DIFFERENCE CAPITAL FINANCIAL INC.
MANAGEMENT DISCUSSION AND ANALYSIS

for the year ended December 31, 2015

March 9, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

March 9, 2016

This Management's Discussion and Analysis ("MD&A") dated March 9, 2016 presents an analysis of the financial position of Difference Capital Financial Inc. ("Difference Capital" or the "Company") as at December 31, 2015, compared with December 31, 2014, and the results of operations for the year ended and quarter ended December 31, 2015, compared with the year ended and quarter ended December 31, 2014 and the quarter ended September 30, 2015. It is supplementary information and should be read in conjunction with the Company's audited financial statements and accompanying notes as at December 31, 2015 and unaudited interim financial statements and accompanying notes for the period ended September 30, 2015. All dollar amounts in this MD&A are reported in Canadian dollars, unless otherwise stated.

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company's financial statements for the year ended December 31, 2015 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 9, 2016 management and directors own approximately 48% of the Company’s issued and outstanding common shares.

Recent Events

Effective June 1, 2015, the Company acquired Difference Capital Inc. (“DCI”) (the “Internalization Acquisition”) for an aggregate purchase price of $2.4 million and terminated without penalty its management agreement (the “Management Agreement”) with Difference Capital Management Inc. (“DCM” or the “Manager”). Upon the completion of the Internalization Acquisition, all DCI and DCM employees became employed directly by the Company. DCI was subsequently dissolved in 2015.

Prior to June 1, 2015, the Company’s operations and portfolio were managed by the Manager, under the terms of the Management Agreement. Please see “Related Party Transactions – Management

Agreement" for more details on the Management Agreement and the compensation arrangements thereunder.

On October 15, 2015, the Company completed a substantial issuer bid to purchase for cancellation from holders of its outstanding 8.0% convertible unsecured subordinated debentures due July 31, 2018 (the "Debentures") $12.0 million of aggregate principal amount of the Debentures at a purchase price of $880 per $1,000 principal amount ("2015 Debentures SIB").

On December 30, 2015, the Company completed a substantial issuer bid ("2015 Common Shares SIB") to purchase for cancellation 6.6 million of its common shares in the capital of the Company at a purchase price of $1.05 per common share, for a total cost of approximately $6.9 million.

The Company is located in the Province of Ontario, Canada and its principal address is 130 Adelaide Street West, Suite 1010, Toronto, Ontario, M5H 3P5. The Company's registered office is located at Wildeboer Dellelce Place, Suite 800, 365 Bay Street, Toronto, Ontario, M5H 2V1. The Company is a reporting issuer in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador.

BUSINESS STRATEGY

The Company provides investors with an opportunity to gain exposure to unique investments. The Company generally, albeit not exclusively, seeks to invest in the mid to later stages of a Target Company's development or in emerging technologies that are developed and validated but may be in the early stage of commercialization. This strategy allows the Company to invest in enterprises that are commercially viable and have visibility toward high growth. In the past, the Company has also made significant investments in earlier-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 seeks to divest such assets as and when it considers appropriate. 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.

While the Company has in the past made aggregate investments in the securities of a single issuer of up to $30 million, typical initial investment allocations range from $2.0 million to $5.0 million and the Company now tries to limit the size of a single position to about ten percent of the total assets of the firm. The Company continues to make investments in issuers in the form of both equity and debt, depending on the suitability and circumstances of each issuer.

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

- The Company seeks to invest primarily in later stage financings of private Target Companies. These rounds are typically labeled as series C or D rounds or "Pre-IPO".
- The Company seeks investments that include as many of the following characteristics as possible: (i) a product/service with national/international market potential; (ii) an established business model with

high gross margins that result from strong competitive advantages; (iii) the ability to sustain growth rates 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 it has developed domain expertise and focuses on investments with potential paths to liquidity in a two to three year period. As investment issuers need to be managed for cash flow in order to reduce financing risks associated with delayed liquidity events, certain sectors will not be considered by the Company.
- The Company has a target rate of return when entering an investment in a Target Company of greater than a typical equity index return. Returns are expected to materialize partially from income on its debt and convertible debenture holdings, but primarily through capital gains based on the growth and disposition of its equity and equity-linked securities, whether through the private sale of a Target Company (an M&A transaction) or through an initial public offering of a Target Company's 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 does much of its own due diligence but utilizes the services of independent advisors and consultants to acquire additional information about investments where appropriate.

