



DIFFERENCE
CAPITAL

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

for the quarter ended March 31, 2017

May 11, 2017

TABLE OF CONTENTS

INTERNATIONAL FINANCIAL REPORTING STANDARDS	1
FORWARD-LOOKING STATEMENTS	1
NOTE REGARDING NON-IFRS FINANCIAL MEASURES	2
ABOUT DIFFERENCE CAPITAL.....	2
BUSINESS STRATEGY	3
RESULTS OF OPERATIONS	4
LIQUIDITY AND CAPITAL RESOURCES	5
INVESTMENTS.....	6
MARKETABLE SECURITIES.....	6
CONTRACTUAL OBLIGATIONS.....	7
CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS.....	7
FUTURE ACCOUNTING CHANGES.....	7
OUTSTANDING SHARE DATA.....	8
DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING	8

MANAGEMENT'S DISCUSSION AND ANALYSIS

May 11, 2017

This Management's Discussion and Analysis ("MD&A") dated May 11, 2017 presents an analysis of the financial position of Difference Capital Financial Inc. ("Difference Capital" or the "Company") as at March 31, 2017, compared with December 31, 2016, and the results of operations for the quarter ended March 31, 2017, compared with the quarter ended March 31, 2016 and quarter ended December 31, 2016. It is supplementary information and should be read in conjunction with the Company's audited financial statements and accompanying notes as at December 31, 2016 and unaudited interim financial statements and accompanying notes for the period ended March 31, 2017. All dollar amounts in this MD&A are reported in Canadian dollars, unless otherwise stated.

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The unaudited interim condensed financial statements for the three months ended March 31, 2017 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, 2016.

FORWARD-LOOKING STATEMENTS

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

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

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

NOTE REGARDING NON-IFRS FINANCIAL MEASURES

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

ABOUT DIFFERENCE CAPITAL

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

The Company believes that its continued growth and success is strongly linked to its management team and human capital in addition to its strong partnerships with current and potential investee partners. The Company has assembled a dynamic management team, which brings together different skillsets that uniquely position it to identify investment opportunities and add value to these investments, thus driving returns for its shareholders. The Company believes that having management aligned with shareholders will be a key driver of long-term performance. As of May 11, 2017 management and directors own approximately 47% of the Company’s issued and outstanding common shares.

On November 30, 2016, shareholders of the Company approved the consolidation of its common shares (the “Common Shares”) on the basis of one (1) post consolidation common share for every five (5) pre-consolidation common shares outstanding (the “Consolidation”). All per share amounts in this MD&A have been adjusted for the Consolidation.

The Company is located in the Province of Ontario, Canada and its principal address is 200 Front Street West, Suite 2504, Toronto, Ontario, M5V 3L1. The Company’s registered office is located at Wildeboer Dellece 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 private 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 is currently seeking to divest such assets in the medium term.

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

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

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

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

companies and on monetizing appropriate positions when and where possible in order to generate funds to fulfill its July 31, 2018 debt repayment obligations.

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.

<i>(\$000's, except per share amounts)</i>	2017	2016				2015		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Net realized gain (loss) on disposals of investments and marketable securities	260	(2,544)	(2,863)	(8,655)	(2,445)	1,983	(19,248)	346
Net change in unrealized gain (loss) on investments and marketable securities	172	(2,022)	(2,002)	13,582	310	(716)	26,650	(1,925)
Net gain (loss) on investments and marketable securities	432	(4,566)	(4,865)	4,927	(2,135)	1,267	7,402	(1,579)
Other income	316	450	290	465	336	1,015	625	709
Total expenses	(1,533)	(2,128)	(1,736)	(1,768)	(2,204)	(2,225)	(4,204)	(4,361)
Net income (loss)	(785)	(6,244)	(6,311)	3,624	(4,003)	57	3,823	(5,231)
Earnings (loss) per share	(0.13)	(1.05)	(1.05)	0.60	(0.70)	0.00	0.55	(0.70)
Total assets	74,355	75,649	84,018	90,561	89,025	93,066	111,243	107,692
Total liabilities	28,819	29,421	31,475	31,788	33,844	34,190	45,426	45,698
Net asset value	45,536	46,228	52,543	58,773	55,181	58,876	65,817	61,994
Shares outstanding	5,859	5,859	5,867	5,872	5,872	5,872	7,188	7,188
Net asset value per share	7.77	7.89	8.95	10.00	9.40	10.03	9.15	8.60
Share price	4.05	4.15	5.20	5.10	6.00	4.85	3.80	4.10

* Data prior to November 30, 2016 have been adjusted to reflect the Consolidation

Quarter Ended March 31, 2017

Net loss for the quarter ended March 31, 2017 was \$0.8 million, or \$0.13 per share, compared to a net loss of \$4.0 million, or \$0.70 per share, for the quarter ended March 31, 2016 and a net loss of \$6.2 million, or \$1.05 per share, for the quarter ended December 31, 2016.

