Semi-Annual Financial Statements of

PENDER GROWTH FUND (VCC) INC.

For the six month period ended June 30, 2015

NOTICE OF NO AUDITOR REVIEW OF THE SEMI-ANNUAL FINANCIAL STATEMENTS

The Board of Directors of Pender Growth Fund (VCC) Inc. (the Fund), appoints an independent auditor to audit the Fund's Annual Financial Statements. In accordance with Canadian securities laws (National Instrument 81-106 "Investment Fund Continuous Disclosure"), the Fund must disclose if an auditor has not reviewed the Semi-Annual Financial Statements.

The Fund's independent auditor has not performed a review of these Semi-Annual Financial Statements in accordance with standards established by the Canadian Institute of Chartered Accountants.

PENDER GROWTH FUND (VCC) INC.

Statements of Financial Position (Unaudited)

June 30, 2015 and December 31, 2014

	Notes	June 30 2015	December 31 2014
Assets			
Current:			
Cash		$ 155,078	$ 382,554
Interest receivable		162,616	27,338
Receivable for investments sold		4,082,469	-
Investments		12,417,163	13,717,875
		16,817,326	14,127,767
Receivable for investments sold		796,862	-
		17,614,188	14,127,767
Liabilities			
Accounts payable and accrued liabilities		41,037	54,815
Due to related party	5	118,241	35,857
Loans payable	6	503,056	-
		662,334	90,672
Net assets, before amounts attributable to holders of redeemable and convertible shares		$ 16,951,854	$ 14,037,095
Net assets attributable to holders of redeemable and convertible shares per class:			
Class B Shares - Redeemable component		1,413,374	1,414,066
Class R Shares		7,943,547	7,992,080
		9,356,921	9,406,146
Net assets attributable to holders of non-redeemable shares per class:	7		
Class B Shares - Non-redeemable component		648,833	395,814
Class C Shares		6,946,100	4,235,135
		7,594,933	4,630,949
		$ 16,951,854	$ 14,037,095
Net assets / redemption price per share:			
Class B Shares - Redeemable and non-redeemable components		$ 6.07	$ 5.32
Class C Shares		1.91	1.16
Class R Shares		4.16	4.16

Status of redemptions (note 2), contingencies (note 8), subsequent events (note 14)

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

Approved on behalf of the Board of Directors:

"David Barr" (signed) Director *"J. Kelly Edmison" (signed)* Director

PENDER GROWTH FUND (VCC) INC.

Statements of Comprehensive Income (Unaudited)

For the six month periods ended June 30, 2015 and 2014

	Notes	2015	2014
Revenue:			
Interest income		$ 135,318	$ 91,266
Foreign exchange gain		-	3,076
Changes in fair value of investments:			
Net realized gain (loss)		3,299,633	(1,475,132)
Net change in unrealized appreciation (depreciation)		(89,448)	2,021,147
		3,345,503	640,357
Expenses:			
Management fees	5	211,891	192,514
Administration expenses		86,799	83,371
Custody and recordkeeping fees		30,887	43,771
Audit fees		22,500	21,120
Directors' fees		19,500	18,000
Legal fees		4,661	14,499
Trailer fees		5,248	5,220
Transaction costs		33	3,038
		381,519	381,533
Increase in net assets attributable to holders of non-redeemable shares:		$ 2,963,984	$ 258,824
Increase in net assets attributable to holders of non-redeemable shares per class:			
Class B Shares - Non-redeemable component		$ 253,245	$ 22,404
Class C Shares		2,710,739	236,420
		$ 2,963,984	$ 258,824
Increase in net assets attributable to holders of non-redeemable shares per share:			
Class B Shares - Non-redeemable component		$ 0.75	$ 0.06
Class C Shares		0.75	0.06

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

PENDER GROWTH FUND (VCC) INC.

Statements of Changes in Net Assets Attributable to Holders of Non-Redeemable Shares (Unaudited)

For the six month periods ended June 30, 2015 and 2014

Class B shares - non-redeemable component	Notes	2015	2014
Balance, beginning of period		$ 395,814	$ 303,038
Increase in net assets attributable to holders of non-redeemable shares:		253,245	22,404
Capital transactions:			
Conversion of shares resulting in redemption of Class B shares		(226)	(4,888)
Balance, end of period		$ 648,833	$ 320,554

Class C shares	2015	2014
Balance, beginning of period	$ 4,235,135	$ 3,188,564
Increase in net assets attributable to holders of non-redeemable shares:	2,710,739	236,420
Capital transactions:		
Conversion of shares resulting in issuance of Class C shares	226	4,887
Balance, end of period	$ 6,946,100	$ 3,429,871

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

PENDER GROWTH FUND (VCC) INC.