The Company may also consider opportunistic investments that come to its attention through its proprietary deal flow. The Company has extensive experience with a variety of asset classes and strategies including real estate, arbitrage, structured products, long/short equity, market-making, and proprietary trading. The Company is well-positioned to evaluate unique investments that offer significant potential returns on both an absolute and risk-adjusted basis. Such opportunities exist due to structural, market, legal, regulatory, tax, informational or other idiosyncratic inefficiencies. It is the Company's plan that should it identify a strategy or asset class that it believes merits significant investment beyond its own allocation, the Company may choose to contribute such assets to a separate vehicle and offer to existing shareholders and other potential investors the ability to co-invest with the Company in such a new entity. Since 2013, the Company has chosen to deemphasize alternative asset classes in order to focus its efforts on the late stage, pre-IPO growth companies described above.

The Company 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 such positions when and where possible.

2015 REVIEW

In 2014, the Company undertook important steps to refocus the portfolio on later stage investments, restructure underperforming assets and divest non-core holdings. During 2015, the Company achieved several significant outcomes from these initiatives:

- Closed the sale of Chieftain Residential LP ("Chieftain") for $12.9 million.
- Recovered $5.2 million from the sale of Lignol Energy Corporation ("Lignol") assets.
- Sold its majority interest in WG Ltd. ("World Gaming") to Cineplex Corporation, resulting in $7.4 million in net cash proceeds plus a small stake in the new company managed by Cineplex.
- Exited its investment in Infraredx Inc. ("Infraredx") for US$ 5.0 million.
- Sold the majority of its interest in Aurinia Pharmaceuticals Inc. ("Aurinia") publicly listed common shares for gross proceeds of $5.1 million, resulting in approximately $2.8 million of net realized gain.

These transactions allowed the Company to significantly reduce its exposure to earlier stage and non-core investments and boosted its cash position. Many of the mostly later stage investments continue to progress well and the IPO capable and public positions now represent over 50% of the invested portfolio. While capital markets have cooled somewhat, this may be temporary. The slow IPO market is also somewhat offset by a very active M&A market, accelerated in Canada given the strength of the U.S. dollar relative to the Canadian dollar.

The Company continued to prudently manage its liquidity, and where desirable, de-lever its balance sheet. In October, the Company successfully completed its 2015 Debentures SIB. The Company also renewed its normal course issuer bid for its Debentures. In total, the Company repurchased an aggregate principal amount of $16.7 million Debentures during 2015, resulting in a cumulative to-date repurchase of $20.9 million, or 37%, of the original $56.1 million principal amount of Debentures issued, leaving $35.1 million Debentures currently outstanding. Management and the board of directors are committed to dealing with the remaining Debentures in a manner that is non-dilutive to shareholders. The Debentures mature on July 31, 2018.

In December, the Company also successfully closed the 2015 Common Shares SIB by purchasing 6.6 million shares at a price of $1.05 per share for total consideration of $6.9 million. With investable assets at the beginning of the year of $112.5 million, the Company returned to investors a total of $23.4 million through the repurchase of its securities in 2015 (20.8% of starting investable assets). These common share and debenture repurchases generated a $7.7 million positive impact to shareholders for the year.

OUTLOOK

The Company continues to be encouraged by overall market trends including the increased demand for quality technology and media companies in the public markets as well as M&A exit opportunities. We believe Canadian and global markets continue to shift capital from commodity focused to growth oriented investments and this should help the valuation of our portfolio of technology and media companies.

It is our plan to continue to increase the portion of the portfolio that is late stage and IPO capable. We also see our exposure to earlier stage and underperforming investments continuing to decline as we seek to limit further capital commitments to these stages of corporate development and look to selectively exit some of these positions.

Unless we have some early exits, we expect to be less active in new deals in 2016, while we focus on supporting our stronger existing investments as well as carefully managing our cash position and balance sheet. While current weak IPO market conditions exist, we plan to reserve our capital to support our better existing investments. Fortunately, many of our later stage investments have a number of strong financial backers, including large VC and institutional investors, to help with any required follow-on financing. We also see signs that the M&A market for Canadian growth companies remains strong, partially driven by the weaker Canadian dollar.

