

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

Pender Small Cap Opportunities Fund

For the year ended December 31, 2017

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

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

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

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

Pender Small Cap Opportunities Fund (the "Fund") invests in a concentrated portfolio of well-managed businesses, with strong competitive positions, which are overlooked by the market and have the potential for significant capital appreciation. These businesses may be in Canada, the US or in other foreign countries with a primary emphasis on companies with a market capitalization of less than \$1 billion. The Fund may also invest in any securities regardless of market capitalization, sector or region, including other foreign equities where opportunities warrant. In some situations, the Fund may invest directly in companies, through private placements or public offerings, or may acquire previously issued shares, either through the facilities of a stock exchange, quotation system, or by private arrangement.

PenderFund Capital Management Ltd. ("Pender") is the Manager and Portfolio Advisor of the Fund.

Risks

The risks of investing in the Fund are outlined in the Simplified Prospectus dated June 26, 2017. There were no significant changes to the Fund that affected its overall level of risk during the year.

Results of Operations

The net assets of the Fund as of December 31, 2017 increased overall to \$189,610,169 from \$136,029,898 at December 31, 2016. Of this \$53,580,271 increase, \$13,191,563 is attributable to investment performance, \$40,388,708 is attributable to net unitholder purchases and redemptions of the Fund and \$33,378,399 was due to a merger with another investment fund. Please see the "Recent Developments" section for more information.

For the year ended December 31, 2017, Class A units of the Fund generated a total return of 8.5%. Fund returns are reported net of all management fees and expenses for all classes, unlike the returns of the Fund's benchmark, which are based on the performance of an index that does not pay fees or incur expenses. Returns for other classes of the Fund will be similar to Class A with any difference in performance being primarily due to different management fees that are applicable to that class. Please see the "Past Performance" section for the performance of the Fund's other classes.

The Fund's broad-based benchmark, S&P/TSX Composite Index, had a total return of 9.1% during the year. In accordance with National Instrument 81-106, we have included a comparison to this broad-based index to help you understand the Fund's performance relative to the general performance of the market, but we caution that the Fund's mandate may be significantly different from the index.

The following comments and the comments under "Recent Developments" reflect the views of the portfolio management team and are based on information as at the end of the year. Please read the caution regarding forward-looking statements located on the last page of this document.

The Fund's underperformance as compared to its benchmark was primarily due to an underweighting in the Energy sector, which was the worst performing sector for the benchmark during the year, and an overweighting in the Information Technology sector, which outperformed. We do not actively manage sector weightings in the Fund. Rather, our sector weightings are determined by individual stock selection through a bottom-up, fundamental, investment analysis process. We seek to own stocks where our estimated range for the long-term intrinsic value of the business is higher than its traded market value.

Key positive individual contributors to the Fund's performance for the year included Sandvine Corporation, Quantum Corporation, and Questor Technology Inc. Conversely, Medicare Inc., INSCAPE Corporation and Dundee had the largest adverse impact on the Fund's performance.

The Fund's investment portfolio transactions during the year were based on our stock selection process. In general, we increased weightings of individual stocks where we determined the margin of safety had increased and decreased their weightings as their traded market values moved closer to our estimates of their intrinsic values. We are constantly looking for new investment opportunities. Two of the Fund's most significant additions made during the year were Sierra Wireless and Mattersight. We may liquidate a security for various reasons such as when a company's share price has reached our assessment of its fair value, an acquisition has occurred, or where we have changed our investment thesis of the company. Two of the Fund's most significant dispositions made during the year were Tio Networks and Sandvine Corporation.

At the end of the year, the Fund was 72% invested in Canada, 10% in US and its cash position had increased to 17% of the Fund, up from 15% at December 31, 2016. As we continue to look for new investment opportunities, the Fund's cash position may decrease. The Fund's investment portfolio is concentrated and not diversified in the conventional sense. The Fund's top 10 holdings account for 32% of the Fund's net assets at the end of the year. This may lead to varied results over any given year.

Results of Operations (Continued)

Overall sector exposure is determined by stock selection. We are currently skewed to holdings in Information Technology, Consumer Discretionary, and Healthcare because those sectors are where we are currently finding the best investment opportunities and, equally important, contain businesses for which we are best equipped to assess value. These top three sectors accounted for 54% of the Fund at the end of the year.

