 per unit, with each unit consisting of one common share and one common share purchase warrant. The \$125,000 previously classified as convertible debt was converted into 714,286 units at a price of \$0.175 per unit, with each unit consisting of one common share plus one and one half common share purchase warrants. All warrants entitle the Fund to acquire common shares at a price of \$0.25 per share for a period of two years from closing.
- [ii] On February 14, 2006, the Fund invested \$250,000 in securities of Medical Ventures Corp. The investment consists of 625,000 units at a price of \$0.40 per unit, with each unit consisting of one common share and one half of one common share purchase warrant, each whole warrant entitling the Fund to acquire common shares at a price of \$0.65 per share for a period of two years.
- [iii] On February 23, 2006, the Fund invested \$400,000 in convertible debentures of Municipal Solutions Group Inc. The debentures have an interest rate of 12% for a term of 3 months, convertible into common shares at a price of \$0.33 per share. The Fund also received 1,212,121 common share purchase warrants, each whole warrant entitles the Fund to purchase one common share at \$0.33 per share for a period of two years after issuance.

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8. INVESTMENTS (cont'd.)

- [iv] On April 27, 2006, the Fund invested a further \$951,141 in securities of Municipal Solutions Group Inc. The investment consists of 2,882,245 common shares at a price of \$0.33 per share. The \$1,725,000 previously classified as convertible debt was converted into 5,227,273 shares at a price of \$0.33 per share. In addition, the Fund surrendered all of its share purchase warrants.
- [v] On May 8, 2006, the Fund exercised warrants to purchase 1,250,000 common shares of Gemcom Software International Inc. ["Gemcom"] at \$0.90 per share for a total cost of \$1,125,000.
- [vi] On May 18, 2006, the Fund invested \$800,020 in Optimal Geomatics Inc., a TSX Venture Exchange listed company. The investment consists of 2,353,000 common shares at \$0.34 per share.
- [vii] On July 4, 2006, the Fund received 1,707 shares of Tantalus Systems Corp. as an adjustment to the original purchase price.
- [viii] On July 7, 2006, the Fund sold 1,233,900 shares of Gemcom for net proceeds of \$1,419,108, resulting in a gain on disposition of \$516,757. On July 12, 2006, the Fund re-invested \$1,418,985 in Gemcom. The investment consisted of 1,233,900 shares and 616,950 warrants being issued to the Fund. Each warrant entitles the Fund to acquire a common share of Gemcom at a price of \$1.45 on or before July 19, 2008.
- [ix] On September 18, 2006, the Fund invested \$354,700 in convertible debentures of IP Applications Corp., which are convertible into common shares subject to specified conditions.
- [x] On October 18, 2006, the Fund invested \$250,000 in convertible debentures of Chromos Molecular Systems Inc., which are convertible into common shares subject to specified conditions.

Privately-held investments:

- [i] On June 16, 2006, the Fund invested \$400,000 in preferred shares of D-Wave Systems Inc.
- [ii] On July 17, 2006, the Fund disposed of its investment in Kinexus Bioinformatics Corp. for aggregate net proceeds of \$66,964, resulting in a loss on disposition of \$183,036.

[c] During the year ended December 31, 2005, the Fund entered into the following transactions:

Publicly-traded investments:

- [i] Pursuant to the terms of an investment agreement dated January 19, 2005, the Fund invested \$1,250,000 in convertible unsecured debentures of Radiant Communications Corp. ["Radiant"], a TSX Venture Exchange listed company. The Fund also received 1,388,888 share purchase warrants entitling it to acquire Radiant common shares at a price of \$0.60 per share for a period of two years. The Radiant debentures bear interest at a rate of 12% per annum, and are convertible into Radiant common shares.

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8. INVESTMENTS (cont'd.)

The Fund invested a further \$1,000,000 on September 27, 2005, in common shares of Radiant. The \$1,250,000 debenture was also converted to common shares. The Fund received 4,326,923 share purchase warrants entitling the holder to purchase one additional common share at \$0.32 for a period of 24 months from the closing and at \$0.40 per share for the period 24 to 36 months from closing.