Going forward, we expect advisory fees to be a small portion of revenue. Advisory mandates are no longer a focus of the Company's business, but rather will be a positive by-product of strong investment decisions.

RESULTS OF OPERATIONS

SELECTED ANNUAL INFORMATION:

($000's, except per share amounts)	**Years Ended December 31**		
	2015	**2014**	**2013**
Net realized gain (loss) on disposals of investments and marketable securities	$(25,269)	$4,635	$1,680
Net change in unrealized gain (loss) on investments and marketable securities	38,171	(43,431)	(18,673)
Other income	3,695	7,021	5,863
Total expenses	(14,452)	(16,313)	(8,888)
Net income (loss)	2,145	(48,088)	(20,018)
Earnings (loss) per share	$0.06	$(1.24)	$(0.62)
Total assets	93,066	114,952	168,814
Total liabilities	34,190	49,018	53,276
Net asset value	58,876	65,934	115,538
Shares outstanding	29,362	38,198	39,132
Net asset value per share	$2.01	$1.73	$2.95
Share price	$0.97	$1.14	$2.75

Year Ended December 31, 2015

Net income for the year ended December 31, 2015 was $2.1 million, or $0.06 per share compared to a net loss of $48.1 million, or $1.24 per share for the year ended December 31, 2014.

For the year ended December 31, 2015, net realized capital losses on investments were $25.3 million. The realized capital losses were primarily attributed to the dispositions of the World Gaming and 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 Aurinia common shares ($2.8 million), Chieftain real estate assets ($2.4 million), and the Infraredx debenture ($1.4 million).

For the year ended December 31, 2014, the Company realized a $4.6 million capital gain on investments, primarily attributed to a $2.7 million gain on the conversion and disposition of the Enterprise Group Inc. common shares and a $1.7 million gain on the disposition of common shares in BENEV Capital Inc.

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 (loss) of the Company's investment portfolio during the year were as follows:

- 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.
- Reversal of previously unrealized gain recorded on Aurinia ($2.0 million) and Chieftain ($1.6 million) investments that were realized when these investments were sold in 2015.
- Mark-up of investments in Ethoca Solutions Inc. ("Ethoca") ($2.1 million), Vena Solutions ("Vena") ($1.4 million) and Vision Critical Communications Inc. ("Vision") ($0.5 million) based on recent completed third party transactions.
- Write-down of investments in Appinions Inc. ("Appinions"), Baanto International Ltd. ("Baanto"), iPowow! Inc. ("iPowow"), Crailar Technologies Inc. ("Crailar"), Cricket Media

Group Ltd ("Cricket Media"), and Mogo Finance Technology Inc. ("Mogo") totaling $7.1 million. Other than Mogo common shares which were marked-to-market, the fair value adjustments for the private investments reflected past performance, current outlook, existing financial position as well as valuations of comparable public companies and other transactions.

- Net change in unrealized gain of foreign exchange of $3.6 million as a result of the Company's investments in U.S. assets.

During the year ended December 31, 2014, the Company recorded $43.4 million of unrealized loss on investments and marketable securities. The unrealized loss was primarily due to write-downs of investments in Lignol ($12.8 million), World Gaming ($19.5 million), Cricket Media ($4.3 million), Fem Med ($1.9 million), iPowow ($3.8 million), and Appinions ($1.9 million). The net change in unrealized loss was partially offset by unrealized gain on investments in BuildDirect.com Technologies Inc. ($2.5 million), Blue Ant Media Inc. ($1.0 million) and Carta Solutions Holding Corporation ($0.5 million) as well as approximately $3.3 million of net change in unrealized gain of foreign exchange.

Other income decreased from $7.0 million for the year ended December 31, 2014 to $3.7 million for the same period in 2015. The decrease in other income was primarily due to lower interest and dividend income of $2.5 million, down from $5.8 million in the same period of 2014, due to smaller holdings of convertible debentures and debentures.

