

SEMI-ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

Pender Growth Fund Inc.

Six months ended June 30, 2017

PENDER

This interim management report of fund performance contains financial highlights but does not contain either the interim financial statements or annual financial statements of the investment fund. You can get a copy of the interim financial statements or annual financial statements at your request, and at no cost, by calling toll-free (866) 377-4743, by writing to us at 1640 – 1066 West Hastings Street, Vancouver, BC V6E 3X1 or by visiting our website at www.penderfund.com or SEDAR at www.sedar.com.

Securityholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Results of Operations

The net assets of Pender Growth Fund Inc. (the "Fund") increased from \$18,036,295 at December 31, 2016 to \$19,187,422 at June 30, 2017. This \$1,151,127 increase is attributable to investment performance.

At June 30, 2017, the Fund's investment portfolio consisted of publicly listed investments valued at \$1,126,103 and privately unlisted investments valued at \$15,966,266 for a total of \$17,092,369. The sectors in which the Fund was invested at June 30, 2017 are listed under "Summary of Investment Portfolio".

During the six months ended June 30, 2017 (the "period"), IWG Technologies Inc. - a publicly listed investment in the Fund - was acquired at \$0.43 per share, which represented a 30% premium over its 90-day average price of \$0.33 and resulted in proceeds of \$1,494,207 to the Fund.

Recent Developments

We continue to be active with our core positions, with the goal of helping these companies to build their intrinsic value over time. We also continue to look at ways of reducing the Fund's expenses in order to maximize redemptions to shareholders upon the successful sale of individual portfolio companies.

The Fund's largest investment at June 30, 2017 is in One45 Software, a Software-as-a-Service provider of scheduling software to medical and other professional schools. The company is profitable and continued to grow in value as it increased its recurring revenue at an annual rate of 20%.

Another one of the Fund's significant investments is in a private company called D-Wave Systems Inc., the maker of one of the world's first quantum computers. D-Wave has been developing its products since 1999 and has attracted investments from major US venture capital groups and contracts from a number of major US defense and technology companies. The company raised a total of \$21 million in new capital in 2016 at a significant increase in price as compared to its previous financing completed in 2014. Although it may take some time, it appears that D-Wave is continuing to make progress towards becoming a valuable, commercially viable enterprise.

Related Party Transactions

The Fund pays management fees and performance fees to PenderFund Capital Management Ltd., the Manager of the Fund, for management and portfolio advisory services (see "Management and Performance Fees"). The Manager also recovers certain operating expenses incurred by it on behalf of the Fund.

At June 30, 2017, shareholders, directors and officers of the Manager directly or indirectly held 16% of all Class C Shares outstanding.

Directors and officers of the Fund directly or indirectly own 790,904 shares (or 3% of the company's outstanding shares) of BasicGov Systems, Inc., a company also held by the Fund.

Management and Performance Fees

The Fund pays a management fee to the Manager calculated at an annual rate of 2.50% of the Fund's net asset value up to \$50,000,000 and 2.00% of the Fund's net asset value in excess of \$50,000,000. The management fee is calculated as a percentage of the Fund's value on the last valuation date of each month.

The Fund also pays a performance fee in certain circumstances, based on achieving certain performance criteria. The performance fee is calculated as 20% of any net increase in net asset value above an annual hurdle rate of 6%. The performance fee will be calculated on an annual basis and will be subject to a high water mark. Subject to the accumulation of the hurdle rate in years in which no performance fee is payable, the high water mark will not otherwise be reset but is adjusted in the event of a subdivision or consolidation of the shares.

The Manager also recovers certain operating expenses incurred by it on behalf 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 period and the calendar years indicated.

CLASS C						
Fund's Net Assets Per Share (a)	2017	2016	2015	2014	2013	2012
Net assets – beginning of period	\$4.34	\$1.94	\$1.16	\$0.88	\$0.04	\$0.24
Increase (decrease) from operations:						
Total revenue	0.00	0.02	0.06	0.04	0.05	0.04
Total expenses	(0.10)	(0.30)	(0.18)	(0.17)	(0.19)	(0.20)
Realized gains (losses)	0.28	1.48	0.89	(0.35)	0.04	0.11
Unrealized gains (losses)	0.10	1.28	0.01	0.76	0.94	(0.19)
Total increase (decrease) from operations (b)	0.28	2.48	0.78	0.28	0.84	(0.24)
Distributions:						
From income (excluding dividends)	-	-	-	-	-	-
From dividends	-	-	-	-	-	-
From capital gains	-	-	-	-	-	-
Return of capital	-	-	-	-	-	-
Total annual distributions (c)	-	-	-	-	-	-
Net assets – end of period	\$4.62	\$4.34	\$1.94	\$1.16	\$0.88	-
Ratios and Supplemental Data						
Total net asset value (\$000s) (a)	\$19,187	\$18,036	\$7,237	\$4,235	\$3,189	\$0
Number of shares outstanding (a)	4,152,545	4,152,545	3,723,802	3,637,071	3,631,826	3,391,431
Management expense ratio (d)	4.46%	6.49%	5.09%	5.26%	5.34%	5.75%
Trading expense ratio (e)	0.00%	0.02%	0.00%	0.02%	0.00%	0.00%
Portfolio turnover rate (f)	1.47%	4.99%	12.36%	4.82%	2.50%	15.80%
Net asset value per share (a)	\$4.62	\$4.34	\$1.94	\$1.16	\$0.88	\$0.00
Closing market price (g)	\$3.96	\$3.04	\$0.74	\$0.20	\$0.10	\$0.035

Footnotes:

