*No securities regulatory authority has expressed an opinion about these shares and it is an offence to claim otherwise.*

*The fund and the securities of the investment fund offered under this annual information form are not registered with the United States Securities and Exchange Commission.*

PENDER

**ANNUAL INFORMATION FORM**

**for**

# Pender Growth Fund (VCC) Inc.

**Relating to Class B, Class C and Class R Shares**

**March 26, 2013**

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# NAME, FORMATION AND HISTORY OF THE FUND

## Introduction

This annual information form contains information about Pender Growth Fund (VCC) Inc. (the "Fund") The Fund is managed by PenderFund Capital Management Ltd. ("Pender" or the "Manager"). In addition to the Fund, the Manager also manages the Pender Mutual Funds. The Manager may start other mutual funds, investment funds or venture funds in the future.

To make this document easier to read and understand, we have used personal pronouns throughout much of the text. References to "**Pender**", the "**Manager**", "**our**", "**we**" or "**us**" generally refer to Pender in its capacity as manager of the Fund. References to "**you**" are directed to the reader as a potential or actual investor in the Fund. References to "**Shareholder**" refer to holders of any class of shares of the fund. References to "**Dealer**" refer to both the dealer and the registered representative in your jurisdiction who advises you on your investment.

## Head Office

The head office of the Fund and the Manager is located at 1640 – 1066 West Hastings St. Vancouver BC V6E 3X1.

## Formation and History of the Fund

The Fund was incorporated under a predecessor to the *Business Corporations Act* (British Columbia) ("BCBCA") on March 6, 1994 under the name of FutureFund Capital (VCC) Corporation and was registered as a venture capital corporation ("VCC") under the Small Business Venture Capital Act (the "SBVCA") on July 8, 1994. The Fund changed its name from FutureFund Capital (VCC) Corporation to Pender Growth Fund (VCC) Inc. on August 15, 2003. On August 10, 2005, the Fund transitioned from being governed by the predecessor to the BCBCA to become, and is now, governed by the BCBCA. The SBVCA authorizes the British Columbia Ministry of Economic Development to register as VCCs companies that are established to make investments in Eligible Small Businesses ("ESB") in accordance with the provisions of the SBVCA, and to provide business and managerial advice to ESBs in which they make or propose to make investments. The SBVCA regulates a VCC's capitalization, Eligible Investments, Permitted Investments and Investment Protection Account as such forms are defined in the SBVCA. The SBVCA Administrator does not advise on the merits of individual investments made by VCCs.

On May 10, 2006, the Fund amended its Articles to amend the redemption provisions of the rights and restrictions attached to its shares. On May 1, 2007, the Fund further amended its Articles to provide that a quorum for the transaction of business at a shareholders meeting shall be two persons present in person or by proxy holding at least 1% of the issued shares entitled to be voted at the meeting. On January 28, 2010, the Manager announced that the Board of Directors of the Fund (the "Board") intended to propose a restructuring of the Fund's share capital to its shareholders at the Annual General Meeting of the Fund on May 31, 2010. The proposal provided that the rights of Series 1 and Series 2 Class A Common Shares ("Class A Shares") of the Fund be altered to add rights of conversion under which the Fund would have the right to, and would, convert each outstanding Class A Share, but excluding any such shares subject to unfulfilled redemption requests ("Excluded Shares"), into one Class B Convertible Non-Participating Common Share (a "Class B Share"). In the second stage of the restructuring, each Class B Share held by a shareholder holding its Class B Shares other than through a mutual fund dealer, would be further converted to one Class R Senior Participating Redeemable Convertible Preference Share (a "Class R Share") and one Class

C Participating Common Share (a “Class C Share”). Upon completion of such conversions, the Class C Shares would be listed on the TSX Venture Exchange. The Fund also announced that it was closed to further investment.

The proposal was passed by Class A shareholders at the meeting on May 31, 2010. On July 22, 2010, the Fund altered its authorized share structure by altering its Articles to create three new classes of shares, the Class B, Class C and Class R Shares, and to alter the Articles of the Fund to attach special rights and restrictions to these new classes of shares. A notice of conversion was sent to shareholders on July 26, 2010 and as a result, all existing Class A Shares were either redeemed or converted into Class B, Class C and Class R Shares, as applicable. The Fund’s Class C Shares commenced trading on the TSX Venture Exchange on August 23, 2010 under the ticker symbol “PTF”.

## INVESTMENT RESTRICTIONS AND PRACTICES

The Fund invests in ESBs with the objective of long-term capital appreciation. Generally speaking, ESBs are technology companies based in British Columbia with fewer than 100 employees. Since its inception in 2003, the Fund has invested in a diversified portfolio of investments principally in the information technology and communications 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 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 already well-positioned for growth and where additional capital is used to further expand operations to increase revenue. This approach to building the Fund’s investment portfolio has the potential for significant capital appreciation while reducing portfolio volatility.

The Fund is prohibited from honouring redemption requests for Class R Shares under certain circumstances set out in the Articles of the Fund. Subject to these prohibitions, at least 70% of the Fund’s proceeds (including the original capital invested and all gains) from the sale of mature investments in ESBs (as defined in the SBVCA) are made available for redemption of Class R Shares.

The Fund is not a mutual fund for securities law purposes and the rules designed to protect investors who purchase securities of mutual funds, such as rules directed at ensuring liquidity and diversification of investments, and certain other investment restrictions and practices applicable to mutual funds, do not apply to the Fund. A copy of the investment restrictions and practices applicable to and adopted by the Fund may be obtained from the Manager upon request. See “Income Tax Considerations” for a discussion of the Canadian income tax consequences of investing in the Fund and the eligibility of investments for registered plans in Canada.

### Change in Objective and Strategies

The fundamental investment objective of the Fund may only be changed with the approval of the Fund's Board and a simple majority of the shareholders of all classes of shares of the Fund at a meeting called for that purpose. The Manager may change the Fund's investment strategies from time to time at its discretion.

## DESCRIPTION OF SECURITIES OF THE FUND

The Fund has authorized the following classes of shares:

- Class A Shares
- Class B Shares
- Class C Shares
- Class R Shares

The following table summarizes the rights and restrictions of the Class B Shares, the Class C Shares and the Class R Shares. As at the date of this document, there were no Class A Shares issued and outstanding. The information set forth in the following table and the discussion of certain of these rights and restrictions that follows are qualified in their entirety by reference to the rights and restrictions of such shares set forth in the Articles of the Fund.

