DIFFERENCE CAPITAL FINANCIAL INC.
MANAGEMENT DISCUSSION AND ANALYSIS

for the year ended December 31, 2014

March 6, 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS

March 6, 2015

This Management's Discussion and Analysis ("MD&A") dated March 6, 2015 presents an analysis of the financial position of Difference Capital Financial Inc. ("Difference Capital" or the "Company") as at December 31, 2014, compared with December 31, 2013, and the results of operations for the year ended and quarter ended December 31, 2014, compared with the year ended and quarter ended December 31, 2013 and the quarter ended September 30, 2014. It is supplementary information and should be read in conjunction with the Company's audited financial statements and accompanying notes as at December 31, 2014 and unaudited interim financial statements and accompanying notes for the period ended September 30, 2014. 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

On January 1, 2014, the Company adopted International Financial Reporting Standards ("IFRS") for financial reporting purposes, using a transition date of January 1, 2013. The financial statements for the year ended December 31, 2014, including required comparative information, have been prepared in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*, as issued by the International Accounting Standards Board. Previously, the Company prepared its annual Financial Statements in accordance with Canadian generally accepted accounting principles ("GAAP"). Unless otherwise noted, 2013 comparative information has been prepared in accordance with IFRS.

The adoption of IFRS has not had a material impact on the Company's operations, strategic directions and cash flow. Refer to the Adoption of International Financial Reporting Standards section included in this MD&A for more detailed information.

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 manager and 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) ("Net Asset Value" or "NAV"), which is a non-IFRS financial measure. The Company calculates basic NAV 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 as NAV divided by the total number of common shares of the Company outstanding as at a specific 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 as if they had been converted or exercised. 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 a specialty finance company focused on creating shareholder value through strategic investments in, and advisory services for, growth companies, particularly in the technology, media and healthcare sectors, as well as opportunistic investments in undervalued financial assets and real property. The Company's investment strategy is currently primarily, albeit not exclusively, focused on investments in debt and equity securities in mid to later stage privately held target companies ("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 March 6, 2015 management and directors own approximately 26% of the Company's issued and outstanding common shares.

Difference Capital Management Inc. (the "Manager"), the manager of the Company, is responsible for the Company's entire portfolio and considers the business to be comprised of one operating segment. Investment decisions are based on the strategy/disciplines outlined below, and performance is evaluated on an overall basis.

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 at the discretion of the Manager. 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 merchant banks in Canada focused on this sector, providing an opportunity for our team to capitalize on evolving growth trends.

While the Company has in the past made aggregate investments in the securities of a single issuer of up to $30 million, typical investment allocations range from $2.0 million to $5.0 million. While some investments in the past have been in the form of convertible debt, many of the newer investments are in the form of equity. We generally feel that equity capital structures are more appropriate for growth companies and offer more upside potential to the Company.

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 national/international market potential; (ii) an established business model with high gross margins that support strong competitive advantages; (iii) the ability to sustain 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 three year period. As investment issuers 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.

- The Company has a target rate of return when entering an investment in a Target Company 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 Manager also considers opportunistic investments that come to its attention through its proprietary deal flow. The Manager 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 Manager 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 has executed a management agreement with the Manager, dated January 18, 2013 with effect as of May 29, 2012, as amended by an amending agreement dated March 26, 2014 with effect as of July 1, 2013 (the "Management Agreement"). As compensation for its management services, the Company pays the Manager an annual management fee (the "Management Fee") in the amount equal to 2% plus HST of the net asset value of the Company, as determined by subtracting the aggregate fair value of the liabilities of the Company (excluding any convertible debentures or debentures that have a term of greater than one year, in each case, for greater certainty, debentures that have been issued by the Company which includes the Company's current unsecured subordinated debentures) from the aggregate fair value of the assets of the Corporation on the date on which the calculation is being made, calculated and payable monthly as of the last business day of each month. Under the Management Agreement, the Company is entitled to receive 40% of any advisory or consultancy fees, net of direct expenses, earned by the Manager.

2014 REVIEW

During 2014, the Company made significant effort to refocus the portfolio on later stage investments, restructure underperforming investments and in the process revalued several positions. The refocusing effort saw most new investments and follow-on investments directed at Target Companies that could be considered capable of going public (IPO capable) typically within 24 months of the Company's initial investment. By the end of 2014 we believe we have nine investee companies that are IPO capable. This is not to say that we believe all will IPO in the near term, but that they are close to that stage and scale and that they would be attractive Canadian IPO candidates, should they decide to follow that route to access capital for future growth.

In terms of restructuring, considerable time was spent on several key investments to enhance overall portfolio returns and reduce future losses. We worked with an strengthened WG Limited ("World Gaming) management team to improve the business model and balance sheet as well as helped it complete a new round of funding that gives it more time to pursue several new opportunities to grow revenues and/or seek a merger with a strategic partner. A restructured World Gaming nevertheless continues to face significant challenges - as all emerging technology companies do. Should material new relationships not be concluded in 2015, World Gaming could potentially face a going-concern issue. In the case of Lignol Energy Corporation ("Lignol Energy), the combination of no revenues, lower global oil prices, reduced outlook for Australian biodiesel subsidies, and continued cash burn at the company caused us to place the company into receivership and seek to recover on our secured debt position. This process is nearly complete and we do expect some recovery.

During 2014 we also took steps to revalue several earlier private investments in addition to World Gaming and Lignol Energy. These firms included principally Cricket Media Corporation ("Cricket Media"), Crailar Technologies Inc. ("Crailar"), Fem Med Formulas Limited Partnership ("Fem Med") and iPowow! Inc. ("iPowow"). These new valuations reflect past performance, current outlook, existing financial position as well as valuations of comparable public companies and other transactions. By revaluing these investments we hope to build investor confidence in our asset values.

Advisory fee revenue sharing from the Manager was down in 2014 as the three largest contributors to this revenue source in 2013, World Gaming, Lignol Energy and Cricket Media, all struggled financially in 2014. The highlight of the year was the Manager's role in advising the management team of BuildDirect.com Technologies Inc. as they successfully raised $50 million in private equity funding.

OUTLOOK

We continue to be encouraged by overall market trends including the increased demand for quality technology and media companies in the public markets. We believe Canadian and global markets continue to shift capital from commodity focused to growth oriented investments and this should help the valuation of our portfolio of technology and media companies.

We believe the Company enters 2015 with a core portfolio of investment assets that are poised for a potential liquidity event such as an IPO or trade sale over the next 12 to 24 months. As at December 31, 2014, these core holdings represent approximately 50% of the Company's investment assets.

