

AMENDED

**ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE**

# Pender Growth Fund Inc.

For the year ended December 31, 2017

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

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You can get a copy of the 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](http://www.penderfund.com) or SEDAR at [www.sedar.com](http://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

### Investment Objective and Strategies

Pender Growth Fund Inc. (the "Fund"), invests in companies with the objective of long term capital appreciation. The Fund has invested in a number of private and publicly listed companies 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 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.

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

### Risks

The investment risks associated with this Fund are outlined in the Fund's Annual Information Form dated March 27, 2018. Reference should also be made to the section "Caution Regarding Forward-Looking Statements" at the end of this document.

The Fund is suited for investors that have a high tolerance for risk and a long-term investment horizon. The risks of investing in the Fund include the relatively large proportion of development stage technology company investments, industry concentration and the relatively limited number of investments in the portfolio. Since 2008, there has been a global contraction in the amount of financing available for such businesses. Although the global equity market has staged a dramatic rebound since March 2009, financing for development stage technology companies remains limited and what is available may be on terms unfavourable to existing shareholders of these companies.

PenderFund Capital Management Ltd. (the "Manager") continually assesses this risk for its investee companies and guides them to become cash flow positive in order to avoid raising additional capital on terms that may be dilutive to existing shareholders.

### Class C Shares

The Fund's Class C Shares are not redeemable. The NAV of the Class C Shares fluctuates with the NAV of the Fund, which could adversely affect the ability of a holder of the Class C Shares to dispose of them. The Class C Shares trade on the TSX Venture Exchange ("TSX-V") under the ticker "PTF". While the Class C Shares trade on the TSX-V, an active trading market for the Class C Shares may not be available and will significantly impact the liquidity of such shares. Even if an active trading market for Class C Shares is available, the market price of such shares may not enable shareholders to dispose of their shares at a reasonable price relative to the NAV of the shares.

### Results of Operations

The net assets of the Fund as of December 31, 2017 increased overall to \$18,630,640 from \$18,036,295 at December 31, 2016. This \$594,345 increase is attributable to investment performance.

At December 31, 2017, the Fund's investment portfolio consisted of publicly listed investments valued at \$2,357,573 and private unlisted investments valued at \$15,966,266 for a total of \$18,323,839. The sectors in which the Fund was invested at December 31, 2017 are listed under "Summary of Investment Portfolio".

For the year ended December 31, 2017 (the "year"), Class C Shares of the Fund generated a total return of 3.4%. Fund returns are calculated based on the NAV of the Class C Shares and not their traded price on the TSX-V. 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. Please see the "Past Performance" section for the performance of Class C Shares.

The Fund's broad-based benchmark, the S&P/TSX Composite Index, increased by 6.0% during the year. 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 80% of the Fund was invested in privately held securities 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

We continue to be active with our core positions, aiming to help these companies build their intrinsic value over the long term.

During the year, the shares of a publicly-listed investee company, IWG Technologies Inc., were sold for an aggregate amount of \$1,494,207, or \$0.43 per share, a 30% premium over their 90-day average price of \$0.33 per share prior to the announcement that the company was being taken over.

The Fund's largest investment at December 31, 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 has become more valuable year-over-year, with a 20% increase in its annual recurring revenue.

Another one of the Fund's significant investments is in a private company called D-Wave Systems Inc., a development stage company in the field of quantum computing systems. It 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. D-Wave raised a total of \$21 million in new capital in 2016 at a significant increase in value from the last equity round of financing completed in 2014. In 2017, D-Wave closed a \$30 million (US\$) convertible debenture financing allowing the company to accelerate R&D spending on its next generation processor. Although it may take some time, it appears that D-Wave is continuing to make progress towards becoming a valuable, commercially viable enterprise.

Tantalus Systems Corp., a private investee company, provides Smart Grid communications technology that enables electric, gas & water utilities to optimize the use of resources by automating monitoring & control processes, improving operational efficiency, and delivering the information utilities and consumers need to manage energy intelligently and cost-effectively. In 2017, the Tantalus acquired Energate, which expands its product line into load management and thermostat controls and into a new customer base in urban areas. As part of the acquisition, Tantalus converted the existing debentures and set up a new company structure to allow it to regain CCPC status to receive tax credits and to preserve the tax credits that Energate already receives as it is a CCPC. Tantalus hit budgeted revenues of US\$32M, an almost 20% increase from 2016 revenues of US\$26.8M. EBITDA was 50% greater than expected, at US\$2.7M, and margins rose to 49% from 41%. The company expanded the board with the addition of Laura Formosa, former CEO of Ontario electric utility Hydro One. She has more than 30 years of experience in the utilities industry and deep expertise in energy management technologies.