- [ii] Pursuant to the terms of an investment agreement dated February 28, 2005, the Fund invested \$225,000 in Series B convertible secured debentures of Municipal Solutions Group Inc. ["Municipal"], a TSX Venture Exchange listed company. The Fund also received 2,250,000 Series B share purchase warrants entitling it to acquire Municipal common shares at a price of \$0.10 per share [prior to April 6, 2005 consolidation 8:1] for a period of two years.

On April 12, 2005, the Fund invested \$900,000 in Series A convertible secured debentures of Municipal with funds previously deposited into escrow pursuant to the terms of an investment agreement entered into on December 22, 2004. The Fund also received 1,125,000 post-consolidation Series A share purchase warrants entitling it to acquire Municipal common shares at a price ranging from \$1.00 to \$1.20 per share for a period of two years from the date of their issuance. The Series A debentures bear interest at the rate of 6% per annum payable in Municipal common shares, and have an 18-month term to maturity.

The Fund invested a further \$200,000 on September 22, 2005, in Series D convertible secured debentures of Municipal. The Fund also received 357,142 Series D share purchase warrants entitling it to acquire Municipal common shares at a price of \$0.56 per share for a period of two years from the date of their issuance. The Series D debentures bear interest at the rate of 12% per annum payable in Municipal common shares, and mature six months after the date of issue.

- [iii] On April 21, 2005, the Fund invested \$500,000 in the securities of OSI Geospatial Inc. (formerly Offshore Systems International Ltd.). The fund purchased 588,235 preferred shares at \$0.85 and received 294,118 warrants.

- [iv] The Fund invested \$500,000 in IP Applications Corp. ["IP Applications"], a TSX Venture Exchange listed company, on May 5, 2005. Common shares were purchased at \$0.33 per share with 1,515,150 warrants already held by the Fund being re-priced.

On June 13, 2005, the Fund invested a further \$400,000 in IP Applications for 888,888 units at \$0.45 per unit. Each unit consists of one common share plus one half of one warrant. Each whole warrant entitles the holder to purchase one additional common share at \$0.50 for a period of 12 months from the closing and at \$0.55 per share for the period 12 to 24 months from closing.

The Fund invested a further \$125,000 on October 27, 2005, and \$250,000 on December 16, 2005, in convertible secured debentures of IP Applications.

- [v] Pursuant to the terms of an investment agreement date May 31, 2005, the fund invested \$41,667 in convertible secured debentures of Chromos Molecular Systems Inc., a TSX listed company. The Fund invested a further \$20,000 on August 30, 2005, and \$63,333 on September 12, 2005, for a total of \$125,000 in convertible secured debentures.

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8. INVESTMENTS (cont'd.)

[vi] Pursuant to the terms of a subscription agreement dated June 6, 2005, the Fund invested \$500,000 in 2,000,000 common shares of Medical Ventures Corp., a TSX Venture Exchange listed company.

Privately-held investments:

[i] The Fund disposed of its investment in Peripheron Technologies Ltd. for aggregate net proceeds of \$29,492, resulting in a loss on disposition of \$812,516.

[d] During the year ended December 31, 2004, the Fund entered into the following transactions:

Publicly-traded investments:

[i] The Fund invested \$400,000 in securities of Chemokine Therapeutics Corp., a TSX listed company. The investment consists of 400,000 common shares at a price of \$1.00 per share.

[ii] The Fund invested \$750,000 in securities of Gemcom Software International Inc., a TSX Venture Exchange listed company. The investment consists of 1,250,000 units at a price of \$0.60 per unit, with each unit consisting of one common share and one common share purchase warrant.

