DIFFERENCE CAPITAL FINANCIAL INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

for the quarter ended March 31, 2018

May 15, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

May 15, 2018

This Management's Discussion and Analysis ("MD&A") dated May 15, 2018 presents an analysis of the financial position of Difference Capital Financial Inc. ("Difference Capital" or the "Company") as at March 31, 2018, compared with December 31, 2017, and the results of operations for the quarter ended March 31, 2018, compared with the quarter ended March 31, 2017 and quarter ended December 31, 2017. It is supplementary information and should be read in conjunction with the Company's audited financial statements and accompanying notes as at December 31, 2017 and unaudited interim condensed financial statements and accompanying notes for the period ended March 31, 2018. All dollar amounts in this MD&A are reported in Canadian dollars, unless otherwise stated.

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The unaudited interim condensed financial statements for the three months ended March 31, 2018 have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as issued by the International Accounting Standards Board and on a basis consistent with the accounting policies disclosed in the annual audited financial statements for the year ended December 31, 2017.

FORWARD-LOOKING STATEMENTS

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

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

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

NOTE REGARDING NON-IFRS FINANCIAL MEASURES

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

ABOUT DIFFERENCE CAPITAL

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

The Company believes that its continued growth and success is strongly linked to its management team and human capital in addition to its strong partnerships with current and potential investee partners. The Company has assembled a dynamic management team, which brings together different skillsets that uniquely position it to identify investment opportunities and add value to these investments, thus driving returns for its shareholders. The Company believes that having management aligned with shareholders will be a key driver of long-term performance. As of May 15, 2018 management and directors own approximately 48% 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 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 its portfolio invested in strategically targeted sectors, the Company is well positioned to benefit from continued global economic recovery and positive trends in Canadian and international growth companies.

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 2018, 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.

The Company has $29.2 million in principal amount of its 8% convertible unsecured debentures (the "Debentures") outstanding and maturing on July 31, 2018. Readers are directed to the Liquidity and Capital Resources section on page 5 for disclosure of the risks surrounding the Company's funding requirements and liquidity position.

RESULTS OF OPERATIONS

The selected interim financial information set out below for the eight most recently completed quarters has been derived from the Company's unaudited interim financial statements and accompanying notes posted on www.sedar.com. Readers should read the following financial information in conjunction with those statements and notes.

($000's, except per share amounts)	2018	2017				2016		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Net realized gain (loss) on disposals of investments and marketable securities	(234)	442	143	(2,236)	260	(2,544)	(2,863)	(8,655)
Net change in unrealized gain (loss) on investments and marketable securities	(2,373)	4,759	(3,045)	2,707	172	(2,022)	(2,002)	13,582
Net gain (loss) on investments and marketable securities	(2,607)	5,201	(2,902)	471	432	(4,566)	(4,865)	4,927
Other income	180	298	366	631	316	450	290	465
Total expenses & Financing Costs	(1,534)	(1,472)	(1,552)	(1,437)	(1,533)	(2,128)	(1,736)	(1,768)
Net income (loss)	(3,961)	4,027	(4,088)	(335)	(785)	(6,244)	(6,311)	3,624
Earnings (loss) per share	(0.68)	0.69	(0.70)	(0.06)	(0.13)	(1.06)	(1.08)	0.62
Total assets	72,496	77,033	69,864	74,321	74,355	75,649	84,018	90,561
Total liabilities	31,362	31,995	28,881	29,224	28,819	29,421	31,475	31,788
Net asset value	41,134	45,038	40,983	45,097	45,536	46,228	52,543	58,773
Shares outstanding	5,817	5,817	5,819	5,835	5,859	5,859	5,867	5,872
Net asset value per share	7.07	7.74	7.04	7.73	7.77	7.89	8.95	10.00
Share price	2.85	3.75	3.30	4.15	4.05	4.15	5.20	5.10

Quarter Ended March 31, 2018

Net loss for the quarter ended March 31, 2018 was $4.0 million, or $0.68 per share compared to a net loss of $0.8 million, or $0.13 per share for the quarter ended March 31, 2017 and a net income of $4.0 million, or $0.69 per share for the quarter ended December 31, 2017.

For the three months ended March 31, 2018, the Company had a net realized loss on disposition of investments and marketable securities of $0.2 million, compared to a realized gain on disposition of $0.3 million during the same period last year and a realized gain of $0.4 million during the fourth quarter of 2017. The net realized loss during the recent quarter was primarily due to the sale of Thunderbird Entertainment Inc. ("Thunderbird").