| **Right or Restriction** | **Type of Shares** | | |
|---|---|---|---|
| | **Class B Shares** | **Class C Shares** | **Class R Shares** |
| **Conversion** | The Fund has the right to convert Class B Shares into one Class R Share and one Class C Share, subject to adjustment, as described under the heading "Conversion of Class B Shares", below. The holders of Class B Shares may elect to convert at any time. | None. | Holders of Class R Shares will have the right at any time to convert all or part of their Class R Shares into Class C Shares at a conversion ratio determined as $4.16 divided by the net asset value ("NAV") associated with a Class C Share, subject to a minimum value of $0.50 and maximum value of $2.50 per Class C Share, as described below under the heading "Conversion of Class R Shares".<br><br>In certain circumstances, the Fund will have the right to force holders of Class R Shares to either redeem their Class R Shares or be converted into Class C Shares, as described below under |

| | | | |
|---|---|---|---|
| | | | the heading "Redemption of Class R Shares - Final Redemption or Forced Conversion". |
| **Redemption** | None. | None. | See “Redemption of Class R Shares – Redemption Price” |
| **Voting** | Five votes per Class B Share. | One vote per Class C Share. | Four votes per Class R Share. |
| **Participation in any liquidation, dissolution or winding-up** | No participation, however the terms of the Class B Shares require that the Class B Shares be converted by the Fund into Class R Shares and Class C Shares before the record date for such a distribution. | Holders of Class C Shares will be entitled to the amount, if any, of the net assets of the Fund remaining after distribution to the holders of Class R Shares of an amount per Class R Share equal to the price per share on the Valuation Date (as defined below) immediately before such distribution. | Holders of Class R Shares will have priority over the holders of the Class C Shares to the amount of the Pre-Redemption NAV (as defined below) of the Fund but only up to a maximum per Class R Share equal to the redemption price on the Valuation Date (as defined below) immediately before such distribution. |
| **Dividends** | No entitlement to dividends. | Entitled to dividends at the discretion of the Fund’s Board. | No entitlement to dividends. |

**Conversion of Class B Shares**

Each Class B Share may be convertible at any time by a shareholder into one Class R Share and one Class C Share, subject to adjustment to the number of Class R Shares and Class C Shares receivable for any subdivision, consolidation or payment of a stock dividend on the Class R Shares or the Class C Shares, respectively. The terms of the Class B Shares provide that the Fund may exercise this conversion right by giving notice in writing to the relevant holders of Class B Shares.

As described below under the heading "Redemption of Class R Shares - Final Redemption or Forced Conversion", in the event the Fund elects to convert all outstanding Class R Shares into Class C Shares by delivering the Final Redemption Notice (as defined below) to holders of Class B Shares, the Fund will concurrently convert all remaining Class B Shares into Class R Shares and Class C Shares.

**Redemption of Class R Shares**

*Redemption Price*

The redemption price of the Class R Shares equals the Fund’s NAV before amounts attributable to holders of redeemable and convertible shares (“Pre-Redemption NAV”) on a redemption date, divided by the number of outstanding Class R Shares on a fully-diluted basis (ie. including any Class R Shares issuable upon conversion of Class B Shares) on such date, subject to a maximum redemption price of $4.16 per Class R Share.

For greater certainty, the redemption price of all Class R Shares redeemed by the Fund will be calculated in accordance with the foregoing using values and share figures as of the actual date of redemption and not as of the date of receipt of a redemption request.

*Redemption by Holders*

Generally, the Class R Shares will be redeemable only on or after the date (the "Redemption Eligibility Date") of the fifth anniversary of the date of issuance of the corresponding Class A Share, as applicable, from which they were derived, or such earlier date as may be determined by the Board, at the Class R Share redemption price, subject to earlier redemption in the event of the death of the Shareholder.

In any given calendar year, holders of Class R Shares will be entitled to submit, on or before November 30 or such other date determined by the Board (the "Redemption Cut-off Date"), redemption requests for Class R Shares having a Redemption Eligibility Date falling on or before the end of February of the following year. The Board will have the right to fix more than one Redemption Cut-off Date in a year subject to establishing, in its discretion, procedures for setting priority of redemptions consistent with the provisions of the Articles of the Fund.

All duly submitted redemption requests actually received during the period after the previous Redemption Cut-off Date up to 4:00 p.m. (Pacific Time) on the Redemption Cut-off Date in the applicable year will be deemed to be received at 4:00 p.m. (Pacific Time) on the Redemption Cut-off Date in the applicable year concurrently with all other redemption requests received during such period and with equal priority of redemption but lower priority to Redemption Requests deemed to have been received in prior years. All redemptions of Class R Shares deemed to be received on a Redemption Cut-off Date in any year will be made with available funds pro rata among every holder of Class R Shares based on the relative numbers of Class R Shares subject to valid redemption requests. Subject to the restrictions on redemption set out in the Articles, the Fund will, within 15 days of each Redemption Cut-off Date, pay the Class R Share redemption price for Class R Shares for which the Fund received duly completed redemption requests in form satisfactory to the Fund on or before 4:00 p.m. (Vancouver time) on the Redemption Cut-off Date, to or to the order of the holder of the Class R Shares being redeemed or the holder's authorized attorney, investment dealer or broker. The Class R Shares subject to the redemption request will thereupon be and be deemed to be redeemed and will be cancelled.

The Fund is prohibited from honouring redemption requests for Class R Shares under certain circumstances set out in the Articles of the Fund. Subject to these prohibitions, at least 70% of the Fund’s proceeds (including the original capital invested and all gains) from the sale of mature investments in ESBs (as defined in the SBVCA) are made available for redemption of Class R Shares.

If, at any time when the Fund has any unfulfilled redemption requests for Class R Shares, the circumstances which prohibited the completion of the redemptions requested under the unfulfilled redemption requests have abated or no longer apply, the Fund will redeem unfulfilled redemption requests in respect of Class R Shares in priority based on the order in which they were deemed to have been received, subject to the restrictions on redemptions set out in the Articles of the Fund.

In the event where Class R Shares having Redemption Eligibility Dates falling after the Redemption Cut-off Date are redeemed at the Manager's discretion, the Fund's policy will be to deduct from the aggregate Class R Shares redemption price any portion of the shareholder's tax credit (granted for subscriptions of shares of a company registered as a venture capital corporation under the SBVCA) which becomes repayable by the Fund as a result of the redemption.

*Suspension of Redemptions*

As at December 31, 2012, the Fund has received redemption requests for 885,768 Class R Shares (2011 - 410,589) and conversion requests for 239,842 Class B Shares (2011 - 179,199) to Class R Shares to be subsequently redeemed. The Fund would require $4,682,538 (2011 - $2,453,518) to redeem these outstanding redemptions at the current redemption price of $4.16 per Class R Share.

After taking into account the Fund's investment pacing requirements and working capital needs as at December 31, 2012, the Fund's Board of Directors has determined that the Fund is unable to redeem the redemption requests received at this time.

In addition to the redemption and conversion requests described above, the Fund has a further 1,705,121 Class R Shares and 345,718 Class B Shares outstanding for which redemption and conversion requests have not yet been received, for total outstanding Class R shares of 2,590,889 and Class B Shares of 585,560. Redemption of all such shares at the redemption price of $4.16 per Class R Share would require $13,214,027 as at December 31, 2012.

Should the Fund reinstate 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 Share redemption price of $4.16 per share as at December 31, 2012. Redemption requests received by the Fund in any given year have priority over redemption requests received the Fund in all subsequent years.

