



DIFFERENCE
CAPITAL

**DIFFERENCE CAPITAL FINANCIAL INC.
MANAGEMENT DISCUSSION AND ANALYSIS**

for the quarter ended September 30, 2016

November 9, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

November 9, 2016

This Management's Discussion and Analysis ("MD&A") dated November 9, 2016 presents an analysis of the financial position of Difference Capital Financial Inc. ("Difference Capital" or the "Company") as at September 30, 2016, compared with December 31, 2015, and the results of operations for the three and nine month periods ended September 30, 2016, compared to the three and nine month periods ended September 30, 2015 and the three month period ended June 30, 2016. It is supplementary information and should be read in conjunction with the Company's audited financial statements and accompanying notes as at December 31, 2015 and unaudited interim condensed financial statements and accompanying notes for the period ended September 30, 2016. All dollar amounts in this MD&A are reported in Canadian dollars, unless otherwise stated.

Regulatory filings for Difference Capital may be found on SEDAR at www.sedar.com, while other information related to the Company is published on the Company's website at www.differencecapital.com.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The unaudited interim condensed financial statements for the three and nine months ended September 30, 2016 have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as issued by the International Accounting Standards Board and on a basis consistent with the accounting policies disclosed in the annual audited financial statements for the year ended December 31, 2015.

FORWARD-LOOKING STATEMENTS

Certain information contained in this MD&A constitutes forward-looking information, which is information relating to possible events, conditions or results of operations of the Company, which are based on assumptions about future economic conditions and courses of action and which are inherently uncertain. All information other than statements of historical fact may be forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "target", "intend", "could", "might", "should", "believe", and similar words or phrases (including negative variations) suggesting future outcomes or statements regarding an outlook. Forward-looking information in this MD&A includes, but is not limited to, statements with respect to: the Company's investment approach, objectives and strategy, including its focus on specific sectors; the structuring of its investments and its plans to manage its investments; the Company's financial performance; and its expectations regarding the performance of certain sectors.

Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Company believes that the expectations reflected in the forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct. Some of the risks and other factors which could cause results to differ materially from those expressed in forward-looking information contained in this MD&A include, but are not limited to: the nature of the Company's investments; the available opportunities and competition for its investments; the concentration of its investments in certain industries and sectors; the Company's dependence on its management team; risks affecting the Company's investments; global political and economic conditions; investments by the Company in private issuers which have illiquid securities; management of the growth of the Company; exchange rate fluctuations; and other risks and factors discussed in this MD&A under "Risk Factors".

Although the Company has attempted to identify important factors that could cause actual events or results to differ materially from those described in forward-looking information, there may be other factors that cause events or results to differ from those intended, anticipated or estimated. Readers are cautioned that the foregoing list of risks and factors is not exhaustive. The forward-looking information contained in this MD&A is provided as at the date of this MD&A, based upon the opinions and estimates of management and information available to management as at the date of this MD&A, and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law. Readers are cautioned not to place undue reliance on forward-looking information contained in this MD&A.

NOTE REGARDING NON-IFRS FINANCIAL MEASURES

This document contains references to “Net Asset Value” (basic and fully diluted) (“NAV”), which is a non-IFRS financial measure. The basic NAV is calculated by subtracting the aggregate fair value of the liabilities of the Company from the aggregate fair value of the assets of the Company on the date on which the calculation is being made and NAV per share is NAV divided by the total number of common shares of the Company outstanding as at the measurement date. Fully diluted NAV is calculated by taking basic NAV and accounting for any dilutive impact of outstanding securities of the Company that are convertible into or exercisable for common shares. The term net asset value per share does not have any standardized meaning according to IFRS and therefore may not be comparable to similar measures presented by other companies. Management believes that the measure can provide information useful to its shareholders in understanding the Company’s performance and facilitate the comparison of the results of its ongoing operations, and may assist in the evaluation of the Company’s business, relative to that of its peers.

ABOUT DIFFERENCE CAPITAL

Difference Capital is an investment company focused on creating shareholder value through strategic investments in growth companies. The Company aims to generate medium to long-term capital growth by investing in a diversified investment portfolio consisting predominantly of securities of private companies, particularly in the technology, media and health care sectors (“Target Companies”).

The Company believes that its continued growth and success is strongly linked to its management team and human capital in addition to its strong partnerships with current and potential investee partners. The Company has assembled a dynamic management team, which brings together different skillsets that uniquely position it to identify investment opportunities and add value to these investments, thus driving returns for its shareholders. The Company believes that having management aligned with shareholders will be a key driver of long-term performance. As of November 9, 2016 management and directors own approximately 47% of the Company’s issued and outstanding common shares.