Recent Developments

With the major indices regularly hitting new records and valuations at historic highs, finding new investment opportunities at attractive valuations is becoming increasingly difficult. Nevertheless, we believe there will almost always be mispriced securities available in some corners of the market, despite current market index levels. However, an investor needs to have a contrarian mindset and the capability to follow an idiosyncratic approach to find them.

While we are uncomfortable with current valuations in certain sectors and with certain individual securities, we continue to find attractive investment opportunities in the market. When we look at the overall market probabilistically, we see scenarios where stocks continue to increase in value and also scenarios where stock prices fall.

Given the context of current market conditions, we feel there is a need to reduce volatility and protect the Fund's capital from downside risk. We are actively managing the Fund's investment portfolio, utilizing several strategies to reduce volatility. First, we use cash as a strategic asset class – that is to say we keep cash on hand to take advantage of price drops in stocks that we like. Second, we actively manage the Fund's individual position sizes based on their intrinsic values. Finally, we look at uncovered parts of the market, including special situations, where sell-offs are not always as dramatic.

The Fund's investment strategy since inception has been to determine the intrinsic value of a company and buy its stock when it trades at a significant discount to our estimate of intrinsic value. Our investment strategy requires rigorous in-depth valuation analysis. We dig deep when we look into a potential holding and we maintain an understanding of the key factors affecting our investment thesis after we buy a stock. The information is not hard to uncover, but not everyone undertakes this deep diligence. It gives us an advantage and means that we find opportunities ahead of the market and can position ourselves to take advantage of future potential increases in the stock's value.

As we run a concentrated investment portfolio, we need only to hold a relatively small number of great companies at good prices to drive the performance of the Fund. We will continue to look for best ideas that trade at significant discounts to intrinsic values.

Fund merger

On April 28, 2017, the net assets of the Pender Small Cap Equity Fund (an investment fund also managed by Pender), were merged into the Fund. The Pender Small Cap Equity Fund had the same investment objective and substantially similar investment strategies as the Fund. The Fund obtained the approval of its independent review committee to proceed with the transaction. As a result of the merger, the unitholders of the Pender Small Cap Equity Fund were issued units of the Fund with a total value of \$33,378,399.

Related Party Transactions

The Fund pays management and administration fees to the Manager for management and portfolio advisory services (see "Management Fees").

During the year the net assets of two investment funds managed by Pender were merged as described in Recent Developments, above.

As at the end of the year, parties related to the Manager collectively held 1% of the Fund's units while the Pender Strategic Growth and Income Fund held 1% of units outstanding.

Management Fees

The Fund pays management and administration fees calculated as a percentage of the net asset value of each respective class. The fees are calculated at the close of business on each valuation day, and are paid monthly. In exchange for the administration fee, the Manager pays the operating costs of the Fund so that the Management Expense Ratio (MER) for each class does not exceed certain levels as set out in the Fund's offering documents.

Management fees are used by the Manager, in part, to pay sales commissions, trailer fees, marketing costs and other associated distribution costs relating to the sale of units of the Fund. Such expenses represented approximately 34% of the management fees paid by the Fund to the Manager for the year.

