



DIFFERENCE
CAPITAL

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

for the year ended December 31, 2016

March 8, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

March 8, 2017

This Management's Discussion and Analysis ("MD&A") dated March 8, 2017 presents an analysis of the financial position of Difference Capital Financial Inc. ("Difference Capital" or the "Company") as at December 31, 2016, compared with December 31, 2015, and the results of operations for the year ended and quarter ended December 31, 2016, compared with the year ended and quarter ended December 31, 2015 and the quarter ended September 30, 2016. It is supplementary information and should be read in conjunction with the Company's audited financial statements and accompanying notes as at December 31, 2016 and unaudited interim financial statements and accompanying notes for the period ended September 30, 2016. All dollar amounts in this MD&A are reported in Canadian dollars, unless otherwise stated.

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company's financial statements for the year ended December 31, 2016 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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 March 8, 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 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 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.

2016 REVIEW

The Company's portfolio strategy of investing in later-stage private growth companies was partially predicated on an occasional initial public offering ("IPO") window opening up. 2016 was not a particularly good year for the IPO market amid heightened political and economic uncertainty, market volatility, ongoing strength of the private capital markets, and a number of IPO capable candidates waiting for better internal metrics. It was the weakest IPO showing in at least 20 years according to a report by PricewaterhouseCoopers. The slow IPO market was somewhat offset by an active mergers and acquisitions ("M&A") market, accelerated in Canada due to the strength of the U.S. dollar relative to the Canadian dollar.

The Company benefited from the strong M&A market through the exits of Quickplay Media Inc. ("Quickplay"), BTI Systems Inc. ("BTI"), Embotics Corporation ("Embotics") and a few smaller positions. In addition, the Company has begun the sale process of its Rancho Mirage real estate investment that could conclude in 2017.

The Company continued to prudently manage its liquidity and de-lever its balance sheet during 2016. The Company repurchased an aggregate principal amount of \$5.6 million of its 8% July 31, 2018 convertible debentures (the "Debentures"), resulting in a cumulative to-date repurchase of \$26.5 million, or 47%, of the original \$56.1 million principal amount of Debentures issued, leaving \$29.6 million Debentures currently outstanding. Management and the Board remain committed to dealing with the remaining Debentures in a manner that is non-dilutive to shareholders.

Through interest payments, debenture repurchases, and common share repurchases, the Company has since 2013 returned to investors a total of \$47 million.

OUTLOOK

As we look ahead to 2017, we are cautiously optimistic that the IPO market will return. Markets are healthy; the few 2016 U.S. technology IPOs performed well; demand for new growth names remains high; private capital is getting a little harder to find; and, most importantly, a number of IPO candidates are getting the metrics needed with sales and profits at levels that should make them attractive to a large number of institutional investors.

While IPOs could finally return in 2017, we also expect M&A activity to remain healthy. We think this trend will continue to be supported by the weak Canadian dollar, recognition that Canada is a good location for R&D, and the vast amount of cash available to big U.S. technology companies.

The Company expects to be less active in new deals, while continuing to focus on supporting our stronger existing investments as well as carefully managing our cash position and balance sheet in 2017.

RESULTS OF OPERATIONS

SELECTED ANNUAL INFORMATION:

<i>(\$000's, except per share amounts)</i>	Years Ended December 31		
	2016	2015	2014
Net realized gain (loss) on disposals of investments and marketable securities	\$(16,507)	\$(25,269)	\$4,635
Net change in unrealized gain (loss) on investments and marketable securities	9,868	38,171	(43,431)
Other income	1,541	3,695	7,021
Total expenses	(7,836)	(14,452)	(16,313)
Net income (loss)	(12,934)	2,145	(48,088)
Earnings (loss) per share*	\$(2.20)	\$0.30	\$(6.20)
<hr/>			
Total assets	75,649	93,066	114,952
Total liabilities	29,421	34,190	49,018
Net asset value	46,228	58,876	65,934
Shares outstanding*	5,859	5,872	7,640
Net asset value per share*	\$7.89	\$10.03	\$8.65
Share price*	\$4.15	\$4.85	\$5.70

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

Year Ended December 31, 2016

Net loss for the year ended December 31, 2016 was \$12.9 million, or \$2.20 per share compared to a net income of \$2.1 million, or \$0.30 per share for the year ended December 31, 2015.

