



DIFFERENCE
CAPITAL

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

for the quarter ended March 31, 2015

May 12, 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS

May 12, 2015

This Management's Discussion and Analysis ("MD&A") dated May 12, 2015 presents an analysis of the financial position of Difference Capital Financial Inc. ("Difference Capital" or the "Company") as at March 31, 2015, compared with December 31, 2014, and the results of operations for the quarter ended March 31, 2015, compared with the quarter ended March 31, 2014 and the quarter ended December 31, 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 March 31, 2015. 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. The financial statements for the three months ended March 31, 2015 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, 2014.

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 May 12, 2015 management and directors own approximately 26.5% 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.

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. We generally view investments as being material for the purpose of our discussion in this MD&A if they are greater than 2% of our NAV, currently representing about \$1.4 million; however, certain investments which do not exceed these thresholds may also be deemed to be material to our discussion.

(\$000's, except per share amounts)	2015					2014		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Net realized gain (loss) on disposals of investments and marketable securities	(8,350)	227	340	1,015	3,053	(731)	(87)	1,037
Net change in unrealized gain (loss) on investments and marketable securities	14,161	(23,407)	(9,958)	(11,217)	1,151	(17,138)	1,865	(2,410)
Other income	1,346	1,031	1,675	1,848	1,979	1,950	1,725	1,121
Total expenses	(3,661)	(3,756)	(4,103)	(4,641)	(3,325)	(3,804)	(3,031)	(945)
Net income (loss)	3,496	(25,905)	(12,046)	(12,995)	2,858	(20,163)	472	(1,197)
Earnings (loss) per share	0.09	(0.68)	(0.31)	(0.33)	0.07	(0.52)	0.01	(0.04)
Total assets	113,678	114,952	139,925	157,125	169,280	168,814	189,279	95,410
Total liabilities	46,107	49,018	47,927	52,255	50,884	53,276	53,117	5,839
Net asset value	67,571	65,934	91,998	104,870	118,396	115,538	136,162	89,572
Shares outstanding	36,329	38,198	38,350	38,856	39,132	39,132	39,318	27,312
Net asset value per share	1.86	1.73	2.40	2.70	3.03	2.95	3.46	3.27
Share price*	0.93	1.14	1.37	1.74	2.23	2.75	3.05	3.90

*post share consolidations

Quarter Ended March 31, 2015

Net income for the quarter ended March 31, 2015 was \$3.5 million, or \$0.09 per share compared to a net income of \$2.9 million, or \$0.07 per share for the quarter ended March 31, 2014 and a net loss of \$25.9 million, or \$0.68 per share for the quarter ended December 31, 2014.

During the quarter, the Company recovered approximately \$5.2 million in total cash distributions from the sale of the Lignol Energy Corporation (“Lignol”) assets and assumed a 21% interest in Australian Renewal Fuels Limited, a publicly traded company on the Australian Securities exchange. In Q3 of 2014, with little visibility of any recovery, the Company had written the Lignol investments to \$1 million. As a result, the recovery represents a net overall gain for the Company during the quarter, shown as a net change in unrealized appreciation partially offset by realized capital losses, as further discussed below.

For the three months ended March 31, 2015, the Company had \$8.4 million of realized capital losses, which resulted primarily from the write-off of the Company’s investments in Lignol, net of recoveries from the receivership proceedings, of \$13.0 million. The realized loss from the write-off of the Lignol investments was offset by \$4.9 million of realized gains from sales of investments in Aurinia Pharmaceuticals Inc. (“Aurinia”) and Chieftain Residential LP (“Chieftain”). During the same period last year, net realized gains on investments and marketable securities were \$3.1 million.

The Company recorded \$14.2 million of net change in unrealized appreciation on investments and marketable securities for the three months ended March 31, 2015, primarily due to the reversal of previously unrealized gains and losses on investments in Lignol, Aurinia and Chieftain that were realized when the positions were sold or written-off; a fair valuation adjustment on the infraReDx, Inc. investment; and an unrealized foreign exchange gain on foreign investments. For the three months ended March 31, 2014, the Company recorded \$1.2 million of net change in unrealized appreciation on investments and marketable securities.