FINANCIAL HIGHLIGHTS

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

CLASS A					
Fund's Net Assets Per Unit (a)	2017	2016	2015	2014	2013
Net assets – beginning of year	\$25.88	\$22.05	\$22.69	\$19.38	\$14.46
Increase (decrease) from operations:					
Total revenue	0.37	0.34	0.26	0.21	0.11
Total expenses	(0.72)	(0.62)	(0.66)	(0.58)	(0.47)
Realized gains (losses)	3.19	3.19	2.54	3.67	0.72
Unrealized gains (losses)	(0.60)	2.64	(0.53)	1.09	5.72
Total increase (decrease) from operations (b)	2.24	5.55	1.61	4.39	6.08
Distributions:					
From income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	(1.18)	(1.90)	(2.15)	(1.16)	-
Return of capital	-	-	-	-	-
Total annual distributions (c)	(1.18)	(1.90)	(2.15)	(1.16)	-
Net assets – end of year	\$26.88	\$25.88	\$22.05	\$22.69	\$19.38
Ratios and Supplemental Data					
Total net asset value (\$000s) (a)	\$43,407	\$47,224	\$43,781	\$39,280	\$24,816
Number of units outstanding (a)	1,615,045	1,824,936	1,985,574	1,731,465	1,280,805
Management expense ratio (d)	2.50%	2.50%	2.50%	2.50%	2.50%
Management expense ratio before absorptions (e)	2.50%	2.50%	2.50%	2.50%	2.50%
Trading expense ratio (f)	0.13%	0.09%	0.17%	0.29%	0.34%
Portfolio turnover rate (g)	41.54%	28.17%	35.12%	52.23%	28.93%
Net asset value per unit (a)	\$26.88	\$25.88	\$22.05	\$22.69	\$19.38
CLASS F					
Fund's Net Assets Per Unit (a)	2017	2016	2015	2014	2013
Net assets – beginning of year	\$25.72	\$22.20	\$23.08	\$19.81	\$14.93
Increase (decrease) from operations:					
Total revenue	0.37	0.34	0.27	0.22	0.13
Total expenses	(0.40)	(0.38)	(0.42)	(0.39)	(0.32)
Realized gains (losses)	3.19	3.22	2.60	3.79	0.74
Unrealized gains (losses)	(0.70)	2.62	(0.64)	1.58	5.30
Total increase (decrease) from operations (b)	2.46	5.80	1.81	5.20	5.85
Distributions:					
From income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	(1.61)	(2.48)	(2.77)	(1.69)	(0.14)
Return of capital	-	-	-	-	-
Total annual distributions (c)	(1.61)	(2.48)	(2.77)	(1.69)	(0.14)
Net assets – end of year	\$26.53	\$25.72	\$22.20	\$23.08	\$19.81
Ratios and Supplemental Data					
Total net asset value (\$000s) (a)	\$97,266	\$83,272	\$74,553	\$58,754	\$31,089
Number of units outstanding (a)	3,665,716	3,237,397	3,358,822	2,545,318	1,569,711
Management expense ratio (d)	1.50%	1.50%	1.50%	1.50%	1.50%
Management expense ratio before absorptions (e)	1.50%	1.50%	1.50%	1.50%	1.50%
Trading expense ratio (f)	0.13%	0.09%	0.17%	0.29%	0.34%
Portfolio turnover rate (g)	41.54%	28.17%	35.12%	52.23%	28.93%
Net asset value per unit (a)	\$26.53	\$25.72	\$22.20	\$23.08	\$19.81

FINANCIAL HIGHLIGHTS (CONTINUED)

CLASS I					
Fund's Net Assets Per Unit (a)	2017	2016	2015	2014	2013
Net assets – beginning of year	\$13.14				
Increase (decrease) from operations:					
Total revenue	0.12				
Total expenses	(0.11)				
Realized gains (losses)	1.03				
Unrealized gains (losses)	(0.88)				
Total increase (decrease) from operations (b)	0.16				
Distributions:					
From income (excluding dividends)	-				
From dividends	-				
From capital gains	(0.77)				
Return of capital	-				
Total annual distributions (c)	(0.77)				
Net assets – end of year	\$12.51				
Ratios and Supplemental Data					
Total net asset value (\$000s) (a)	\$5,347				
Number of units outstanding (a)	427,391				
Management expense ratio (d)	1.35%				
Management expense ratio before absorptions (e)	1.35%				
Trading expense ratio (f)	0.13%				
Portfolio turnover rate (g)	41.54%				
Net asset value per unit (a)	\$12.51				
CLASS N					
Fund's Net Assets Per Unit (a)	2017	2016	2015	2014	2013
Net assets – beginning of year	\$12.15				
Increase (decrease) from operations:					
Total revenue	0.11				
Total expenses	(0.08)				
Realized gains (losses)	0.95				
Unrealized gains (losses)	(0.74)				
Total increase (decrease) from operations (b)	0.24				
Distributions:					
From income (excluding dividends)	-				
From dividends	(0.00)				
From capital gains	(0.77)				
Return of capital	-				
Total annual distributions (c)	(0.77)				
Net assets – end of year	\$11.55				
Ratios and Supplemental Data					
Total net asset value (\$000s) (a)	\$36,673				
Number of units outstanding (a)	3,174,979				
Management expense ratio (d)	1.00%				
Management expense ratio before absorptions (e)	1.00%				
Trading expense ratio (f)	0.13%				
Portfolio turnover rate (g)	41.54%				
Net asset value per unit (a)	\$11.55				