[iii] The Fund made a series of investments in securities of IP Applications Corp. ["IP Applications"], a TSX Venture Exchange listed company, totalling \$2,350,000, as follows:

- The Fund invested \$600,000 by acquiring 3,000,000 units at a price of \$0.20 per unit, with each unit consisting of one common share and one common share purchase warrant.
- The Fund invested \$750,000 by acquiring 3,750,000 common shares at a price of \$0.20 per share.
- The Fund invested \$1,000,000 by acquiring 5,000,000 units at a price of \$0.20 per unit, with each unit consisting of one common share, one-half share purchase warrant, and one cashless put warrant. Each cashless put warrant has a maximum value of \$0.05 and is only exercisable during the period from December 22, 2005 to December 22, 2006.

[iv] The Fund invested \$100,000 in securities of Municipal Solutions Group Inc., a TSX Venture Exchange listed company. The investment consists of 1,000,000 units at price of \$0.10 per share, with each unit consisting of one common share and one common share purchase warrant.

[v] The Fund invested \$399,875 in securities of QuestAir Technologies Inc., a TSX listed company. The investment consists of 228,500 common shares at a price of \$1.75 per share.

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8. INVESTMENTS (cont'd.)

Privately-held investments:

- [i] The Fund disposed of its investment in Kelsan Technologies Corp. for aggregate net proceeds of \$1,598,919, resulting in a gain on disposition of \$323,919.
- [ii] The Fund disposed of its investment in Kinetek Pharmaceuticals Inc. for aggregate net proceeds of \$40,039, resulting in a loss on disposition of \$709,961.
- [iii] The Fund converted its \$75,000 loan receivable from Peripheron Technologies Ltd. ["Peripheron"] into Peripheron common shares.
- [iv] The Fund converted principal and accrued interest totalling \$346,171 owing to it by Tantalus Systems Corp. ["Tantalus"] into Tantalus Series A preferred shares.
- [e] At December 31, 2007, the Fund's minimum required level of investment in eligible small businesses, as defined under the SBVCA, is \$16,223,442 [see note 15[b]].

9. EQUIPMENT

	June 30, 2007		Net book value	December 31,		
	Cost	Accumulated amortization		2006	2005	2004
			\$	\$	\$	Net book value
	\$	\$	\$	\$	\$	
Computer and office equipment	27,669	23,718	3,951	4,648	6,640	9,486

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10. SHARE CAPITAL

[a] Authorized

The authorized capital of the Fund consists of 100,000,000 Class A Common Shares without par value issuable in series, of which the first series is limited to a maximum of 1,000,000 Common Shares and the second series is limited to a maximum of 10,000,000 Common Shares.

[b] Issued and fully paid

	June 30, 2007		December 31, 2006	
	#	\$	#	\$
Class A Common Shares, Series 1				
Balance, beginning of period	180,113	4,574,035	357,865	9,060,664
Redeemed during the period	(41,549)	(1,008,253)	(177,752)	(4,486,629)
Balance, end of period	138,564	3,565,782	180,113	4,574,035
Class A Common Shares, Series 2				
Balance, beginning of period	2,282,707	19,933,537	1,657,401	15,042,768
Issued for cash during the period	430,591	3,608,626	631,633	5,391,243
Redeemed during the period	(3,559)	(18,464)	(6,327)	(63,109)
Less share issue costs	—	(258,122)	—	(437,365)
Balance, end of period	2,709,739	23,265,577	2,282,707	19,933,537
Total, end of period	2,848,303	26,831,359	2,462,820	24,507,572
	December 31, 2005		December 31, 2004	
	#	\$	#	\$
Common Shares, Series 1				
Balance, beginning of year	360,991	9,156,179	362,508	9,202,531
Redeemed during the year	(3,126)	(95,515)	(1,517)	(46,352)
Balance, end of year	357,865	9,060,664	360,991	9,156,179
Common Shares, Series 2				
Balance, beginning of year	1,261,468	11,735,095	154,656	1,369,323
Issued for cash during the year	406,352	3,726,531	1,106,812	11,364,751
Redeemed during the year	(10,419)	(107,548)	—	—
Less share issue costs	—	(311,310)	—	(998,979)
Balance, end of year	1,657,401	15,042,768	1,261,468	11,735,095
Total, end of year	2,015,266	24,103,432	1,622,459	20,891,274

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10. SHARE CAPITAL (cont'd.)