Statements of Cashflows (Unaudited)

For the six month periods ended June 30, 2015 and 2014

	Notes	2015	2014
Cash provided by (used in):			
Operating:			
Increase in net assets attributable to holders of non-redeemable shares		$ 2,963,984	$ 258,824
Adjustments for:			
Interest income		(135,318)	(91,266)
Change in unrealized (appreciation) depreciation of investments		89,448	(2,021,147)
Net realized (gain) loss on sales of investments		(3,299,633)	1,475,132
Restricted cash		-	104,005
Receivable for investments sold		(4,879,331)	-
Accounts payable and accrued liabilities		(13,778)	(27,211)
Due to related party		82,384	1,539
		(5,192,244)	(300,124)
Proceeds on disposal of investments		4,918,525	1,083,500
Purchase of investments		(407,628)	(223,437)
Interest received		40	136,558
		4,510,937	996,621
Financing:			
Loans advanced		503,056	-
Disbursements upon redemption of Class R shares		(49,225)	(59,788)
		453,831	(59,788)
Net Increase (decrease) in cash		(227,476)	636,709
Cash, beginning of period		382,554	385,789
Cash, end of period		$ 155,078	$ 1,022,498

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

PENDER GROWTH FUND (VCC) INC.

Schedule of Investment Portfolio (Unaudited)

June 30, 2015

	Par value/ number of shares	Cost	Fair value
Publicly listed investments:			
Common shares:			
Calyx Bio-Ventures Inc.	$ 233,928	$ 451,724	$ 7,018
IWG Technologies Inc.	3,474,900	347,490	833,976
Pedro Resources Ltd.	99,670	109,265	2,492
QHR Technologies Inc.	2,624,000	1,643,100	3,988,480
Redline Communications Group Inc.	43,153	112,213	130,754
Santa Rosa Resources Corp.	352,651	523,479	14,106
VendTek Systems Inc.	42,000	252,000	2,310
		3,439,271	4,979,136
Private unlisted investments:			
Common shares:			
BasicGov Systems, Inc.	1,250,000	1,250,000	
Navarik Corp.	1,149,425	1,000,000	
One45 Software Inc.	575,000	575,000	
Tantalus Systems Corp.	689,758	2,046,676	
Preferred shares:			
D-Wave Systems Inc., Convertible	1,120,720	1,200,000	
Tantalus Systems Corp., 10%, Cumulative, Convertible	388,889	446,754	
Warrants:			
BasicGov Systems Inc., $1.57, 2019/06/13	40,000	-	
BasicGov Systems Inc., $2.00, 2017/12/31	15,000	-	
Loans and convertible debentures:			
BasicGov Systems, Inc., 15%, Convertible, 2016/12/31	1,300,000	1,300,000	
Cantronic Systems Inc., 10%, Demand	500,000	500,000	
Tantalus Systems Corp., 5%, Convertible, 2018/04/12	250,000	253,450	
		8,571,880	7,438,027
		$ 12,011,151	$ 12,417,163

Summary of Private Unlisted Investments

Stage of development & number of holdings	#	Cost	Unrealized gain (loss)	Fair value	% Cost	% Fair value
Early stage	4	$ 2,550,000	$ (1,187,500)	$ 1,362,500	30	18
Expansion stage	7	6,021,880	53,647	6,075,527	70	82
	11	$ 8,571,880	$ (1,133,853)	$ 7,438,027	100	100

Industry sector & number of holdings	#	Cost	Unrealized gain (loss)	Fair value	% Cost	% Fair value
Software & services	6	$ 4,125,000	$ (208,535)	$ 3,916,465	48	53
Technology hardware & equipment	5	4,446,880	(925,318)	3,521,562	52	47
	11	$ 8,571,880	$ (1,133,853)	$ 7,438,027	100	100

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

1. 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”) under the Small Business Venture Capital Act (“SBVCA”).

The Fund has been managed by PenderFund Capital Management Ltd. (the “Manager”) since 2003. The investment objective of the Fund is to achieve long-term capital appreciation through prudent application of its investment strategy. The Fund’s investment strategy is to invest in companies that have the potential to substantially improve their profitability.