It is our plan to continue to increase the portion of the portfolio that is late stage and IPO capable. We also see our exposure to earlier stage and underperforming investments continuing to decline as we seek to limit further capital commitments to these stages of corporate development and look to selectively exit some of these positions.

We also expect to be less active in new deals in 2015, while we focus on supporting our stronger existing investments as well as carefully managing our cash position and balance sheet.

Advisory fee revenues going forward will be a positive by-product of strong investment decisions and not a focus of the Manager's business, per se.

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RESULTS OF OPERATIONS

SELECTED ANNUAL INFORMATION:

($000's, except per share amounts)	Years Ended December 31		
	2014	**2013**	**2012**
Net realized gain (loss) on disposals of investments and marketable securities	$4,635	$1,680	$872
Net change in unrealized gain (loss) on investments and marketable securities	(43,431)	(18,673)	6,026
Other income	7,021	5,863	906
Total expenses	(16,313)	(8,888)	(3,528)
Net income (loss)	(48,088)	(20,018)	4,276
Earnings (loss) per share	$(1.24)	$(0.62)	$0.40
Total assets	114,952	168,814	93,342
Total liabilities	49,018	53,276	3,487
Net asset value	65,934	115,538	89,855
Shares outstanding	38,198	39,132	11,883
Net asset value per share	$1.73	$2.95	$3.29
Share price*	$1.14	$2.75	$3.40

**post share consolidations*

Year Ended December 31, 2014

For the year ended December 31, 2014, the Company reported a net loss of $48.1 million, or $1.24 per share compared to a net loss of $20.0 million, or $0.62 per share for the year ended December 31, 2013.

The Company realized a $4.6 million gain on dispositions of investments and marketable securities during 2014 compared with $1.7 million in realized gain during 2013. The realized gain during the current year was primarily attributed to a $2.7 million gain on the conversion and disposition of the Enterprise Group Inc. common shares and a $1.7 million gain on the disposition of common shares in BENEV Capital Inc. ("Benev").

During the year ended December 31, 2014, the Company recorded $43.4 million of net change in unrealized depreciation on investments and marketable securities, compared to a net change in unrealized depreciation of $18.7 million during 2013. The net change in unrealized depreciation recorded during the year was primarily due to write-downs of privately held investments including Lignol Energy, World Gaming, Cricket Media, Fem Med, iPowow, and Appinions Inc. ("Appinions"), as well as marked-to-market losses in publicly listed securities including Lignol Energy. The net change in unrealized depreciation was partially offset by unrealized appreciation of private held investments including BuildDirect.com Technologies Inc., Blue Ant Media Inc. and Carta Solutions Holding Corporation as well as approximately $3.3 million of net change in unrealized appreciation of foreign exchange.

Other income for the year ended December 31, 2014 was $7.0 million, compared to $5.9 million during the same period in 2013. Included in other income were interest and dividend income from the investment portfolio totaling $5.8 million, up from $4.7 million in the same period of 2013. Also included in other income was the 40% revenue participation in Difference Capital Management's advisory revenue business of $0.7 million, compared to $1.2 million in 2013, and $0.5 million of gain recognized on the repurchase of the Company's convertible debentures.

Total expenses during the year ended December 31, 2014 were $16.3 million compared to $8.9 million for the year ended December 31, 2013. The year-over-year increase in total expenses was primarily due to the following three factors:

(i) a $3.4 million provision for uncollectible receivables, primarily due to uncertainty as to the full collectability of interest on the Fem MED, Lignol, Cricket Media and Appinions debts;
(ii) the full year impact of financing costs of $5.5 million compared to only one-half of a year in 2013; and,
(iii) increased legal and professional fees associated with the Benev investment and the Lignol receivership proceedings.

SUMMARY OF QUARTERLY RESULTS

($000's, except per share amounts)	2014			
	Q4	**Q3**	**Q2**	**Q1**
Net realized gain on disposals of investments and marketable securities	227	340	1,015	3,053
Net change in unrealized gain (loss) on investments and marketable securities	(23,407)	(9,958)	(11,217)	1,151
Other income	1,031	2,163	1,848	1,979
Total expenses	(3,756)	(4,591)	(4,641)	(3,325)
Net income (loss)	(25,905)	(12,046)	(12,995)	2,858
Earnings (loss) per share	(0.68)	(0.31)	(0.33)	0.07

($000's, except per share amounts)	2013			
	Q4	**Q3**	**Q2**	**Q1**
Net realized gain (loss) on disposals of investments and marketable securities	(731)	(87)	1,037	1,460
Net change in unrealized gain (loss) on investments and marketable securities	(17,578)	1,865	(2,410)	(550)
Other income	1,950	1,725	1,121	1,067
Total expenses	(3,804)	(3,031)	(945)	(1,107)
Net income (loss)	(20,163)	472	(1,197)	870
Earnings (loss) per share	(0.52)	0.01	(0.04)	0.03

Quarter Ended December 31, 2014

Net loss for the quarter ended December 31, 2014 was $25.9 million, or $0.68 per share compared to a net loss of $20.2 million, or $0.52 per share for the quarter ended December 31, 2013 and a net loss of $12.0 million, or $0.31 per share for the quarter ended September 30, 2014.

For the three months ended December 31, 2014, the Company had a net realized gain on disposition of investments and marketable securities of $0.2 million, compared to a realized loss on disposition of $0.7 million during the same period last year and a realized loss of $0.3 million during the third quarter of 2014.

For the three months ended December 31, 2014, the Company had net change in unrealized loss on investments and marketable securities of $23.4 million, compared to a net change in unrealized loss of $17.6 million during the same period last year and a net change in unrealized loss of $10.0 million during the third quarter of 2014. The net change in unrealized depreciation recorded during the most recent quarter was primarily due to fair value adjustments in privately held investments including World Gaming, Cricket Media, Fem Med and iPowow. The net change in unrealized depreciation was partially offset by unrealized appreciation of private held investments including BuildDirect.com Technologies Inc. and Blue Ant Media Inc. as well as approximately $1.4 million of net change in unrealized appreciation of foreign exchange during the quarter.

Other income included interest and dividend income of $1.0 million during the three months ended December 31, 2014, down from $2.0 million in the same period of 2013 and $2.2 million in the previous quarter. Also included in other income was advisory and equity capital market revenues of $0.1 million for the quarter ended December 31, 2014, compared to $0.3 million for the same period last year and $0.1 million in the previous quarter.