FINANCIAL HIGHLIGHTS (CONTINUED)

CLASS O					
Fund's Net Assets Per Unit (a)	2017	2016	2015	2014	2013
Net assets – beginning of year	\$25.15	\$21.78	\$22.42	\$19.50	\$14.36
Increase (decrease) from operations:					
Total revenue	0.36	0.33	0.26	0.21	0.12
Total expenses	(0.03)	(0.02)	(0.04)	(0.06)	(0.06)
Realized gains (losses)	3.13	3.25	2.54	3.69	0.71
Unrealized gains (losses)	(0.81)	4.47	(0.23)	1.13	5.55
Total increase (decrease) from operations (b)	2.65	8.03	2.53	4.97	6.33
Distributions:					
From income (excluding dividends)	(0.00)	-	-	-	(0.03)
From dividends	(0.17)	(0.26)	-	-	(0.04)
From capital gains	(1.73)	(2.69)	(2.95)	(1.88)	(0.29)
Return of capital	-	-	-	-	-
Total annual distributions (c)	(1.90)	(2.95)	(2.95)	(1.88)	(0.36)
Net assets – end of year	\$26.02	\$25.15	\$21.78	\$22.42	\$19.50
Ratios and Supplemental Data					
Total net asset value (\$000s) (a)	\$6,917	\$5,534	\$1,303	\$1,476	\$916
Number of units outstanding (a)	265,855	220,062	59,818	65,861	46,982
Management expense ratio (d)	0.00%	0.00%	0.00%	0.00%	0.00%
Management expense ratio before absorptions (e)	0.00%	0.00%	0.00%	0.00%	0.00%
Trading expense ratio (f)	0.13%	0.09%	0.17%	0.29%	0.34%
Portfolio turnover rate (g)	41.54%	28.17%	35.12%	52.23%	28.93%
Net asset value per unit (a)	\$26.02	\$25.15	\$21.78	\$22.42	\$19.50

Footnotes:

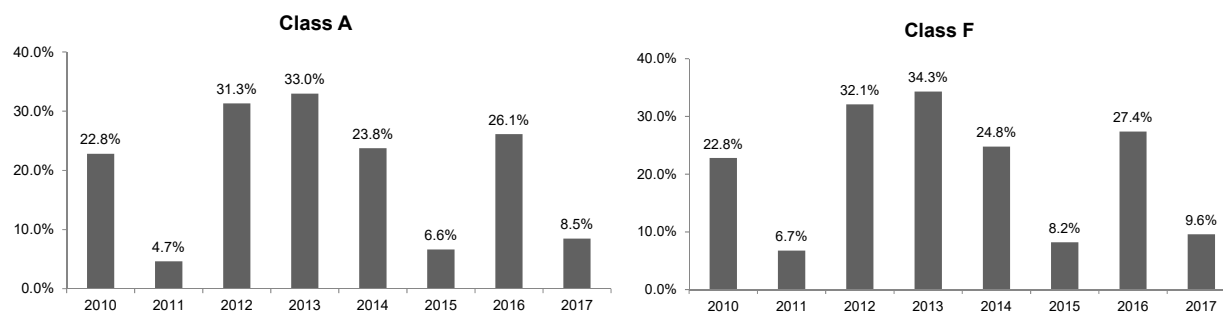
- (a) Information is derived from the Fund's financial statements prepared in accordance with IFRS. Class I and Class N of the Fund started on April 28, 2017.
- (b) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding during the year.
- (c) Distributions were paid in cash or reinvested in additional units of the Fund, or both.
- (d) Management expense ratio (MER) is based on total expenses (excluding commissions and other portfolio transaction costs) for the year and is expressed as an annualized percentage of average net asset value during the year. The MER may vary from one fund to another and from one class of units to another because of differences in the applicable management fees and certain fees and expenses may have been absorbed by the Manager which would otherwise be reflected in the Fund.
- (e) The Manager of the Fund has agreed to absorb sufficient expenses of the Fund, if necessary, so that the annual MER after all charges and taxes (including sales, goods and services and other similar charges) will not exceed certain limits as outlined in the Fund's Simplified Prospectus. The amount of expenses absorbed is at the discretion of the Manager as set out in the Fund's Simplified Prospectus. As such, the Manager may in its sole discretion cease to absorb expenses.
- (f) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of average net asset value during the year.
- (g) 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 year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund. On April 28, 2017, the Fund acquired investments totaling \$23,417,208 as a result of its merger with the Pender Small Cap Equity Fund. The value of these investments have been omitted from the calculation of this ratio for the year ended December 31, 2017.