On August 2, 2006, the Fund filed a Prospectus with the British Columbia Securities Commission in order to renew the qualification of the distribution of Class A Common Shares, Series 2 in the capital of the Fund. These shares are offered on a continuous basis priced in accordance with the Fund's Pricing Net Asset Value [note 11].

Pursuant to the terms of this Prospectus, the Administrator of the SBVCA has authorized the Fund to issue up to \$7,000,000 of its shares during the period ended February 15, 2008, and up to a further \$7,000,000 of its shares during the period ended February 15, 2009.

On June 29, 2007, the Fund announced that sales of new shares were temporarily suspended from the close of business June 29, 2007 through September 15, 2007.

[c] Redemption

- [i] The Class A Common Shares, Series 1, are redeemable at the Fund's Pricing Net Asset Value [note 11] per share on the last business day of each week, following the date a redemption request is received by the Fund, subject to specific conditions, including compliance with certain requirements under the SBVCA. The redemption proceeds will be paid to the shareholder within 30 days of the fund receiving the redemption request.

During the six months ended June 30, 2007, the Fund redeemed 41,549 [2006 - 575] Class A Common Shares, Series 1, at a total cost of \$341,508 [2006 - \$4,837]. The Fund also redeemed 3,559 [2006 - 4,378] Class A Common Shares, Series 2, at a total cost of \$26,938 [2006 - \$37,824]. The \$658,271 [2006 - \$22,774] excess of the book value of shares redeemed over their redemption amount has been credited to contributed surplus, resulting in a cumulative balance of \$3,877,073 at June 30, 2006 [December 31, 2006 - \$3,218,802].

During the year ended December 31, 2006, the Fund redeemed 177,752 [2005 - 3,126; 2004 - 1,517] Class A Common Shares, Series 1, at a total cost of \$1,435,771 [2005 - \$24,759; 2004 - \$12,284]. The Fund also redeemed 6,327 [2005 - 10,419; 2004 - nil] Class A Common Shares, Series 2, at a total cost of \$48,931 [2005 - \$98,206; 2004 - \$nil]. The \$3,065,036 [2005 - \$80,098; 2004 - \$34,068] excess of the book value of shares redeemed over their redemption amount has been credited to contributed surplus, resulting in a cumulative balance of \$3,218,802 at December 31, 2006 [2005 - \$153,766; 2004 - \$73,668].

- [ii] The Class A Common Shares, Series 2, are redeemable after a period of five years from the date of their issuance, although earlier redemption may be permitted in very limited circumstances. Redemption of these shares is subject to specific conditions, including compliance with certain requirements under the SBVCA. Upon satisfaction of the redemption requirements, these shares are redeemable at a price equal to the Fund's Pricing Net Asset Value [note 11] per share at the time of redemption. In the circumstances of a permitted early redemption, it is the Fund's policy to deduct from the redemption price any portion of the shareholder's tax credit which may become repayable by the Fund as a result of the redemption.

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11. NET ASSET VALUE PER SHARE

Pursuant to the terms of the Fund's Prospectus, dated August 2, 2006, the Fund issues Class A Common Shares, Series 2, in accordance with its weekly Pricing Net Asset Value ("Pricing NAV"), which differs from NAV determined under Canadian generally accepted accounting principles.

As permitted by the regulatory authorities under which the Fund's Prospectus is governed, the Fund calculates a NAV based on the assumption that costs associated with the issuance of its shares are deferred and amortized over a term equal to the expected time to redemption of the shares. Sales and marketing costs incurred in connection with the continuous distribution of the Fund's shares are assumed to be deferred and amortized over the shorter of the expected period of benefit or five years. The securities commission has also provided a temporary exemption (expires September 30, 2007) from the amended valuation policy [note 3] adopted January 1, 2007 for financial reporting purposes. To determine the price of the Fund's shares for purchase and redemption by shareholders ("Pricing NAV"), investments are valued on the basis of the weighted average closing price over the preceding 21 trading days.