For the year ended December 31, 2016, the Company recorded \$16.5 million of net realized capital losses. The realized capital losses were primarily attributed to the dispositions and write-offs of the following investments: iPowow! Inc. (“iPowow”) (\$5.5 million), Crailar Technologies Inc. (“Crailar”) (\$5.0 million), Kalina Power Ltd. (“Kalina”) (\$3.0 million), FemMed Pharmaceuticals Inc. (“FemMed”) (\$2.0 million), and two other investments (\$2.5 million). The Company had previously marked down these investments and thus there was minimal impact to net income other than an accounting reclassification of previously recorded unrealized losses to realized losses. These losses were offset by realized gains on dispositions of Quickplay (\$2.5 million) and BTI (\$0.4 million).

For the year ended December 31, 2015, the Company realized a \$25.3 million capital loss on investments. The realized capital losses were primarily attributed to the dispositions of the WG Limited (“World Gaming”) and Lignol Energy Corporation (“Lignol”) assets, which resulted in \$18.3 million and \$13.0 million of losses respectively. These losses were reduced by capital gains realized on the dispositions of securities of Aurinia Pharmaceutical Inc. (\$2.8 million), Chieftain Residential LP (\$2.4 million), and Infraredx, Inc. (\$1.4 million).

For the year ended December 31, 2016, the Company recorded \$9.9 million of unrealized gain on investments and marketable securities. The significant changes in unrealized gain of the Company’s investment portfolio during the year were due to the following:

- Reversal of \$18.9 million of unrealized losses previously recorded on investments in Ipowow, Crailar, Kalina, and three other investments that were disposed of or written off in 2016, as noted above; and

- The Company marked up its investments in Difference RM Holdings Corp. (“U.S. real estate”), Vena Solutions Inc. (“Vena”) Vision Critical Communications Inc. (“Vision Critical”) and Touchbistro, Inc. totalling \$5.3 million; offset by
- Fair value write-downs on investments in BuildDirect.com Technologies Inc. (“BuildDirect”), Carta Solutions Holding Corporation (“Carta”), Mogo Finance Technology Inc. (“Mogo”), Thunderbird Films Inc. (“Thunderbird”) and Waterloo Innovation Network I LP (“WIN”) totalling \$13.5 million; and
- Net change in unrealized loss of foreign exchange of \$1.2 million on the Company’s U.S. investments.

For the year ended December 31, 2015, the Company recorded \$38.2 million of unrealized gain on investments and marketable securities. The significant changes in unrealized gain of the Company’s investment portfolio during the year were primarily due the reversal of unrealized loss previously recorded on World Gaming (\$25.6 million) and Lignol (\$17.5 million) investments that were realized when these assets were sold in 2015.

Other income decreased to \$1.5 million for the year ended December 31, 2016 from \$3.7 million for the same period in 2015. The decrease in other income was primarily due to lower interest and dividend income of \$1.3 million, down from \$2.5 million in 2015, due to smaller holdings of convertible debentures and debentures.