The Company is located in the Province of Ontario, Canada and its principal address is 130 Adelaide Street West, Suite 1010, Toronto, Ontario, M5H 3P5. The Company’s registered office is located at Wildeboer Dellelce Place, Suite 800, 365 Bay Street, Toronto, Ontario, M5H 2V1. The Company is a reporting issuer in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador.

BUSINESS STRATEGY

The Company provides investors with an opportunity to gain exposure to unique investments. The Company generally, albeit not exclusively, seeks to invest in the mid to later stages of a target company's development or in emerging technologies that are developed and validated but may be in the early stage of commercialization. This strategy allows the Company to invest in enterprises that are commercially viable and have visibility toward high growth. In the past, the Company has also made significant investments in early stage private companies as well as opportunistic investments in distressed United States real estate. The Company no longer seeks to allocate capital to real estate investments, and will seek to divest such assets in the medium term.

The Company is not bound to commit to any particular sector, thereby allowing for diversification; however, the present focus is generally on technology-related, media-related and other growth focused, intellectual property-rich target companies. This approach may change over time as market conditions change and the capital markets respond. The Company evaluates each opportunity on its merits. The Company enters investments at a stage where potential exists to maximize strong returns and manages risk by applying the considerable business expertise of its directors and officers to the investments undertaken. With the continued investment of the Company's resources into strategically targeted sectors, the Company is well positioned to benefit from a global economic recovery and positive trends in Canadian and international growth companies. There are very few institutional investors in Canada focused on this sector, providing an opportunity for our team to capitalize on evolving growth trends.

In pursuit of returns, the Company, when appropriate, employs the following disciplines:

- The Company seeks to invest in later stage financings of private target companies. These rounds are typically labeled as series C or D rounds or "Pre-IPO".
- The Company seeks investments that include as many of the following characteristics as possible: (i) a product/service with global market potential; (ii) an established business model with high gross margins that indicate strong competitive advantages; (iii) the ability to sustain a growth rate in excess of 25% per annum; (iv) protected intellectual property; (v) scalability; and (vi) currently generating revenue in excess of several million dollars.
- At this time, the Company seeks investments primarily, albeit not exclusively, in the technology and media sectors where we have developed domain expertise and focuses on investments with clear paths to liquidity in a two to four year period. As investee companies need to be managed for cash flow in order to reduce financing risks associated with delayed liquidity events, certain sectors will not be considered by the Company.
- To compensate for the risk of investing in private companies, the Company has a target rate of return when entering such an investment of greater than a typical equity index return. Returns are expected to materialize partially from income on its debt and convertible debenture holdings, but primarily through capital gains based on the growth of its equity and equity-linked securities.
- The Company acquires a detailed knowledge of the business and sector of the target company.
- Where appropriate, the Company seeks board representation or board observation rights.
- The Company utilizes the services of independent advisors and consultants to acquire additional information about target companies where appropriate.

The Company also considers opportunistic investments that come to its attention through its proprietary deal flow. The investment management team of the Company has extensive experience with a variety of asset classes and strategies including real estate, arbitrage, structured products, long/short equity, market-making, and proprietary trading. The Company is well-positioned to evaluate unique investments that offer

significant potential returns on both an absolute and risk-adjusted basis. Such opportunities exist due to structural, market, legal, regulatory, tax, informational or other idiosyncratic inefficiencies. It is the Company's plan that should it identify a strategy or asset class that it believes merits significant investment beyond its own allocation, the Company may choose to contribute such assets to a separate vehicle and offer to existing shareholders and other potential investors the ability to co-invest with the Company in this new entity. Since 2013, the Company has chosen to deemphasize alternative asset classes in order to focus its efforts on the late stage, pre-IPO growth companies described above.

The Company continues to be focused on the overall liquidity of its balance sheet. It intends to make only very few select new investments in the coming year, while focusing on supporting existing investee companies and on monetizing appropriate positions when and where possible.

RESULTS OF OPERATIONS

The selected interim financial information set out below for the eight most recently completed quarters has been derived from the Company's unaudited interim financial statements and accompanying notes posted on www.sedar.com. Readers should read the following financial information in conjunction with those statements and notes.

