Difference Capital Shareholder Update

We built the foundation in 2015

Happy New Year! As 2016 gets started, we are feeling pretty good about the foundation we built in 2015.

In late 2014, we made some significant changes to *refocus* the portfolio on more mature investments, and *restructure* and *reassess* underperforming existing investments. This paid off in 2015 as we now have a portfolio that is about 50% invested in IPO/M&A capable companies, another third invested in strong mid-stage names, and reduced exposure to underperforming investments.

We achieved several things during 2015, including:

- *Exited three major positions for cash* – Lignol, WorldGaming and InfraReDx. This generated cash and a positive impact to our NAV.

- *Returned almost $25 million to investors* – through our stock and debenture buyback programs, while still maintaining healthy cash balances. Not bad for a firm with $115 million of assets at the start of last year.

- *Increased liquidity by focusing on IPO capable names* - Increased our exposure to our later stage names like Vision Critical, Quickplay Media, and ScribbleLive while reducing exposure to other earlier stage names. One of our smaller IPO capable positions went public (Mogo) and several more of our IPO capable names made good progress in preparing for an IPO window.

- *NAV performance to Q3* – We started the year with NAV/share of $1.73 and by the end of Q3 this had climbed to $1.83.   We will report Q4 and full year results in March.

- *Stock performance improved though the year* – while the stock price ended down about 10% over the year in line with the TSX, this was significantly better than the performance of the TSX Venture index (the index that is closest to our portfolio focus) which was down about 25%. And since the lows of this summer the DCF stock price has rallied almost 100%

- *Internalized the Manager* – we purchased the external manager of the funds, providing investors with full visibility on all costs and in the process we introduced institutional class performance measures such as hurdle rates and a high water mark.

Hopefully you can see we were busy in 2015. But what about 2016? As we write this, the public markets are clearly having some “issues”. At times like these, we are happy to be exposed more to private companies, but clearly we will be looking for some stability in the public markets before an IPO window can open again. However, we also point out that historically most venture capital investment exits occur more through M&A than IPOs. And M&A happens in all types of market conditions. For example, our three big exits last year were by M&A. Currently we have about seven names in the portfolio in various stages of an M&A process. While we wouldn't expect even a majority of those to result in a short term exit, it does show the monetization potential we have put into the portfolio.

We are still strong believers in our thesis that growth investments (vs. resource investments) in Canada will attract scarcity premiums and that a professionally managed portfolio of private, late-stage investments provides investors with a quality opportunity to benefit from this phenomenon.

Here's to 2016!

Sincerely,

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