Total expenses for the year ended December 31, 2016 were \$7.8 million, compared to \$14.5 million for the year ended December 31, 2015. The significant components of expenses were as follows:

- Compensation expense for the year ended December 31, 2016 was \$2.9 million (full year) versus \$1.5 million in 2015 (7 months). In June 2015, the Company acquired Difference Capital Inc. (“DCI”) (the “Internalization Acquisition”) and terminated its management agreement (the “Management Agreement”) with Difference Capital Management Inc. (“DCM”). All DCI and DCM employees became employed directly by the Company.
- Management fees decreased to nil due to the Internalization Acquisition, compared to \$0.9 million in 2015.
- Professional fees for the year ended December 31, 2016 were \$0.6 million, compared to \$1.4 million in 2015.
- Financing costs for the year ended December 31, 2016 were \$3.6 million compared to \$4.8 million during the same period in 2015, as the Company continued to take steps to reduce its outstanding Debentures.
- Transaction costs decreased to \$0.1 million from \$4.0 million for the year ended December 31, 2015. Included in transaction costs during 2015 were \$2.4 million associated with the Internalization Acquisition and \$1.4 million related to the World Gaming sale transaction.

SUMMARY OF QUARTERLY RESULTS

(\$000's, except per share amounts)	2016			
	Q4	Q3	Q2	Q1
Net realized (loss) on disposals of investments and marketable securities	(2,544)	(2,863)	(8,655)	(2,445)
Net change in unrealized gain (loss) on investments and marketable securities	(2,022)	(2,002)	13,582	310
Other income	450	290	465	336
Total expenses	(2,128)	(1,736)	(1,768)	(2,204)
Net income (loss)	(6,244)	(6,311)	3,624	(4,003)
Earnings (loss) per share*	(1.05)	(1.05)	0.60	(0.70)

(\$000's, except per share amounts)	2015			
	Q4	Q3	Q2	Q1
Net realized gain (loss) on disposals of investments and marketable securities	1,983	(19,248)	346	(8,350)
Net change in unrealized gain (loss) on investments and marketable securities	(716)	26,650	(1,925)	14,161
Other income	1,015	625	709	1,346
Total expenses	(2,225)	(4,204)	(4,361)	(3,661)
Net income (loss)	57	3,823	(5,231)	3,496
Earnings (loss) per share*	0.00	0.55	(0.70)	0.45

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

Quarter Ended December 31, 2016

Net loss for the quarter ended December 31, 2016 was \$6.2 million, or \$1.05 per share compared to a net income of \$0.1 million, or \$0.00 per share for the quarter ended December 31, 2015 and a net loss of \$6.3 million, or \$1.05 per share for the quarter ended September 30, 2016.

For the three months ended December 31, 2016, the Company had a net realized loss on disposition of investments and marketable securities of \$2.5 million, compared to a realized gain on disposition of \$2.0 million during the same period last year and a realized loss of \$2.9 million during the third quarter of 2016. The net realized loss during the recent quarter was primarily due to the sales of FemMed and Kalina investments. The Company had previously marked down these investments and thus there was minimal impact to net income other than an accounting reclassification of previously recorded unrealized losses to realized losses.

For the three months ended December 31, 2016, the Company recorded \$2.0 million of unrealized loss on investments and marketable securities, compared to a net unrealized loss of \$0.7 million during the same period last year and a net unrealized loss of \$2.0 million during the third quarter of 2016. The significant changes in unrealized gain (loss) of the Company's during the quarter were as follows:

- The Company marked up its private investments in Vena (\$0.9 million) and Vision Critical (\$0.6 million) as well as its publicly traded securities of Bluedrop Performance Learning Inc. (\$0.2 million);
- Fair value write-downs on investments in BuildDirect, Carta, U.S. Real Estate, Thunderbird, and Cricket Acquisition Group, Inc. ("Cricket Acquisition") totaling \$7.7 million;
- Reversal of \$2.9 million of unrealized losses previously recorded on investments in FemMed and Kalina that were disposed of during the quarter; and

- Net change in unrealized gain of foreign exchange of \$0.7 million as a result of the Company's investments in U.S. investments.

Other income included interest and dividend income of \$0.5 million during the three months ended December 31, 2016, compared to \$1.0 million in the same period of 2015 and \$0.3 million in the previous quarter. Included in other income during the quarter was a \$0.2 million gain on repurchases of the Company's Debentures through the normal course issuer bids.