Total expenses for the quarter ended December 31, 2014 were $3.8 million, compared to $3.8 million for the same quarter in 2013 and $4.6 million in the previous quarter.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 31, 2014, cash used in operating activities was $7.8 million, compared to cash used in operating activities of $79.3 million during 2013. The Company spent $6.1 million in net purchases of investments and $9.1 million in net proceeds of marketable securities in 2014 compared to $74.1 million in net purchases of investments and $2.2 million in net purchases of marketable securities in the prior year.

The Company had $11.8 million of cash and cash equivalents as at December 31, 2014, compared to $24.2 million at the end of 2013. Total investable assets, calculated as Net Asset Value excluding the convertible debentures outstanding, as of December 31, 2014 were $112.6 million, down from $164.5 million at December 31, 2013.

As at December 31, 2014, the Company's investment and marketable securities portfolios were $99.0 million compared to $140.1 million at December 31, 2013.

Accrued interest, prepaid expenses, other receivables, and due from broker increased to $4.2 million from $3.7 million at December 31, 2013.

The Company's accounts payable and accrued liabilities, including management fees payable and due to broker, decreased to $0.7 million during the period ended December 31, 2014.

As at December 31, 2014, the Company accrued $1.7 million of interest payable on the Debentures. The next coupon payment is on January 31, 2015.

As at December 31, 2014, the Company had $51.8 million in outstanding principal on its Debentures with a total carrying value of $46.6 million in long-term debt and $3.8 million in equity.

During the year, shareholders' equity decreased by $49.6 million to $65.9 million at December 31, 2014.

In December 2013, the Company obtained approval from the Toronto Stock Exchange (the "TSX") under the normal course issuer bid (the "2014 NCIB") to purchase for cancellation up to 1.0 million of its common shares and up to $2.0 million principal amount of its convertible debentures, through to December 4, 2014. In August 2014, the Company received approval from the TSX to amend its 2014 NCIB in order to increase the maximum principal amount of convertible debentures that may be purchased under the 2014 NCIB from $2 million to $4.4 million. In December 2014, the Company obtained approval from the TSX to renew its NCIB (the "2015 NCIB") to repurchase for cancellation up to 2.4 million of its common shares and up to $4.2 million principal amount of its convertible debentures, through to December 9, 2015. During the year ended December 31, 2014, the Company repurchased $4.0 million principal amount of the Debentures, for an aggregate consideration of $3.2 million, and 934,600 common shares for total consideration of $1.4 million.

Net Asset Value as at December 31 was $65.9 million or $1.73 per share compared to 115.5 million, or $2.95 per share, as at December 31, 2013, and $92.0 million, or $2.40 per share as at September 30, 2014.

In January 2015, the Company sold its interest in Chieftain for aggregate proceeds of US$10.2 million or $12.9 million at the exchange rate applicable on the closing date.

In January 2015, the Company invested an additional US$0.5 million in World Gaming. Details on the investment and a description of the changes to the Company's holdings in World Gaming can be found on page 14.

In February 2015, the Company invested an additional $0.6 million in an unsecured convertible debenture of BlueDrop. The convertible debenture pays 14.0% interest, matures on December 30, 2016, and it will be convertible into common shares of BlueDrop at the option of the Company at any time prior to the maturity date at a conversion price of $0.15 per common share.

In February 2015, The Company invested an additional $1.0 million in Quickplay common shares.

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.

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INVESTMENTS

The table below provides a summary of the Company's investments as at December 31, 2014:

Investment	Investment Type	Industry Sector	Geographic Sector	Average Cost ($000)	Fair Value ($000)
Appinions Inc.	convertible debentures	Ad-tech	United States	2,388	2,001
	equity securities			1,748	314
Aurinia Pharmaceuticals	equity securities	Healthcare	Canada	1,965	3,647
	warrants			113	764
Baanto International Ltd.	convertible debentures	Hardware	Canada	2,700	2,025
	equity securities			300	157
Blue Ant Media Inc.	equity securities	Media	Canada	4,787	5,745
Bluedrop Performance Learning Inc.	convertible debentures	Edu-tech	Canada	3,000	3,000
BrainScope Company Inc.	equity securities	Healthcare	United States	1,563	1,789
BTI Systems Inc.	equity securities	Hardware	Canada	1,887	1,719
BuildDirect.com Technologies Inc.	equity securities	e-Commerce	Canada	7,000	9,514
Carta Solutions Holding Corporation	units	Financial-Tech	Canada	3,505	3,986
Cardiac Dimensions Pty. Ltd.	equity securities	Healthcare	United States	2,183	2,320
Chieftain Residential Limited Partnership	partnership interest	Real Estate	United States	7,485	8,504
	promissory note			2,538	2,900
Crailar Technologies Inc.	convertible debentures	Clean-tech	Canada	5,000	735
Cricket Media Group Ltd.	convertible debentures	Edu-tech	United States	6,500	1,925
Difference RM Holding Corp.	equity securities	Real Estate	United States	5,432	6,334
Enhanced Systems Technologies	equity securities	Clean-tech	Australia/Asia	3,335	-
Fem Med Formulas Limited Partnership	convertible debentures	Healthcare	Canada	2,500	-
GuestLogix Inc.	debentures	Financial-Tech	Canada	1,950	1,950
	warrants			50	69
Hootsuite Media Inc.	equity securities	Media-tech	Canada	2,080	2,204
InfraReDx, Inc.	convertible promissory note and warrants	Healthcare	United States	5,093	6,163
iPowow! Inc.	equity securities	Media-tech	Canada	5,462	1,710
	loan			150	150
Lignol Energy Corporation	secured grid promissory note	Clean-tech	Australia	12,285	1,000
	common shares	Clean-tech	Australia	5,557	-
Mogo Finance Technology Inc.	equity securities	Financial-Tech	Canada	2,000	2,000
QuickPlay Media Inc.	equity securities	Media-tech	Canada	2,365	2,365
Thunderbird Films Inc.	equity securities	Media	Canada	6,000	6,000
Vena Solutions Canada Inc.	convertible debentures	Enterprise Software	Canada	3,347	3,347
	units			500	500
Vision Critical Communications Inc.	equity securities	Ad-tech	Canada	4,324	4,324
Waterloo Innovation Network LP	limited partnership units	Other	Canada	2,000	2,000
WG Limited ("World Gaming")	convertible debentures	Gaming	Canada	21,782	2,536
	equity securities			4,677	2
Other debt	debt securities			3,421	1,400
Other equity	equity securities, warrants and units			6,217	3,215
				155,189	**98,314**

Significant purchases, sales and changes in valuation of investments during the year ended December 31, 2014 included the following:

Appinions Inc. (“Appinions”)
During the year ended December 31, 2014, the Company converted US$0.8 million of the 10.0% convertible senior unsecured debentures with a maturity date of September 19, 2014 plus outstanding accrued interest into common shares of Appinions. In addition, the Company invested an additional US$0.3 million in Appinions in the form of convertible senior unsecured debentures, paying interest of 12.0% per annum with a maturity of December 31, 2015, convertible into common shares of Appinions. The Company recorded approximately $1.6 million in unrealized depreciation for the Appinions investments based on its estimated fair value using comparable public company trading multiples, taking into consideration qualitative observations reflecting the current financial situation of Appinions.