The address of the Fund’s registered office is 2600 - 1066 West Hastings Street, Vancouver, BC, V6E 3X1.

2. Status of redemptions:

As at June 30, 2015, the Fund has received redemption requests for Class R Shares and conversion requests for Class B Shares as set out in the following table. The table also sets out the total funds required by the Fund to redeem these outstanding redemptions at the current redemption price of $4.16 per Class R Share. Redemption requests received by the Fund prior to November 30th in any given year have priority over redemption requests received in all subsequent years.

Effective year of redemption request	Number of Class B shares	Number of Class R shares	Total funds required to redeem
2012	-	275,258	$ 1,145,073
2013	79,130	739,160	3,404,086
2014	74,103	260,519	1,392,027
2015	18,798	70,517	371,550
Unsubmitted	167,722	564,053	3,044,185
Total	339,753	1,909,507	$ 9,356,921

Subsequent to the end of the period, the Fund completed the sale of a significant holding within its investment portfolio, resulting in aggregate cash proceeds of $4,295,144. The Fund intends to use the proceeds, in part, to redeem all remaining redemption requests submitted in 2012 and 50% of redemption requests submitted in 2013. The Fund will require $2,847,116 to process these redemptions and expects to be completed on or about August 31, 2015.

Should the Fund process additional redemptions at a future date, such redemptions will be processed, in whole or in part, at the then current redemption price of Class R Shares. The redemption price on that future date may be significantly lower than the Class R redemption price of $4.16 per share as at June 30, 2015.

The ability of the Fund to redeem these shares is dependent on its ability to successfully realize the value inherent in its investment portfolio, which is comprised of both public and private investments. The valuation of private investments, for which there is no published market, is inevitably based on inherent uncertainties. Accordingly, at June 30, 2015 there is uncertainty as to whether the fair value ascribed to these investments will be realized on eventual disposition.

3. Basis of preparation:

(a) Statement of compliance:

The financial statements of the Fund have been prepared in compliance with International Financial Reporting Standards ("IFRS"). These financial statements were authorized for issue by the Fund's Board of Directors on August 18, 2015.

(b) Basis of measurement:

The financial statements have been prepared on a historical cost basis except for the Fund's investments, which are measured at fair value.

(c) Functional and presentation currency:

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

(d) Use of estimates and judgment:

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized in the period in which the estimates are revised.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next fiscal year is included in note 10 and relate to the determination of fair value of investments with significant unobservable inputs.

4. Significant accounting policies:

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

(a) Financial instruments:

(i) Recognition and measurement:

The Fund classifies all financial instruments as either held-for-trading ("HFT"), designated at fair value upon initial recognition ("FVTPL"), available-for-sale, loans and receivables, assets held-to-maturity, and other financial liabilities. All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of financial instrument. Transaction costs are included in the initial carrying amount of financial instruments except for financial instruments classified as HFT or FVTPL in which case transaction costs are expensed as incurred.

4. Significant accounting policies (continued):

(a) Financial instruments (continued):

(i) Recognition and measurement (continued):

Financial assets and financial liabilities HFT or at FVTPL are recognized initially on the trade date, which is the date on which the Fund becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognized on the date on which they are originated. The Fund derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

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

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

Financial instruments classified as HFT or FVTPL are subsequently measured at fair value at each reporting period with changes in fair value recognized in the Statement of Comprehensive Income in the period in which they occur. The Fund's investments are designated as FVTPL.

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

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

4. Significant accounting policies (continued):

(a) Financial instruments (continued):

(iii) Loans and receivables:

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

(iv) Other financial liabilities:

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method. The Fund's other financial liabilities are comprised of accounts payable and accrued liabilities, due to related party and loans payable.

(b) Investments in associates and subsidiaries:

The Fund meets the criteria required to be considered an "investment entity" under IFRS 10 - *Consolidated Financial Statements* and, as such, in the cases where the Fund has control or significant influence over a company in its investment portfolio, the Fund values such investments as financial assets at FVTPL.

(c) Redeemable and convertible shares:

The Fund classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Where an issued financial instrument is considered a compound financial instrument, it is bifurcated into liability and equity components based on the respective value of each component.