For the three months ended March 31, 2018, the Company recorded $2.4 million of unrealized loss on investments and marketable securities, compared to a net unrealized gain of $0.2 million during the same period last year and a net unrealized gain of $4.8 million during the fourth quarter of 2017. The significant changes in unrealized gain (loss) of the Company's investments and marketable securities during the quarter were as follows:

- Marked-to-market losses of publicly listed investments and marketable securities including Mogo of $3.4 million; offset by

- a reversal of unrealized losses of $0.3 million (and transfer to realized losses) upon disposal of Thunderbird, and
- unrealized gains on foreign exchange of $0.7 million on the Company's U.S. investments.

Other income included interest and dividend income of $0.2 million during the three months ended March 31, 2018, compared to $0.3 million in the same period of 2017 and $0.3 million in the previous quarter.

Total expenses, including interest on Debentures, for the quarter ended March 31, 2018 were $1.5 million, compared to $1.5 million for the same quarter in 2017 and $1.5 million in the previous quarter.

LIQUIDITY AND CAPITAL RESOURCES

During the quarter ended March 31, 2018, cash provided by operating activities was $3.9 million, compared to cash used in operating activities of $1.1 million during the same period in 2017. The Company received $5.8 million in net proceeds of investments and marketable securities during the quarter ended March 31, 2018 compared to $0.3 million in net proceeds during the same quarter in 2017.

As at March 31, 2018, the Company had $13.2 million of cash and cash equivalents versus $9.3 million as at December 31, 2017. The Company's indirect subsidiary, Difference RM Properties LLC ("DRM Properties"), holds an additional USD10.8 million ($14.0 million equivalent at March 31, 2018 exchange rate).

Total investable assets, calculated as Net Asset Value excluding the Debentures outstanding, as of March 31, 2018 were $69.9 million compared to $73.6 million at December 31, 2017.

As at March 31, 2018, the Company's investment and marketable securities portfolios were $58.8 million compared to $67.3 million at December 31, 2017. The decrease in portfolio size was attributable primarily to:

- The sale of Thunderbird,
- unrealized, marked-to-market loss on Mogo securities; offset partially by
- unrealized increase in the value of U.S.-denominated assets.

As at March 31, 2018, the Company had $29.2 million in outstanding principal on its Debentures. On January 29, 2018, the Company received approval from the TSX to renew its NCIB ("2018 Debentures NCIB") to repurchase its Debentures. The Company also received approval from the TSX for an automatic purchase plan, which allows for purchases by the Company of its Debentures during Company-imposed black-out periods, and, subject to pre-determined pricing and volume restrictions imposed by the Company, to the rules and policies of the TSX and to specific terms of the 2018 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 was authorized to acquire up to $2.9 million principal amount of its Debentures, representing 10% of the public float of the outstanding Debentures. The 2018 Debentures NCIB will expire on July 31, 2018. During the three months ended March 31, 2018, the Company did not repurchase any Debentures.

The Debentures have a remaining term to maturity of less than one year. Management is closely monitoring the liquidity of its portfolio holdings. Management has a plan that augments existing cash on hand by generating funds from the sale of select investments, the receipt of certain holdbacks on companies previously sold, and the issuance of new debt to fulfill the Debenture repayment obligation. Due to the illiquid nature of the private and smaller capitalization public investments and real property in the portfolio, the success of management's plan cannot be assured and may be subject to significant change. As such, management may also consider other options to generate sufficient liquidity to fulfill the Debenture repayment obligation including, but not limited to, term extension of the existing Debentures.

If the Company is unable to generate enough funds to pay the full principal amount of the Debentures at maturity in cash, the Company has the option to satisfy its repayment obligations, in whole or in part, with Common Shares. In order to make such an election, the Company must provide at least 40 days and not more than 60 days prior notice and deliver that number of freely tradeable Common Shares obtained by dividing the principal amount of such Debentures by 95% of the Common Share current market price on the maturity date. The current market price in this case will be the volume weighted average price per share for the Common Shares on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the maturity date. The volume weighted average price will be determined by dividing the aggregate sale price of all Common Shares sold during such 20 trading-day period by the total number of Common Shares sold.

Given that the market price of the Common Shares currently represents a significant discount to the per share Net Asset Value, shareholders risk having their ownership in the Company diluted if the Company determines to repay Debentures with Common Shares. Debenture holders will incur equity risk should the Company deliver to them Common Shares at maturity instead of cash.

During the quarter, shareholders' equity decreased by $3.9 million to $41.1 million. On January 29, 2018, the Company received approval from the TSX to renew its normal course issuer bid ("2018 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 2018 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 was authorized to repurchase up to 301,251 of its common shares, representing 10% of the public float of the outstanding common shares. The 2018 Common Shares NCIB will expire on January 30, 2019. During the three months ended March 31, 2018, the Company did not repurchase any common shares.