Total expenses for the year ended December 31, 2015 were $14.5 million, compared to $16.3 million for the year ended December 31, 2014. The significant components of expenses were as follows:

- Management fees decreased to $0.9 million for the year ended December 31, 2015 compared to $3.0 million in the prior year. Effective June 1st, 2015, the Management Agreement with DCM was terminated in connection with the Internalization Acquisition. In addition, management fees between January to May 2015 were lower than the same period in 2014 due to lower assets under management.
- Compensation expense for the year ended December 31, 2015 was $1.5 million versus nil in 2014. Effective June 1st all DCM and DCI employees became employees of the Company.
- Harmonized Sales Tax decreased to $0.3 million for the year ended December 31, 2015 from $0.6 million in 2014 due to the elimination of HST on management fees paid to DCM.
- Professional fees for the year ended December 31, 2015 were $1.3 million, compared to $2.4 million in 2014. During 2014, the Company incurred higher legal and professional fees associated with the Benev investment and the Lignol receivership proceedings.
- Financing costs for the year ended December 31, 2015 were $4.8 million compared to $5.5 million during the same period in 2014, as the Company took steps in 2015 to reduce its convertible debentures through the normal course issuer bid and 2015 Debentures SIB (see the Liquidity and Capital Resources section for further disclosure).
- Transaction costs increased to $4.0 million for the year ended December 31, 2015, compared to $0.7 million in 2014. Included in transaction costs during 2015 were $2.4 million associated with the Internalization Acquisition and $1.4 million related to the World Gaming transaction.

SUMMARY OF QUARTERLY RESULTS

($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	0.11	(0.14)	0.09

($000's, except per share amounts)	2014			
	Q4	**Q3**	**Q2**	**Q1**
Net realized gain on disposals of investments and marketable securities	227	340	1,015	3,053
Net change in unrealized gain (loss) on investments and marketable securities	(23,407)	(9,958)	(11,217)	1,151
Other income	1,031	2,163	1,848	1,979
Total expenses	(3,756)	(4,591)	(4,641)	(3,325)
Net income (loss)	(25,905)	(12,046)	(12,995)	2,858
Earnings (loss) per share	(0.68)	(0.31)	(0.33)	0.07

Quarter Ended December 31, 2015

Net income for the quarter ended December 31, 2015 was $0.1 million, or $0.00 per share compared to a net loss of $25.9 million, or $0.68 per share for the quarter ended December 31, 2014 and a net gain of $3.8 million, or $0.11 per share for the quarter ended September 30, 2015.

For the three months ended December 31, 2015, the Company had a net realized gain on disposition of investments and marketable securities of $2.0 million, compared to a realized gain on disposition of $0.2 million during the same period last year and a realized loss of $19.2 million during the third quarter of 2015. The net realized gain during the quarter was primarily due to the additional distribution received on the sale of the World Gaming assets in excess of what was initially anticipated in the prior quarter and the realized gain on the disposition of Infraredx of $1.4 million.

For the three months ended December 31, 2015, the Company recorded $0.7 million in unrealized loss on investments and marketable securities, compared to a net change in unrealized loss of $23.4 million during the same period last year and a net change in unrealized gain of $26.7 million during the third quarter of 2015. The significant changes in unrealized gain (loss) of the Company's during the quarter were as follows:

- Mark-up of investments in Vena ($1.4 million), Vision ($0.5 million) and BTI Systems Inc. ($0.4 million) based on recently completed third party transactions.
- Additional distribution received on the World Gaming sale of $0.8 million.
- Reversal of previously unrealized gain recorded on Infraredx ($1.4 million) that was realized when this investment was sold.
- Net write-down of other investments and marketable securities totaling $1.8 million.

- Net change in unrealized gain of foreign exchange of $1.0 million as a result of the Company's investments in U.S. assets.

Other income included interest and dividend income of $1.0 million during the three months ended December 31, 2015, compared to $1.0 million in the same period of 2014 and $0.6 million in the previous quarter. Included in other income during the quarter was a $0.6 million gain on repurchases of the Company's Debentures through the normal course issuer bid and 2015 Debentures SIB.

Total expenses for the quarter ended December 31, 2015 were $2.2 million, compared to $3.8 million for the same quarter in 2014 and $4.2 million in the previous quarter.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 31, 2015, cash provided by operating activities was $24.7 million, compared to cash used in operating activities of $7.8 million during the same period in 2014. The Company received $35.3 million in net proceeds of investments and marketable securities compared to $3.0 million in net proceeds during 2014.