The redeemable shares, which are classified as financial liabilities and measured at redemption amount, provide shareholders with the right to require redemption, subject to available liquidity, for cash at a redemption price based on the Fund's valuation policies at each redemption date. Distributions to holders of redeemable and convertible shares are recognized in comprehensive income when they are authorized and no longer at the discretion of the Manager.

(d) Per share amounts:

Net assets and redemption price per share is calculated based on the number of shares outstanding at the end of the year. Increase (decrease) in net assets attributable to holders of non-redeemable shares per share is calculated by dividing the increase (decrease) in net assets attributable to holders of non-redeemable shares by the weighted average number of shares outstanding during the period.

4. Significant accounting policies (continued):

(e) Foreign exchange:

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

(f) Income recognition:

Interest for distribution purposes shown on the statement of comprehensive income represents the coupon interest received by the Fund accounted for on an accrual basis. Dividend income is recognized on the date that the right to receive payment is established, which for quoted equity securities is usually the ex-dividend date. Portfolio transactions are recorded on the trade date. Realized gains and losses arising from the sale of investments are determined on the average cost basis of the respective investments.

(g) Income taxes:

Current tax expense is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income as certain items of income or expense are taxable or deductible in other years or never taxable or deductible. The current tax liability is determined using tax rates that have been enacted or substantially enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the calculation of taxable profit. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for deductible temporary differences or for carry forward of unused tax losses, to the extent that it is probable that the deductions or tax losses can be utilized. The carrying amount of deferred tax assets are reviewed at each reporting date and reduced to the extent it is no longer probable that the income tax asset will be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability settled, based on tax rates and legislation that have been enacted or substantively enacted at the reporting date. Where applicable, current and deferred taxes relating to items recognized directly in equity are also recognized in equity.

4. Significant accounting policies (continued):

(h) New standards and interpretations not yet adopted:

A number of new standards, amendments to standards and interpretations are not yet effective for the period ended June 30, 2015, and have not been applied in preparing these financial statements. None of these will have a significant effect on the financial statement of the Fund, with the possible exception of IFRS 9 - *Financial Instruments.*

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

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

The Manager is currently in the process of evaluating the potential effect of this standard. The standard is not expected to have a significant impact on the financial statements since the Fund's financial assets are currently measured at fair value or amortized cost.

5. Related party transactions:

(a) Management and performance fees:

In accordance with the Management Agreement dated July 22, 2010, the Manager provides management services in connection with all aspects of the identification, investment, development, active monitoring and ultimate divestment of all investments of the Fund. In exchange for these management services, the Fund pays a management fee equal to 2.75% of the Fund's net asset value per annum, calculated and paid monthly.

The Manager is entitled to a performance fee in certain circumstances, based on achieving certain performance criteria set out in the Management Agreement. A performance fee is based on a percentage of the Fund's value with the percentage being 20% of the Fund's annual performance exceeding an annual compounded rate of return of 5%. The performance fee will be calculated on an annual basis and be subject to a high water mark. No performance fees will be calculated or payable until all Class B Shares and Class R Shares have been redeemed or converted into Class C Shares.

This management agreement is in effect until December 31, 2020 and shall be renewed automatically at that date for a further term of four years, unless a vote of shareholders determines a different term.

5. Related party transactions (continued):

(a) Management and performance fees: (continued)

For the six month period ended June 30, 2015, the Fund paid management fees of $211,891 (2014 - $192,514). At June 30, 2015, the Fund had a payable of $118,241 (December 31, 2014 - $35,857) to the Manager in respect of management fees and reimbursement of operating expenses paid on behalf of the Fund.

(b) Services provided to investee companies:

For the period ended June 30, 2015, companies within the Fund's investment portfolio paid fees of $5,000 (2014 - $60,000) to the Manager for accounting and administrative services.

(c) Share holdings:

As at June 30, 2015 and December 31, 2014, directors and officers of the Fund directly or indirectly own 380,260 shares (or 6% of the company's outstanding shares) of Santa Rosa Resources, a company also held by the Fund.

6. Loans payable:

During the six month period ended June 30, 2015, the Fund borrowed $500,000 from an institutional dealer. The loan accrues interest at prime rate plus 2%, is payable on demand and is secured by publicly-traded investments within the Fund's investment portfolio. Subsequent to the end of the period, on August 11, 2015, the loan plus accrued interest of $504,128 was fully repaid.