Total expenses for the quarter ended December 31, 2016 were \$2.1 million, compared to \$2.2 million for the same quarter in 2015 and \$1.7 million in the previous quarter.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 31, 2016, cash provided by operating activities was \$3.2 million, compared to cash provided by in operating activities of \$24.7 million during the same period in 2015. The Company received \$8.8 million in net proceeds of investments and marketable securities compared to \$35.3 million in net proceeds during 2015.

As at December 31, 2016, the Company had \$10.9 million of cash and cash equivalents versus \$13.1 million as at December 31, 2015. In addition, the Company had \$2.9 million of distribution receivables as at December 31, 2016 from the World Gaming, Infraredx, BTI, FemMed and Quickplay dispositions. Total investable assets, calculated as Net Asset Value excluding the Debentures outstanding, as of December 31, 2016 were \$74.3 million compared to \$91.3 million at December 31, 2015.

As at December 31, 2016, the Company's investment and marketable securities portfolios were \$61.6 million compared to \$76.9 million at December 31, 2015.

As at December 31, 2016, the Company had \$29.6 million in outstanding principal on 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 allowed 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. The 2017 Debentures NCIB will expire on December 14, 2017. During the year ended December 31, 2016, the Company repurchased \$5.6 million principal amount of the Debentures (December 31, 2015 - \$16.7 million), for an aggregate consideration of \$5.3 million (December 31, 2015 - \$14.3 million).

During the year, shareholders' equity decreased by \$12.7 million to \$46.2 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 allowed 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. The 2016 Common shares NCIB will expire on September 14, 2017. During the year ended December 31, 2016, 13,760 post-Consolidation common shares were repurchased (December 31, 2015 – 1.8 million post-Consolidation) at an average cost of \$5.10 per common share (December 31, 2014 - \$5.15) for total consideration of \$0.1 million (December 31, 2015 – \$9.1 million).

Net Asset Value as at December 31, 2016 was \$46.2 million or \$7.89 per share compared to \$58.9 million, or \$10.03 per share, as at December 31, 2015, and \$52.5 million, or \$8.95 per share as at September 30, 2016.

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 December 31, 2016:

Industry Sector	Average Cost (\$000)	Fair Value (\$000)
Financial Technologies	7,959	6,921
Healthcare	4,006	5,028
Internet	20,194	11,231
Media/Media Technologies	15,362	11,445
Technologies	16,631	13,519
Other	9,088	12,690
	73,240	60,834

See Schedule of Investments on pages 6 and 7 of the audited financial statements and accompanying notes for the year ended December 31, 2016 for additional details.

Significant purchases, sales and changes in valuation of investments during the year ended December 31, 2016 included the following:

BuildDirect.com Technologies Inc. (“BuildDirect”)

In October 2016, the Company invested an additional US\$1.1 million in secured convertible promissory notes of BuildDirect. During 2016, the Company made fair value adjustments to its investment in BuildDirect common shares based on the debt financings completed by BuildDirect and qualitative observations reflecting the current financial situation of BuildDirect. The adjustments resulted in \$9.5 million of unrealized loss during the year.

BTI Systems Inc. (“BTI”)

In April 2016, the acquisition of BTI by Juniper Networks Inc. closed. As part of the transaction, the Company expects to receive a total of \$2.6 million. The Company received \$2.1 million in 2016 and expects to receive the remaining \$0.5 million from escrow in the second quarter of 2017.

Carta Solutions Holding Corporation ("Carta")

In February and March 2016, the Company provided Carta with bridge loans totaling \$0.7 million. During the year ended December 31, 2016, the Company made fair value adjustment to its investment in Carta common shares based on qualitative observations reflecting the current financial situation of Carta. The adjustments resulted in \$2.0 million of unrealized loss during the year.