During the three months ended March 31, 2017, the Company recorded \$0.3 million of net realized capital gains. The realized gains were attributed to the disposal of publicly traded investments.

During the three months ended March 31, 2016, the Company recorded \$2.4 million of net realized capital losses. The realized losses were primarily attributed to the restructuring of the Company's investment in the convertible debentures of Cricket Media Group Ltd. ("Cricket Media"), which was approved by Cricket Media debenture holders in January 2016. The Company had previously marked down its investment in Cricket Media, and thus the debt restructuring had no net income impact during the quarter other than a reclassification of previously recorded unrealized loss to realized loss.

During the quarter ended March 31, 2017, the Company recorded \$0.2 million of net unrealized gain on investments and marketable securities. The unrealized gains were attributed to mark-to-market of investments offset by unrealized losses on foreign exchange on the Company's U.S. investments.

During the quarter ended March 31, 2016, the Company recorded \$0.3 million of net unrealized gain on investments and marketable securities. The increase in unrealized gain was primarily due the reversal of the previously unrealized loss on investment in Cricket Media (\$1.9 million) that was realized upon the completion of the aforementioned debt restructuring. The gain was offset by \$1.6 million of unrealized foreign exchange loss on the Company's U.S. investments.

Other income was \$0.3 million for the three months ended March 31, 2017 and 2016.

Total expenses during the quarter ended March 31, 2017 were \$1.5 million compared to \$2.2 million for the quarter ended March 31, 2016. The significant components of expenses were as follows:

- Compensation expense for the three months ended March 31, 2017 was \$0.4 million compared to \$0.9 million during the same period in 2016.
- Financing costs were \$0.8 million compared to \$0.9 million during the same period in 2016.

LIQUIDITY AND CAPITAL RESOURCES

During the quarter ended March 31, 2017, cash used in operating activities was \$1.1 million, compared to \$2.5 million during the same period in 2016. The Company received \$0.3 million in net proceeds of investments and marketable securities compared to spending \$0.5 million in net proceeds during the comparable quarter in 2016.

As at March 31, 2017, the Company had \$9.7 million of cash and cash equivalents versus \$10.8 million as at December 31, 2016. In addition, the Company had \$2.5 million of distribution receivables as at March 31, 2017 from the WG Limited (“World Gaming”), infraReDx, Inc. (“Infraredx”), BTI systems Inc. (“BTI”), FemMed Pharmaceuticals Inc. (“FemMed”) and Quickplay Media Inc. (“Quickplay”) dispositions. Total investable assets, calculated as Net Asset Value excluding the Debentures outstanding, as of March 31, 2017 were \$73.8 million compared to \$74.3 million at December 31, 2016.

As at March 31, 2017, the Company’s investment and marketable securities portfolios were \$61.7 million compared to \$61.6 million at December 31, 2016.

As at March 31, 2017, the Company had \$29.6 million in outstanding principal of its Debentures. On December 13, 2016, the Company received approval from the TSX to renew its NCIB (“2017 Debentures NCIB”) to repurchase its Debentures. The Company also received approval from the TSX for an automatic purchase plan, which allows for purchases by the Company of its Debentures during Company-imposed black-out periods, and, subject to pre-determined pricing and volume restrictions imposed by the Company, to the rules and policies of the TSX and to specific terms of the 2017 Debentures NCIB. Outside of these pre-determined black-out periods, debentures were purchased in accordance with management’s discretion. Pursuant to the policies of the TSX, the Company is authorized to acquire up to \$3.2 million principal amount of its Debentures, representing 10% of the public float of the outstanding Debentures at the time of the renewal. The 2017 Debenture NCIB will expire on December 14, 2017. During the quarter ended March 31, 2017, the Company did not repurchase any Debentures.

During the quarter, shareholders’ equity decreased by \$0.7 million to \$45.5 million. On September 13, 2016, the Company received approval from the TSX to renew its normal course issuer bid (“2016 Common shares NCIB”) to repurchase its common shares. The Company also received approval from the TSX for an automatic purchase plan, which allows for purchases by the Company of its common shares during Company-imposed black-out periods, and, subject to pre-determined pricing and volume restrictions imposed by the Company, to the rules and policies of the TSX and to specific terms of the 2016 Common Shares NCIB. Outside of these pre-determined black-out periods, shares were purchased in accordance with management’s discretion. Pursuant to the policies of the TSX, the Company is authorized to repurchase up to 1.6 million of its pre-Consolidation common shares, representing 10% of the public float of the outstanding common shares at the time of the renewal. The 2016 Common shares NCIB will expire on September 14, 2017. During the quarter ended March 31, 2017, the Company did not repurchase any common shares.