Other income decreased from \$2.0 million for the three months ended March 31, 2014 to \$1.3 million for the three months ended March 31, 2015. Included in other income were interest and dividend income totaling \$0.9 million, down from \$1.7 million in the same period of 2014, primarily due to a smaller portfolio of convertible debentures and debentures. Also included in other income was the 40% revenue participation in Difference Capital Management’s advisory revenue business of \$0.1 million, compared to \$0.3 million in the first quarter of 2014, and \$0.4 million of gain recognized on the repurchase of the Company’s convertible debentures, compared to nil in the same period of 2014.

Total expenses during the quarter ended March 31, 2015 were \$3.7 million compared to \$3.3 million for the quarter ended March 31, 2014. The year over year increase in total expenses was primarily due to \$0.8 million of accrued performance fees recorded during the quarter, offset by lower management fees and provision for uncollectible receivables.

LIQUIDITY AND CAPITAL RESOURCES

During the quarter ended March 31, 2015, cash provided by operating activities was \$17.0 million, compared to cash used in operating activities of \$15.1 million during the same period in 2014. The Company received \$15.8 million in net proceeds of investments and \$4.1 million in net proceeds of marketable securities in 2015 compared to \$16.3 million in net purchases of investments and \$8.2 million in net proceeds of marketable securities during the same period in the prior year.

The Company had \$24.2 million of cash and cash equivalents as at March 31, 2015 compared to \$11.8 million at the end of 2014. Total investable assets, calculated as Net Asset Value excluding the convertible debentures outstanding, as of March 31, 2015 were \$111.3 compared to \$112.6 million at December 31, 2014.

As at March 31, 2015, the Company's investment and marketable securities portfolios were \$85.2 million compared to \$99.0 million at December 31, 2014.

As at March 31, 2015, the Company had \$48.3 million in outstanding principal on its Debentures with a total carrying value of \$43.7 million in long-term debt and \$3.6 million in equity.

During the quarter, shareholders' equity increased from \$65.9 million to \$67.6 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 quarter ended March 31 2015, the Company repurchased \$3.5 million principal amount of the Debentures, for an aggregate consideration of \$2.8 million, and 1.9 million common shares for total consideration of \$1.9 million.

Net Asset Value as at March 31 was \$67.6 million or \$1.86 per share compared to \$65.9 million, or \$1.73 per share, as at December 31, 2014, and \$118.4 million, or \$3.03 per share as at March 31, 2014.

In April 2015, Appinions was purchased through a share exchange by ScribbleLive, a private, Toronto based leading provider of content marketing software platforms backed by several prominent venture capitalists.

Also in the month of April, the Company invested an additional \$0.5 million in Class "B" Special Shares of Baanto International Ltd.

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 March 31, 2015:

Investment	Investment Type	Industry Sector	Geographic Sector	Average Cost (\$'000)	Fair Value (\$'000)
Appinions Inc.	convertible debentures	Ad-tech	United States	2,512	2,314
	equity securities			1,748	343
Aurinia Pharmaceuticals Inc.	warrants	Healthcare	Canada	90	1,148
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	3,625	3,625
BrainScope Company Inc.	equity securities	Healthcare	United States	1,563	1,955
BTI Systems Inc.	equity securities	Hardware	United States	1,887	1,880
	convertible debentures			252	254
BuildDirect.com Technologies Inc.	equity securities	e-Commerce	Canada	7,000	9,514
Carta Solutions Holding Corporation	equity securities and warrants	Financial-Tech	Canada	3,505	3,986
Cardiac Dimensions Pty. Ltd.	equity securities	Healthcare	United States	2,183	2,537
Crailar Technologies Inc.	convertible debentures	Clean-tech	Canada	5,000	735
Cricket Media Group Ltd.	convertible debentures	Edu-tech	Canada	6,500	1,925
Difference RM Holding Corp.	equity securities	Real Estate	United States	5,432	6,925
	convertible debentures	Enterprise Software	Canada	1,000	1,000
Enhanced Systems Technologies	equity securities	Clean-tech	Australia	3,335	-
Ethoca Solutions Inc.	equity securities	Financial-Tech	Canada	1,508	1,508
Fem Med Formulas Limited Partnership	convertible debentures	Healthcare	Canada	2,500	-
GuestLogix Inc.	debentures	Financial-Tech	Canada	1,950	1,950
	warrants			50	26
Hootsuite Media Inc.	equity securities	Media-tech	Canada	2,080	2,410
InfraReDx, Inc.	convertible promissory note	Healthcare	United States	5,093	3,829
	and warrants				
iPowow! Inc.	equity securities	Media-tech	Canada	5,462	1,329
Mogo Finance Technology Inc.	equity securities	Financial-Tech	Canada	2,000	2,000
QuickPlay Media Inc.	equity securities	Media-tech	Canada	3,365	3,365
Thunderbird Films Inc.	equity securities	Media	Canada	6,000	6,000
Vena Solutions	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")	equity securities	Gaming	Canada	30,943	3,659
Other debt	debt securities			1,610	400
Other equity	equity securities, warrants and units			4,368	1,900
				130,519	84,615