Difference RM Holdings Corp. ("Difference RM")

The Company indirectly owns 52% of a 40% tenants-in-common interest in a 635 acre parcel of undeveloped land in the City of Rancho Mirage, California, immediately to the southeast of Palm Springs (the "Property"). An impediment to the sale of the Property has been resolved, permitting the Company to list the property for sale. The Company marked up its investment in the Property by \$3.6 million in 2016.

Embotics Corporation ("Embotics")

In June 2016, the Company received repayment of the \$1.0 million principal plus accrued interest on the Embotics convertible debenture.

Quickplay Media Inc. ("Quickplay")

In May 2016, Quickplay was acquired by AT&T. As part of the transaction, the Company expects to receive a total of \$5.8 million. The Company has received \$5.2 million and expects to receive the remaining \$0.6 million from escrow in the fourth quarter of 2017. The transaction resulted in a realized gain on investment of \$2.5 million in 2016.

Vena Solutions ("Vena")

In July 2016, Vena completed a significant equity offering round led by a major private equity firm. The common shares and convertible debentures of Vena held by the Company were revalued based on the valuation established from this round of financing and taking into consideration comparable publicly company trading multiples analysis. The revaluation resulted in approximately \$0.9 million of unrealized gain in 2016.

Vision Critical Communications Inc. ("Vision Critical")

Subsequent to year-end, Vision Critical completed a significant secondary equity offering led by large institutional investors. The common and preferred shares of Vision Critical held by the Company were revalued based on the most recent round of financing. The revaluation resulted in approximately \$0.6 million of unrealized gain in 2016.

Other

During the year ended December 31, 2016, the Company wrote off its investments in iPowow and Shop.ca Network Inc. The write-offs resulted in \$1.0 million net investment loss in 2016. The Company recovered approximately \$0.9 million from the sales of FemMed and Kalina. The Company made fair value adjustments to its investments in Cricket, WIN, Thunderbird and Mogo, resulting in \$2.5 million of unrealized loss in the fair value of these investments in 2016.

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, 2016 Marketable securities (\$000)	December 31, 2015 Marketable securities (\$000)
Equity securities	735	378
	735	378

RELATED PARTY TRANSACTIONS

Management Agreement

Prior to June 1, 2015, the Company had a Management Agreement with DCM. Pursuant to the Management Agreement, as compensation for the management services provided to the Company by the Manager, the Company paid DCM a Management Fee in the amount equal to 2% per annum (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, DCM was 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. No Performance Fee has been payable to DCM since 2012.

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

Effective June 1, 2015, the Company acquired DCI and terminated without penalty the Management Agreement with DCM.

Other Related Party Transactions

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.

The Company reimbursed DCM \$0.2 million for occupancy cost during the year.

In connection with the World Gaming sale of its operational assets to Cineplex in 2015, the Company agreed to pay a cash incentive fee of \$0.4 million and transferred an ownership interest of approximately 2 million common shares of World Gaming, with an estimated fair value of \$1.0 million, to the CEO and CFO of World Gaming. The total cost was expensed as a transaction cost during the year.

CONTRACTUAL OBLIGATIONS

The table below is a summary of the Company's contractual obligations at December 31, 2016:

<i>(thousands of dollars)</i>	Total	1 year or less	1 to 3 years
Accounts payable and accrued liabilities	379	379	-
Interest on Convertible Debentures	4,730	2,365	2,365
Convertible Debentures	29,561	-	29,561
Total	34,670	2,744	31,926

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, 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 December 31, 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 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.

Fair value estimation

On a quarterly basis, the Company utilizes a valuation committee, consisting of members from management, investment and finance, to review and approve the valuation results of every position in the portfolio. The Company may also engage an independent valuation firm to perform an independent valuation in situations where it requires additional expertise. The valuation results are reviewed with the audit committee as part of its quarterly approval of the Company's financial statements.

The fair value of the Company's marketable securities and investments are determined as follows:

Listed securities

The fair value of securities traded in active markets are based on quoted market prices at the close of trading on the reporting date. The Company uses 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. 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 the restrictions.