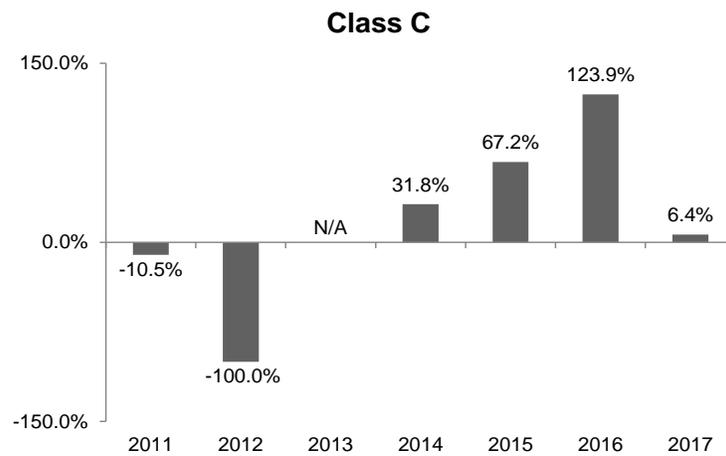
- (a) Information for periods ended December 31, 2013 and onward is derived from the Fund's financial statements prepared in compliance with IFRS. Information for the year ended December 31, 2012 is derived from the Fund's financial statements prepared in compliance with Canadian GAAP.
- (b) Net assets and distributions are 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 during the period.
- (c) Distributions were paid in cash or reinvested in additional shares of the Fund, or both.
- (d) Management expense ratio (MER) is based on total expenses (excluding commissions and other portfolio transaction costs) for the period and is expressed as an annualized percentage of daily average net asset value during the period. The MER may vary from one fund to another and from one class of shares to another because of differences in the applicable management fees and certain fees and expenses may have been absorbed by the Manager which would otherwise be reflected in the Fund.
- (e) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.
- (f) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a fund's portfolio turnover rate in a period, the greater the trading costs payable by the fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of a fund.
- (g) Closing market price on the last trading day of the period as reported on the TSX Venture Exchange.

PAST PERFORMANCE

The following chart shows the past performance for Class C shares of the Fund and do not necessarily indicate how Class C shares of the Fund will perform in the future. Past performance for Class C shares of the Fund is calculated based on its NAV per share and not based on its market price on the TSX Venture Exchange. In addition, the information does not take into account sales, redemptions, income taxes payable or other charges that would have reduced returns or performance.

Period-by-Period Returns

To illustrate how the Fund's performance has varied from period to period, the following charts show the non-annualized returns for the period and annual returns for the remaining calendar years indicated. The charts show, in percentage terms, how much an investment held on the first day of the period would have increased or decreased by the last day of the period. The annual return for Class C Shares for 2013 could not be calculated because its opening NAV was nil.



SUMMARY OF INVESTMENT PORTFOLIO

The largest holdings of the Fund as at the end of the period and the major asset classes in which the Fund was invested are indicated below; should the Fund have less than 25 holdings, the table will show the Fund's entire investment portfolio. The investment portfolio may change due to ongoing portfolio transactions. An update of the Fund's summary of investment portfolio as at the end of each calendar quarter is available from the Manager. Please see the front page of this document for information about how this can be obtained.

Summary of Top 25 Holdings

	% OF NET ASSETS
Private unlisted investments ^(a)	83.2
Espial Group Inc.	5.5
Redline Communications Group Inc.	0.3
Calyx Bio-Ventures Inc.	0.1
VendTek Systems Inc.	0.0

Summary of Composition of the Portfolio

	% OF NET ASSETS
Software and services	62.5
Technology hardware and equipment	26.5
Other sectors	0.1
TOTAL INVESTMENT PORTFOLIO	89.1
Cash	10.8
Other assets less liabilities	0.1
TOTAL NET ASSETS	100.0

- (a) Due to the nature of private unlisted investments, the value of these investments is disclosed on an aggregate basis. See the Fund's financial statements for more information. These investments are listed in the table below.

COMMON SHARES

BasicGov Systems, Inc.
Navarik Corp.
One45 Software Inc.
Tantalus Systems Corp.

PREFERRED SHARES

D-Wave Systems Inc., Convertible
Tantalus Systems Corp., 10%, Cumulative, Convertible

WARRANTS

BasicGov Systems, Inc., 2017/12/31
BasicGov Systems, Inc., 2019/06/13

LOANS AND CONVERTIBLE DEBENTURES

BasicGov Systems, Inc., 15%, Convertible, Demand
Cantronic Systems Inc., Demand
Tantalus Systems Corp., 5%, Convertible, 2018/04/12
Tantalus Systems Corp., 5%, Convertible, 2019/11/30

Caution Regarding Forward-Looking Statements

This report contains forward-looking statements about the Fund, including its strategy, prospects and further actions. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions and are indicated by the use of words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates” or negative versions thereof and similar expressions.

In addition, any statement made concerning future performance, strategies or prospects, and possible future Fund action, is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to risks, uncertainties and assumptions about the Fund and economic factors, among other things.

Forward-looking statements are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied in any forward-looking statements. Any number of important factors could contribute to these digressions, including, but not limited to: general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.

The above mentioned list of important factors is not exhaustive. We encourage you to consider these and other factors carefully before making any investment decisions and we urge you to avoid placing undue reliance on forward-looking statements. Further, except as may be required under applicable law, the Manager has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise, prior to the release of the next Management Report of Fund Performance.

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MANAGED BY:
PENDERFUND CAPITAL MANAGEMENT LTD.

1640–1066 West Hastings St.
Vancouver BC V6E 3X1

TELEPHONE 604 688-1511
FACSIMILE 604 563-3199
TOLL FREE 1 866 377-4743

www.penderfund.com