

**SEMI-ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE**

# Pender Growth Fund Inc.

Six months ended June 30, 2018

The logo for Pender Growth Fund Inc. features the word "PENDER" in a bold, serif font. The letter "N" is stylized with a diagonal slash through it.

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 may obtain a copy of the interim financial statements or annual financial statements at your request, at no cost, by calling toll-free 1-866-377-4743, by writing to us at 1640 – 1066 West Hastings Street, Vancouver, BC V6E 3X1 or by visiting our website at [www.penderfund.com](http://www.penderfund.com) or the SEDAR website at [www.sedar.com](http://www.sedar.com).

You 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 the Pender Growth Fund Inc. (the "Fund") as at June 30, 2018 were \$18,009,937, versus \$18,630,640 as at December 31, 2017. The change in the six month period reflects a \$620,703 decrease attributable to investment performance.

As at June 30, 2018, the Fund's investment portfolio consisted of publicly listed investments valued at \$2,144,892 and private unlisted investments valued at \$15,966,266 for a total of \$18,111,158. The sectors in which the Fund was invested as at June 30, 2018 are listed under "Summary of Investment Portfolio".

For the six months ended June 30, 2018 (the "period"), Class C Shares of the Fund declined by 3.3%. Fund returns are calculated based on the NAV of the Class C Shares and not their traded price on the TSX Venture Exchange. Please see the "Past Performance" section for the performance of Class C Shares. Fund returns are reported net of all management fees, performance fees, and operating expenses, unlike the returns of the Fund's benchmark, which are based on the performance of an index that does not pay fees or incur expenses.

The Fund's broad-based benchmark, the S&P/TSX Composite Index, returned 2.1% during the period. In accordance with National Instrument 81-106, we have included a comparison to this broad-based index to help you understand the Fund's performance relative to the general performance of the market, but caution that the Fund's mandate may be significantly different from the index.

Over 85% of the Fund was invested in private unlisted investments and there is no public market valuation of these investments, which results in a natural disconnect from a benchmark consisting of publicly traded securities. Further, the publicly traded securities in the Fund are not part of the S&P/TSX Composite Index.

### Recent Developments

2018 continues to be a very healthy year for private financial markets, in particular, for private technology companies. With record amounts of fundraising and valuations at all-time high, this bodes well for our portfolio of private investees. In addition, private equity buyers have now become very significant buyers of private technology companies, rivaling strategic buyers. While volatility has increased in the public financial markets in 2018, we are patient, fundamental investors, and we believe that this market presents good potential opportunities for our public holdings. We continue to work with our core positions, aiming to help these companies build their intrinsic value over the long term.

The Fund's largest investment as at June 30, 2018 is One45 Software Inc. (One45), a software-as-a-service (SaaS) based company offering scheduling software to medical and other professional schools. The company is profitable and continues to grow its recurring revenue. We believe that One45 remains a solid investment.

BasicGov Systems, Inc. (BasicGov) is a SaaS based company offering modules for licensing, inspections, planning, permitting, code enforcement, fund accounting, and payment/billing management to municipalities and provincial/state governments. BasicGov continues to grow its recurring annual contract value at a healthy rate. We continue to believe in the potential of this investment.

One of the Fund's private investments, D-Wave Systems Inc., received substantial funding from private and public sources to continue its development efforts. D-Wave is a development stage company in the field of quantum computing systems, The Public Sector Investment Board (PSP Investments) added another \$20M in funding, based on the company having met key technology and business milestones. D-Wave also received \$10M from Sustainable Development Technology Canada (SDTC) for the development of its next generation system.

### 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.

As at June 30, 2018, directors and officers of the Manager directly or indirectly held 14% of the Fund's Class C Shares.

As at June 30, 2018, directors and officers of the Manager directly or indirectly owned 790,904 shares or 3% of issued and outstanding shares of BasicGov Systems, Inc., a company in which the Fund is also invested.

### Management and Performance Fees

The Fund pays a management fee to the Manager equal to 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 and paid monthly.

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, being the year-end net asset value of the shares for the most recent preceding year in which a performance fee was earned. Subject to the accumulation of the hurdle rate in years in which no performance fee is payable, the high water mark will not be reset other than to be adjusted in the event of a subdivision or consolidation of the shares.