PAST PERFORMANCE

The following charts show the past performance for the units of each class of the Fund and do not necessarily indicate how the Fund will perform in the future. The information shown assumes that any distributions made by the Fund were reinvested in additional units of the Fund; 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. Past performance are not available for any Fund classes that were not reporting issuers for the entire financial year.

Year-by-Year Returns

To illustrate how the Fund's performance has varied from year to year, the following charts show the annual returns for the calendar years indicated. The charts show, in percentage terms, how much an investment held on the first day of the year would have increased or decreased by the last day of the year.



Annual Compound Returns

The annual compound returns table compares the Fund's performance to one or more benchmarks. Benchmarks are usually an index or a composite of more than one index. An index is generally made up of a group of securities. Since the Fund does not necessarily invest in the same securities as an index or in the same proportion, the Fund's performance is not expected to equal the performance of the index. Fund returns are reported net of all management fees and expenses for all classes, 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. It may be more helpful to compare the Fund's performance to that of other mutual funds with similar objectives and investment disciplines.

The Fund's broad-based benchmark is S&P/TSX Composite Index ("S&P/TSX"). 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. A discussion of the performance of the Fund as compared to its benchmarks is found in the "Results of Operations" section of this report.

	One Year	Three Year	Five Year	Since Inception	Inception Date
Class A	8.5%	13.4%	19.1%	18.7%	06/01/2009
S&P/TSX	9.1%	6.6%	8.6%	8.1%	
Class F	9.6%	14.7%	20.4%	19.8%	06/01/2009
S&P/TSX	9.1%	6.6%	8.6%	8.1%	

SUMMARY OF INVESTMENT PORTFOLIO

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

Summary of Top 25 Holdings

	% of Net Assets
Medicure Inc.	4.0
Espial Group Inc.	3.7
Terago Inc.	3.3
GreenSpace Brands Inc.	3.2
Ebix, Inc.	3.0
Photon Control Inc.	3.0
Polaris Infrastructure Inc	3.0
Chesswood Group Limited	2.8
Sierra Wireless, Inc.	2.8
Absolute Software Corporation	2.7
Diversified Royalty Corp.	2.7
BSM Technologies Inc.	2.5
Quantum Corporation	2.5
TerraVest Capital Inc.	2.5
Maxim Power Corp	2.4
Questor Technology Inc.	2.4
Indigo Books & Music Inc.	2.2
CanWel Building Materials Group Ltd.	2.1
Mattersight Corporation	1.9
INSCAPE Corporation	1.7
Solium Capital Inc.	1.7
Freshii Inc.	1.6
Zymeworks Inc.	1.6
Tantalus Systems Corp., Class D, Convertible	1.5
Redline Communications Group Inc.	1.4

Summary of Composition of the Portfolio

	% of Net Assets
Equities	
Information technology	37.3
Consumer discretionary	10.6
Healthcare	7.4
Industrials	5.7
Utilities	5.4
Energy	4.8
Telecommunications	3.3
Consumer staples	3.2
Diversified financials	2.8
Total equities	80.5
Corporate bonds	1.3
Total investments	81.8
Cash	17.1
Other assets less liabilities	1.1
Total net assets	100.0

Caution Regarding Forward-Looking Statements

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

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

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

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

PENDER

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