ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

Pender Growth Fund (VCC) Inc.

For the year ended December 31, 2015

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 interim financial report or annual 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 our website at www.pendergrowthfund.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 (VCC) Inc. (the "Fund") invests in Eligible Small Businesses ("ESB") 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, the Fund has invested in a diversified portfolio of investments principally in the information technology and health care sectors.

The Fund has invested in a number of private and 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 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.

Fund's share structure

The Fund currently has three classes of shares issued and outstanding:

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

Class B Shares are not redeemable; however, each Class B Share may be converted into one Class R Share and one Class C Share at any time at the option of the holder.

Class R Shares are redeemable on an annual basis upon requests being delivered to the Fund by November 30th of each year, subject to the Fund having sufficient cash to meet such redemptions.

Class C Shares are not redeemable or convertible. Class C Shares are listed on the TSX Venture Exchange (TSX-V) under the ticker symbol "PTF".

Risks

The investment risks associated with this Fund are outlined in the Fund's Annual Information Form dated March 29, 2016. 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.

As a result of the Fund's capital structure described in the previous section (see note 6 to the Fund's financial statements for additional information), the investment returns of the various classes of the Fund may vary greatly. See "Past Performance" for a discussion of the returns of each Fund class.

In addition, Class C Shares of the Fund are listed on the TSX-V under the ticker symbol "PTF". There may be a difference between the net asset value ("NAV") of the Class C Shares calculated by the Manager on a weekly basis and the traded price of the shares on the TSX-V and this difference can be significant. See "Financial Highlights" for more information.

Results of Operations

The Fund's net assets as of December 31, 2015 increased overall to $14,156,965 from $14,037,095 at December 31, 2014. The Fund’s net assets increased due to an increase of $3,098,926 in market value and a decrease of $2,979,056 due to redemptions of the Fund’s shares.

At December 31, 2015, the Fund’s investment portfolio consisted of investments in public and private companies valued at $12,937,725 and cash of $407,498. The sectors in which the Fund was invested at December 31, 2015 can be found under “Summary of Investment Portfolio”.

For the year ended December 31, 2015 (the “period”), Class B units of the Fund generated a total return of 10.5%. 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. Please see the “Past Performance” section for the performance of the Fund’s others classes.

The Fund’s broad-based benchmark, S&P/TSX Composite Index, returned -11.1% during the same 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 shown.

Over half of the Fund was invested in privately held securities and there was no public market valuation on these investments, resulting in a natural disconnect from the publicly traded benchmark. The primary reason for the Fund’s outperformance as compared to the benchmark was due to the proceeds from selling one of the Fund’s private investments and is discussed further below.

For the period, the Fund made investments totaling $677,628 and dispositions totaling $4,036,445, including the following:

- Loans to BasicGov Systems, Inc. totaling $645,000; and
- Sale of its interest in Monexa Services Inc., resulting in aggregate cash proceeds of US$3.3 million. The Fund may receive an additional US$680,000, to be held in escrow until November 2017.

On May 15, 2015, the Fund borrowed $500,000 from an institutional dealer, representing 3% of the Fund’s net assets. The loan accrued interest at prime rate plus 2%, payable on demand, and was secured by publicly-traded investments within the Fund’s investment portfolio. The loan plus accrued interest was fully repaid on August 11, 2015.

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.

The Fund’s largest investment is in QHR Corporation (“QHR”). QHR provides medical records software and related products to the medical industry. QHR is the dominant player in a growing and fragmented industry and is well positioned to continue to grow its market share. In the most recently reported quarter ended September 30, 2015, QHR generated $6.2 million of revenue from the electronic medical records (“EMR”) segment, representing 18% year-over-year growth. The recurring revenue run-rate increased to $24.8 million and was 83% of the company’s overall revenue. QHR recently sold its US-based revenue cycle management division and completed an acquisition of Jonoke, a private EMR provider with 750 physicians.

During the year, the Fund took the initiative to restructure QHR’s board of directors. As a result, Kelly Edmison, Neil McDonnell and Garth Albright, nominees of the Fund, were appointed to the board of directors in June. Subsequent to the changes made to the board, QHR also appointed a new CEO in June. We continue to be optimistic about the company’s growth and value prospects.

One of the Fund’s significant investments in a private company is D-Wave Systems Inc., the maker of one of the world’s only quantum computers. It has been developing its products for over 15 years 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 $62 million in new capital in 2014 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.

Finally, another one of the Fund’s significant investments in a private company is One45 Software Inc., 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.

Recent Developments (continued)

Status of redemptions

During the period, the Fund processed redemptions totaling $2,979,056. At the end of the period, the Fund's outstanding redemption requests for Class R Shares and conversion requests for Class B Shares are as set out in the following table.

The table also sets out the total funds required by the Fund to redeem these outstanding redemptions at the current redemption price of $4.16 per Class R Share. Redemption requests received by the Fund in any given year by November 30th have priority over redemption requests received by the Fund in all subsequent years.