Baanto International Ltd. (“Baanto”)
During 2014, the Company recorded approximately $0.8 million of unrealized depreciation relating to its investments in Baanto based on estimated fair value using comparable public company trading multiples, taking into consideration qualitative observations reflecting current operating results and financial situation of Baanto.

Benev Capital Inc. (“Benev”)
As at December 31, 2013, the Company held approximately 2.5 million shares of Benev. During 2014, the Company acquired an additional 8.6 million shares of Benev for total consideration of $16.1 million and subsequently sold all the shares for the total consideration of approximately $22 million. The disposition generated approximately $1.7 million in realized gain.

Blue Ant Media Inc. (“Blue Ant”)
As at December 31, 2014, the Company held $4.8 million of Blue Ant common shares. As at December 31, 2014, the common shares were revalued based on the most recent round of financing. The revaluation resulted in approximately $1.0 million of unrealized appreciation in 2014.

BrainScope Company Inc. (“BrainScope”)
As at December 31, 2013, the Company held US$1.2 million of secured convertible promissory note of Brainscope, with interest at the rate of 8% per annum, and a maturity date of June 30, 2014. During 2014, the Company invested another US$0.2 million in the same promissory note and subsequently converted the entire US$1.4 million of the promissory note plus outstanding accrued interest into BrainScope series C preferred shares.

BuildDirect.com Technologies Inc. (“BuildDirect”)
As at December 31, 2013, the Company held $5 million of BuildDirect common shares. During 2014, the Company purchased an additional $2.0 million of BuildDirect common shares. The Company recorded approximately $2.5 million in unrealized appreciation in its BuildDirect investment, based on the fair value determined from this most recent round of financing.

Cardiac Dimensions Pty. Ltd. (Cardiac Dimensions”)
During the year ended December 31, 2014, the Company invested US$2.0 million in Series A preferred shares in Cardiac Dimensions. Cardiac Dimensions is a private life sciences company focused on the development and commercialization of Carillon, a medical device for the treatment of heart disease.

Carta Solutions Holding Corporation ("Carta")
During the year ended December 31, 2014, the Company invested an additional $1.5 million in Carta through the purchase of units (the "2014 Carta Units"). Each 2014 Carta Unit comprises of one common share of Carta and one common share purchase warrant, with each whole warrant exercisable for a further common share until September 11, 2017.

The Company also held $2.0 million units of Carta (the "2013 Carta Units") as at December 31, 2013. Each 2013 Carta Unit consists of one common share of Carta and ¼ common share purchase warrant, with each whole warrant exercisable for a further common share until June 30, 2016. The Company also holds 0.5 million common share purchase warrants, with each whole warrant exercisable for a further common share until May 20, 2017. During the year ended December 31, 2014, approximately $0.5 million change in appreciation was recorded for the 2013 Carta Units based on the recent 2014 Carta Units financing.

Chieftain Residential, LP ("Chieftain")
During the fourth quarter of 2014, the Company entered into an agreement to sell its investments in Chieftain for aggregate proceeds of US$10.2 million. The transaction closed in January 2015 and the Company's investments in Chieftain were valued at this transaction price as at December 31, 2014.

Crailar Technologies Inc. ("Crailar")
As at December 31, 2014, the Company held $1.8 million of convertible debentures that pay 10% interest per annum and are convertible into common shares of Crailar at a price of $2.90 per common share with a maturity date of September 30, 2017 and $3.2 million of convertible debentures that pay 10% interest per annum and are convertible into common shares of Crailar at a price of $1.25 per common share with a maturity date of July 26, 2016. As at December 31, 2014, Crailar's publicly-listed convertible debenture had a bid price of $12.25 and an ask price of $40.00. The Company used the publicly listed convertible debentures as a benchmark to fair value these debentures, resulting in $1.8 million of unrealized depreciation in 2014.

Cricket Media Corporation ("Cricket Media")
As at December 31, 2014, the Company held $6.5 million of Cricket Media secured convertible debentures that pay 10% interest per annum and are convertible into common shares of Cricket Media at $0.40 per share with a maturity date of October 31, 2016. During the year ended December 31, 2014, the Company recorded approximately $1.6 million in unrealized depreciation of these debentures, based on estimated value using comparable publicly traded debt instruments, taking into consideration qualitative observations of the current financial situation of Cricket Media.

Enterprise Group ("Enterprise")
As at December 31, 2013, the Company held $2.2 million of convertible unsecured subordinated debentures of Enterprise with a par value of $2.2 million. During 2014, the Company converted the entire $2.2 million of the debentures into Enterprise common shares and sold all such shares in the market. The Company recorded a realized gain of $2.7 million on the conversion and sale of the Enterprise common shares.

Fem Med Formulas Limited Partnership ("Fem Med")
As at December 31, 2014, the Company held $2.5 million of Fem Med secured convertible debentures that accrue 8% interest per annum to the maturity date of August 31, 2015. The Company wrote off the investment to nil, primarily due to uncertainty as to the collectability of debt given the current financial situation of Fem Med.