7. Share capital:

(a) Authorized share capital:

The authorized capital of the Fund consists of:

(i) 100,000,000 Class A Common Shares ("Class A Shares") without par value issuable in series, of which the first series is limited to a maximum of 1,000,000 shares and the second series is limited to a maximum of 10,000,000 shares;

(ii) An unlimited number of Class B Convertible Non-Participating Common Shares ("Class B Shares");

(iii) An unlimited number of Class C Participating Common Shares ("Class C Shares"); and

(iv) An unlimited number of Class R Senior Participating Redeemable Convertible Preference Shares ("Class R Shares").

7. Share capital (continued):

(a) Authorized share capital (continued):

Class B Shares

Class B Shares are not redeemable; however, each Class B Share may be converted into one Class R Share and one Class C Share at any time at the option of the holder.

Class B Shares are compound financial instruments. Accordingly, they have been bifurcated into liability and equity components based on the respective fair value of each component.

The fair value of the liability component on initial recognition was $4.16 per share, with the remaining equity component having net assets attributed in the same manner as Class C Shares.

Each Class B Share is entitled to five votes in any vote on shareholder matters.

Class C Shares

Class C Shares are not redeemable or convertible. Class C Shares are listed on the TSX Venture Exchange under the ticker symbol “PTF”. Class C Shares are entitled to the net assets of the Fund on a pro-rata basis after the payment of the redemption value of each outstanding Class R Share on a partially diluted basis.

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

Class R Shares

Class R Shares are redeemable on an annual basis upon requests being delivered to the Fund by November 30th of each year, with a maximum redemption price of $4.16. With the exception of extraordinary circumstances, the Fund has currently suspended redemptions of Class R Shares as further described in note 2.

Class R Shares may also be converted by the holder to Class C Shares. The number of Class C Shares to be issued on conversion of each Class R Share is calculated by dividing the redemption value of Class R Shares at the time of conversion by the net asset value per share of Class C Shares (subject to such net asset value having a minimum value of $0.50 and maximum value of $2.50) at the date of conversion.

Class R Shares are compound financial instruments. The full value of the Class R Share is attributed to the liability component with no value attributable to the equity component.

Each Class R Share is entitled to four votes in any vote on shareholder matters.

7. Share capital (continued):

(b) Issued and fully paid shares:

For the period ended	Balance, beginning of period	Redeemed	Exchanged in	Exchanged out	Balance end of period
June 30, 2015:					
Class B	339,920	-	-	(167)	339,753
Class C	3,637,071	-	167	-	3,637,238
Class R	1,921,173	(11,833)	167	-	1,909,507
June 30, 2014:					
Class B	345,165	-	-	(5,245)	339,920
Class C	3,631,826	-	5,245	-	3,637,071
Class R	1,935,171	(14,372)	5,245	-	1,926,044

(c) Composition of equity capital:

The Fund's shares classified as equity and presented in the statement of financial position as amounts attributable to holders of non-redeemable shares as at June 30, 2015 and December 31, 2014 is comprised of:

	June 30, 2015	December 31, 2014
Class B Shares - non-redeemable component:		
Contributed capital	$ 468,438	$ 468,664
Retained earnings (deficit)	180,395	(148,110)
	$ 648,833	$ 320,554

	June 30, 2015	December 31, 2014
Class C Shares:		
Contributed capital	$ 3,561,706	$ 3,561,479
Retained earnings (deficit)	3,384,394	(131,608)
	$ 6,946,100	$ 3,429,871

8. Contingencies and commitments:

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 including investing appropriately in eligible business and meeting certain levels of investment for at least five years.

During the six month period ended June 30, 2015, the Fund provided guarantees to loans totaling $150,000 made by one45 Software Inc. to BasicGov Systems Inc. Both companies are controlled by the Fund and are within the Fund's investment portfolio. The loans accrue interest at 15% per annum and are payable on demand.

9. Financial risk management:

The Fund may be exposed to a variety of financial risks. The Fund's exposures to financial risks are concentrated in its investment holdings. The Schedule of Investment Portfolio groups securities by asset type. The Manager's risk management practice includes the monitoring of compliance to investment guidelines. The Manager manages the potential effects of these financial risks to the Fund's performance by regularly monitoring the Fund's positions and market events and by diversifying investment portfolios within the constraints of the Fund's investment objectives.

The Fund invests in Eligible Small Businesses ("ESB") with the objective of long-term capital appreciation. Since its inception, the Fund has invested in diversified portfolio of investments principally in the information technology and health care sectors.