YEAR OF REQUEST	CLASS B SHARES	CLASS R SHARES	$ TO REDEEM
2013	-	409,407	$ 1,703,131
2014	70,360	247,807	1,323,582
2015	89,264	179,917	1,119,789
Unsubmitted	93,564	454,654	2,280,588
TOTAL	**253,188**	**1,291,785**	**$ 6,427,090**

After taking into account the Fund's working capital needs as at December 31, 2015, the Fund's board of directors has determined that the Fund is unable to redeem any further redemptions requests at this time.

Should the Fund reinstate redemptions at a future date, such redemptions will be processed, in whole or in part, as the then current redemptions price of Class R Shares. The redemption price on that future date may be significantly lower than the Class R redemption price of $4.16 per share as at December 31, 2015.

Unredeemed redemption requests in a given year have priority over any future redemption requests received by the Fund.

The ability of the Fund to redeem these shares is dependent on its ability to successfully realize the value inherent in its investment portfolio, which is comprised of both public and private investments. The valuation of private investments, for which there is no published market, is inevitably based on inherent uncertainties. Accordingly, at December 31, 2015, there is uncertainty as to whether the fair value ascribed to these securities will be realized on eventual disposition.

The Fund will update its shareholders on the status of redemptions as further determinations are made. The Manager continues to work diligently to achieve liquidity and profitable realizations.

Related Party Transactions

The Fund pays a fee 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, 2015, shareholders, directors and officers of the Manager directly or indirectly held 14% of Class C and less than 1% of Class B and Class R of the Fund.

Directors and officers of the Fund directly or indirectly own 380,260 shares (or 6% of the company's outstanding shares) of Santa Rosa Resources, and 790,904 shares (or 3% of the company's outstanding shares) of BasicGov Systems Inc., companies also held by the Fund.

Management Fees

The Fund pays management fees 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.

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 periods indicated. Class B Shares and Class R Shares are compound financial instruments, consisting of equity and liability components. For the purposes of the following tables, Class R Shares and Class B Shares are viewed as equity components of the Fund.

CLASS B

Fund's Net Assets Per Unit (a)	**2015**	**2014**	**2013**	**2012**	**2011**
Net assets – beginning of period	$5.32	$5.04	$4.20	$4.40	$4.79
Increase (decrease) in net assets from operations:					
Total revenue	0.06	0.04	0.05	0.04	0.11
Total expenses	(0.18)	(0.17)	(0.19)	(0.20)	(0.25)
Realized gains (losses)	0.89	(0.35)	0.04	0.11	(0.56)
Unrealized gains (losses)	0.01	0.76	0.94	(0.19)	0.31
Total increase (decrease) in net assets from operations (b)	**0.78**	**0.28**	**0.84**	**(0.24)**	**(0.39)**
Distributions:					
From income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
Total annual distributions	**-**	**-**	**-**	**-**	**-**
Net assets – end of period	**$6.10**	**$5.32**	**$5.04**	**$4.16**	**$4.40**

Ratios and Supplemental Data					
Total net asset value ($000s) (a)	$1,545	$1,809	$1,739	$2,399	$2,736
Number of shares outstanding (a)	253,189	339,920	345,165	585,560	585,560
Management expense ratio (c)	5.09%	5.26%	5.34%	5.75%	5.57%
Trading expense ratio (d)	0.00%	0.02%	0.00%	0.00%	0.02%
Portfolio turnover rate (e)	12.36%	4.82%	2.50%	15.80%	6.90%
Net asset value per unit (a)	$6.10	$5.32	$5.04	$4.10	$4.67

CLASS C

Fund's Net Assets Per Unit (a)	**2015**	**2014**	**2013**	**2012**	**2011**
Net assets – beginning of period	$1.16	$0.88	$0.04	$0.24	$0.63
Increase (decrease) in net assets from operations:					
Total revenue	0.06	0.04	0.05	0.04	0.11
Total expenses	(0.18)	(0.17)	(0.19)	(0.20)	(0.25)
Realized gains (losses)	0.89	(0.35)	0.04	0.11	(0.56)
Unrealized gains (losses)	0.01	0.76	0.94	(0.19)	0.31
Total increase (decrease) in net assets from operations (b)	**0.78**	**0.28**	**0.84**	**(0.24)**	**(0.39)**
Distributions:					
From income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
Total annual distributions	**-**	**-**	**-**	**-**	**-**
Net assets – end of period	**$1.94**	**$1.16**	**$0.88**	**-**	**$0.24**

Ratios and Supplemental Data					
Total net asset value ($000s) (a)	$7,237	$4,235	$3,189	$0	$1,737
Number of shares outstanding (a)	3,723,802	3,637,071	3,631,826	3,391,431	3,391,431
Management expense ratio (c)	5.09%	5.26%	5.34%	5.75%	5.57%
Trading expense ratio (d)	0.00%	0.02%	0.00%	0.00%	0.02%
Portfolio turnover rate (e)	12.36%	4.82%	2.50%	15.80%	6.90%
Net asset value per unit (a)	$1.94	$1.16	$0.88	$0.00	$0.51
Closing market price (f)	$0.74	$0.20	$0.10	$0.035	$0.07