Hootsuite Media Inc. ("Hootsuite")
During 2014, the Company invested US$2.0 million in Class B preferred shares in Hootsuite. Hootsuite provides a web-based social media management platform for businesses and organizations to collaboratively execute campaigns across various social networks.

infraReDx, Inc. ("infraReDx")
As at December 31, 2014, the Company held US$5.0 million in infraReDx secured convertible debentures and preferred share warrants. The convertible debentures pay 6.0% per annum and convert into either: (i) common shares of infraReDx at the initial public offering ("IPO") price; (ii) common shares at US$0.62 per share upon an asset sale, acquisition or merger; or, (iii) into preferred shares upon, and at the same price as, a preferred equity financing. Warrants are exercisable into infraReDx's Series E Preferred Stock at US$0.04 per share (prior to 40:1 reverse split) at any time prior to November 30, 2017. As at December 31, 2014, the Company recorded $2.3 million in unrealized depreciation in its infraReDx warrants based on the fair value determined from the recent infraReDx's released target IPO price.

iPowow! Inc. ("iPowow")
As at December 31, 2013, the Company's investment in iPowow consisted of $3.0 million in preferred "A" shares that pay 8.0% cumulative annual dividend and are convertible into common shares, and $1.0 million in common shares. During 2014, the Company provided an additional $1.2 million in short term loans to iPowow and invested $0.4 million in preferred "B" shares. Approximately $0.4 million of the short term loans were converted into preferred "A" shares and approximately $0.7 million were converted into preferred "B" shares. Based on the valuation ascribed to the most recent round of financing, the Company recorded approximately $3.8 million in unrealized depreciation in its iPowow investments at the end of the year.

Lignol Energy Corporation ("Lignol")
During 2014, the Company placed Lignol into receivership. The Company is currently working with the receiver to maximize the recoverable value through the sale of Lignol assets. The Company reduced the fair value of the promissory note to $1 million, which represented estimated net recoverable value of the Lignol assets. The Company has ascribed no value to the common shares of Lignol.

Mogo Finance Technology Inc. ("Mogo")
During 2014, the Company invested $2.0 million in Mogo preferred shares. The preferred shares are convertible into common shares at a ratio of 1:1 at any time at the option of the Company or upon an IPO. Mogo is a Vancouver-based online consumer lending platform.

Thunderbird Films Inc. ("Thunderbird")
As at December 31, 2013, the Company's investment in Thunderbird included $4.0 million of common shares. During 2014, the Company acquired $2.0 million of Thunderbird preferred shares. The preferred shares pay an 8% per annum dividend and convert into a minimum of one common share upon an IPO or other liquidity event.

Vena Solutions Canada Inc. ("Vena Solutions")
As at December 31, 2013, the Company held $3.0 million in Vena Solutions in the form of unsecured convertible debentures that pay 10% interest per annum and are convertible into common shares of Vena Solutions with a maturity of November 4, 2016. During 2014, the Company invested an additional $0.5 million in Vena Solutions through the purchase of units (the "Vena Solutions Units"). Each Vena Solutions Unit comprises of one Class G common share in the capital of Vena Solutions and one Class G common share in the capital of Vena Solutions International Inc. In addition, the Company converted $0.3 million of accrued interest into a non-interest bearing convertible debenture that converts into common shares of Vena Solutions with a maturity date of November 4, 2016.

Vision Critical Communications Inc. (“Vision”)
As at December 31, 2013, the Company held $3.5 million of Vision Series 2 Class B Preferred Shares. During 2014, the Company acquired, through the secondary market, $0.8 million in common shares of Vision.

Waterloo Innovation Network I Limited Partnership (“WIN I LP”)
During the year ended December 31, 2014, the Company invested $2.0 million in limited partnership units of WIN I LP. WIN I LP is an investment fund which invests in venture stage communications and information technology based businesses principally originating in North America.

WG Limited (“World Gaming”)
As at December 31, 2013, the Company's investment in World Gaming included $16.8 million in convertible debentures that paid 5% interest per annum, matured June 15, 2014 and were convertible into common shares of World Gaming at the option of the Company; $5.0 million in convertible debentures that pay 10% interest per annum, mature September 30, 2016 and convertible into common shares of World Gaming at the option of the Company; and $3.2 million of common shares based on Fair Market Value.

During 2014, the maturity on the 5% convertible debentures was amended from June 15, 2014 to June 15, 2015 and the interest rate was increased to 10% per annum.

Subsequent to year end, the Company agreed to convert all of its convertible debentures plus outstanding accrued interest at 30% face value into common shares of World Gaming. In addition, the Company invested an additional US$0.5 million in units of World Gaming (each a "Unit"). Each Unit consists of 1 common share and 1 common share purchase warrant. The Company recorded an aggregate unrealized depreciation of $19.5 million in its World Gaming investments in 2014 based on fair value established from most recent round of financing and qualitative observations reflecting the current financial situation of World Gaming.

MARKETABLE SECURITIES

Marketable securities and marketable securities sold short 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 and marketable securities sold short consist of the following:

	December 31, 2014		December 31, 2013	
	Marketable securities	Securities sold short	Marketable securities	Securities sold short
	($000)	($000)	($000)	($000)
Equity securities	687	23	3,785	780
Warrants	-	-	115	-
	687	23	3,900	780

RELATED PARTY TRANSACTIONS

Management Agreement

Pursuant to the Management Agreement, as compensation for the management services provided to the Company by the Manager, the Company pays the Manager the Management Fee in the amount equal to 2% plus HST of the Company's monthly management fee net asset value (the "Management Fee NAV"), calculated and payable monthly as of the last business day of each month. The Management Fee NAV is determined by subtracting the aggregate fair value of the liabilities (excluding any convertible debentures or debentures that have a term of greater than one year that have been 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. In addition to the Management Fee, the Manager is entitled to receive, for each fiscal year of the Company, a performance fee (the "Performance Fee") equal to 20% of any increase in the performance fee net asset value (the "Performance Fee NAV") from the start of the fiscal year in question to the end of that fiscal year (the "Performance Year") less the two-year Government of Canada bond rate (the "Hurdle Rate"), with the Hurdle Rate subject to a maximum of 5%. The Performance Fee NAV is determined by subtracting the aggregate fair value of the liabilities (excluding any convertible debentures or debentures that have a term of greater than one year that have been 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.

Under the Management Agreement, 40% of any advisory or consultancy fees, net of direct expenses, earned by the Manager shall be remitted to the Company.

For the year ended December 31, 2014, management fees of $3.0 million were payable to the Manager. For the same period, the Company recorded its share of advisory fees of $0.7 million.

Other Related Party Transactions

Waterloo Innovation Network Inc., a company controlled by the CEO of the Company, owes the Company a debt of approximately $167,000 including accrued interest.

In the fourth quarter of 2014, the Company made a $350,000 short term loan to an arm's length nutraceutical manufacturer of topical neuropathic pain reliever. The Company hopes to establish synergies between this manufacturer and Fem Med. Due to the high-risk nature of this investment, the Company's CEO has provided a personal guarantee on the performance of this loan.

As part of its investment process and where the Company is making a significant investment relative to the total outstanding equity of an investee, the Company may seek representation on the board of directors of such investee companies, or the rights to attend and observe board meetings.