Net Asset Value as at March 31, 2018 was $41.1 million or $7.07 per share compared to $45.5 million, or $7.77 per share, as at March 31, 2017, and $45.0 million, or $7.74 per share as at December 31, 2017.

The Company believes it has adequate working capital to support its operations in the short term. The Company is focused on monetizing investment positions, when and where possible, in order to generate cash towards repayment of the Debentures. The Company is also seeking to issue new debt in order to generate a portion of the funds necessary to retire the Debentures. Should the Company's efforts to generate the cash amount necessary to repay the Debentures in full be unsuccessful, the Company will have to repay a portion of the Debentures in common shares. Given that the Common Shares are currently trading at a discount compared to the Net Asset Value per share as at March 31, 2018, shareholders risk having their ownership in the Company diluted if the Company elects to satisfy its repayment obligation on the Debentures with Common Shares.

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INVESTMENTS

The table below provides a summary of the Company’s investments by industry sector as at March 31, 2018:

Industry Sector	Average Cost ($000)	Fair Value ($000)
Financial Technologies	14,841	12,160
Healthcare	4,301	5,124
Internet	20,195	9,874
Media/Media Technologies	9,362	5,745
Technologies	9,452	8,682
Other	9,866	16,585
	68,017	**58,170**

See Schedule of Investments on pages 6 and 7 of the unaudited financial statements and accompanying notes for the quarter ended March 31, 2018 for additional details.

Significant purchases, sales and changes in valuation of investments during the quarter ended March 31, 2018 included the following:

Difference RM Holdings Corp. (“Difference RM”)
In March 2018, the Company sold its ownership interest in the 618 acre parcel of undeveloped land in the City of Rancho Mirage, California for cash and a small residual interest in the acquiring entity. As at March 31, 2018, the Company's carrying value in Difference RM reflects the cash proceeds held on behalf of DRM Properties by the real estate settlement agent, net of US corporate taxes payable, received on the closing of the sale plus the estimated fair market value of the residual equity in the entity that purchased the property. The Company anticipates monetizing such residual interest in the third quarter of 2018.

Mogo Finance Technology Inc. (“Mogo”)
The Company marked to market its investments in Mogo, resulted in approximately $3.3 million of unrealized loss during the quarter.

Thunderbird Entertainment Inc. (“Thunderbird”)
In March 2018, the Company sold its investment stake in Thunderbird. The Company recorded a realized loss of $0.3 million in its Thunderbird investment during the quarter.

Vena Solutions Inc. (“Vena”)
In February 2018, the Company converted its Vena convertible debentures into common shares.

Other
During the quarter ended March 31, 2018, the Company recorded $0.7 million of unrealized foreign currency translation gain in the Company's U.S. investments.

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 consist of the following:

As at	March 31, 2018	December 31, 2017
	($000)	($000)
Equity securities	586	368
	586	368

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.

On November 2, 2017, the Company made a $1.0 million short term loan to Wekerloo Developments Inc. (“Wekerloo”), a private commercial real estate holding company wholly-owned by Michael Wekerle, the Company’s Executive Chair who, directly and indirectly, owns approximately 46% of the common shares of the Company. The loan earned interest of 3.5% per annum and had an initial term of three months. Wekerloo used the proceeds of the loan to make a payment towards the purchase of an interest in a commercial real estate investment in Waterloo, Ontario. As further consideration for making the loan, and at no additional cost, the Company has the right to become a 50% co-investor in such real estate investment. In March 2018, the Company extended the loan, plus accrued interest, to December 31, 2018 at 10% interest.

CONTRACTUAL OBLIGATIONS

The table below is a summary of the Company’s contractual obligations at March 31, 2018:

(thousands of dollars)	Total	1 year or less	1 to 3 years
Accounts payable and accrued liabilities	276	276	-
Due to related party	1,907	1,907	-
Interest on Convertible Debentures	380	380	-
Convertible Debentures	29,161	29,161	-
Total	31,724	31,724	-

The Company pays management a bonus pool equivalent to 20% of the increase in investable assets over a hurdle rate of 3.0% per annum, with a perpetual high water mark beginning with the December 31, 2014 total investable assets. Investable assets are determined by subtracting the aggregate fair value of the liabilities of the Company (excluding any convertible debentures or debenture issued by the Company) from the aggregate fair value of the assets of the Company on the date on which the calculation is being made. For the purposes of the annual incentive cash bonus calculation, change in investable assets exclude any equity and debt capital raised or repurchased by the Company during the period in which the calculation is being made. Individual bonus pool allocations to management and employees are subject to Board approval. As at March 31, 2018 and December 31, 2017, there were no accruals for the annual incentive bonus plan.