The Fund has invested in a number of publicly listed ESBs with an emphasis on established businesses requiring capital for growth, expansion or restructuring. In each situation, the Fund's capital has been invested to improve the equity value of the investee company, through expansion of sales and marketing, investing in new product development or providing capital needed to stabilize operations. This approach has the potential to yield attractive returns over time if these companies are able to execute on their business plans and improve their growth and profitability. This strategy is not without risk, however, as companies face both internal and external challenges to their business plans.

This aggressive aspect of the Fund's investment strategy has been offset by making more traditional investments in later-stage companies that are well positioned for growth and where additional capital is used to further expand operations to increase revenue.

(a) Credit risk:

Credit risk represents the risk associated with the inability of a third party to fulfill its payment obligations. The Fund limits its exposure to credit risk for its cash by investing in high quality short-term investments, typically term deposits with a large Canadian bank. The Fund is also exposed to credit risk through its investment in loans, convertible debt securities and preferred shares of its investee companies. The Fund manages this credit risk through careful selection and monitoring of its investee companies. Interest and dividends receivable on debt and equity securities of the Fund's investments are also subject to credit risk and are managed through active review of the portfolio of private unlisted investments.

9. Financial risk management (continued):

(a) Credit risk (continued):

Such investments represent the main concentration of credit risk for the Fund, and, accordingly, represent the maximum credit risk exposure of the Fund as at June 30, 2015 being $4,984,178 (December 31, 2014 - $4,587,369).

(b) Liquidity risk:

Liquidity risk represents the risk the Fund has insufficient assets to meet its obligations as they become due. The ability of the Fund to honour redemption requests for its redeemable shares is subject to its ability to create sufficient liquidity in the Fund's portfolio of investments and maintain compliance with the rules and regulations of the SBVCA. Refer to note 2 for details of outstanding redemption requests.

The Fund invests in equity securities and other financial instruments. A large portion of the Fund's equity holdings are in private unlisted investments where active markets do not exist for the timely disposition of such assets and the realized price may be significantly different from their carrying values.

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

As of June 30, 2015 and December 31, 2014, the Fund's liabilities are all due within one year.

(c) Interest rate risk:

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

(d) Currency risk:

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

(e) Other price risk:

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

9. Financial risk management (continued):

(e) Other price risk (continued):

As at June 30, 2015, had the fair value of the Fund's investments increased or decreased by 10%, with all other factors remaining constant, the Fund's net assets attributable to holders of non-redeemable shares would have increased or decreased, by approximately $1,242,000 (December 31, 2014 - $1,372,000). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

10. Fair value of financial instruments:

(a) Valuation models:

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

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Fund measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. prices) or indirectly (i.e. derived from prices).
- Level 3: inputs that are unobservable.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

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

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

10. Fair value of financial instruments (continued):

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

The table below analyzes financial instruments measured at fair value as at June 30, 2015 and December 31, 2014 by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position:

	June 30, 2015	December 31, 2014
Level 1:		
Publicly listed investments	$ 4,979,136	$ 4,074,731
Level 3:		
Private unlisted investments	7,438,027	9,643,144
	$ 12,417,163	$ 13,717,875

The carrying amount of the Fund's net assets attributable to redeemable shares also approximates fair value as they are measured at redemption amount and are classified as Level 2 in the fair value hierarchy.

During the six month periods ended June 30, 2015 and 2014, there were no transfers between Level 1 and 2 of the fair value hierarchy.

The following table shows a reconciliation of all movements in the fair value of financial instruments categorized within Level 3 for the six month periods ended June 30, 2015 and 2014:

	2015	2014
Opening balance	$ 9,643,144	$ 7,669,805
Purchase of investments	407,628	200,000
Proceeds on disposal of investments	(4,911,960)	(500,000)
Total gains (losses) recognized in comprehensive income	2,299,215	836,150
	$ 7,438,027	$ 8,205,955

Included in the change in unrealized appreciation (depreciation) in value of investments on the Fund's statement of comprehensive income for the period ended June 30, 2015 is a change in unrealized depreciation of $996,362 (2014 - change in unrealized appreciation of $836,150) related to Level 3 investments.

10. Fair value of financial instruments (continued):

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

The table below sets out information about significant unobservable inputs used in measuring financial instruments categorized as Level 3 in the fair value hierarchy.