As at December 31, 2015, the Company had $13.1 million of cash and cash equivalents versus $11.8 million as at December 31, 2014. In addition, the Company had $2.7 million of distribution receivables as at December 31, 2015 from the World Gaming and Infraredx transactions. Total investable assets, calculated as Net Asset Value excluding the Debentures outstanding, as of December 31, 2015 were $91.3 million compared to $112.6 million at December 31, 2014.

As at December 31, 2015, the Company's investment and marketable securities portfolios were $76.9 million compared to $99.0 million at December 31, 2014.

As at December 31, 2015, the Company had $35.1 million in outstanding principal on its Debentures. On December 8, 2014, the Company received approval from the TSX to renew its normal course issuer bid ("2015 Debentures NCIB") to repurchase its Debentures. Pursuant to the policies of the TSX, the Company was authorized to acquire up to $4.2 million principal amount of its Debentures, representing 10.0% of the public float of outstanding Debentures. The 2015 Debentures NCIB expired on December 9, 2015. On October 15, 2015, the Company completed the 2015 Debentures SIB to purchase for cancellation from holders of the Debentures $12.0 million aggregate principal amount of the issued and outstanding Debentures at a purchase price of $880 per $1,000 principal amount of Debentures. On December 11, 2015, the Company received approval from the TSX to renew its NCIB ("2016 Debentures NCIB") to repurchase its Debentures. Pursuant to the policies of the TSX, the Company is authorized to acquire up to $3.3 million principal amount of its Debentures, representing 10.0% of the public float of the outstanding Debentures. The 2016 Debentures NCIB will expire on December 14, 2016. During the year ended December 31, 2015, the Company repurchased $16.7 million principal amount of the Debentures (December 31, 2014 - $4.0 million), for an aggregate consideration of $14.3 million (December 31, 2014 - $3.2 million).

During the year, shareholders' equity decreased by $7.1 million to $58.9 million. The decrease was primarily attributed the repurchases of the Company's common shares. On December 8, 2014, the Company received approval to renew its normal course issuer bid ("2015 Common Shares NCIB"). The Company was authorized to acquire up to 2.4 million common shares, representing 10% of the public float of the then issued and outstanding common shares. The 2015 Common Shares NCIB expired on December 9, 2015. On December 30, 2015, the Company completed the 2015 Common Shares SIB to purchase for cancellation 6.6 million of its common shares in the capital of the Company at a purchase price of $1.05 per common share, for a total cost of approximately $6.9 million. During the year ended December 31, 2015, 8.8 million common shares were repurchased (December 31, 2014 – 0.9 million) at an average cost of $1.03 per common share (December 31, 2014 - $1.50) for total consideration of $9.1 million (December 31, 2014 – $1.4 million).

Net Asset Value as at December 31, 2015 was $58.9 million or $2.01 per share compared to $65.9 million, or $1.73 per share, as at December 31, 2014, and $65.8 million, or $1.83 per share as at September 30, 2015.

The Company believes it has adequate working capital to support its operations. The Company's primary use of cash is to make investments and to pay for operating expenses.

INVESTMENTS

The table below provides a summary of the Company's investments by industry sector as at December 31, 2015:

Industry Sector	**Average Cost ($000)**	**Fair Value ($000)**
Financial Technologies	7,257	8,901
Healthcare	6,318	5,072
Internet	21,296	19,003
Media/Media Technologies	22,749	13,405
Technologies	23,889	20,380
Other	17,261	9,807
	98,770	**76,568**

See Schedule of Investments on pages 6 and 7 of the audited financial statements and accompanying notes for the year ended December 31, 2015 for additional details.

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

Bluedrop Performance Learning Inc. ("Bluedrop")
As at December 31, 2014, the Company held $3.0 million of Bluedrop unsecured convertible debentures that pays 14% interest per annum and are convertible into common shares of Bluedrop at the option of the Company at any time prior to maturity at a conversion price of $0.15 per common share. In February 2015, the Company invested an additional $0.6 million in an unsecured convertible debenture of Bluedrop under the same terms. In December 2015, the Company agreed to an extension of the maturity of its $3.0 million unsecured convertible debenture of Bluedrop from December 30, 2016 to December 30, 2017.

BTI Systems Inc. ("BTI")
Subsequent to year-end, BTI was acquired by Juniper Networks Inc. ("Juniper"). The Company had invested US$1.8 million in preferred shares and US$0.2 million in convertible debentures of BTI. As at December 31, 2015, the Company's investments in BTI were valued based on the expected proceeds from the Juniper sale, resulting in approximately a $0.4 million unrealized gain during the year.

