

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

Pender Growth Fund Inc.

Year ended December 31, 2016

PENDER

This Annual Management Report of Fund Performance contains financial highlights but does not contain the complete audited 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, or by writing to us at 1640 – 1066 West Hastings St., Vancouver, BC V6E 3X1, or by visiting the Manager's website at www.penderfund.com or SEDAR at www.sedar.com.

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

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

Pender Growth Fund Inc. (formerly Pender Growth Fund (VCC) Inc.), (the "Fund"), invests in companies with the objective of long term capital appreciation. Prior to November 1, 2016, the Fund was restricted to investments in Eligible Small Business, as defined by the Small Business Venture Capital Act ("SBVCA").

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.

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 28, 2017. 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 portion 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 Fund's net assets as of December 31, 2016 increased overall to \$18,036,295 from \$14,156,965 at December 31, 2015. The Fund's net assets increased due to an increase of \$9,868,060 in market value and a decrease of \$5,988,730 due to shareholder transactions of the Fund's shares.

At December 31 2016, the Fund's investment portfolio consisted of publicly listed investments valued at \$2,342,661 and privately unlisted investments valued at \$14,360,774 for a total of \$16,703,435. The sectors in which the Fund was invested at December 31, 2016 can be found under "Summary of Investment Portfolio".

For the year ended December 31, 2016 (the "period"), Class C Shares of the Fund generated a total return of 123.9%. Fund returns are calculated based on the NAV of the Class C Shares and not its 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 is 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, S&P/TSX Composite Index, returned 17.5% during the period. In accordance with National Instrument 81-106, we have included a comparison to this broad-based index to help you understand the Fund's performance relative to the general performance of the market, but caution that the Fund's mandate may be significantly different from the index.

Over 80% of the Fund was invested in privately held securities and there are no public market valuation on these investments, resulting in a natural disconnect from benchmark consisting of publicly traded securities. The primary reason for the Fund's outperformance as compared to the benchmark was due to the significant increase in the market value of QHR Corporation ("QHR") and also the increase in the value of its private investments.

Recent Developments

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

During the period, the Fund's largest investment, QHR, was acquired by Loblaw's in October for \$3.10 per share, which represented a greater than an 100% increase in value compared to the end of 2015 and contributed significantly to the Fund's performance.

Another public investment in the Fund, IWG Technologies Inc., announced that it was going to be acquired at \$0.43 per share, which represented a 30% premium over the 90-day average price of \$0.33 prior to the announcement. The IWG transaction closed subsequent to the end of the period in January 2017.

The Fund's largest investment at December 31, 2016 is in One45 Software, a Software-as-a-Service provider of scheduling software to medical and other professional schools. The company is profitable and its revenue continues to grow at an annual rate of 20% and is becoming more valuable year-over-year.

Another one of the Fund's significant investments is in a private company called D-Wave Systems Inc., the maker of one of the world's only quantum computers. 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. It raised a total of \$21 million in new capital in 2016 at a significant increase in value. Although it may take some time, it appears that D-Wave is continuing to make progress towards becoming a valuable, commercially viable enterprise.

Fund redemption and deregistration from the Small Business Venture Capital Act

During the year, the Fund converted and redeemed all Class B Shares and Class R Shares for total proceeds of \$5,984,742. As a result, the Fund did not have any Class B Shares or Class R Shares outstanding as at December 31, 2016.

On October 27, 2016, the Province of British Columbia provided confirmation that the Fund had fulfilled its obligations under the SBVCA. On November 1, 2016, the Fund deregistered from the SBVCA and changed its name to Pender Growth Fund Inc.

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 Fees"). The Manager also recovers certain operating expenses incurred by it on behalf of the Fund.

At December 31, 2016, 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

For the period, the Fund pays a management fee to the Manager calculated at an annual rate of 2.75% of the Fund's value (plus GST). The management fee is calculated as a percentage of the Fund's value on the last valuation date of each month. The Manager also recovers certain operating expenses incurred by it on behalf of the Fund.