**Final Redemption or Forced Conversion**

At any time the Fund has an amount of cash which it can use to redeem Class R Shares without contravening the restrictions on redemptions set out in the terms of the Class R Shares (other than the restriction against redemptions of Class R Shares where the aggregate Class R Shares to be redeemed on any date, when added to the total amount of all previous redemptions of Shares in the same financial year of the Fund, would exceed 20% of the Pre-Redemption NAV of the Fund) and without being required to make any withholdings or remittances with respect to tax which would become owing by a holder of Class R Shares as a result of the redemptions, and in an aggregate amount exceeding the aggregate funds required to redeem all of the outstanding Class R Shares on a fully-diluted basis (the "Total Redemption Amount"), the Fund will be entitled to declare a fixed redemption date on which holders of Class R Shares that have not elected to redeem their Class R Shares shall be deemed to have converted their outstanding Class R Shares into Class C Shares. Concurrently with delivery of the notice declaring the final redemption date (the "Final Redemption Notice"), the Fund will convert all Class B Shares into Class R Shares and Class C Shares.

If the Final Redemption Notice is given, the holders of Class R Shares (including holders of Class R Shares issued pursuant to the conversion of Class B Shares described in the preceding sentence) will have until the date (the "Final Redemption Date") that is 60 days after delivery of the Final Redemption Notice to elect to avoid having their Class R Shares converted into Class C Shares by submitting a redemption request for redemption of their Class R Shares at the Class R Shares redemption price on the preceding Valuation Date. All Class R Shares in respect of which such redemption request has not been received by the Fund by 4:00 p.m. (Pacific Time) on the Final Redemption Date will be deemed to be converted into Class C Shares at the conversion ratio then in effect.

**Conversion of Class R Shares**

Holders of Class R Shares will have the right at any time to convert all or part of their Class R Shares into Class C Shares at a conversion ratio determined as $4.16 divided by the NAV associated with a Class C Share, subject to the NAV associated with a Class C Share having a minimum value of $0.50 and a maximum value of $2.50. For this purpose the NAV associated with a Class C Share will be the amount determined under the section “Calculation of Net Asset Value per Share”.

As described above under the heading "Redemption of Class R Shares - Final Redemption or Forced Conversion", in the event the Fund elects to declare a final redemption date, the holders of Class R Shares will have until the date that is 60 days after delivery of the Final Redemption Notice to elect to avoid having their Class R Shares converted into Class C Shares by submitting a redemption request for redemption of their Class R Shares.

**Participation on Liquidation, Dissolution or Winding-up**

In the event of the liquidation, dissolution or winding-up of the Fund or other distribution of all or substantially all of the assets of the Fund, the holders of Class R Shares will be entitled to participate in the distribution of the net assets of the Fund in preference and priority to the holders of Class C Shares but only up to a maximum per Class R Share equal to the Class R Share redemption price on the Valuation Date immediately before such distribution. The holders of Class C Shares will be entitled to participate in the distribution of the amount, if any, of the net assets of the Fund remaining after distribution to the holders of Class R Shares in accordance with the preceding sentence.

Holders of Class B Shares will not be entitled to participate in the distribution as such, but the terms of the Class B Shares will require that the Class B Shares be converted by the Fund into Class R Shares and Class C Shares before the record date for such a distribution.

**Voting Rights**

Shareholders have the right to vote at the general meeting of shareholders of the Fund and at any meetings of shareholders of that class. Pender is required to convene a meeting of a Fund to ask Shareholders to consider and approve, by not less than a majority of the votes cast at the meeting, certain material changes proposed for the Fund.

You will receive notice in advance of any other significant proposed changes in a Fund in which you are a shareholder, except for routine administrative or compliance changes that would not have an adverse monetary impact on your investment. Where proposed changes are required to be approved by shareholders under the BCBCA, the Fund will also seek approval of the required type of shareholders resolution from the shareholders. Where the nature of the business to be transacted at a shareholder meeting concerns an issue that is relevant only to the shareholders of a particular class or classes, only shareholders of those classes to which such business is relevant will be entitled to vote and such shares will be voted separately as a class. Shareholders will also be entitled to vote separately as a class in respect of those matters where a class vote is required under the BCBCA.

## CALCULATION OF NET ASSET VALUE PER SHARE

As described in this annual information form under the headings *“Purchases, Switches and Changing Classes”* and *“Redemption of Securities”*, conversion orders are processed at the price per share of that share class as next determined after the receipt of a conversion order and redemption orders are processed at the price per share of that share class as determined at the time of actual redemption. The Fund is currently closed for new purchases.

The price per share of each Fund class is determined at the close of business on the last day of each week that the Toronto Stock Exchange (TSX) is open for trading or such other time as the Manager determines appropriate (“Valuation Date”). In addition to these Valuation Dates, the price per share is also calculated on June 30$^{th}$ and December 31$^{st}$ of each year. The price per share for each class of shares of the Fund is calculated as follows:

- **Class R Shares** - The price per share of each Class R Share is valued at the Pre-Redemption NAV divided by the total number of Class R and Class B shares outstanding, subject to a maximum value of $4.16.

- **Class C Shares** - The price per share of each Class C Share is valued at the NAV of the Fund (being the Pre-Redemption NAV of the Fund less the Total Redemption Amount) divided by the total number of Class C Shares (assuming conversion of all Class B Shares), with a minimum value of nil.

- **Class B Shares** - The price per share of each Class B Share is the sum of the price per share of one Class R Share and the price per share of one Class C Share.

The price per share of each class of shares of the Fund will fluctuate with the value of a Fund's investments.

### Calculation of Net Asset Value of the Fund for Conversion and Redemption Purposes

The Manager shall determine and calculate on each Valuation Date, the total NAV of the Fund equal to the fair value on that date of the Fund's:

(i) current assets;

(ii) investments that are publicly traded securities, which are valued based on their closing price on either the TSX or TSX Venture Exchange;

(iii) Investments that are not publicly traded securities, which are recorded at fair value. Upward adjustments are considered appropriate when they are supported by pervasive and objective evidence such as a significant subsequent equity financing by an unrelated, sophisticated investor at a transaction price higher than the carrying value. Downward adjustments to carrying value are made when there is pervasive and objective evidence of a decline in the value of the investment, as indicated by an assessment of the financial condition of the investment based on operational results, forecasts and other developments since acquisition. The fair values of the investments are determined by the Manager using an appropriate valuation methodology 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;

(iv) the book value on that date of any other assets; and

(v) less liabilities of the Fund.

In addition, for the purposes of calculating the redemption price per share of the Class R Shares, the Manager will calculate the Total Redemption Amount (being the amount that needs to be added to the NAV of the Fund to determine the Pre-Redemption NAV of the Fund).

**Calculation of Net Asset Value of the Fund for Financial Statement Purposes**

For the purposes of its financial statements, net assets of the Fund will be calculated in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The financial statements of the Fund will include a reconciliation of the net assets contained in the financial statements to the NAV. The difference between the principles used by the Manager to calculate the Fund's NAV and the Canadian GAAP valuation principles are for any security, index futures or index options thereon which is listed on any recognized exchange, the Manager will use the closing prices for the calculation of NAV on a weekly basis while for Canadian GAAP purposes, the valuation will be based on the closing bid quotation on the financial statement date, if the closing bid quotation is not available, the security's last traded price will be used.