Chieftain Residential, LP (“Chieftain”)
In January 2015, the Company sold its interest in Chieftain for aggregate proceeds of $12.9 million, resulting in approximately $2.4 million of realized gain during the year ended December 31, 2015.

Ethoca Solutions Inc. ("Ethoca")
In July 2015, Ethoca completed a US$45.0 million primary and secondary equity offering round led by a major private equity firm. The common shares of Ethoca held by the Company were revalued based on this most recent round of financing, resulting in approximately $2.1 million of unrealized gain during the year ended December 31, 2015.

GuestLogix Inc. (“GuestLogix”)
In June 2015, the Company received repayment of the $2.0 million principal plus accrued interest of the GuestLogix promissory note.

InfraReDx, Inc. ("Infraredx")
In October 2015, Infraredx was sold to Nipro Corporation ("Nipro"). The Company had invested US$5.0 million in convertible debentures of Infraredx and expects to receive full payment, subject to certain conditions. As of December 31, 2015, the Company had received US$3.5 million representing the first tranche of payment. The remaining amount has been placed in escrow to cover potential indemnification claims and will be released to the Company in two tranches in the fourth quarter of 2016 and in the second quarter of 2017, respectively. The Company recorded approximately $1.4 million in realized gain from the Nipro transaction.

Lignol Energy Corporation (“Lignol”)
In 2014, the Company placed Lignol into receivership. The Company, as a senior secured creditor, recovered approximately $5.2 million in total cash distributions from the sale of the Lignol assets and assumed a 21% interest in Australian Renewal Fuels Limited ("AR Fuels"), a publicly traded company on the Australian Securities Exchange. The Company recorded a net gain on investment of $4.5 million during the year. Subsequent to year-end, AR Fuels was placed into voluntary administration. The impact of this event is not material to the 2015 financial statements of the Company.

Quickplay Media Inc. ("Quickplay")
In February 2015, the Company invested an additional $1.0 million in Quickplay common shares.

Scribble Technologies Inc. ("Scribblelive")
In April 2015, Appinions Inc., a portfolio company of the Company, was purchased through a share exchange by Scribblelive. As at December 31, 2015, the Company adjusted its holding of Scribblelive based on the expected shares to be received from the transaction valued at the most recent round of financing. As a result, the Company recorded approximately $1.7 million in unrealized loss during the year.

Vena Solutions ("Vena")
In 2015, the Company invested an additional $1.0 million in Vena units (“Unit”). Each Unit consists of one common share and one-half of one common share warrant. As at December 31, 2015, the Units were revalued based on the most recent round of financing. The revaluation resulted in approximately $1.4 million of unrealized gain in 2015.

Vision Critical Communications Inc. ("Vision")
During 2015, the Company acquired through the secondary market an additional $0.3 million in common shares and $0.4 million in preferred shares of Vision. As at December 31, 2015, the common and

preferred shares were revalued based on the most recent round of financing. The revaluation resulted in approximately $0.5 million of unrealized gain in 2015.

WG Limited ("World Gaming")

In September 2015, World Gaming sold its operational assets to Cineplex Inc. ("Cineplex"). As part of the transaction, Cineplex paid US$10.0 million to acquire the assets in exchange for 80% ownership of a new company, and will invest an additional US$5.0 million to expand the business model. In connection with this sale, the Company expects to receive $7.4 million, net of transaction costs. Of this amount, the Company had received $6.6 million and expects to receive the remaining $0.8 million from escrow in the third quarter of 2016. In addition, the Company will continue to hold a small indirect equity interest in the new company going forward. The transaction resulted in a net gain on investment of $7.1 million during the year.

Other

During the year ended December 31, 2015, the Company made fair value adjustments to its investments in Baanto International Ltd., Crailar Technologies Inc., Cricket Media Group Ltd., and iPowow! Inc. based on comparable publicly traded instruments and/or qualitative observations reflecting the current financial situation of these companies. The adjustments resulted in $4.4 million of unrealized loss in the fair value of these investments in 2015.