(\$000's, except per share amounts)	2016			2015				2014
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Net realized gain (loss) on disposals of investments and marketable securities	(2,863)	(8,655)	(2,445)	1,983	(19,248)	346	(8,350)	227
Net change in unrealized gain (loss) on investments and marketable securities	(2,002)	13,582	310	(716)	26,650	(1,925)	14,161	(23,407)
Net gain (loss) on investments and marketable securities	(4,865)	4,927	(2,135)	1,267	7,402	(1,579)	5,811	(23,180)
Other income	290	465	336	1,015	625	709	1,346	1,031
Total expenses	(1,736)	(1,768)	(2,204)	(2,225)	(4,204)	(4,361)	(3,661)	(3,756)
Net income (loss)	(6,311)	3,624	(4,003)	57	3,823	(5,231)	3,496	(25,905)
Earnings (loss) per share	(0.21)	0.12	(0.14)	0.00	0.11	(0.14)	0.09	(0.68)
Total assets	84,018	90,561	89,025	93,066	111,243	107,692	113,678	114,952
Total liabilities	31,475	31,788	33,844	34,190	45,426	45,698	46,107	49,018
Net asset value	52,543	58,773	55,181	58,876	65,817	61,994	67,571	65,934
Shares outstanding	29,335	29,362	29,362	29,362	35,941	35,941	36,329	38,198
Net asset value per share	1.79	2.00	1.88	2.01	1.83	1.72	1.86	1.73
Share price	1.04	1.02	1.20	0.97	0.76	0.82	0.93	1.14

Quarter Ended September 30, 2016

Net loss for the quarter ended September 30, 2016 was \$6.3 million or \$0.21 per share compared to net income of \$3.8 million, or \$0.11 per share, for the quarter ended September 30, 2015 and net income of \$3.6 million, or \$0.12 per share, for the quarter ended June 30, 2016.

During the quarter ended September 30, 2016, the Company recorded \$4.9 million net loss on investments and marketable securities, compared to a net gain of \$7.4 million during the quarter ended September 30, 2015. The net loss during the most recent quarter was primarily attributed to fair value adjustments of three private holdings totalling \$5.6 million. These losses were offset by net gain on disposals of investments of \$0.7 million.

Other income decreased from \$0.6 million for the three months ended September 30, 2015 to \$0.3 million for the three months ended September 30, 2016, primarily due to lower interest and dividend income generated from a smaller portfolio of convertible debentures and debentures.

Total expenses during the quarter ended September 30, 2016 were \$1.7 million compared to \$4.2 million during the quarter ended September 30, 2015. The significant components of expenses were as follows:

- Compensation expense for the three months ended September 30, 2016 was \$0.5 million versus \$0.7 million during the same period in 2015.
- Financing costs were \$0.9 million compared to \$1.2 million during the same period in 2015, as the Company continues to take steps to reduce its outstanding convertible debentures through buybacks.
- Included in transaction costs during the quarter ended September 30 2015 was a non-recurring \$1.4 million transaction cost related to the WG Limited (World Gaming) sale.

Nine Months Ended September 30, 2016

For the nine months ended September 30, 2016, the Company reported a net loss of \$6.7 million, or \$0.23 per share, versus a net income of \$2.1 million, or \$0.06 per share, for the nine months ended September 30, 2015.

The Company recorded \$14.0 million of net realized loss on dispositions of investments and marketable securities during the nine months ended September 30, 2016 compared with \$27.3 million in net realized loss in the prior year. The realized losses were primarily attributed to the restructuring of the Company's investment in the convertible debentures of Cricket Media Group Ltd. ("Cricket Media"), write-offs of the Company's private investments in Crailar Technologies Inc. ("Crailar"), Shop.ca Network Inc. ("Shop.ca") and iPowow! Inc. ("iPowow") and disposals of publicly traded investments in EQ Inc. ("EQ") and Kalina Power Ltd. ("Kalina"). The realized losses were offset by \$2.9 million of realized gains from the Quickplay Media Inc. ("Quickplay") and BTI Systems Inc. ("BTI") sale transactions.

For the nine months ended September 30, 2016, the Company recorded \$11.9 million of net change in unrealized gain on investments and marketable securities, compared to a net change in unrealized gain of \$38.9 million during the same period last year. The unrealized gain was primarily due to the reversal of previously unrealized losses on investments in Cricket Media, Crailar, Shop.ca, iPowow, EQ and Kalina, totalling \$16.5 million that were recognized as realized losses during the period, and a markup on the Company's U.S. real estate investment of \$4.5 million. These unrealized gains were offset by markdowns of three private holdings totalling \$6.7 million and unrealized loss on foreign exchange of \$1.2 million from the Company's investments in U.S. assets.

