SEMI-ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

Pender Growth Fund (VCC) Inc.

Six months ended June 30, 2016

PENDER

This interim management report of Fund Performance contains financial highlights but does not contain the interim financial report or 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

Results of Operations

Net assets of the Pender Growth Fund (VCC) Inc. (the “Fund”) as of June 30, 2016 increased overall to $16,549,877 from $14,156,965 at December 31, 2015. The Fund’s net assets increased due to an increase of $2,405,653 in market value and a decrease of $12,741 due to shareholder transactions of the Fund’s shares.

At June 30, 2016, the Fund’s investment portfolio consisted of investments in public and private companies valued at $15,716,305. The sectors in which the Fund was invested at June 30, 2016 can be found under “Summary of Investment Portfolio”.

For the six months ended June 30, 2016 (the “period”), Class B shares of the Fund generated a total return of 10.0%. 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 other classes.

The Fund’s broad-based benchmark, S&P/TSX Composite Index, returned 8.1% 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 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 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 value of one private investment.

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. The company 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. QHR has been able to demonstrate strong organic revenue growth, with a very impressive win rate in competitive situations. In the most recently reported quarter ended June 30, 2016, QHR generated $8.0 million of revenue, representing 21% period-over-period growth. The recurring revenue run-rate increased to $28.2 million and was 88% of the company’s overall revenue. QHR has improved its profitability recording 16% EBITDA margin in the quarter, comparing to 9.4% a year ago.

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 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 $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 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.

Status of redemptions

During the period, the Fund has received redemption requests for Class R shares and conversion requests for Class B shares 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
2016	8,020	38,500	193,523
Unsubmitted	84,590	411,427	2,063,430
TOTAL	**252,234**	**1,287,058**	**$ 6,403,455**

After taking into account the Fund’s working capital needs as at June 30, 2016, 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 June 30, 2016.

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

Recent Developments (Continued)

Status of redemptions (Continued)

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 June 30, 2016, 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.

Subsequent event

On August 22, 2016, the Fund entered into an agreement to sell its entire position in QHR to Loblaw Companies Limited at $3.10 per share. The transaction will be voted on at a special meeting of QHR's shareholders in October 2016. Should the transaction complete, the Fund will realize proceeds of approximately $8.1 million and anticipates that it will be in a position to fulfill further redemptions at such time.

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 June 30, 2016, 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 790,904 shares (or 3% of the company's outstanding shares) of BasicGov Systems, Inc., a company also held by the Fund.

Management Fees

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.

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 six months ended June 30, 2016 and for the years ended December 31st for the remaining years. 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 Share (a)	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
Net assets – beginning of period	$6.10	$5.32	$5.04	$4.20	$4.40	$4.79
Increase (decrease) from operations:						
Total revenue	0.02	0.06	0.04	0.05	0.04	0.11
Total expenses	(0.10)	(0.18)	(0.17)	(0.19)	(0.20)	(0.25)
Realized gains (losses)	(0.13)	0.89	(0.35)	0.04	0.11	(0.56)
Unrealized gains (losses)	0.81	0.01	0.76	0.94	(0.19)	0.31
Total increase (decrease) from operations (b)	**0.60**	**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	**$6.71**	**$6.10**	**$5.32**	**$5.04**	**$4.16**	**$4.40**

Ratios and Supplemental Data						
Total net asset value ($000s) (a)	$1,692	$1,545	$1,809	$1,739	$2,399	$2,736
Number of shares outstanding (a)	252,234	253,189	339,920	345,165	585,560	585,560
Management expense ratio (c)	5.32%	5.09%	5.26%	5.34%	5.75%	5.57%
Trading expense ratio (d)	0.00%	0.00%	0.02%	0.00%	0.00%	0.02%
Portfolio turnover rate (e)	0.00%	12.36%	4.82%	2.50%	15.80%	6.90%
Net asset value per share (a)	$6.71	$6.10	$5.32	$5.04	$4.10	$4.67

CLASS C

Fund's Net Assets Per Share (a)	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
Net assets – beginning of period	$1.94	$1.16	$0.88	$0.04	$0.24	$0.63
Increase (decrease) from operations:						
Total revenue	0.02	0.06	0.04	0.05	0.04	0.11
Total expenses	(0.10)	(0.18)	(0.17)	(0.19)	(0.20)	(0.25)
Realized gains (losses)	(0.13)	0.89	(0.35)	0.04	0.11	(0.56)
Unrealized gains (losses)	0.81	0.01	0.76	0.94	(0.19)	0.31
Total increase (decrease) from operations (b)	**0.60**	**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	**$2.55**	**$1.94**	**$1.16**	**$0.88**	**-**	**$0.24**

Ratios and Supplemental Data						
Total net asset value ($000s) (a)	$9,504	$7,237	$4,235	$3,189	$0	$1,737
Number of shares outstanding (a)	3,729,323	3,723,802	3,637,071	3,631,826	3,391,431	3,391,431
Management expense ratio (c)	5.32%	5.09%	5.26%	5.34%	5.75%	5.57%
Trading expense ratio (d)	0.00%	0.00%	0.02%	0.00%	0.00%	0.02%
Portfolio turnover rate (e)	0.00%	12.36%	4.82%	2.50%	15.80%	6.90%
Net asset value per share (a)	$2.55	$1.94	$1.16	$0.88	$0.00	$0.51
Closing market price (f)	$1.39	$0.74	$0.20	$0.10	$0.035	$0.070