The Fund also pays a performance fee in certain circumstances, based on achieving certain performance criteria. The performance fee is based on a percentage of the Fund's 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.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund. The information is intended to help you understand the Fund's financial performance for the last five years.

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

Footnotes:

- (a) Information for the years ended December 31, 2013 and later is derived from the Fund's financial statements prepared in compliance with IFRS. Information for the year ended December 31, 2012 is derived from the Fund's financial statements prepared in compliance with Canadian GAAP.
- (b) Net assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of shares outstanding during the period.
- (c) Management expense ratio (MER) is based on total expenses (excluding commissions and other portfolio transaction costs) for the period and is expressed as an annualized percentage of daily average net asset value during the period. The MER may vary from one fund to another and from one class of shares to another because of differences in the applicable management fees.
- (d) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.
- (e) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a fund's portfolio turnover rate in a period, the greater the trading costs payable by the fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of a fund.
- (f) Closing market price on the last trading day of the period as reported on the TSX Venture Exchange.

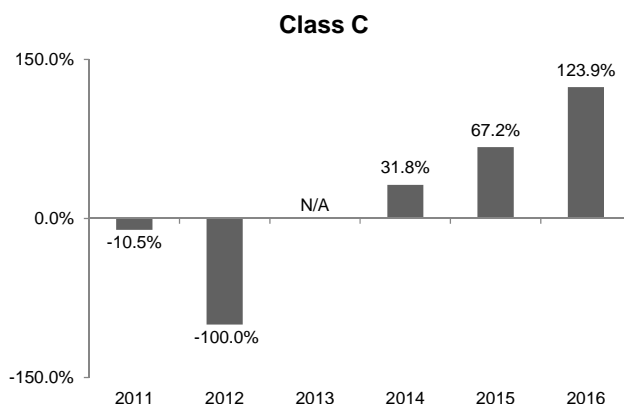
PAST PERFORMANCE

The following charts shows the past performance for Class C Shares and do not necessarily indicate how the Fund will perform in the future. The information shown assumes that any distributions made by the Fund in the years shown were reinvested in additional shares of the Fund and returns would be different if an investor did not reinvest distributions. In addition, the information does not take into account sales, redemptions, income taxes payable or other charges that would have reduced returns or performance.

Performance for Class C Shares is determined based on its NAV and does not reflect its traded price on the TSX-V.

Period-by-Period Returns

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



Annual Compound Returns

The following table shows the one year, three year and five year compound returns, and return since inception for Class C Shares of the Fund for the respective periods ended December 31, 2016. Since inception returns are annualized returns for Class C Shares of the Fund since its restructuring date of July 24, 2010.

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	123.9%	70.3%	53.5%	48.8%
S&P/TSX Composite Index	17.5%	3.9%	5.0%	4.8%

SUMMARY OF INVESTMENT PORTFOLIO

The largest holdings of the Fund as at the end of the year and the major sectors in which the Fund was invested, are indicated below. 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, on request. Please see the front page of this document for information about how this can be obtained.

Summary of Top 25 Holdings ^(a)

	% OF NET ASSETS
Private unlisted investments ^(b)	79.6
IWG Technologies Inc.	8.0
Espial Group Inc.	4.5
Redline Communications Group Inc.	0.4
Calyx Bio-Ventures Inc.	0.1
VendTek Systems Inc.	-

Summary of Composition of the Portfolio

	% OF NET ASSETS
Software and services	56.3
Technology hardware and equipment	28.2
Other sectors	8.1
TOTAL INVESTMENT PORTFOLIO	92.6
Cash	7.3
Other assets less liabilities	0.1
TOTAL NET ASSETS	100.0

(a) The Fund's investment portfolio had less than 25 holdings as at December 31, 2016.

(b) 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.

PRIVATE UNLISTED INVESTMENTS

COMMON SHARES

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

PREFERRED SHARES

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

WARRANTS

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

LOANS AND CONVERTIBLE DEBENTURES

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

Caution Regarding Forward-Looking Statements

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

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

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

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

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