Significant purchases, sales and changes in valuation of investments during the quarter ended March 31, 2015 included the following:

Bluedrop Performance Learning Inc. (“Bluedrop”)

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 is 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.

Chieftain Residential, LP (“Chieftain”)

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.

infraReDx, Inc. (“infraReDx”)

As at March 31, 2015, the Company held US\$5.0 million in infraReDx secured convertible debentures and preferred share warrants. During the quarter, the Company recorded a further \$2.3 million in unrealized depreciation in its infraReDx convertible debentures and warrants based on qualitative observations reflecting the current financial situation of infraReDx following the withdrawal of its initial public offering.

iPowow! Inc. (“iPowow”)

As at March 31, 2015, the Company recorded a further \$0.4 million in unrealized depreciation in iPowow investments based on qualitative observations reflecting the current financial situation of iPowow.

Lignol Energy Corporation (“Lignol”)

During 2014, the Company placed Lignol into receivership. The Company, as a senior secured creditor, recovered approximately \$5.2 million in total cash distributions from the sale of the Lignol assets and assumed a 21% interest in Australian Renewal Fuels Limited, a publicly traded company on the Australian Securities exchange. The Company wrote off its investments in Lignol, resulting in a net gain on investment of \$4.4 million during the quarter.

Quickplay Media Inc. (“Quickplay”)

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

WG Limited (“World Gaming”)

In January 2015, 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 unrealized appreciation of \$0.3 million in its World Gaming investment in 2015 based on fair value established from most recent round of financing, qualitative observations reflecting the current financial situation of World Gaming, and a positive foreign currency movement.

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:

	March 31, 2015		December 31, 2014	
	Marketable securities (\$000)	Securities sold short (\$000)	Marketable securities (\$000)	Securities sold short (\$000)
Equity securities	598	-	687	23
	598	-	687	23

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 quarter ended March 31, 2015, management fees of \$0.6 million were payable to the Manager and performance fees of \$0.9 million were accrued. While performance fees accrue during the year, they are only paid after the year-end based on performance as of December 31, 2015. For the same period, the Company recorded its share of advisory fees of \$0.1 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 "Nutraceutical Manufacturer"). The Company had hoped to establish synergies between this manufacturer and Fem Med. Due to the high-risk nature of this investment, the Company's CEO had provided a personal guarantee on the performance of this loan. During the quarter, the Nutraceutical Manufacturer was placed into receivership.

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.

CONTRACTUAL OBLIGATIONS

The table below is a summary of the Company's contractual obligations at March 31, 2015:

<i>(thousands of dollars)</i>	Total	1 year or less	2	3	4
Performance and management fees payable	1,234	1,234	-	-	-
Accounts payable and accrued liabilities	215	215	-	-	-
Due to broker	271	271	-	-	-
Interest on Convertible Debentures	13,544	3,883	3,864	3,865	1,932
Debentures	48,308	-	-	-	48,308
Total	63,572	5,603	3,864	3,865	50,240

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. 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.

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.

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 May 12, 2015, there were 36,176,934 common shares outstanding. There are no outstanding preference shares.

As at May 12, 2015, there was an aggregate principal amount of \$47.6 million of Debentures outstanding, convertible into 8,277,913 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 March 31, 2015, 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 March 31, 2015 and has concluded that internal control over financial reporting was appropriately designed and operating effectively. There have been no changes during the quarter ended March 31, 2015 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.