In addition, certain subsequent events may be treated differently for the calculation of the Fund's NAV in comparison to the net assets of the Fund calculated under Canadian GAAP. Specifically, Canadian GAAP requires certain subsequent events to be recorded as at a financial statement date based on information that has arisen at a subsequent date. For the purposes of calculating the Fund's NAV for conversion and redemption purposes, any adjustments for subsequent events that are recorded as at a financial statement date in accordance with Canadian GAAP, are recorded at the next available Valuation Date.

The audit committee of the Fund (the "Audit Committee") will review and approve the NAV of the Fund, as determined by the Manager:

(a) on June 30$^{th}$ of each year

(b) on December 31$^{st}$ of each year; and

(c) on any Valuation Date on which the NAV of the Fund, as initially determined by the Manager, has, as a result of changes to the valuation of investments for which no public market exists, changed by more than 5% since the NAV last determined.

The Fund, in accordance with the requirements of National Instrument 81-106, requires an independent review to assess whether or not the fair value of the Fund's investments is, in all material respects, reasonable. Qualified chartered business valuators within the valuations practice of KPMG LLP, the Fund's independent auditor, performed this review as at December 31, 2012 and concluded that the fair value of the Fund’s investments is, in all material respects, reasonable.

## PURCHASES, CONVERSIONS AND REDEMPTIONS OF SECURITIES

### Purchases of Securities

The Fund is currently closed to new purchases.

### Conversion of Securities

*Class B Shares*

Each Class B Share may be converted at any time into one Class R Share and one Class C Share by delivering a conversion request to the Manager.

*Class R Shares*

Class R Shares may be converted to Class C Shares by delivering a conversion request to the Manager. The number of Class C Shares (rounded to the nearest whole share) to be received for each Class R Share will be determined by the dividing the price per share of each Class R Share determined at the next immediate Valuation Date following the receipt of the conversion notice divided by the NAV per share of Class C Shares, with the NAV per share of Class C Shares for such purpose being subject to a minimum of $0.50 and a maximum of $2.50. See also “Description of Securities of the Fund - Conversion of Class R Shares” above.

*Class C Shares*

Class C Shares do not have any conversion rights.

### Redemptions of securities

*Class B Shares*

Class B Shares do not have any redemption rights; however, they may be converted into Class R Shares, which may be redeemed subject to the guidelines under the following section.

*Class R Shares*

A detailed description of the redemption rights of the holders of Class R Shares appears under “Description of Securities of the Fund – Redemption of Class R Shares” above. The following generally describes redemption procedures for holders of Class R Shares.

Except under extraordinary circumstances, Class R Shares are redeemable only after an initial holding period of five years since original purchase. The Manager may waive this requirement under extraordinary circumstances such as death of the Shareholder.

Once Class R Shares become eligible for redemption, a request can be made by delivering a redemption request once per year before November 30th of each year. The redemption price for requests will be the Class R price per share calculated at the time of the actual redemption.

Upon receiving all redemption requests, the Manager will determine by December 15th of each year, whether the Fund has the ability to honor the redemption requests. Should the Fund be unable to honor the requests in whole, the Manager may honor the redemptions on a pro-rata basis or entirely suspend redemptions. Any unfulfilled redemptions will be deferred to a later date. These unfulfilled redemptions will have priority over any redemption requests made in subsequent years.

*Class C Shares*

Class C Shares do not have any redemption rights.

## RISK FACTORS

### General

An investment in the Fund is considered highly speculative in nature, carrying significant risks and should be undertaken only by investors who have sufficient financial resources to enable them to assume such risks and who have no need for immediate liquidity of their investment. Persons who cannot afford the loss of their entire investment should not purchase shares of the Fund, and an investment in the Fund should not constitute a major portion of an individual's portfolio.

There can be no assurance that an investment in the Fund will earn a specified rate of return or any return in the short or long term and an investment in the Fund is not guaranteed by the Province of British Columbia. Investors should consider the following risk factors before purchasing shares of the Fund:

- The Fund may not be able to dispose of its investments in order to raise the cash required to honor shareholder redemption requests for the Fund’s shares on a timely basis. In fact, the Fund has a history of not being able to honor shareholder redemption requests on a timely basis;

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

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

- The Fund invests primarily in emerging technology ESBs. The prospects for success of emerging technology companies depend critically on a number of factors which, given their limited operating histories, are difficult to evaluate. Investments in emerging technology ESBs are inherently risky, and in the case of failed businesses, may result in the total loss of capital invested in an ESB by the Fund. The technology ESBs in which the Fund invests will typically require additional capital, which the Fund may not be able to provide or which may not be available from other sources;

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

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

### Class R Shares

Although you may be entitled to request a redemption of the Class R Shares and notwithstanding that the Class R Shares redemption price will be a certain amount, the financial position of the Fund may prohibit it from satisfying the request in full or from completing a request for redemption at all or may permit the Fund to decline the request for redemption. The ability of the Fund to meet redemption requests in any year will continue to be dependent upon a number of factors which are highly variable and difficult to predict. In addition, since the redemption procedure establishes priority for redemption based on the date of receipt or deemed receipt of a redemption request, those persons who purchased shares most recently will be the last persons eligible to submit redemption requests, and therefore the last to be redeemed with assets of the Fund.

Class R Shares will continue to generally not be eligible for redemption before five years from the original purchase date. Therefore, the risk of the Fund being unable to meet a redemption request will increase the later the date of purchase of Shares.

### Class C Shares

The NAV of the Class C Shares is highly sensitive to fluctuations in the NAV of the Fund. Because the amount of the NAV of the Fund to be available for redemption of the Class R Shares is fixed (but subject to downward adjustments) and will not increase as the value of the Fund fluctuates over time, the entire amount of all fluctuations in the NAV of the Fund will be attributable to the Class C Shares. As a result, the NAV of the Class C Shares is highly volatile and subject to large fluctuations, which could adversely affect the ability of a holder of the Class C Shares to dispose of them. 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 the 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.

The Class C Shares are entitled to receive dividends at the discretion of the Board. However, the Fund does not anticipate declaring any dividends on the Class C Shares for the foreseeable future. The Board may consider paying dividends on the Class C Shares in the future when operational circumstances, including earnings, cash flow, financial and legal requirements and business considerations, permit.

## RESPONSIBILITY FOR FUND OPERATIONS

### The Manager

PenderFund Capital Management Ltd. is the manager of the Fund. The Manager is located at 1640 – 1066 West Hastings St. Vancouver BC V6E 3X1. Additional information about the Manager and the Fund can be obtained from the Fund’s website at www.pendergrowthfund.com or by contacting the Manager at 1-866-377-4743 or info@pendergrowthfund.com.

For further information about the ownership of the Manager and its affiliates, see "Conflicts of Interest" regarding the principal holders of shares. Under the management agreement between the Manager and the Fund (the "Management Agreement"), the Manager is responsible for directing the affairs and managing the business of the Fund, administering or arranging for the administration of the day-to-day operations of the Fund, including investment decisions, execution of investment orders, sales of shares, maintaining records, fund reporting, voting of portfolio securities and custodial arrangements.