June 30, 2015

Description	Fair value	Valuation technique	Unobservable input	Enterprise value/ weighted average multiple	Sensitivity to change in significant unobservable input
Unlisted private investments	$ 5,253,027	Investment cost/ enterprise value	Enterprise value	$ 5,253,027	The estimated fair value would increase if enterprise value increased
Unlisted private investments	$ 2,185,000	Market approach using comparable traded revenue multiples	Revenue multiple	1.2	The estimated fair value would increase if the revenue multiples were higher

December 31, 2014

Description	Fair value	Valuation technique	Unobservable input	Enterprise value/ weighted average multiple	Sensitivity to change in significant unobservable input
Unlisted private investments	$ 7,458,144	Investment cost/ enterprise value	Enterprise value	$ 7,458,144	The estimated fair value would increase if enterprise value increased
Unlisted private investments	$ 2,185,000	Market approach using comparable traded revenue multiples	Revenue multiple	1.2	The estimated fair value would increase if the revenue multiples were higher

10. Fair value of financial instruments (continued):

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

Significant unobservable inputs are developed as follows:

(i) Enterprise value:

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

(ii) Revenue multiple:

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

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

Although the Fund believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects on net assets attributable to holders of redeemable and convertible, and non-redeemable shares as at June 30, 2015 and December 31, 2014.

	June 30, 2015	December 31, 2014
Favourable	$ 1,904,303	$ 2,124,814
Unfavourable	(928,303)	(1,148,814)

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

- The impact of a 10% increase or decrease in enterprise value.
- A change in the revenue multiple from 1.2 to reasonably possible alternative assumptions of 1.0 and 2.0, respectively (2014 – 1.2).

(e) Financial instruments not measured at fair value:

The carrying value of cash, restricted cash, receivable for investments sold, dividends and interest receivable, accounts payable and due to related parties approximates their fair value given their short-term nature. These financial instruments are classified as Level 2 in the fair value hierarchy because while prices are available, there is no active market for these instruments.

11. Capital management:

The Fund's redeemable and convertible, and non-redeemable shares represent the capital of the Fund. The Fund is not subject to any external or internally imposed restrictions on its capital.

The Fund does not plan to raise any additional equity. Ultimately, the Fund's investment objective is to increase the value of the Fund. By meeting these overall objectives, the Fund accomplishes several objectives including the ability to honour redemptions, the ability to make new investments, the ability to make follow-on investments in companies that it has previously invested in, and to have sufficient cash for operations and continue as a going concern.

12. Income taxes:

The Fund has not provided for income taxes in its statement of comprehensive income as its effective tax rate is nil.

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

For income tax purposes the Fund has accumulated net-capital losses of approximately $5,675,764 (December 31, 2014 - $5,675,764) and non-capital losses of approximately $13,157,043 (December 31, 2014 - $13,157,043). Net-capital losses are available to be carried forward indefinitely. Non-capital losses may be carried forward up to 20 years. The Fund's non-capital losses expire as follows:

2025	$ 2,168,686
2026	1,566,299
2027	3,059,028
2029	1,748,428
2030	1,639,788
2031	1,171,738
2032	695,441
2033	503,213
2034	604,422
	$ 13,157,043

13. Involvement with subsidiaries and associates:

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

Entity	Nature and purpose	Interest held by the Fund
BasicGov Systems, Inc.	Software and services	Investment in common shares, warrants and convertible debentures
One45 Software Inc.	Software and services	Investment in common shares

The table below sets out interests held by the Fund as at June 30, 2015 and December 31, 2014 in unconsolidated subsidiaries and associates. The maximum exposure to loss is the carrying amount of the financial assets held.

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

During the six month periods ended June 30, 2015 and 2014, the Fund did not provide financial support to subsidiaries and has no intention to provide financial or other support. Furthermore, the subsidiaries in the table above are not subject to any restrictions.

14. Subsequent events:

Subsequent to the end of the period, the Fund completed the sale of a significant holding within its investment portfolio, resulting in aggregate cash proceeds of $4,295,144. On August 11, 2015, the Fund used the proceeds to repay a loan payable to an institutional dealer for $504,128. The Fund intends to use the remainder of the proceeds, in part, to redeem all remaining redemption requests submitted in 2012 and 50% of redemption requests submitted in 2013. The Fund will require $2,847,116 to process these redemptions and expects to be completed on or about August 31, 2015.