Other income for the nine months ended September 30, 2016 decreased to \$1.1 million compared to \$2.7 million in the prior year, primarily due to lower interest and dividend income generated from a smaller portfolio of convertible debentures and debentures.

Total expenses during the nine months ended September 30, 2016 were \$5.7 million compared to \$12.2 million in the same period in 2015. The significant components of expenses were as follows:

- Compensation expense for the nine months ended September 30, 2016 was \$2.0 million versus \$0.8 million during the same period in 2015. Effective June 1, 2015, the management agreement ("Management Agreement" with Difference Capital Management Inc. ("DCM") was terminated in connection with the internalization acquisition (the "Internalization Acquisition") of Difference Capital Inc. ("DCI") and all DCM and DCI employees became employees of the Company.
- Financing costs were \$2.7 million compared to \$3.8 million during the same period in 2015, as the Company took steps in 2015 to reduce its outstanding convertible debentures through its normal course issuer bid and a substantial issuer bid.

- Included in 2015 total expenses was \$2.4 million of acquisition costs related to the Internalization Acquisition and \$1.4 million of transaction costs on the sale of WG Ltd. (“World Gaming”).

LIQUIDITY AND CAPITAL RESOURCES

During the quarter ended September 30, 2016, cash used in operating activities was \$0.9 million, compared to \$2.7 million during the same period in 2015. The Company received \$0.9 million in net proceeds of investments and marketable securities compared to \$7.2 million during the same period in the prior year.

As at September 30, 2016, the Company had \$15.0 million of cash and cash equivalents versus \$13.1 million as at December 31, 2015. In addition, the Company had \$3.5 million of distribution receivables as at September 30, 2016 from prior sales of World Gaming, infraReDx, Inc. (“Infraredx”), BTI, and Quickplay. Total investable assets, calculated as Net Asset Value excluding the outstanding principal on its senior unsecured convertible debentures (“Debentures”), as of September 30, 2016 were \$83.0 million compared to \$91.3 million at December 31, 2015.

As at September 30, 2016, the Company’s investment and marketable securities portfolios were \$65.2 million compared to \$76.9 million at December 31, 2015.

As at September 30, 2016, the Company had \$32.3 million in Debentures. On December 11, 2015, the Company received approval from the TSX to renew its normal course issuer bid (“2016 Debenture NCIB”) to repurchase its Debentures. Pursuant to the policies of the TSX, the Company is authorized to acquire up to \$3.3 million principal amount of its Debentures, representing 10.0% of the public float of the outstanding Debentures. The 2016 Debenture NCIB will expire on December 14, 2016. During the nine months ended September 30, 2016, the Company repurchased \$2.9 million principal amount of the Debentures for an aggregate consideration of \$2.6 million. The Company has completed its 2016 Debenture NCIB.

On September 13, 2016, the Company received approval from the TSX to renew its normal course issuer bid (“2016 Share NCIB”) to repurchase its common shares. Pursuant to the policies of the TSX, the Company is authorized to repurchase up to 1,555,661 of its common shares, representing 10% of the public float of the outstanding common shares. The 2016 Share NCIB will expire on September 14, 2017. During the nine months ended September 30, 2016, 27,000 common shares were repurchased under the normal course issuer bid at an average cost of \$1.02 per common share for total consideration of \$0.0 million. Contributed Surplus was increased by \$0.1 million for the cost of the common shares repurchased below their stated value.

During the quarter, shareholders’ equity decreased by \$6.3 million to \$52.5 million.

Net Asset Value as at September 30, 2016 was \$52.5 million or \$1.79 per share compared to \$58.9 million, or \$2.01 per share, as at December 31, 2015, and \$65.8 million, or \$1.83 per share as at September 30, 2015.

Subsequent to quarter-end, the Company invested an additional \$1.5 million in convertible debentures of BuildDirect.com Technologies Inc.

The Company believes it has adequate working capital to support its operations. The Company’s primary use of cash is to make investments and to pay for operating expenses.

INVESTMENTS

The table below provides a summary of the Company's investments by industry sector as at September 30, 2016:

Industry Sector	Average Cost (\$000)	Fair Value (\$000)
Financial Technologies	7,937	7,722
Healthcare	6,537	4,968
Internet	18,686	13,506
Media/Media Technologies	15,362	12,745
Technologies	16,816	12,839
Other	9,018	13,222
	74,355	65,003

See Schedule of Investments on page 6 of the unaudited interim condensed financial statements and accompanying notes for the quarter ended September 30, 2016 for additional details.