**Officers and Directors of the Manager**

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

| Name and Municipality of Residence | Position with Manager | Length of Service | Principal Occupation |
|---|---|---|---|
| J. KELLY EDMISON, LLB<br>Vancouver, BC | President,<br>Chief Executive Officer and Director | Since<br>December 2007 | President and Chief Executive Officer of the Manager since December 2007; President, Chief Executive Officer and Director of Pender Financial Group Corporation since February 2002. |
| DAVID BARR, CFA<br>Vancouver, BC | Chief Investment Officer, Chief Compliance Officer, Corporate Secretary and Director | Since<br>December 2007 | Chief Investment Officer of the Manager since April 2009. Chief Financial Officer of the Manager from December 2007 to April 2009; Chief Executive Officer of the Fund since November 2006 and Investment Manager of the Fund since August 2000. |
| KELVIN KWONG, CA, CFA<br>Vancouver, BC | Chief Financial Officer | Since<br>April 2010 | Chief Financial Officer of the Fund and Manager since April 2010. Director of Finance & Product Development of Inhance Investment Management Inc. (Inhance) from June 2006 to March 2010. |
| DONALD CAMPBELL, LLB<br>Winnipeg, MB | Director | Since<br>April 2009 | Partner of Law Office of Donald I Campbell, specializing in securities law and regulatory compliance since 2003. |

The following are biographical descriptions of the Directors and Officers of the Manager:

*J. Kelly Edmison, President, Chief Executive Officer, Director*

Mr. Edmison has been active in the Vancouver investment community for the past 25 years. A graduate of the University of Toronto and Queen's University, Mr. Edmison practiced law for over 20 years. Mr. Edmison spent his early career in Calgary and Hong Kong before joining Ladner Downs (now Borden Ladner Gervais) in 1985 where he practiced securities and commercial law until 1995. Mr. Edmison then established his own practice focused exclusively on representing Vancouver based junior technology companies. Mr. Edmison has since ceased to practice law. Mr. Edmison is currently President and Chief Executive Officer of Pender Financial Group Corporation (“Pender Financial”) which he founded in 2002. Mr. Edmison founded the Manager in 2003 and is currently a shareholder, director and President of the Manager. Mr. Edmison has been a director of a number of BC-based technology companies listed on the TSX Venture Exchange.

*David Barr, Chief Investment Officer, Chief Compliance Officer, Corporate Secretary, Director*

Mr. Barr joined the Manager as an Investment Manager in 2003 and was appointed Chief Financial Officer on November 26, 2005 and Corporate Secretary on November 8, 2006. Mr Barr served as Chief Financial Officer until April 2009 and was appointed Chief Investment Officer of the Manager in April 2009. Mr. Barr is also a shareholder and director of the Manager. Previously, Mr. Barr worked as a consultant to emerging technology companies assisting the companies in development of strategic and financing plans. Mr. Barr holds a Bachelor of Science Degree from the University of British Columbia and a Masters of Business Administration from Schulich School of Business at York University. Mr. Barr is a CFA charterholder and a member of the CFA Institute. Mr. Barr is a registered Investment Counsel/Portfolio Manager with the British Columbia Securities Commission and a director of CFA Vancouver.

*Kelvin Kwong, Chief Financial Officer*

Mr. Kwong joined the Manager as Chief Financial Officer in April 2010. Previously, Mr. Kwong was the Director of Finance & Product Development at Inhance Investment Management Inc., a division of Vancity Credit Union. Prior to Vancity, Mr. Kwong was a Senior Associate at PricewaterhouseCoopers, where he earned his Chartered Accountant designation. Mr. Kwong holds a Bachelor of Commerce (Honours) degree from the Sauder School of Business at the University of British Columbia. Mr. Kwong is a CFA charterholder and member of the CFA Institute.

*Donald Campbell, Director*

Mr. Campbell is a graduate of the University of Manitoba's Faculty of Law and has been practicing law in Winnipeg since 1990. From 2002 to 2003 he was the National Director of Compliance for IQON Financial Inc, a 400 advisor mutual fund dealer based in Winnipeg and was Legal Counsel - Compliance, with Assante Asset Management Ltd. from 2000 to 2002. Mr. Campbell is a founding member of the Compliance Officers' Forum of Manitoba. Mr. Campbell focuses his practice on advising clients in the advisory and mutual fund business.

## Terms of Management Agreement

Under the Management Agreement, the Manager is responsible for directing the affairs and managing the business of the Fund, administering or arranging for the administration of the day-to-day operations of the Fund, including investment decisions, execution of investment orders, sales of shares, maintaining records, fund reporting, voting of portfolio securities and custodial arrangements. The Manager's investment decisions are subject to the oversight of the Fund's Board. The Management Agreement also sets forth the fees payable to the Manager as described in this annual information form.

The Manager's appointment continues to May 31, 2020 at which time the agreement is automatically renewed for additional four year terms unless a vote of the shareholders determines otherwise. The Management Agreement may also be terminated by the Fund or the Manager upon giving notice in writing to the other party if the other party ceases to carry on business, becomes bankrupt or insolvent, resolves to wind-up or liquidate or if a receiver of any of its assets is appointed or if the other party commits a material breach of the Management Agreement which is not remedied within 30 days of receipt of notice of such breach.

## Brokerage Arrangements

The Manager of the Fund makes decisions regarding the execution of portfolio transactions with respect to the cash and cash equivalent portions of the Fund, including, when applicable, the selection of markets, brokers and the negotiation of commissions. If and when effecting such portfolio transactions, the Manager places brokerage business with investment dealers and brokers on the basis of the best price and service. To the extent that the execution offered by more than one dealer or broker are comparable, the Manager may, in its discretion, determine to effect transactions with the dealers and brokers who provide research, statistical and other similar services to the Fund or to the Manager at transaction prices which reflect those services.

## Custodian

The custodian of the Fund's investments is CIBC Mellon Trust Company of 320 Bay Street P.O. Box 1, Toronto, ON, M5H 4A6. The custodian shall not be responsible for holding or control of any assets of the Fund that are not directly held by the custodian or its appointed sub-custodians including any assets loaned or pledged to a counterparty.

## Registrar

The registrar of the Fund with respect to the Fund's Class B shares and Class R shares is CIBC Mellon Trust Company of 320 Bay Street P.O. Box 1, Toronto, ON, M5H 4A6. The registrar keeps a record of the owners of Class B and Class R shares in Toronto, ON. The registrar of the Fund with respect to the Fund's Class C Shares is Canadian Stock Transfer of 1600 – 1066 West Hastings St., Vancouver, BC V6E 3X1. The registrar keeps a record of the owners of Class C in Vancouver, BC.

## Auditor

The auditor of the Fund is KPMG LLP of 777 Dunsmuir St., P.O. Box 10426 Vancouver, BC, V7Y 1K3. KPMG LLP is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia. Under applicable securities laws, the auditor of the Fund may be changed with the approval of Shareholders.

## CONFLICTS OF INTEREST

### Principal Holders of Securities

There were no persons or companies who, as at March 6, 2013, are owners of record of or who to the knowledge of the Manager own beneficially, directly or indirectly, more than 10% of the shares of any class of the Fund.

