Difference Capital Shareholder Update

Focusing on our discount to NAV - October 2015

Yes, we are very aware that our $0.70 stock price is well below half of the Net Asset Value (NAV) per share of our portfolio ($1.72 at the end of June). Why is that? We think there are a few reasons:

1. Performance – NAV declined significantly (down 40%) in 2014 as new management conducted a thorough review of the valuations of the portfolio, including marking down some early investments that had clearly not tracked as hoped.

2. Balance Sheet – At the beginning of the year we had $46.6 million in outstanding convertible debentures.

3. Management – At the beginning of the year we believe investors were confused and concerned about the structure of having an external manager and the specific roles of individuals in the investment decision making.

4. Confirmation of Value – Our portfolio is relatively young and as such has not yet seen many IPOs or high return exits.

We are working hard to address all these issues:

1. Performance – Beginning early last year we shifted much of the portfolio into quality later stage tech and media names and now have about half of our investments in IPO or M&A capable names (vs. earlier stage riskier names). Equally important, we've taken our more "challenged" files and have either significantly written them down or exited the stronger ones through an M&A or other process. During 2015 in particular we have had considerable success in cleaning up the list of our earlier stage names including:
    a. We exited World Gaming (aka Virgin Gaming) by selling our 70% stake to a strong player in the space; Cineplex, for significantly more than expected by many of our investors.
    b. We ran a sale process for Lignol that resulted in us receiving about $5 million for its primary IP (and team) assets and we directly assumed a 21% ownership in Australia's largest biodiesel producer. Again, this produced a significantly higher recovery than was otherwise anticipated.
    c. Recently we sold our stake in medical device company InfraReDx to Japan based Nipro, also resulting in a better recovery than expected, and a significant gain to our cost base (with a little help from the US currency!)
    d. We also sold an earlier stage position, Appinions to ScribbleLive, giving us a stake in a stronger later stage company.

Finally, we'd point out that the portfolio exposure to other "challenged" files is now about 5% of assets - while the names we remain excited about represent closer to 70%.

2. Balance Sheet – we continue to de-lever the balance sheet. We recently completed the repurchase of $12 million of our debentures for about $10.6 million. With the three years of coupon savings this provides us with a *riskless* IRR in the range of 13%. We think this was a no-brainer for our shareholders! Our debt now totals less than $36 million.

3. Management – In Q2 we merged the private manager into the public company to emphasize clear alignment between management and investors. In the process, we clarified roles, with Henry Kneis becoming the CEO, Tom Astle the CIO, Tom Liston Managing Partner, and Victor Duong the CFO. Along with three others, this is the team that runs the investment process and reports to the Board, which includes John Albright, Riyaz Lalani and Jason Marks (recently added) as well as Michael Wekerle. Management incentives include institutional class terms such as a high water mark and a hurdle rate.

4. Confirmation of Value – While we have little control over market or M&A conditions, we have repositioned the portfolio to have high exposure to IPO and M&A capable names such as: Vision Critical, BuildDirect, Hootsuite, Thunderbird Films, Blue Ant Media, etc. We remain confident that when the IPO or M&A market is active we will see strong confirmation of value.

As you can see we've been busy addressing these issues and focusing on growth opportunities to drive more value for investors. We remain excited about the opportunities we are seeing in the private and small-cap public markets, but retain a cautious approach to current valuations.

You can expect further communication from us as we progress and markets change.

Sincerely,

Tom Astle, CIO

Henry Kneis, CEO