The following is a reconciliation of the Fund's NAV determined in accordance with Canadian generally accepted accounting principles ("GAAP"), as presented in these financial statements, to the Fund's Pricing NAV used to value its shares for distribution:

	June 30, 2007 \$	December 31, 2006 \$	December 31, 2005 \$	December 31, 2004 \$
Net asset value in accordance with GAAP, as reported	21,487,759	18,037,735	16,473,957	14,772,811
Adjust investments from bid prices to average closing prices	1,049,472	—	—	—
Add:				
Deferred sales and marketing costs	878,739	801,511	626,638	473,110
Deferred share issue costs	2,237,716	1,979,594	1,542,229	1,234,236
Other adjustments	—	—	—	130,952
Less:				
Amortization of deferred costs	(1,448,761)	(1,145,690)	(635,195)	(264,396)
Pricing net asset value	24,204,925	19,673,150	18,007,629	16,346,713
Common shares outstanding	2,848,303	2,462,820	2,015,266	1,622,459
Pricing net asset value per share	8.50	7.99	8.94	10.08
Net asset value per share in accordance with GAAP	7.54	7.32	8.17	9.11

Pender Growth Fund (VCC) Inc.**NOTES TO FINANCIAL STATEMENTS**

June 30, 2007, December 31, 2006, 2005 and 2004

(Information as at June 30, 2007 and for the six months ended June 30, 2007 and 2006 is unaudited)

12. STOCK OPTIONS

Stock options issued and outstanding are as follows:

	June 30, 2007 and December 31, 2006, 2005 and 2004	
	Number of options #	Weighted average exercise price \$
Options outstanding, beginning of period	5,000	10.00
Options cancelled during the period	—	
Options outstanding, end of period	5,000	10.00
Options exercisable at period-end [fully vested]	5,000	

[a] The 5,000 incentive stock options outstanding at June 30, 2007 and at December 31, 2006, 2005 and 2004 are held by a former director of the Fund. These options expire on June 28, 2012.

[b] The weighted average remaining contractual life of outstanding incentive stock options at June 30, 2007 is 4.99 years [December 31, 2006 – 5.49 years; 2005—6.49 years; 2004—7.49 years].

13. INCOME TAXES

Income tax expense differs from the amount that would result from applying Canadian federal and provincial income tax rates to earnings before taxes. These differences result from the following items:

	2006	2005	2004
	34.12%	34.86%	35.60%
	\$	\$	\$
Income tax recovery at statutory rates	(282,157)	(631,059)	(597,490)
Share issue costs	(138,398)	(124,945)	(145,541)
Unrecognized benefit of losses carried forward	420,555	756,004	743,031
	—	—	—

The Fund's income tax expense for each of the years ended December 31, 2006, 2005 and 2004 is \$nil.

Pender Growth Fund (VCC) Inc.**NOTES TO FINANCIAL STATEMENTS**

June 30, 2007, December 31, 2006, 2005 and 2004

(Information as at June 30, 2007 and for the six months ended June 30, 2007 and 2006 is unaudited)

13. INCOME TAXES (cont'd.)

The components of the future income tax assets are as follows:

	2006 34.12% \$	2005 34.12% \$	2004 35.60% \$
Future income tax assets:			
Non-capital loss carryforwards	2,907,553	2,373,131	1,769,810
Equipment	4,804	4,125	3,291
Unrealized depreciation of investments	1,104,678	736,714	423,345
Share issue costs	335,509	325,547	468,549
Total gross future income tax assets	4,352,544	3,439,517	2,664,995
Less: valuation allowance	(4,352,544)	(3,439,517)	(2,664,995)
Net future income tax assets	—	—	—

The valuation above reflects the Fund's estimate that the future income tax assets, more likely than not, will not be realized.