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CONTRACTUAL OBLIGATIONS

The table below is a summary of the Company's contractual obligations at December 31, 2014:

(thousands of dollars)	**Total**	**1 year or less**	**2**	**3**	**4**
Marketable securities sold short	23	23	-	-	-
Performance and management fees payable	213	213	-	-	-
Accounts payable and accrued liabilities	416	416	-	-	-
Due to broker	26	26	-	-	-
Interest on Convertible Debentures	16,586	4,147	4,147	4,146	4,146
Debentures	51,831	-	-	-	51,831
Total	69,095	4,825	4,147	4,146	55,977

In addition to the contractual obligations detailed above, the following obligations exist that vary depending upon Net Asset Value and other factors:

- The Company pays management fees to the Manager in the amount equal to 2% plus HST of the management fee NAV, calculated and payable monthly as of the last business day of each month.

- The Company pays a performance fee equal to 20% of any increase in the performance fee NAV from the start of the fiscal year in question to the end of that fiscal year less the Hurdle Rate, with the Hurdle Rate subject to a maximum of 5%.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Company's financial statements in accordance with IFRS requires management to make estimates and assumptions 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 revenues and expenses during the reporting period. Key areas of estimation where management has made difficult, complex or subjective judgments include the determination of the fair value of certain investments, as further explained below. Actual results could differ from these estimates.

Included in the Company's investment portfolio are the following types of investments:

Common shares and membership units are valued using quoted market prices if they are traded on a recognized stock exchange or over the counter and are generally valued using the last traded market price where the last traded price falls within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Company determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances on the balance sheet dates. The fair value of securities that are subject to trading restrictions are recorded at a value which takes into account the length and nature of any restrictions on the disposition and the liquidity of the security. Private investments for which no quoted market value exists, or investments in restricted or thinly traded securities, are recorded at estimated fair value. Convertible debentures and convertible debts are valued at par if the price of the underlying common shares is less than the conversion price; valued as though converted to common shares if the price of the underlying common shares exceeds the conversion price; or valued based on quoted market prices of similar convertible debt investments of the same issuer; or valued at estimated fair value if there is concern of impairment. When these investments are initially recognized, fair value is generally the value of consideration paid. Subsequent to initial recognition, the fair value of these investments is determined by the Company using an appropriate valuation methodology after considering: the history and nature of the business; operating results and financial conditions; the general economic, industry and market conditions; capital market and transaction market conditions; independent valuations of the business; contractual rights relating to the investment; comparable company trading and transaction multiples, where applicable, and other pertinent considerations.

For public company warrants (i.e., the underlying security of which is traded on a recognized stock exchange), the Black-Scholes valuation model is used when there are sufficient and reliable observable market inputs. These market inputs include risk-free interest rate, exercise price, market price at date of valuation, expected dividend yield, expected life of the instrument and expected volatility of the underlying security. To the extent that the market inputs are insufficient or unreliable, the warrants are valued at their intrinsic value, which is equal to the higher of the last traded market price of the underlying security, less the exercise price of the warrant, or nil. For private company warrants, the underlying security of which is not traded on a recognized stock exchange, fair value is determined consistently with other investments that do not have an active market as described above.

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company adopted IFRS effective January 1, 2014 with a transition date of January 1, 2013. The adoption of IFRS has not had a material impact on the Company's operations, strategic directions and cash flow. The Company's IFRS accounting policies are provided in Note 1 to the Annual Financial Statements. In addition, Note 14 to the Annual Financial Statements presents reconciliations between Difference Capital's 2013 GAAP results and the 2013 IFRS results and explanations of the adjustments to transition to IFRS.

IFRS 1, *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"), requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company is December 31, 2014. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

The only voluntary exemption adopted by the Company upon transition was the ability to designate financial assets or financial liabilities at fair value through profit or loss ("FVTPL") upon transition to IFRS. All financial assets designated at FVTPL upon transition (see Note 8 to the Annual Financial Statements) were previously carried at their fair value under Canadian GAAP as required by Accounting Guideline 18, Investment Companies.

In accordance with the mandatory exceptions to retroactive restatement under IFRS 1, hindsight was not used to create or revise estimates at the transition date, and accordingly the estimates previously made by the Company under Canadian GAAP are consistent with the application under IFRS, except where necessary to reflect any difference in accounting policies.

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, 2017. 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 any 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 any 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 any 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 any impact on the Company.

RISK FACTORS AND RISK MANAGEMENT

The Company’s investment strategy requires assuming risk in exchange for an above average return on investment. Each of Difference Capital’s investee companies are subject to the risks inherent in the industry and markets in which they operate. Such risks include market, liquidity and currency risk. Many investee companies are at a stage of development where they may require additional capital to develop their business plans and realize their objectives.

Investment Risk
There is no assurance that the Company will achieve its investment objective. An investment may not earn any positive return and result in the loss of some or all of the capital invested.

Reliance on Management and the Manager
The Company is dependent upon the efforts, skill and business contacts of key members of management and the Manager for, among other things, the information and deal flow they generate during the normal course of their activities and the synergies that exist amongst their various fields of expertise and knowledge. Accordingly, the continued success of the Company will depend upon the continued service of these individuals, who are not obligated to remain employed with the Company or the Manager, as applicable. The loss of the services of any of these individuals could have a material adverse effect on the revenues, net income and cash flows of the Company, and could harm its ability to maintain or grow its existing assets and raise additional funds in the future.

General Economic and Market Conditions
The success of the Company's activities may be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, and national and international political circumstances. These factors may affect the level and volatility of securities prices and the liquidity of the Company's investments. Unexpected volatility or illiquidity could impair the Company's profitability or result in losses.

Borrowing and Other Leverage
The Company may use financial leverage by borrowing funds against its assets. The use of leverage may result in capital losses which would have an adverse effect on shareholders. There can be no assurance that the borrowing strategy employed by the Company will enhance returns or help the Company achieve its investment objective, and to the extent that the interest payable on, and other expenses of, the borrowings exceed the incremental returns to the Company on the additional securities purchased for the Company's portfolio thereby, the strategy may reduce returns on the common shares, as compared to a situation where no financial leverage was used by the Company.

In addition, a reduction in the assets of the Company does not change the amount that must be paid on account of amounts drawn pursuant to the borrowings. Since any required payment of such amounts decreases dollar for dollar the NAV and the NAV per common share will decrease to a proportionately greater extent, as compared to a situation where the Company did not utilize the borrowings. In addition, the borrowings may impose additional restrictions on the Company including, without limitation, limits on hedging and restrictions on certain types of investments. For these reasons, there can be no assurance that the borrowing strategy employed by the Company will enhance returns, and it may, in fact, reduce returns.