Net Asset Value as at March 31, 2017 was \$45.5 million, or \$7.77 per share, compared to \$46.2 million, or \$7.89 per share, as at December 31, 2016, and \$55.2 million, or \$9.40 per share, as at March 31, 2016.

Subsequent to quarter end, the Company acquired 612,900 additional common shares of Mogo Finance Technology Inc. for total consideration of \$2.0 million.

The Company believes it has adequate working capital to support its operations. The Company is prudently managing its liquidity, and is focusing on monetizing its investment positions, when and where possible. The Company remains focused on dealing with the remaining Debentures in a manner that is non-dilutive to shareholders.

INVESTMENTS

The table below provides a summary of the Company's investments by industry sector as at March 31, 2017:

Industry Sector	Average Cost (\$000)	Fair Value (\$000)
Financial Technologies	7,959	7,200
Healthcare	4,004	4,984
Internet	20,194	11,201
Media/Media Technologies	15,362	11,445
Technologies	16,631	13,519
Other	9,088	12,601
	73,238	60,950

See Schedule of Investments on page 6 of the unaudited interim condensed financial statements and accompanying notes for the quarter ended March 31, 2017 for additional details.

There were no significant purchases, sales and changes in valuation of investments during the period ended March 31, 2017.

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, 2017 Marketable securities (\$000)	December 31, 2016 Marketable securities (\$000)
Equity securities	735	735
	735	735

CONTRACTUAL OBLIGATIONS

The table below is a summary of the Company's contractual obligations at March 31, 2017:

<i>(thousands of dollars)</i>	Total	1 year or less	1 to 3 years
Accounts payable and accrued liabilities	154	154	-
Interest on Convertible Debentures	3,547	2,365	1,182
Convertible Debentures	29,561	-	29,561
Total	33,262	2,519	30,743

The Company pays management a bonus pool equivalent to 20% of the increase in investable assets over a hurdle rate of 3.0% per annum, with a perpetual high water mark beginning with the December 31, 2014 total investable assets. Investable assets are determined by subtracting the aggregate fair value of the liabilities of the Company (excluding any convertible debentures or debenture issued by the Company) from the aggregate fair value of the assets of the Company on the date on which the calculation is being made. For the purposes of the annual incentive cash bonus calculation, change in investable assets exclude any equity and debt capital raised or repurchased by the Company during the period in which the calculation is being made. Individual bonus pool allocations to management and employees are subject to Board approval. As at March 31, 2017 and 2016, there was no accrual for the annual incentive bonus plan.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Fair Value of privately held investments

The determination of the fair value of privately held investments, which include debt and equity securities requires that judgement be applied to the specific facts and circumstances of each investment. Actual results could differ from these estimates. Refer to Note 13, Fair Value Measurement, in the annual 2016 audited financial statements, for disclosure on fair value estimation of private investments.

Equity based compensation

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

FUTURE ACCOUNTING CHANGES

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

IFRS 9 *Financial Instruments* ("IFRS 9")

IFRS 9 was issued by the International Accounting Standards Board on July 24, 2014 and will replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 requires financial

instrument classification and related measurement practices to be based primarily on an entity's business model objectives when managing those financial assets and on the extent to which contractual cash flows exist within the financial assets. The standard also introduces a new expected loss impairment model. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is currently reviewing the standard and assessing the areas of impact.

IFRS 15 Revenue from Contracts and Customers ("IFRS 15")

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

Amendments to IAS 7, Statement of Cash Flows ("IAS 7")

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

Amendments to IAS 12, Income Taxes ("IAS 12")

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

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 11, 2017, there were 5,858,637 common shares outstanding. There are no outstanding preference shares.

As at May 11, 2017, there was an aggregate principal amount of \$29.6 million of Debentures outstanding, convertible into 1,028,209 common shares at a conversion price of \$28.75 per common share.

The Company has an incentive stock option plan (the "Stock Option Plan"), as amended and restated on June 13, 2013, for the directors, officers and employees of the Company. Under the Stock Option Plan, the number of common shares that may be issued as a result of the grant of options shall not exceed 10% of the number of the then-issued an outstanding common shares of the Company at the time of grant. As at May 11, 2017, 10% of the issued and outstanding common shares was 585,864 common shares. During the quarter ended March 31, 2017, the Company did not grant any options to its directors, officers and employees. As at May 11, 2017, an additional 181,298 common shares could have been granted under the Company's Stock Option Plan.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's disclosure controls and procedures are designed to provide reasonable assurance the information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified under securities laws and include controls and procedures that are designed to ensure that information is accumulated and communicated to management including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) to allow timely decisions regarding

disclosure. The CEO and CFO, together with management, are responsible for the design of the Company's disclosure control and procedures (as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*). Management, under the direction of the CEO and CFO, has evaluated the effectiveness of the disclosure controls and procedures as at March 31, 2017, 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, 2017 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, 2017 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.