Basicgov Systems, Inc. is a Software-as-a-Service provider to municipal and state/provincial governments based in Canada and US. Basicgov's annual recurring revenue increased by 26% year-over-year as at December 31, 2017. For the upcoming year, its annual recurring revenue growth is expected to approach 50% year-over-year. The company's is one of the Fund's longest standing private, unlisted investments.

## 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 December 31, 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. Until May 1, 2017, the management fee was 2.75% of the Fund's net assets value per annum. Effective May 1, 2017, the fee was set 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 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. No performance fee was paid to the Manager in the year.

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 calendar years indicated.

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

**Footnotes:**

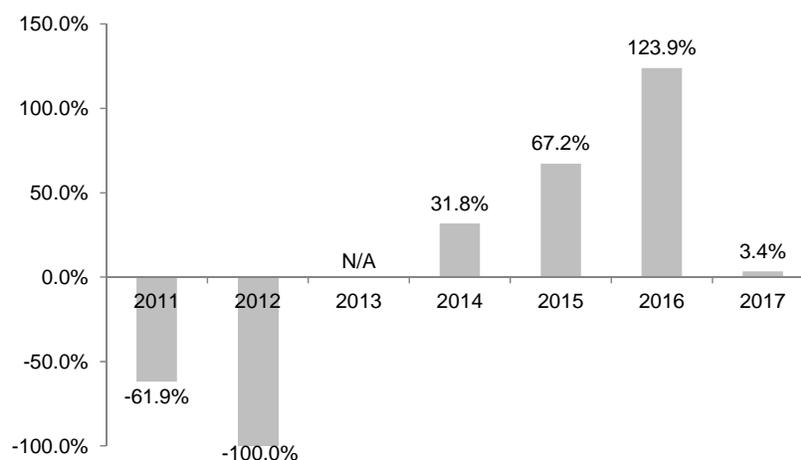
- (a) Information is derived from the Fund's financial statements.
- (b) Net assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of shares outstanding during the period.
- (c) 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 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 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 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 from period to period, the following charts show the annual returns for the calendar years indicated. The charts show, in percentage terms, how much an investment held on the first day of the year would have increased or decreased by the last day of the year. The annual return for Class C Shares for 2013 could not be calculated because its opening NAV was nil.



**Annual Compound Returns**

The following table shows the one year, three year and five year compound returns, and the return since inception for Class C Shares of the Fund for the respective periods ended December 31, 2017. Since-inception returns are annualized returns for Class C Shares of the Fund since its restructuring date of July 26, 2010. The five year return for Class C Shares could not be calculated because its NAV was nil as at December 31, 2012.

The Fund's performance is compared to the S&P/TSX Composite Index ("S&P/TSX"). Benchmarks are usually an index or a composite of more than one index. An index is generally made up of a group of securities. The S&P/TSX is the headline index for the Canadian equity market. With approximately 95% coverage of the Canadian equities market, it is the primary gauge for Canadian-based, Toronto Stock Exchange listed companies.

	ONE YEAR	THREE YEAR	FIVE YEAR	SINCE INCEPTION
Class C	3.4%	57.0%	N/A	21.6%
S&P/TSX Composite Index	9.1%	6.6%	8.6%	7.5%

**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**

<b>% OF NET ASSETS</b>	
Private unlisted investments <sup>(a)</sup>	85.7
Espial Group Inc.	7.1
Redline Communications Group Inc.	3.4
ProntoForms Corporation	2.1

**Summary of Composition of the Portfolio**

<b>% OF NET ASSETS</b>	
Software and services	58.4
Technology hardware and equipment	27.3
Information technology	12.6
<b>TOTAL INVESTMENT PORTFOLIO</b>	<b>98.3</b>
Cash	1.7
<b>TOTAL NET ASSETS</b>	<b>100.0</b>

(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.

**PREFERRED SHARES**

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

**CONVERTIBLE DEBENTURES**

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 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.

# PENDER

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](http://www.penderfund.com)**