Cash Flow/Revenue
The Company generates its revenue and cash flow primarily from its financing activities and proceeds from the disposition of its investments, in addition to interest and dividend income earned on its investments. The availability of these sources of income and the amounts generated from these sources are dependent upon various factors, many of which are outside of the Company's control. The Company's liquidity and operating results may be adversely affected if its access to the capital markets is hindered, whether as a result of a downturn in the market conditions generally or to matters specific to it, or if the value of its investments decline, resulting in capital losses upon disposition.

Private Issuers and Illiquid Securities
The Company may invest in securities of private issuers. Investments in private issuers cannot be resold without a prospectus, an available exemption or an appropriate ruling under relevant securities legislation and there may not be any market for such securities. These limitations may impair the Company's ability

to react quickly to market conditions or negotiate the most favourable terms for exiting such investments. Investments in private issuers may offer relatively high potential returns, but will also be subject to a relatively high degree of risk. There can be no assurance that a public market will develop for any of the Company's private company investments or that the Company will otherwise be able to realize a return on such investments.

The value attributed to securities of private issuers will initially be the cost thereof, and thereafter subject to fair value adjustment, and therefore may not reflect the amount for which they can actually be sold. Because valuations, and in particular valuations of investments for which market quotations are not readily available, are inherently uncertain, may fluctuate within a short period of time and may be based on estimates, determinations of fair value may differ materially from the values that would have resulted if a ready market had existed for the investments.

The Company may also invest in illiquid securities of public issuers. A considerable period of time may elapse between the time a decision is made to sell such securities and the time the Company is able to do so, and the value of such securities could decline during such period. Illiquid investments are subject to various risks, particularly the risk that the Company will be unable to realize its investment objectives by sale or other disposition at attractive prices or otherwise be unable to complete any exit strategy. In some cases, the Company may be prohibited by contract or by law from selling such securities for a period of time or otherwise be restricted from disposing of such securities. Furthermore, the types of investments made may require a substantial length of time to liquidate.

The Company may also make direct investments in publicly-traded securities that have low trading volumes. Accordingly, it may be difficult for the Company to make trades in these securities without adversely affecting the price of such securities.

Possible Volatility of Stock Price
The market price of the Company's common shares has been and may continue to be subject to wide fluctuations in response to factors such as actual or anticipated variations in its results of operations, changes in financial estimates by securities analysts, general market conditions and other factors. Market fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations may adversely affect the market price of the Company's common shares.

Foreign Currency Exposure
Certain of the investments in the Company's portfolio, at any time, may consist of securities denominated in U.S. dollars, Australian dollars or other foreign currencies and, accordingly, the NAV will, when measured in Canadian dollars, be affected by fluctuations in the value of such currencies, as applicable, relative to the Canadian dollar. The Company does not currently take any steps to hedge against currency fluctuations, although it may elect to hedge against the risk of currency fluctuations in the future. There can be no assurance that steps taken by the Company to address such currency fluctuations will eliminate all adverse effects and, accordingly, the Company may suffer losses due to adverse foreign currency fluctuations.

Concentration of Investments
Other than as disclosed above and in the Annual Information Form of the Company dated March 26, 2014, there are no restrictions on the proportion of the Company's funds and no limit on the amount of funds that may be allocated to any particular investment, industry or sector. The Company may participate in a limited number of investments and, as a consequence, its financial results may be substantially adversely affected by the unfavourable performance of a single investment or sector. Completion of one or more investments

may result in a highly concentrated investment by the Company in a particular company, business, industry or sector.

Additional Financing Requirements

The Company anticipates ongoing requirements for funds to support its investment strategy and may seek to obtain additional funds for these purposes through public or private equity or debt financing. There are no assurances that additional funding will be available to the Company, if at all, on acceptable terms or at an acceptable level. Any additional equity financing may cause shareholders to experience dilution, and any additional debt financing may result in increased interest expense or restrictions on the Company's operations or ability to incur additional debt. Any limitations on the Company's ability to access the capital markets for additional funds could have a material adverse effect on its ability to grow its investment portfolio.

No Guaranteed Return

There is no guarantee that an investment in the securities of the Company will earn any positive return in the short term or long term. The task of identifying investment opportunities, monitoring such investments and realizing a significant return is difficult. Many organizations operated by persons of competence and integrity have been unable to make, manage and realize a return on such investments successfully.

Management of the Growth of the Company

Significant growth in the business of the Company, as a result of acquisitions or otherwise, could place a strain on its managerial, operational and financial resources and information systems. Future operating results will depend on the ability of senior management to manage rapidly-changing business conditions and to implement and improve the Company's technical, administrative and financial controls and reporting systems. No assurance can be given that the Company will succeed in these efforts. The failure to effectively manage and improve these systems could increase its costs, which could have a material adverse effect on the Company.

Dependence on New Products

The Company may make investments in issuers that conduct significant research and development to develop new products and technologies, enhance existing products and technologies and achieve market acceptance for such products and technologies. However, there can be no assurance that development-stage products and technologies will be successfully completed or, if developed, will achieve significant customer and/or market acceptance. If an issuer in which the Company invests is unable to successfully define, develop and introduce competitive new products and technologies, and enhance existing products and technologies, future results of that issuer would be adversely affected and the value of the Company's investment in that issuer could decline.

Intellectual Property

The industry in which the Company currently primarily invests has many participants that own, or claim to own, proprietary intellectual property. Some of the issuers that the Company invests in may become subject to claims from third parties claiming that the issuers have infringed on intellectual property rights. Determination of the rights to intellectual property is very complex, and costly litigation may be required to establish if an issuer has violated the intellectual property rights of others. As a result of such claims, some of the Company's investments could be subject to losses arising from issuers being subject to product injunctions, awards for damages and third party litigation costs, requirements to license intellectual property, legal expenses, diversion of managements' time and attention, and other costs.

Foreign Market Exposure

The Company's portfolio may, at any time, include securities of issuers established in jurisdictions outside Canada and the U.S. Although most of such issuers will be subject to uniform accounting, auditing and financial reporting standards comparable to those applicable to Canadian and U.S. companies, some issuers may not be subject to such standards and, as a result, there may be less publicly available information about such issuers than a Canadian or U.S. company. Volume and liquidity in some foreign markets may be less than in Canada and the U.S. and, at times, volatility of price may be greater than in Canada or the U.S. As a result, the price of such securities may be affected by conditions in the market of the jurisdiction in which the issuer is located or its securities are traded. Investments in foreign markets carry the potential exposure to the risk of political upheaval, acts of terrorism and war, any of which could have an adverse impact on the value of such securities.