During the three months ended September 30, 2016, the Company made fair value adjustments to three of its private holdings based on comparable company trading multiples analysis, subsequent financing rounds and/or qualitative observations reflecting the current financial situation of these companies. The adjustments resulted in \$5.6 million of unrealized loss in the fair value of these investments.

MARKETABLE SECURITIES

Marketable securities are acquired principally for the purpose of selling or repurchasing in the near term. Marketable securities include equity securities, debt securities and warrants of public company issuers that are publicly traded on recognized stock exchanges. Marketable securities are carried at their fair value and any changes in fair value are recognized in income as a change in unrealized gain (loss) on investments.

Marketable securities owned consist of the following:

	September 30, 2016 Marketable securities (\$000)	December 31, 2015 Marketable securities (\$000)
Equity securities	161	378
	161	378

RELATED PARTY TRANSACTIONS

Management Agreement

Prior to June 1, 2015, the Company had a Management Agreement with DCM. Effective June 1, 2015, the Management Agreement with DCM was terminated in connection with the Internalization Acquisition of DCI and all DCM and DCI employees became employees of the Company.

Under the terms of the Management Agreement prior to the Internalization Acquisition, the Company was also entitled to receive 40% of all advisory and equity capital market revenues generated by DCM, and the Company was required to reimburse DCM for certain operating expenses.

The Company reimbursed DCM \$0.2 million for occupancy cost during the nine months ended September 30, 2016.

CONTRACTUAL OBLIGATIONS

The table below is a summary of the Company's contractual obligations at September 30, 2016:

<i>(thousands of dollars)</i>	Total	1 year or less	1 to 3 years
Accounts payable and accrued liabilities	615	615	-
Interest on Convertible Debentures	5,166	2,583	2,583
Convertible Debentures	32,289	-	32,289
Total	38,070	3,198	34,872

The Company pays management a bonus pool equivalent to 20% of the increase in investable assets over a hurdle rate of 3.0% per annum, with a perpetual high water mark beginning with the December 31, 2014 total investable assets. Investable assets are determined by subtracting the aggregate fair value of the liabilities of the Company (excluding any convertible debentures or debentures issued by the Company) from the aggregate fair value of the assets of the Company on the date on which the calculation is being made. For the purposes of the annual incentive cash bonus calculation, change in investable assets exclude any equity and debt capital raised or repurchased by the Company during the period in which the calculation is being made. Individual bonus pool allocations to management and employees are subject to Board approval. As at September 30, 2016, no accrual for the 2016 annual incentive bonus pool was made (December 31, 2015 - \$0.1 million).

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Company's financial statements in accordance with IFRS requires management to make estimates and exercise judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Key areas of estimation where management has made difficult, complex or subjective judgments include:

Fair Value of privately held investments

The determination of the fair value of privately held investments, which include debt and equity securities requires that judgement be applied to the specific facts and circumstances of each investment. Actual results could differ from these estimates. Refer to Note 11, Fair Value Measurement, in the annual 2015 audited financial statements, for disclosure on fair value estimation of private investments.

Equity based compensation

The compensation expense for awards of stock options is estimated using a Black-Scholes option pricing model which requires the use of assumptions. Refer to Note 9, Stock Option Plan, in the interim condensed financial statements for more details.

FUTURE ACCOUNTING CHANGES

The Company continues to monitor the potential changes proposed by the International Accounting Standards Board and considers the impact changes in the standards would have on the Company's operations.

IFRS 9 Financial Instruments (“IFRS 9”)

IFRS 9 was issued by the International Accounting Standards Board on July 24, 2014 and will replace IAS 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”). IFRS 9 requires financial instrument classification and related measurement practices to be based primarily on an entity's business model objectives when managing those financial assets and on the extent to which contractual cash flows exist within the financial assets. The standard also introduces a new expected loss impairment model. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is evaluating the potential impacts of this new standard on the financial statements.

IFRS 15 Revenue from Contracts and Customers (“IFRS 15”)

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company is evaluating the potential impacts of this new standard on the financial statements.