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, 2015		**December 31, 2014**	
	Marketable securities	**Securities sold short**	**Marketable securities**	**Securities sold short**
	($000)	($000)	($000)	($000)
Equity securities	378	-	687	23
	378	-	687	23

RELATED PARTY TRANSACTIONS

<u>Management Agreement</u>

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 the Manager 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, the Manager 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 the Manager 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.

During 2015, the Company’s Chairman personally funded US$0.6 million to Gotham Analytics LLC (“Gotham”), a Difference Capital portfolio company, for working capital needs. Difference Capital had declined any further funding participation in this company.

In connection with the World Gaming sale of its operational assets to Cineplex, 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, 2015:

(thousands of dollars)	**Total**	**1 year or less**	**1 to 3 years**
Marketable securities sold short	-	-	-
Accounts payable and accrued liabilities	517	517	-
Accrued annual incentive plan	90	90	-
Interest on Convertible Debentures	8,435	2,812	5,623
Convertible Debentures	35,146	-	35,146
Total	44,188	3,419	40,769

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, 2015, $0.1 million of annual incentive bonus plan was accrued.

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.

FUTURE ACCOUNTING CHANGES

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

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

IFRS 9 was issued by the International Accounting Standards Board on July 24, 2014 and will replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 requires financial instrument classification and related measurement practices to be based primarily on an entity's business model objectives when managing those financial assets and on the extent to which contractual cash flows exist within the financial assets. The standard also introduces a new expected loss impairment model. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is evaluating the potential impacts of this new standard on the financial statements.

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

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

Amendments to IFRS 10, *Consolidated Financial Statements* ("IFRS 10") and IAS 28, *Investment in Associates and Joint Ventures* ("IAS 28")

The amendments were issued September 2014 and are effective in annual periods beginning on or after January 1, 2016, to be applied prospectively. The amendments require that upon sale or contribution of assets between an investor and its associate or joint venture, full gain recognition on the transfer is recognized when a transaction involves assets that do not constitute a business under IFRS 3. These amendments are not expected to have a significant impact on the Company.

Additional amendments were issued in December 2014 and are effective for the annual period beginning on or after January 1, 2016, to be applied retrospectively. The amendments clarify the requirements when accounting for investment entities. These amendments are not expected to have a significant impact on the Company.

Annual Improvements 2012-2014 Cycle

Annual Improvements 2012-2014 Cycle was issued in September 2014 and is effective for the annual period beginning on or after January 1, 2016. Five minor amendments to different accounting standards were issued as part of the Annual Improvement process of which includes IFRS 7, *Financial Instruments: Disclosures* and IAS 34, *Interim Financial Reporting*. These amendments are not expected to have a significant impact on the Company.

Amendments to IAS 1, *Presentation of Financial Statements* ("IAS 1")

Amendments to IAS 1 were issued in December 2014 and are effective for the annual period beginning on or after January 1, 2016. The amendments clarify existing requirements relating to materiality and aggregation, along with presentation of subtotals in the financial statements. These amendments are not expected to have a significant impact on the Company.

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.

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 9, 2016, there were 29,361,984 common shares outstanding. There are no outstanding preference shares.

As at March 9, 2016, there was an aggregate principal amount of $35.1 million of Debentures outstanding, convertible into 6,112,348 common shares at a conversion price of $5.75 per common share.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's disclosure controls and procedures are designed to provide reasonable assurance the information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified under securities laws and include controls and procedures that are designed to ensure that information is accumulated and communicated to management including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) to allow timely decisions regarding disclosure. The CEO and CFO, together with management, are responsible for the design of the Company's disclosure control and procedures (as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*). Management, under the direction of the CEO and CFO, has evaluated the effectiveness of the disclosure controls and procedures as at December 31, 2015, and has concluded that they are reasonably assured that such controls and procedures were effective.

Management, under the supervision of the CEO and CFO, is responsible for the design and maintenance of adequate internal controls over financial reporting for the purposes of providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. However, due to its inherent limitations, internal controls over financial reporting can only provide reasonable, not absolute, assurance that the financial statements are free of misstatements. Management, under the direction of the CEO and CFO, evaluated the effectiveness of the Company's internal controls over financial reporting as at December 31, 2015 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, 2015 in the Company's internal controls over financial reporting that have materially affected, or are reasonable likely to materially affect, the Company's internal controls over financial reporting.