Unlisted securities

For investments that are not publicly traded, subsequent to initial recognition, the fair value of these investments is determined by the Company using the most appropriate valuation methodology in light of the nature, facts and circumstances of the investment and its materiality in the context of the total investment portfolio.

For unlisted equity instruments:

- Investments are valued at cost for a limited period after the date of acquisition, if the purchase price remains representative of the fair value at the reporting date; otherwise, investments are valued using one of the other methodologies detailed below.
- Investments in which there has been a recent or in-progress funding round involving significant financing from external investors are valued at the price of the recent funding, whereby the various shareholder categories rights are taken into account in the valuation. The price is adjusted, where appropriate, if an external investor is motivated by strategic considerations.
- Investments in which there has been a recent financing round involving only existing investors participating proportionally to their existing investments are examined as to whether specific conditions exist that could reduce the reliability of this financing round as an indication of real value. An internal financing with investors at a lower price than the valuation at the previous reporting date may indicate a decrease in value and is taken into consideration.
- Investments that have achieved an exit after the valuation date but before finalization of the financial statements are valued based on the exit valuation, if the exit valuation was reasonably evident at the measurement date.
- Investments in which there has been a recent private secondary market trade of meaningful volume and the transaction is undertaken by a sophisticated, arm's-length investor are valued at the price of the recent trade and are adjusted, as appropriate, if the purchaser is motivated by strategic considerations.
- Investments in established portfolio companies for which there has not been any recent independent funding or secondary private market transaction are valued by using revenue or earnings multiples. When valued on a multiple basis, the maintainable revenue or earnings of a portfolio company are multiplied by an appropriate multiple. The multiple is derived from the market capitalization of a peer group. Companies are selected for the peer group that are comparable with the portfolio company to be valued as to their business model and size. If the portfolio company to be valued differs in certain aspects compared with features of companies in the peer group, discounts or premiums are applied to the relevant multiple or resulting valuation.
- Investments in early-stage companies not generating sustainable revenue or earnings and for which there has not been any recent independent funding are valued using alternative methodologies. The Company considers investee company performance relative to plan, going concern risk, continued funding availability, comparable peer group valuations, exit market conditions and general sector conditions and calibrates its valuation of each investment as appropriate.
- Investments in limited partnerships are valued on the most recently available value of its net assets.

- For public company warrants (i.e., the underlying security of which is traded on a recognized stock exchange), valuation models such as Black-Scholes are 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 closing price of the underlying security less the exercise price of the warrant, or nil. For private company warrants, the underlying security is not traded on a recognized stock exchange, therefore fair value is determined consistent with other investments that do not have an active market as described above.

Fair values for unlisted debt instruments are determined as follows:

- Loans, debentures and promissory notes issued by investees are generally valued at the price at which the instrument was issued. The Company regularly considers whether any indications of deterioration in the value of the underlying business exist, which suggest that the debt instrument will not be fully recovered. The Company may employ discounted cash flow analysis, market comparable analysis of listed debt instruments with similar credit quality or liquidation value analysis to determine the fair value of the debt instrument.
- Convertible debentures 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 using methodologies consistent to non-convertible debentures as discussed above.

The Company may apply a further illiquidity discount to the fair value of an investment if conditions exist that could make it challenging to monetize the investment in the near term at a price indicated by the valuation models. The amount of illiquidity discount applied requires considerable judgement and is based on the facts and circumstances of each investment.

The process of valuing investments for which no active market exists is inevitably based on inherent uncertainties, and the resulting values may differ significantly from values that would have been used had a ready market existed for the investments. These differences could be material to the fair value of investments in the portfolio.

Equity-based compensation

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.

The Company uses the fair value method to account for stock options. The fair value of stock options, determined on the grant date, using the Black-Scholes option pricing model, is expensed using the graded vesting method over the vesting period as compensation expense with a corresponding increase in contributed surplus. When the options are exercised, amounts originally recorded against contributed surplus as well as any consideration paid by the option holder is credited to share capital.