Amendments to IFRS 10, Consolidated Financial Statements (“IFRS 10”) and *IAS 28, Investment in Associates and Joint Ventures* (“IAS 28”)

The amendments were issued September 2014 and are effective in annual periods beginning on or after January 1, 2016, to be applied prospectively. The amendments require that upon sale or contribution of assets between an investor and its associate or joint venture, full gain recognition on the transfer is recognized when a transaction involves assets that do not constitute a business under IFRS 3. These amendments are not expected to have a significant impact on the Company.

Additional amendments were issued in December 2014 and are effective for the annual period beginning on or after January 1, 2016, to be applied retrospectively. The amendments clarify the requirements when accounting for investment entities. These amendments are not expected to have a significant impact on the Company.

Annual Improvements 2012-2014 Cycle

Annual Improvements 2012-2014 Cycle was issued in September 2014 and is effective for the annual period beginning on or after January 1, 2016. Five minor amendments to different accounting standards were issued as part of the Annual Improvement process of which includes IFRS 7, *Financial Instruments: Disclosures* and IAS 34, *Interim Financial Reporting*. These amendments are not expected to have a significant impact on the Company.

Amendments to IAS 1, Presentation of Financial Statements (“IAS 1”)

Amendments to IAS 1 were issued in December 2014 and are effective for the annual period beginning on or after January 1, 2016. The amendments clarify existing requirements relating to materiality and

aggregation, along with presentation of subtotals in the financial statements. These amendments are not expected to have a significant impact on the Company.

Amendments to IAS 7, Statement of Cash Flows (“IAS 7”)

In January 2016, the IASB issued amendments to IAS 7, which will require specific disclosures for movements in certain liabilities on the statement of cash flow. These amendments are effective January 1, 2017 and are not expected to have a significant impact on the Company.

Amendments to IAS 12, Income Taxes (“IAS 12”)

In January 2016, the IASB issued amendments to IAS 12, clarifying how to account for deferred tax assets related to debt instruments measured at fair value. These amendments are effective January 1, 2017 and are not expected to have a significant impact on the Company.

OUTSTANDING SHARE DATA

The Company has two authorized classes of shares: an unlimited number of common shares and an unlimited number of preference shares, issuable in series.

As at November 9, 2016, there were 29,306,084 common shares outstanding. There are no outstanding preference shares.

As at November 9, 2016, there was an aggregate principal amount of \$32.3 million of Debentures outstanding, convertible into 5,615,478 common shares at a conversion price of \$5.75 per common share.

The Company has an incentive stock option plan (the “Stock Option Plan”), as amended and restated on June 13, 2013, for the directors, officers and employees of the Company. Under the Stock Option Plan, the number of common shares that may be issued as a result of the grant of options shall not exceed 10% of the number of the then-issued and outstanding common shares of the Company at the time of grant. As at November 9, 2016, 10% of the issued and outstanding common shares was 2,931,068 common shares. During the quarter ended March 31, 2016, the Company granted 2,025,000 options to its directors, officers and employees. Each option is exercisable for a ten-year period, expiring March 13, 2026, to acquire one common share at a price of \$1.34 per share. One-third of the options vest immediately; one third of the options shall vest on the first anniversary of the grant date; and one third of the options shall vest on the second anniversary of the grant date. As at November 9, 2016, an additional 906,068 common shares could have been granted under the Company’s Stock Option Plan.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company’s disclosure controls and procedures are designed to provide reasonable assurance the information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified under securities laws and include controls and procedures that are designed to ensure that information is accumulated and communicated to management including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) to allow timely decisions regarding disclosure. The CEO and CFO, together with management, are responsible for the design of the Company’s disclosure control and procedures (as defined in National Instrument 52-109 *Certification of Disclosure in Issuers’ Annual and Interim Filings*). Management, under the direction of the CEO and CFO, has evaluated the effectiveness of the disclosure controls and procedures as at September 30, 2016, and has concluded that they are reasonably assured that such controls and procedures were effective.

Management, under the supervision of the CEO and CFO, is responsible for the design and maintenance of adequate internal controls over financial reporting for the purposes of providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. However, due to its inherent limitations, internal controls over financial reporting can only provide reasonable, not absolute, assurance that the financial statements are free of misstatements. Management, under the direction of the CEO and CFO, evaluated the effectiveness of the Company's internal controls over financial reporting as at September 30, 2016 and has concluded that internal control over financial reporting was appropriately designed and operating effectively. There have been no changes during the quarter ended September 30, 2016 in the Company's internal controls over financial reporting that have materially affected, or are reasonable likely to materially affect, the Company's internal controls over financial reporting.