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**

<b>Fund's Net Assets Per Share (a)</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Net assets – beginning of period	\$4.49	\$4.34	\$1.94	\$1.16	\$0.88	\$0.04
<b>Increase (decrease) from operations:</b>						
Total revenue	0.00	0.00	0.02	0.06	0.04	0.05
Total expenses	(0.10)	(0.19)	(0.30)	(0.18)	(0.17)	(0.19)
Realized gains (losses)	0.00	0.17	1.48	0.89	(0.35)	0.04
Unrealized gains (losses)	(0.05)	0.16	1.28	0.01	0.76	0.94
<b>Total increase (decrease) from operations (b)</b>	<b>(0.15)</b>	<b>0.14</b>	<b>2.48</b>	<b>0.78</b>	<b>0.28</b>	<b>0.84</b>
<b>Distributions:</b>						
From income (excluding dividends)	-	-	-	-	-	-
From dividends	-	-	-	-	-	-
From capital gains	-	-	-	-	-	-
Return of capital	-	-	-	-	-	-
<b>Total annual distributions (b), (c)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net assets – end of period</b>	<b>\$4.34</b>	<b>\$4.49</b>	<b>\$4.34</b>	<b>\$1.94</b>	<b>\$1.16</b>	<b>\$0.88</b>
<b>Ratios and Supplemental Data</b>						
Total net asset value (\$000s) (a)	\$18,010	\$18,631	\$18,036	\$7,237	\$4,235	\$3,189
Number of shares outstanding (a)	4,152,545	4,152,545	4,152,545	3,723,802	3,637,071	3,631,826
Management expense ratio (d)	4.40%	4.28%	6.49%	5.09%	5.26%	5.34%
Trading expense ratio (e)	0.00%	0.03%	0.02%	0.00%	0.02%	0.00%
Portfolio turnover rate (f)	0.00%	9.09%	4.99%	12.36%	4.82%	2.50%
Net asset value per share (a)	\$4.34	\$4.49	\$4.34	\$1.94	\$1.16	\$0.88
Closing market price (g)	\$4.01	\$4.55	\$3.04	\$0.74	\$0.20	\$0.10

**Footnotes:**

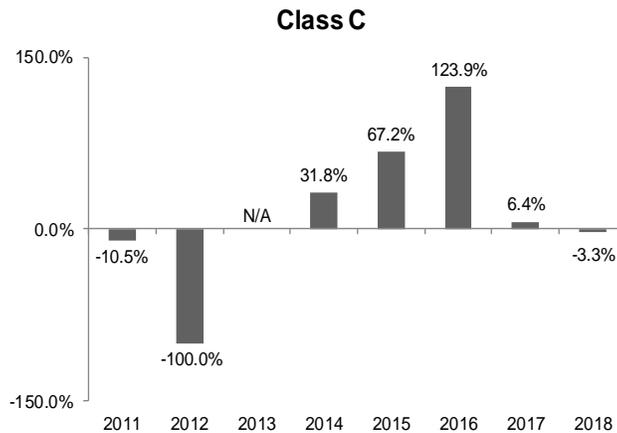
- (a) This information is derived from the Fund's unaudited semi-annual financial statements as at June 30 and audited annual financial statements as at December 31 for the period stated, prepared under International Financial Reporting Standards.
- (b) Net assets per share and distributions per share 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 average net asset value during the period.
- (e) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of 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. 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 does 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 is not based on its market price on the TSX Venture Exchange. In addition, the information does not take into account sales, redemptions, distributions, 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 over time, the following bar chart shows the Fund's performance for the six-month period ended June 30, 2018 and for each of the previous 12-month periods ended December 31. The information is presented from the first full financial period of the shares. In percentage terms, the bar chart shows 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. Where the Fund has 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**

<b>% OF NET ASSETS</b>	
Private unlisted investments <sup>(a)</sup>	88.7
Espial Group Inc.	5.7
Redline Communications Group Inc.	3.9
ProntoForms Corporation	2.3

**Summary of Composition of the Portfolio**

<b>% OF NET ASSETS</b>	
Software and services	60.5
Technology hardware and equipment	28.2
Information technology	11.9
<b>TOTAL INVESTMENTS</b>	<b>100.6</b>
Cash	0.3
Other assets less liabilities	-0.9
<b>TOTAL NET ASSETS</b>	<b>100.0</b>

(a) The value of these investments is disclosed on an aggregate basis, due to the nature of private unlisted investments. 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.

**PREFERRED SHARES**

D-Wave Systems Inc., Class B, Convertible  
D-Wave Systems Inc., Class C, Convertible  
Tantalus Systems Corp., Class D, Convertible

**CONVERTIBLE AND OTHER NOTES**

BasicGov Systems, Inc., 15%, Demand

## 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, or that include 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.

We stress that 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.

# PENDER

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