The amount recognized as compensation expense is adjusted to reflect the number of stock options for which the related service conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of stock options that meet the related service condition at the vesting date.

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 impact of this new standard on the financial statements.

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

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

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

In January 2016, the IASB issued an 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.

RISK FACTORS AND RISK MANAGEMENT

The Company's investment strategy requires assuming risk in exchange for targeting 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 may result in the loss of some or all of the capital invested.

Reliance on Management

The Company is dependent upon the efforts, skill and business contacts of key members of management 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. 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 objectives, 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 the NAV 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.

Repayment of Debentures

Should the Company find itself with a lack of funds to redeem all Debentures with cash on July 31, 2018, it may choose to redeem some or all of the Debentures for common shares based on the 20 day volume weighted average trading price ending 5 days prior to the redemption date. Debenture holders may therefore find themselves holding common shares in the Company that have equity exposure risk - which is much different than the risk associated with the Debentures. The common shares may also have low trading volumes, restricting the ability for former Debenture holders to sell such shares.

Depending on the trading price of common shares during the averaging period, shareholders could experience significant dilution in the ownership of the Company due to the new common shares issued to Debenture holders in the above-described scenario.

Alternatively, in an effort to raise cash to repay debentures upon maturity, the Company may find it necessary to dispose of investments at prices lower than the current fair market values and/or lower than it may have otherwise been able to achieve had it had more time to see such investments to fruition. Such declines in value would negatively impact the NAV and NAV per share of the Company.

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 30, 2015, 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 and its portfolio companies, 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 2026 and 2035. 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 Company, 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 Company 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 Company 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 Company'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.

Portfolio Company Operating Losses

The Company may have limited information about the financial performance and profitability of some of our portfolio companies. Many of the Company's portfolio companies are currently experiencing operating losses. There can be no assurance when or if such companies will operate at a profit.

The Company may be limited in its ability to make follow-on investments, and failure to make follow-on investments in portfolio companies could impair the value of the portfolio.

Following an initial investment in a portfolio company, the Company may make additional investments in that portfolio company as "follow-on" investments, in order to: (1) increase or maintain in whole or in part our equity ownership percentage; (2) exercise warrants, options or convertible securities that were acquired in the original or a subsequent financing; or (3) attempt to preserve or enhance the value of our investment. The Company may elect not to make follow-on investments, or may otherwise lack sufficient funds to make those investments or lack access to desired follow-on investment opportunities. The Company has the discretion to make any follow-on investments, subject to the availability of capital resources and of the investment opportunity. The failure to make follow-on investments may, in some circumstances, jeopardize the continued viability of a portfolio company and our initial investment, or may result in a missed opportunity for us to increase our participation in a successful operation. Even if the Company has sufficient capital to make a desired follow-on investment, the Company may elect not to make a follow-on investment because the Company may not want to increase our concentration of risk or because the Company prefers other opportunities. In addition, the Company may be unable to complete follow-on investments in one of

the portfolio companies that have conducted an initial public offering as a result of regulatory or financial restrictions.

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 8, 2017, there were 5,858,637 common shares outstanding. There are no outstanding preference shares.

As at March 8, 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.

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, 2016, and has concluded that they are reasonably assured that such controls and procedures were effective.

Management, under the supervision of the CEO and CFO, is responsible for the design and maintenance of adequate internal controls over financial reporting for the purposes of providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. However, due to its inherent limitations, internal controls over financial reporting can only provide reasonable, not absolute, assurance that the financial statements are free of misstatements. Management, under the direction of the CEO and CFO, evaluated the effectiveness of the Company's internal controls over financial reporting as at December 31, 2016 and has concluded that internal control over financial reporting was appropriately designed and operating effectively. There have been no changes during the year ended December 31, 2016 in the Company's internal controls over financial reporting that have materially affected, or are reasonable likely to materially affect, the Company's internal controls over financial reporting.