The following table sets out the persons or companies who, as at March 6, 2013, are owners of record of or who own beneficially, directly or indirectly, more than 10% of any class or series of voting securities of the Manager:

| Name | Designation of Securities | Type of Ownership | Percentage of Outstanding Shares |
|---|---|---|---|
| 408198 BC Ltd[1] | Common Shares | Beneficial | 29% |
| Arbutus Family Holdings Ltd[2] | Common Shares | Beneficial | 29% |
| Garibaldi Ventures Partners Ltd[3] | Common Shares | Beneficial | 29% |

**Footnotes:**

1. 408198 BC Ltd is 100% owned by William Rand
2. Arbutus Family Holdings Ltd is 100% owned by J. Kelly Edmison
3. Garibaldi Ventures Partners Ltd is 100% owned by David Barr

As of March 6, 2013, the Manager, principals of the Manager and directors of the Fund hold, directly or indirectly, in the aggregate: (a) less than 1% of the outstanding shares of each class of the Fund; (b) 100% of the outstanding shares of the Manager; and (c) no outstanding voting or equity securities of any person or company that provides services to the Fund or the Manager. No person or company that provides services to the Fund or the Manager in relation to the Fund is an affiliated entity of the Manager.

### Conflict of Interest between the Fund and the Manager

The Manager currently provides management services to other investment funds and the services of the Manager are not exclusive to the Fund. The Manager may provide similar services to other parties, including venture capital funds, mutual funds or investment funds engaged in a similar business to that of the Fund. The Fund is of the view that the other activities of the Manager will not be considered to be a conflict of interest or breach of fiduciary duty with respect to the management of the Fund provided that the Manager fulfills its duties of care and does not contravene the investment objectives or restrictions set out in the Management Agreement.

## FUND GOVERNANCE

The Fund's operations are overseen by its Board. Information with respect of the directors is as follows:

| Name, Place of Residence[(1)] and Positions Held with the Fund | Principal Occupation or Employment During the Past Five Years[(1)] | Date Served as a Director | Number of Voting Shares Beneficially Owned or Controlled as at March 6, 2013 |
|---|---|---|---|
| **DAVID J. ROBERTS**[(2)]<br>North Vancouver, BC<br>Director | President of Santa Rosa Resources Corp. from March 2012 to present; Chairman of BasicGov Systems, Inc. from May 2011 to present; Chairman of ActiveState Software Inc. from January 2006 to present; Chairman of Icron Technologies Corporation from November 2012 to present; President & CEO of BasicGov Systems, Inc. from July 2008 to May 2011; and President of David Roberts & Associates Ltd. from 1985 to present. | Since May 7, 2003 | 2,593 Class B Shares |
| **J. KELLY EDMISON**[(1)]<br>Vancouver, BC<br>Chairman | President, CEO and Director of Pender Financial Group Corporation since February 2002; and President and CEO of PenderFund Capital Management Ltd. from January 2008 to present. | Since May 7, 2003 | 2,000 Class R Shares<br>2,000 Class C Shares |
| **IAN D. POWER**[(2)(3)]<br>Langley, BC<br>Director | Chief Financial Officer of Strand Capital Corp. from September 2002 to 2006; Independent consultant in corporate finance and accounting from 1993 to present. | Since March 15, 1994 | 1,081 Class B Shares |
| **WENDY PORTER**[(2)(3)]<br>West Vancouver, BC<br>Director | Consultant with Focused Management Solutions Inc. from 2004 to present. | Since May 30, 2006 | Nil |

Notes:

(1) Mr. Edmison is also a director and officer of the Manager.

(2) Member of the Audit Committee of the Fund.

(3) Member of the Investment Committee of the Fund.

## Audit Committee

Pursuant to the provisions of section 171(1) of the *Business Corporations Act* (British Columbia), the Fund is required to have an audit committee, which, at the present time, is comprised of Ian D. Power, David Roberts and Wendy Porter, all of whom are financially literate. The Fund must also, pursuant to the provisions of National Instrument 52-110 Audit Committees ("NI 52-110"), which came into force on March 17, 2008, have a written charter which sets out the duties and responsibilities of its audit committee.

The Audit Committee Charter provides that the Audit Committee shall be comprised of three directors as determined by the Board, the majority of whom shall be free from any relationship that, in the opinion of the Board, would reasonably interfere with the exercise of his or her independent judgment as a member of the Audit Committee. At least one member of the Audit Committee shall have accounting or related financial management expertise. All members of the Audit Committee that are not financially literate will work towards becoming financially literate to obtain a working familiarity with basic finance and accounting practices. For the purposes of the Audit Committee's Charter, the definition of "financially literate" is the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can presumably be expected to be raised by the Fund's financial statements. The members of the Audit Committee are appointed annually by the Board at its first meeting following the annual shareholders' meeting. The following are biographical descriptions of the members of the Audit Committee:

*Ian Power, Chair*

Mr. Power graduated from the University of British Columbia in 1977 and qualified for his Chartered Accountant designation in 1979. Mr. Power spent several years in public accounting before joining Norsat International Inc. where he rose to the position of Chief Financial Officer before departing in 1993 to become an independent consultant in corporate finance and accounting. Mr. Power was Chief Financial Officer of Strand Capital Corporation, a real estate development finance company focused on the Western United States, from 2002 to 2007.

*Wendy Porter*

Ms. Porter holds an MBA degree from the Schulich Business School at York University. Ms. Porter currently provides consulting and contract services in the areas of strategy, compensation, electronic payments and financial services for national and international clients. Ms. Porter held several senior positions with the Bank of Montreal from 1986 to 2000 and with Moneris Solutions (a joint venture of the Merchant Services Divisions of the Royal Bank of Canada and the Bank of Montreal) during 2000 and 2001. From 2002 to 2004, Ms. Porter was the President of Vital Merchant Services of Sacramento, California. Ms. Porter currently serves on the board of directors BasicGov and VersaPay Corp. and assists various technology companies with strategic matters.

*David J. Roberts*

Mr. Roberts is a graduate of University College London (B.Sc.) and has held a number of senior financial and operating positions in the information technology, communications and life sciences sectors. He has held various directorships in public and private companies since 1983 and is currently Chairman of Icron Technologies Corporation, Chairman of BasicGov Systems, Inc., Chief Investment Officer at Pender Financial Group Corporation and Chairman of ActiveState Software Inc. and President of Santa Rosa Resources Corp.

## Investment Committee

The investment committee of the Fund is composed of Wendy Porter and Ian Power, all of whom are independent directors, which reviews all investment transactions proposed by the Manager and makes a recommendation to the Board for approval.

## Codes of Ethics

The Manager and the Board have responsibility for governance of the Fund. The Manager has adopted the personal trading code for mutual fund managers prescribed by the Investment Fund Institute of Canada, which governs internal conflicts of interest and business practices. The Manager has also adopted a Code of Ethics which is substantially the same as the CFA Institute Code of Ethics and Standards of Professional Conduct.

## Risk Management

Various measures to assess risk are used including mark-to-market security valuation, fair value accounting and weekly reconciliations of cash and investments. Compliance monitoring of the Fund's portfolio is ongoing. The Fund is priced on a weekly basis which ensures that performance accurately reflects market movements.