FINANCIAL HIGHLIGHTS (CONTINUED)

CLASS R

Fund's Net Assets Per Share (a)	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
Net assets – beginning of period	$4.16	$4.16	$4.16	$4.16	$4.16	$4.16
Increase (decrease) from operations:						
Total revenue	-	-	-	-	-	-
Total expenses	-	-	-	-	-	-
Realized gains (losses)	-	-	-	-	-	-
Unrealized gains (losses)	-	-	-	-	-	-
Total increase (decrease) 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**	**$4.16**

Ratios and Supplemental Data						
Total net asset value ($000s) (a)	$5,354	$5,374	$7,992	$8,050	$10,616	$10,787
Number of shares outstanding (a)	1,287,058	1,291,785	1,921,173	1,935,171	2,590,889	2,593,107
Management expense ratio (c)	5.32%	5.09%	5.26%	5.34%	5.75%	5.57%
Trading expense ratio (d)	0.00%	0.00%	0.02%	0.00%	0.00%	0.02%
Portfolio turnover rate (e)	0.00%	12.36%	4.82%	2.50%	15.80%	6.90%
Net asset value per share (a)	$4.16	$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 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 s 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.

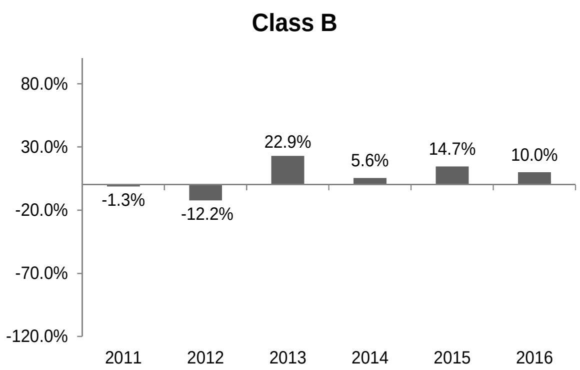
(f) Closing market price on the last trading day of the period as reported on the TSX Venture Exchange.

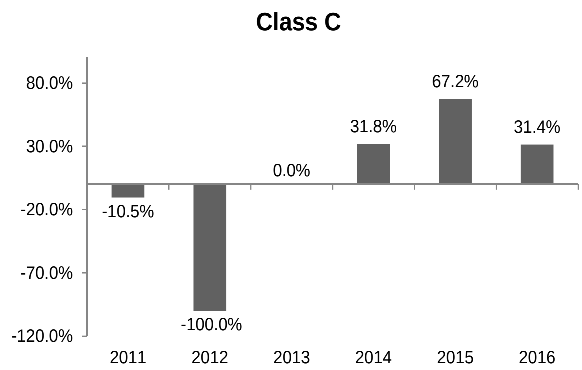
PAST PERFORMANCE

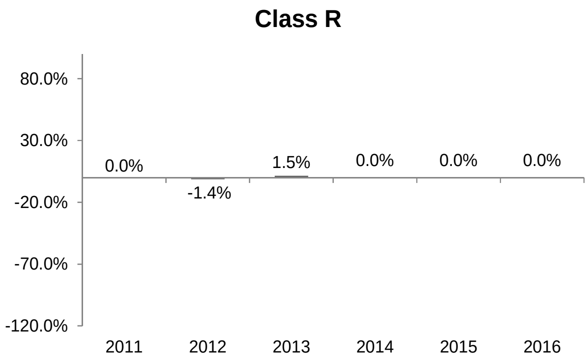
The following charts shows the past performance for the shares of each class of the Fund and do not necessarily indicate how the Fund will perform in the future. The information shown assumes that any distributions made by the Fund in the years shown were reinvested in additional shares of the Fund and 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.

Period-by-Period Returns

To illustrate how the Fund's performance has varied from period to period, the following charts show the non-annualized returns for the six months ended June 30, 2016 and annual returns for the remaining 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. 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.







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 NET ASSETS
Private unlisted investments[(b)]	56.6
QHR Corporation	30.8
IWG Technologies Inc.	7.0
Redline Communications Group Inc.	0.5

Summary of Composition of the Portfolio

	% OF NET ASSETS
Health care equipment and services	30.7
Technology hardware and equipment	28.9
Software and services	28.2
Other sectors	7.1
TOTAL INVESTMENT PORTFOLIO	**94.9**
Cash	0.6
Other assets less liabilities	4.5
TOTAL NET ASSETS	**100.0**

(a) The Fund's investment portfolio had less than 25 holdings as at June 30, 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., 2019/06/13
- BasicGov Systems, Inc., 2017/12/31

LOANS AND CONVERTIBLE DEBENTURES
- BasicGov Systems, Inc., 15%, Convertible, 2016/12/31
- Cantronic Systems Inc., Demand
- Tantalus Systems Corp., 5%, 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.

PENDER

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