FINANCIAL HIGHLIGHTS (CONTINUED)

CLASS R

Fund's Net Assets Per Unit (a)	**2015**	**2014**	**2013**	**2012**	**2011**
Net assets – beginning of period	$4.16	$4.16	$4.16	$4.16	$4.16
Increase (decrease) in net assets from operations:					
Total revenue	-	-	-	-	-
Total expenses	-	-	-	-	-
Realized gains (losses)	-	-	-	-	-
Unrealized gains (losses)	-	-	-	-	-
Total increase (decrease) in net assets from operations (b)	**-**	**-**	**-**	**-**	**-**
Distributions:					
From income (excluding dividends)	-	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
Total annual distributions	**-**	**-**	**-**	**-**	**-**
Net assets – end of period	**$4.16**	**$4.16**	**$4.16**	**$4.16**	**$4.16**

Ratios and Supplemental Data					
Total net asset value ($000s) (a)	$5,374	$7,992	$8,050	$10,616	$10,787
Number of shares outstanding (a)	1,291,785	1,921,173	1,935,171	2,590,889	2,593,107
Management expense ratio (c)	5.09%	5.26%	5.34%	5.75%	5.57%
Trading expense ratio (d)	0.00%	0.02%	0.00%	0.00%	0.02%
Portfolio turnover rate (e)	12.36%	4.82%	2.50%	15.80%	6.90%
Net asset value per unit (a)	$4.16	$4.16	$4.16	$4.10	$4.16

Footnotes:

(a) Information for the periods ended December 31, 2013 and later is derived from the Fund's financial statements prepared in compliance with IFRS. Information for the remaining periods 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 units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units 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.

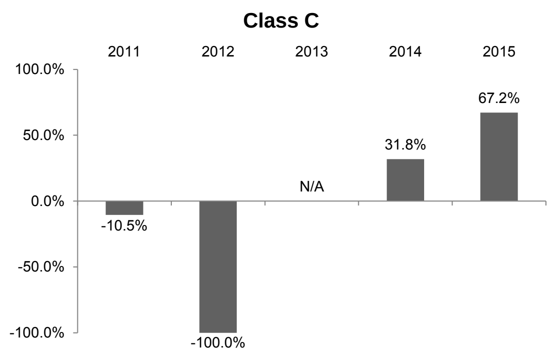
(f) Closing market price on the last trading day of the period as reported on the TSX Venture Exchange.

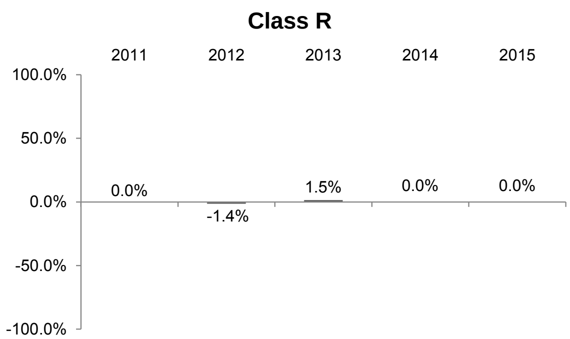
PAST PERFORMANCE

The following charts shows the past performance for the shares 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 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.

Year-by-Year Returns

To illustrate how the Fund's performance has varied from year to year, the following charts show the annual performance for the shares of each class of the Fund. 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. Performance for Class C Shares are determined based on its net asset value and does not reflect its traded price on the TSX Venture Exchange. The annual return for Class C shares for 2013 could not be calculated because its opening net asset value was nil.





Annual Compound Returns

The following table shows the one year, three year and five year compound returns, and return since inception for each class of the Fund for the respective periods ended December 31, 2015. Since inception returns are annualized returns for each class 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 B	14.7%	14.2%	5.2%	3.1%
Class C	67.2%	0.0%	27.8%	15.6%
Class R	0.0%	0.5%	0.0%	0.0%
S&P/TSX Composite Index	-11.1%	1.5%	-0.7%	2.0%

SUMMARY OF INVESTMENT PORTFOLIO

The largest holdings of the Fund as at the end of the period 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 FUND
Private unlisted investments[b]	62.7
QHR Corporation	26.6
IWG Technologies Inc.	9.6
Redline Communications Group Inc.	0.6
Santa Rosa Resources Corp.	0.1

Summary of Composition of the Portfolio

	% OF FUND
Software and services	33.0
Technology hardware and equipment	24.9
Health care equipment and services	24.3
Other sectors	9.2
TOTAL INVESTMENT PORTFOLIO	**91.4**
Cash	2.9
Other assets less liabilities	5.7
TOTAL FUND	**100.0**

(a) The Fund's investment portfolio had less than 25 holdings as at December 31, 2015.

(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., 10.00%, Cumulative, Convertible

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

LOANS AND CONVERTIBLE DEBENTURES
- BasicGov Systems, Inc., 15.00%, Convertible, 2016/12/31
- Cantronic Systems Inc., 10.00%, Demand
- Tantalus Systems Corp., 5.00%, Convertible, 2018/04/12

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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