## Proxy Voting Disclosure

The Manager has established Proxy Voting Policies and Guidelines (the "Guidelines") that have been designed to provide general guidance, in compliance with the applicable legislation, for the voting of proxies. The Guidelines set out the voting procedures to be followed in voting routine and non-routine matters, together with general guidelines suggesting a process to be followed in determining how and whether to vote proxies. Although the Guidelines allow for the creation of a standing policy for voting on certain routine matters, each routine and non-routine matter must be assessed on a case-by-case basis to determine whether the applicable standing policy or general Guidelines should be followed. The Guidelines also address situations in which the Manager may not be able to vote, or where the costs of voting outweigh the benefits.

A copy of the Guidelines is available upon request, at no cost, by calling the Manager toll-free at 1-866-377-4743 or by writing to 1640 – 1066 West Hastings St. Vancouver BC V6E 3X1.

## Proxy Voting Record

The Manager will prepare a proxy voting record on an annual basis for the period ending on June 30$^{th}$ of each year which will be available free of charge to any Shareholder upon request at any time after August 31$^{st}$ of that year. The proxy voting record will be available on the Fund's website www.pendergrowthfund.com no later than August 31$^{st}$ of each year.

## FEES AND EXPENSES

### Management Fee

The Manager provides management services in connection with all aspects of the identification, implementation, development, active monitoring and ultimate divestment of all potential, actual and previous investments of the Fund.

The Fund pays a fee equal to 2.75% of the Pre-Redemption NAV of the Fund per annum, calculated monthly based on the last Valuation Date of each month.

### Performance Fee

The Manager is entitled to a performance bonus in certain circumstances, based on achieving certain performance criteria set out in the Management Agreement. The performance fee is based on a percentage of the Fund's Pre-Redemption NAV with the percentage being one-fifth 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 R Shares have been redeemed or converted into Class C Shares.

### Operating Expenses

In addition to management and performance fees, the Fund is responsible for the operating costs which may include: sales and marketing costs, legal fees, custody fees, audit fees, transfer agency fees and directors' fees among other costs. Certain of these expenses may be incurred by the Manager and reimbursed by the Fund.

## INCOME TAX CONSIDERATIONS

In the opinion of Legacy Tax + Trust Lawyers, who are acting as special tax counsel to the Fund for purposes of this Annual Information Form, the following is, as of the date hereof, a fair and adequate summary of the principal federal and British Columbia income tax consequences generally applicable to the Fund and its Shareholders. This summary assumes that the Shareholders are residents of Canada and not of any other country, hold Shares as capital property and deal at arm's length and are not affiliated with the Fund, all within the meaning of the Income Tax Act (Canada) (the "Federal Tax Act") and the Income Tax Act (British Columbia) (the "BC Tax Act"). Whether Shares are held by any particular Shareholder as capital property or as inventory will be determined according to the principles ordinarily applicable to the characterization of shares of a corporation. Shares held by a Shareholder will generally be considered capital property to the Shareholder unless the Shareholder holds them in the course of carrying on a business or the Shareholder has acquired them in a transaction or transactions considered to be an adventure or concern in the nature of trade.

This summary assumes that the Class C Shares of the Fund are and will continue to be listed on the TSX-V and that the TSX-V will continue to be a designated exchange for purposes of the Federal Tax Act.

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

This summary is based upon the current provisions of the Federal Tax Act, the BC Tax Act, all published proposals for amendments to the Federal Tax Act and the BC Tax Act (the "Proposed Amendments"), and upon counsel's understanding of the current published administrative practices of the Canada Revenue Agency (the "CRA") and the British Columbia Ministry of Finance. This summary assumes that the Proposed Amendments will be enacted as proposed but does not take into account or anticipate any other changes in law, whether by way of judicial, legislative or governmental decision or action, nor does it address the application of any income tax laws of any province other than British Columbia or any territory or foreign jurisdiction. No assurances can be given that the Proposed Amendments will be enacted as proposed, if at all, or that legislative, judicial or administrative changes will not modify or change the statements expressed herein.

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

### Conversion of Class B Shares into Class R Shares and Class C Shares

Where a Shareholder disposes of any or all of the Class B Shares held by such Shareholder at that time, and receives one Class R Share and one Class C Share for each such Class B Share so disposed of, section 51 of the Federal Tax Act will apply to the exchange. Under section 51 of the Federal Tax Act, the exchange will be deemed, for most purposes of the Federal Tax Act, not to be a disposition of the Class B Share(s) exchanged. The cost to the Shareholder of the Class R Shares received by the Shareholder on the exchange will be equal to the proportion of the aggregate adjusted cost base to the Shareholder of the Class B Share(s) exchanged that the fair market value, immediately after the exchange, of the Class R Shares received by the Shareholder is of the fair market value, immediately after the exchange, of all the Class R Shares and Class C Shares received by the Shareholder on the exchange. The cost to the Shareholder of the Class C Shares received by the Shareholder on the exchange will be equal to the proportion of the aggregate adjusted cost base to the Shareholder of the Class B Share(s) exchanged on the exchange that the fair market value, immediately after the exchange, of the Class C Shares received by the Shareholder is of the fair market value, immediately after the exchange, of all the Class R Shares and Class C Shares received by the Shareholder on the exchange.

The fair market value of the Class R Shares and the Class C Shares that will be issued on such an exchange is a question of fact that will be determinable only at that time. Fair market value is generally defined as being the highest price, in terms of money, that a willing and knowledgeable purchaser will pay a willing seller in an open and unrestricted market. In the case of a redeemable share, the amount that would be received by a holder of the share on the redemption thereof will be a relevant factor in determining its value at a particular time. In the case of a share listed or traded on a stock exchange in Canada, CRA will usually accept the closing bid for the share on the day for which the determination is made or the mid-point between the high and the low trading prices for the day, whichever provides the best indicator, given the circumstances, of fair market value on normal and active market trading. However, other factors may have to be taken into consideration, including the size of a block of shares in relation to the volume traded, restrictions on transferability of the shares, and whether the shares are thinly traded. Some or all of these factors may be present in relation to the valuation of the Class R Shares and the Class C Shares immediately after any exchange of Class B Shares.

Each Shareholder is advised to obtain independent advice regarding the determination of the value of the Class R Shares and the Class C Shares immediately after an exchange of Class B Shares, having regard to all the relevant facts at that time, for the purpose of determining the deemed cost to the Shareholder of the Class R Shares and Class C Shares received on the exchange.

**Conversion of Class R Shares into Class C Shares**

Holders of Class R Shares have the right at any time to convert all or part of their Class R Shares into Class C Shares as described under the heading “Description of Securities of the Fund” above. Where a Shareholder disposes of any or all of the Class R Shares held by such Shareholder at that time, and receives Class C Shares for the Class R Share(s) so disposed of, section 51 of the Federal Tax Act will apply to the exchange. Under section 51 of the Federal Tax Act, the exchange will be deemed, for most purposes of the Federal Tax Act, not to be a disposition of the Class R Share(s) exchanged. The cost to the Shareholder of the Class C Shares received by the Shareholder will be equal to the adjusted cost base to the Shareholder of the Class R Share(s) converted by the Shareholder. No gain or loss will arise for the Shareholder for purposes of the Federal Tax Act.