NEW ACCOUNTING STANDARDS

Effective January 1, 2018, the Company adopted the following accounting standards:

(i) IFRS 9 FINANCIAL INSTRUMENTS

On January 1, 2018, the Company adopted IFRS 9, Financial Instruments (“IFRS 9”), which replaces the guidance in IAS 39, Financial Instruments: Recognition and Measurement (“IAS 39”).

The new standard provides a new approach for the classification of financial assets, which is based on the entity’s business model for managing financial assets and the contractual cash flow characteristics of the financial assets.

Under IFRS 9, financial assets are classified as either fair value through profit or loss (“FVTPL”), fair value through other comprehensive income (“FVOCI”) or amortized cost and financial liabilities are categorized as either FVTPL or amortized cost. For financial liabilities designated as fair value through profit or loss, IFRS 9 requires the presentation of the effects of changes in the liability’s credit risk in other comprehensive income instead of net income. Classification and measurement of liabilities remains generally unchanged under IFRS 9.

Upon transition to IFRS 9, the Company’s financial assets and financial liabilities previously classified as held-for-trading and those designated as fair value through profit and loss under IAS 39 are now categorized as FVTPL. All assets previously classified as loans and receivables and other liabilities under IAS 39 are now classified as amortized cost under IFRS 9. There were no changes in the measurement attributes for any of the financial assets and financial liabilities upon transition to IFRS 9.

(ii) IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

On January 1, 2018, the Company adopted IFRS 15, Revenue from Contracts with Customers (“IFRS 15”).

The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new guidance includes a five-step recognition and measurement approach, requirements for accounting of contract costs, and enhanced quantitative and qualitative disclosure requirements. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new standard did not have a material impact to the Company as interest and dividend income and gains and losses on investments are generated by transactions that are outside the scope of IFRS 15.

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:

Business model assessment under IFRS 9

The objective of the Company is to achieve long-term capital appreciation and its investment portfolio is managed on a fair value basis. The Company therefore applies the business model allowed by IFRS 9, *Financial Instruments*, which requires its portfolio to be classified at fair value through profit or loss.

Determining the appropriate business model and assessing whether cash flows generated by an asset constitute solely payments of principal and interest (SPPI) is sometimes complex and may require significant judgement.

Fair value estimation

The determination of the fair value of privately held investments, which include debt and equity securities, requires that judgement be applied to the specific facts and circumstances of each investment. Actual results could differ from these estimates. Refer to Note 14, Fair Value Measurement, in the annual 2017 audited financial statements, for disclosure on fair value estimation of private investments.

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 16, Leases ("IFRS 16")
In January 2016, the IASB issued IFRS 16, which replaces the previous lease standard, IAS 17, Leases, and related interpretations. The new standard requires all leases, other than short-term leases, to be reported on-balance sheet through recognition of a right-of-use asset and a corresponding liability for future lease obligations. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company is currently assessing the impact of IFRS 16 on its financial statements.

OUTSTANDING SHARE DATA

The Company has two authorized classes of shares: an unlimited number of common shares and an unlimited number of preference shares, issuable in series.

As at May 15, 2018, there were 5,816,721 common shares outstanding. There are no outstanding preference shares.

As at May 15, 2018, there was an aggregate principal amount of $29.2 million of Debentures outstanding, convertible into 1,014,295 common shares at a conversion price of $28.75 per common share.

Under the Stock Option Plan, the number of common shares that may be issued as a result of the grant of options shall not exceed 10% of the number of the then-issued an outstanding common shares of the Company at the time of grant. As at May 15, 2018, 10% of the issued and outstanding common shares was 581,672 common shares. During the quarter ended March 31, 2018, the Company granted 75,000 options to its independent directors. As at May 15, 2018, an additional 198,339 common shares could have been granted under the Company's Stock Option Plan.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's disclosure controls and procedures are designed to provide reasonable assurance the information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified under securities laws and include controls and procedures that are designed to ensure that information is accumulated and communicated to management including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) to allow timely decisions regarding disclosure. The CEO and CFO, together with management, are responsible for the design of the Company's disclosure control and procedures (as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*). Management, under the direction of the CEO and CFO, has evaluated the effectiveness of the disclosure controls and procedures as at March 31, 2018, and has concluded that they are reasonably assured that such controls and procedures were effective.

Management, under the supervision of the CEO and CFO, is responsible for the design and maintenance of adequate internal controls over financial reporting for the purposes of providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. However, due to its inherent limitations, internal controls over financial reporting can only provide reasonable, not absolute, assurance that the financial statements are free of misstatements. Management, under the direction of the CEO and CFO, evaluated the effectiveness of the Company's internal controls over financial reporting as at March 31, 2018 and has concluded that internal control over financial reporting was appropriately designed and operating effectively. There have been no changes during the quarter ended March 31, 2018 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.