The Fund has accumulated non-capital losses for income tax purposes of approximately \$8,521,549. The losses expire in the following years:

	\$
2007	777,736
2008	513,063
2009	419,737
2010	988,865
2014	2,087,163
2015	2,168,686
2026	1,566,299
	8,521,549

14. RELATED PARTY TRANSACTIONS

[a] Pursuant to the fund management agreement referred to in note 15[a], during the six months ended June 30, 2007, the Fund entered into the following transactions with the Manager:

[i] Management fees of \$336,440 [six months ended June 30, 2006 - \$302,843] were paid to the Manager.

[ii] At June 30, 2007, the Fund has accrued contingent performance fees of \$1,364,639 [June 30, 2006 - \$865,348]. This sum would be payable to the Fund's manager if certain investments were realized at their current valuations and the Fund's portfolio met defined performance conditions. Of this amount, \$1,364,639 is included in due to related party at June 30, 2007 [June 30, 2006 - \$865,348].

Pender Growth Fund (VCC) Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007, December 31, 2006, 2005 and 2004

(Information as at June 30, 2007 and for the six months ended June 30, 2007 and 2006 is unaudited)

14. RELATED PARTY TRANSACTIONS (cont'd.)

- [b] During the year ended December 31, 2006, the Fund entered into the following transactions with the Manager:
- [i] Management fees of \$603,721 [2005 - \$479,066; 2004 - \$361,633] were paid to the Manager.
 - [ii] At December 31, 2006, the Fund has accrued for contingent performance fees of \$779,160 [2005 - \$368,464; 2004 - \$291,122]. This sum would be payable to the Fund's manager if certain investments were realized at their current valuations and the Fund's portfolio met defined performance conditions. Of this amount, \$779,160 is included in due to related party at December 31, 2006 [2005 - \$368,464; 2004 - \$291,122]. On March 29, 2005, \$293,243 was paid to the Manager in respect of the Fund's divestiture of its investments in certain of its investees during 2004.
 - [iii] At December 31, 2006, \$nil [2005 - \$nil; 2004 - \$3,224] is owed to the Fund by the Manager on account of miscellaneous expense reimbursements.
- [c] During the six months ended June 30, 2007, \$20,000 [six months ended June 30, 2006 - \$15,500] in directors' fees were paid to certain directors of the Fund. During the year ended December 31, 2006, \$35,500 [2005 - \$28,000; 2004 - \$24,000] in directors' fees were paid.
- [d] As of June 30, 2007, certain directors of the Fund hold shares in the investee companies. None of these individual positions exceed 1% of the respective investee companies' issued and outstanding shares.

15. COMMITMENTS

- [a] PenderFund Capital Management Ltd. (the "Manager"), whose principal shareholder is a shareholder of the Fund, provides management services in connection with all aspects of the identification, implementation, development, active monitoring and ultimate divestment of all potential, actual and previous investments of the Fund [see note 17[f]].

At June 30, 2007, the Fund is committed to pay fees and remuneration as follows:

- [i] A monthly management fee equal to 1/12 of 2.75% of Pricing Net Asset Value of the Fund on the last Valuation Day in that month, if the Pricing Net Asset Value of the Fund on that day is less than or equal to \$100,000,000; or
- [ii] \$229,166.67 plus 1/12 of 2.5% of the amount by which the Pricing Net Asset Value of the Fund on the last Valuation Day in that month exceeds \$100,000,000, if the Pricing Net Asset Value of the Fund on that day is greater than \$100,000,000, subject to a maximum set by SBVCA regulation of 3% per annum of the aggregate equity capital raised by the Fund, and subject to the limitation set out in Section 8 of the SBVCA that requires 80% of the equity capital raised to be invested in eligible small businesses.

Pender Growth Fund (VCC) Inc.