**Paid-Up Capital**

Paid-up capital generally refers to the amount that has been paid to the Fund for the issue of its shares, less certain amounts in respect of the redemption those shares. Paid-up capital is calculated separately for each class or series of shares, and is averaged across all the shares of a class or series.

On a conversion of Class B Shares into Class R Shares and Class C Shares, the paid-up capital in respect of the Class B Shares exchanged for Class R Shares and Class C Shares will be deducted from the paid-up capital in respect of the Class B Shares and will generally be added to the paid-up capital in respect of the Class R Shares and the Class C Shares.

On the conversion of a Class R Share to Class C Shares or fractions thereof, the paid-up capital in respect of the Class R Share will be deducted from the paid-up capital in respect of the Class R Shares and will generally be added to the paid-up capital in respect of the Class C Shares.

**Qualified Investment**

While the Class C Shares continue to be listed on the TSX-V, the Fund's shares, including the Class B Shares, Class R Shares and Class C Shares, will be qualified investments for trusts governed by registered retirement savings plans ("RRSPs"), registered retirement income funds ("RRIFs") and tax-free savings accounts ("TFSAs").

If the Fund's shares are a "prohibited investment" (as defined in the Federal Tax Act) for a trust governed by a TFSA, RRSP or RRIF (a "Registered Plan"), the holder of the TFSA or the annuitant of the RRSP or RRIF, as the case may be, (such holder or annuitant being a "Controlling Individual" of the Registered Plan) will be subject to a penalty tax on the Fund's shares held in the Registered Plan, as set out in the Federal Tax Act. A share in the capital of the Fund will generally not be a prohibited investment for a trust governed by a Registered Plan held by a particular holder provided that the Controlling Individual deals at arm's length with the Fund for the purposes of the Federal Tax Act, and does not have a "significant interest" (as defined in the Federal Tax Act) in the Fund for purposes of the Federal Tax Act. In general terms, a Controlling Individual of a Registered Plan will have a significant interest in the Fund if the Registered Plan, the Controlling Individual, and other persons not at arm's length with the Controlling Individual together, directly or indirectly, own not less than 10% of the outstanding shares of any class of the Fund.

The detailed rules relating to the eligibility for investments are set out in the Federal Tax Act. In the event that the Fund ceases to be a public corporation for purposes of the Federal Tax Act, Shareholders should consult their own tax advisors to confirm whether their shares are qualified investments for their RRSPs, RRIFs or TFSAs, based upon their particular circumstances.

**Consequences of the Disposition of Class B Shares, Class R Shares or Class C Shares**

A Shareholder who disposes of or is deemed to dispose of a Class B Share, Class R Share or Class C Share will realize a capital gain (or capital loss) in the taxation year of the disposition equal to the amount by which the proceeds of disposition in respect of such share exceed (or are less than) the Shareholder's adjusted cost base of such Class B Share, Class R Share or Class C Share, as the case may be, and all reasonable costs of disposition.

Any capital loss that would otherwise arise on the disposition of a Class B Share, Class R Share or Class C Share will be reduced by the amount of any tax credits received by the Shareholder or by a person with whom the Shareholder does not deal at arm's length under the SBVCA in respect of any share for which the Class B Share, Class R Share or Class C Share, as the case may be, was substituted, to the extent that the amount of such tax credits have not previously reduced a capital loss in respect of such shares.

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

A Shareholder that is a "Canadian controlled private corporation" (as defined in the Federal Tax Act) may be liable to pay an additional "refundable" tax of 6 2/3% on taxable capital gains.

A disposition of Class B Shares, Class R Shares or Class C Shares will include a sale of, or contribution-in-kind of shares to, a Registered Plan. Transactions between a Controlling Individual and his/her Registered Plan must occur at fair market value. Capital losses sustained on the transfer or contribution of Class B Shares, Class R Shares or Class C Shares to a Registered Plan are not allowable capital losses and cannot be used to offset capital gains. If a Controlling Individual does not deal at arm's length with the Fund, the conversion of the Class B Shares or Class R Shares held by a Registered Plan may be characterized a "swap transaction" under the Federal Tax Act and will result in adverse tax consequences for such Controlling Individual.

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

**Redemption of Class R Shares**

On redemption of Class R Shares held by a Shareholder, the Shareholder will be deemed to receive a dividend equal to the amount by which the redemption proceeds exceed the paid-up capital of the redeemed Class R Shares. The paid-up capital of a Class R Share will be determined from time to time as the amount that is the paid-up capital in respect of the Class R Shares at that time, divided by the number of Class R Shares issued and outstanding at that time. The deemed dividend will be subject to tax in the manner described below under the heading "Dividends Received".

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

**Dividends Received**

A dividend received by a Shareholder in respect of a Common Share or deemed to be received by a Shareholder on the redemption of a Class R Share will be treated for income tax purposes as a dividend from a taxable Canadian corporation. A Shareholder who is an individual resident in Canada will be required to include the dividend and a notional gross-up amount in computing his income for the year in which the dividend is received. The applicable gross-up figure for a dividend paid in 2013 is 25%, or 38% if the dividend is designated by the Fund to be an eligible dividend. A Shareholder who includes the gross-up in computing his income will be entitled to claim a federal dividend tax credit equal to 2/3rds of the gross-up, or 6/11ths of the gross-up if the dividend is designated as an eligible dividend. Where the dividend is received or deemed to be received by a corporation resident in Canada, the dividend will normally be free of tax under Part I of the Federal Tax Act but may be subject to refundable tax under Part IV of the Federal Tax Act.

## MATERIAL CONTRACTS

Set out below are particulars of the material contracts entered into by the Fund as of the date of this annual information form.

1. The Custodial Services Agreement dated April 14, 2009 (and amended October 29, 2010) pursuant to which CIBC Mellon Trust Company was appointed custodian of the assets of the Fund. See *"Responsibility over Fund Operations"* for a description of the custodian's duties and responsibilities.

2. The Management Agreement dated July 22, 2010 between the Manager and the Fund, pursuant to which the Manager agreed to direct the affairs and managing the business of the Fund. See *"Responsibility over Fund Operations"* for a description of the Manager's duties and responsibilities.

Copies of material contracts may be inspected at the head office of the Manager during ordinary business hours.

**Pender Growth Fund (VCC) Inc.**

**Managed by:**

PenderFund Capital Management Ltd.
1640 – 1066 West Hastings St.
Vancouver BC V6E 3X1
1-866-377-4743

## ADDITIONAL INFORMATION

Additional information about the Fund is available in the Fund's management reports of fund performance and financial statements. You can get a copy of these documents, at your request, and at no cost, by calling toll-free at **1-866-377-4743**, by emailing us at **info@pendergrowthfund.com**, or from your financial adviser. These documents and other information about the Fund, such as information circulars and material contracts, are also available on the Fund's website at **www.pendergrowthfund.com** or at **www.sedar.com**.