New and Emerging Markets
Some of the markets in which the Company may invest are new and emerging. The Company's success may be significantly affected by the outcome of the development of these new markets.

Changes in Legislation
There can be no assurance that certain laws applicable to the Company, including income tax laws and government incentive programs, will not be changed in a manner which adversely affects the distributions received or to be made by the Company.

Tax Matters
The Company has accrued capital and non-capital losses that may be carried forward to reduce income taxes in future years. If not used, the Company's non-capital losses expire between 2014 and 2032. The availability of these income tax loss carry forwards as deductions against taxable income of the Company is dependent upon a number of factors including, but not limited to, Canadian federal income tax rules and regulations governing the application of income tax losses and the availability of the income tax loss carry forwards at the time such taxable income arises. There can be no assurance that Canadian federal income tax laws regarding the treatment of income tax loss carry forwards, or the administrative and/or assessment practices of the Canada Revenue Agency in respect thereof, will not be changed in a manner that has a material adverse effect on the Company's shareholders.

Trading Price of Common Shares Relative to Net Asset Value
The Company is neither a mutual fund nor an investment fund, and due to the nature of its business and investment strategy and the composition of its investment portfolio, the market price of its common shares, at any time, may vary significantly from its Net Asset Value per common share. This risk is separate and distinct from the risk that the market price of the common shares may decrease.

Fluctuations in NAV and Valuation of the Company's Portfolio
The NAV will vary according to, among other things, interest rates and the value of the securities in the Company's portfolio and dividends paid on the common shares. Fluctuations in the respective market values of the securities in the Company's portfolio may occur for a number of reasons beyond the control of the Manager, and may be both volatile and rapid with potentially large variations over a short period of time. Independent pricing information regarding certain of the Company's securities and other investments may not be readily available at all times. Valuation determinations will be made in good faith by the Company. The Company may have some of its assets in investments which by their very nature may be extremely difficult to value accurately. To the extent that the value assigned by the Company to any such investment differs from the actual value, the NAV per Common Share may be understated or overstated, as the case may be. The Company does not intend to adjust the NAV of the common shares retroactively except in extraordinary circumstances and where the difference is deemed by the Manager to be material.

Available Opportunities and Competition for Investments
The success of the Company's operations will depend upon, among other things: (i) the availability of appropriate investment opportunities; (ii) its ability to identify, select, acquire, grow and exit those investments; and (iii) its ability to generate funds for future investments. The Company can expect to

encounter competition from other entities having investment objectives similar to its own, including institutional investors and strategic investors. These groups may compete for the same investments as the Company, may be better capitalized, have more personnel, have a longer operating history and have different return targets than the Company. As a result, the Company may not be able to compete successfully for investments. In addition, competition for investments may lead to the price of such investments increasing which may further limit the Company's ability to generate desired returns. There can be no assurance that there will be a sufficient number of suitable investment opportunities available to the Company or that such investments can be made within a reasonable period of time. There can be no assurance that the Company will be able to identify suitable investment opportunities, acquire them at a reasonable cost or achieve an appropriate rate of return. Identifying attractive opportunities is difficult, highly competitive and involves a high degree of uncertainty. Potential portfolio returns will be diminished to the extent that the Company is unable to find and make a sufficient number of investments.

Conflicts of Interest

Some of the Company's existing directors or officers are also directors and officers of other companies and have other business interests which may prove to be of interest to the Company. It is possible, therefore, that a conflict may arise between their duties as directors or officers of the Company and their duties as directors or officers of such other companies.

The Company's directors and officers are aware of the existence of laws governing accountability of directors and officers for corporate opportunities and requiring disclosures by directors and officers of conflicts of interest and, in the case of directors, requiring them to abstain from voting on matters in respect of which they have a conflict of interest. The Company relies upon each director and officer to comply with such laws in respect of conflicts of interest and fiduciary duties.

Due Diligence

The due diligence process that the Company undertakes in connection with investments may not reveal all facts that may be relevant in connection with an investment. Before making investments, the Company conducts due diligence that it deems reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, the Company may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and investment banks may be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, the Company relies on the resources available to it, including information provided by the target of the investment and, in some circumstances, third-party investigations. The due diligence investigation that the Company will carry out with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in the investment being successful.

Expenses Ultimately Borne by the Shareholders

Fees and expenses borne by the Company will directly or indirectly impact the NAV of the common shares.

Non-controlling Interests

The Company's investments include, in many instances, debt instruments and equity securities of companies that it does not control. These instruments and securities may be acquired in the secondary market or through purchases of securities from the issuer. Any such investment is subject to the risk that the company in which the investment is made may make business, financial or management decisions with which the Company does not agree, or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve the Company's interests. If any of the foregoing were to occur, the values of the Company's respective investments could decrease and its financial condition, results of operations and cash flow could suffer as a result.

Trading Costs
The Company may engage in a high rate of trading activity in its liquid securities portfolio resulting in correspondingly high costs being borne by the Company. This may adversely affect the price of the common shares.

Interest Rate Hedging
Interest rate hedges will be used by the Company only to the extent that the Manager considers appropriate. The use of interest rate hedges involves special risks, including the possible default by the other party to the transaction, illiquidity and, to the extent the Manager's assessment of certain market movements is incorrect, the risk that the use of interest rate hedges could result in losses greater than if the hedging had not been used.

Hedge Risks
Although hedging reduces risk, it does not eliminate it entirely. Losses can still result in the case of an extraordinary event. There are several such possible cases including, but not limited to: (i) anticipated transactions which are altered or aborted; (ii) the inability to hedge off risk, due to difficulty of borrowing the offsetting security; (iii) a cease trade order being issued in respect of the underlying security; and (iv) lack of liquidity during market panics. To protect the Company's capital against the occurrence of such events, it attempts to maintain a diversified portfolio.

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 March 6, 2015, there were 36,517,434 common shares outstanding. There are no outstanding preference shares.

As at March 6, 2015, there was an aggregate principal amount of $51.3 million of Debentures outstanding, convertible into 8,922,783 common shares at a conversion price of $5.75 per common share.

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 December 31, 2014, 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 December 31, 2014 and has concluded that internal control over financial reporting was appropriately designed and operating effectively. There have been no changes during the quarter ended December 31, 2014 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.