NOTES TO FINANCIAL STATEMENTS

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(Information as at June 30, 2007 and for the six months ended June 30, 2007 and 2006 is unaudited)

15. COMMITMENTS

Under the Management Agreement, the Manager will also be paid a performance fee payable quarterly in arrears, equal to 20% of the amount by which the realized gains for cash and cash income from each portfolio investment of the Fund exceeds the aggregate of all such performance fees, if any, as have then previously accrued in respect of such portfolio investment. In addition to the monthly management fee and annual management fee, the Fund is required to reimburse and repay all reasonable expenses incurred on its behalf. The Manager is also entitled to a sales administration fee of up to 1% of the gross proceeds raised under its continuous offering, also paid monthly.

This management agreement shall remain in effect for an initial term ending December 31, 2013 and shall be renewed automatically for a further term of four years.

- [b] In accordance with the requirements of the SBVCA, the required level of investment as at December 31, 2007 is \$16,223,442. The Fund has met the investment pacing requirements for 2007.

16. CONTINGENCIES

The Fund has a contingent liability to repay the tax credits granted to its shareholders by the Government of British Columbia, if it fails to comply with requirements of the SBVCA. At June 30, 2007, this contingent liability was \$7,494,652.

Where a VCC has met all of the legislative requirements and has invested appropriately in qualified small businesses for a period of at least five years, the VCC's liability to repay the tax credits will be removed.

17. SUBSEQUENT EVENTS

- [a] On July 6, 2007, pursuant to the subscription agreement [note 8[a][iv]] dated June 22, 2007, the Fund completed a \$500,000 investment in Municipal Solutions Group Inc. The Fund received 1,470,588 units at a price of \$0.34 per unit. Each unit consists of one common share and one common share purchase warrant entitling the holder to acquire an additional share of Municipal at the price of \$0.50 for a period of two years.
- [b] The Fund has received the full amount due from Chromos Molecular Systems Inc. for the \$250,000 debenture [note 8[a][iii]] as well as interest accrued to the date of repayment.
- [c] The Fund has raised \$469,850 of the 2007 tax year equity allocation of \$7,000,000 leaving \$6,530,150 to be raised under this allocation.
- [d] On August 23, 2007, the Fund advanced a \$100,000 loan to Municipal Solutions Group Inc. A further loan of \$100,000 was advanced on September 26, 2007. The loan pays interest at the rate of 18.0% per annum.
- [e] On August 28, 2007, the Fund invested \$250,000 in convertible debentures of IP Applications Corp., which are convertible into common shares subject to specified conditions.

Pender Growth Fund (VCC) Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007, December 31, 2006, 2005 and 2004

(Information as at June 30, 2007 and for the six months ended June 30, 2007 and 2006 is unaudited)

17. SUBSEQUENT EVENTS (cont'd.)

[f] The Manager of the Fund has entered into an agreement to be purchased by certain directors and officers of the Manager.

18. COMPARATIVE FIGURES

Certain 2004, 2005, and 2006 comparative figures have been reclassified to conform to the financial statement presentation adopted for 2007.

CERTIFICATE OF THE FUND

Dated: October 5, 2007

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by Part 9 of the Securities Act (British Columbia). This Prospectus does not contain any misrepresentation likely to affect the value or the market price of the securities to be distributed, as required by the Securities Act (British Columbia) and the regulations thereunder.

PENDER GROWTH FUND (VCC) INC.

"David Roberts"

DAVID ROBERTS
President and Chief Executive Officer

"David Barr"

DAVID BARR
Chief Financial Officer

ON BEHALF OF THE BOARD OF DIRECTORS

"J. Kelly Edmison"

J. KELLY EDMISON
Director

"Ian Power"

IAN POWER
Director

**ON BEHALF OF THE FUND MANAGER
PENDERFUND CAPITAL MANAGEMENT LTD.**

"David Roberts"

DAVID ROBERTS
President

"J. Kelly Edmison"

J. KELLY EDMISON
Chairman