



DIFFERENCE
CAPITAL

**DIFFERENCE CAPITAL FINANCIAL INC.
ANNUAL INFORMATION FORM**

For the year ended December 31, 2014

March 30, 2015

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GENERAL INFORMATION

References

References in this annual information form (the “AIF”) to “Difference Capital”, the “Company”, “we”, “us”, “our” and words of similar meaning refer to Difference Capital Financial Inc.

Date of Information

Unless otherwise indicated, the information contained in this AIF is presented as at December 31, 2014.

Currency

All dollar amounts in this AIF are expressed in Canadian dollars unless otherwise indicated.

NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain information contained in this AIF 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 AIF 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 AIF 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 manager and 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 AIF 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 AIF is provided as at the date of this AIF, based upon the opinions and estimates of management and information available to management as at the date of this AIF, 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 AIF.

All of the forward-looking information contained in this AIF is expressly qualified by this cautionary statement.

NOTE REGARDING NON-GAAP FINANCIAL MEASURES

This AIF contains references to “net asset value per share” (“NAV” or “**Net Asset Value**”), which is a non-GAAP financial measure. A non-GAAP financial measure is a numerical measure of the Company’s historical or future financial performance, financial position or cash flow, which does not meet one or more of the criteria of the generally accepted accounting principles (“GAAP”) which are applicable to the Company for presentation in the Company’s financial statements. NAV is calculated as total assets minus total liabilities divided by the total number of common shares of the Company outstanding as at a specific date. The term net asset value per share does not have any standardized meaning according to GAAP and therefore may not be comparable to similar measures presented by other companies. The Company 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.

CORPORATE STRUCTURE

Name, Address and Incorporation

Difference Capital Financial Inc. was incorporated by letters patent under the laws of Canada on January 14, 1972 under the name “Eskimo International Resources Limited” with an authorized capital of 3,000,000 shares without par value. The Company changed its name to “Natalma Mines Limited” by supplementary letters patent dated August 17, 1972.

The Company was continued under the *Canada Business Corporations Act* (the “CBCA”) by articles of continuance dated November 19, 1979. By articles of amendment dated March 25, 1983, the existing 300,005 issued shares without par value were split into 3,000,050 issued shares without par value. On May 4, 1983, the articles of the Company were amended to change the name of the Company from “Natalma Mines Limited” to “Tonka Resources Inc.”.

By articles of amendment dated February 18, 1988, the articles of the Company were amended such that: (i) the name of the Company was changed to “Consolidated Tonka Resources Inc.”; (ii) the 4,091,550 issued common shares of the Company were consolidated into 204,577 common shares; and (iii) the authorized capital of the Company was changed such that the Company was authorized to issue an unlimited number of common shares without par value and an unlimited number of preference shares without par value. On October 29, 1993, the articles of the Company were amended to change the name of the Company to “South China Industries (Canada) Inc.”.

On November 2, 1993, the articles of the Company were amended to: (i) consolidate all of the issued and outstanding common shares of the Company on a two (old) for one (new) basis; (ii) increase the authorized capital of the Company by creating an unlimited number of subordinate voting shares and an unlimited number of multiple voting shares; (iii) change all of the outstanding common shares of the Company into subordinate voting shares on the basis of one subordinate voting share for each common share; and (iv) cancel the common shares and preference shares as classes of authorized shares of the Company. Restated articles of incorporation were filed on December 1, 1993 under the CBCA.

On June 30, 1999, the articles of the Company were amended to: (i) change the name of the Company from “South China Industries (Canada) Inc.” to “TriNorth Capital Inc.”; (ii) increase the authorized capital of the Company by creating an unlimited number of common shares and an unlimited number of preference shares; (iii) change all of the outstanding subordinate voting shares into common shares of the Company on the basis of one common share for each subordinate voting share; and (iv) cancel all authorized and unissued multiple voting shares and subordinate voting shares of the Company.

On May 28, 2012, following approval from the Company’s shareholders at the Company’s annual and special meeting of the shareholders held on May 24, 2012, the Company amended its articles whereby the existing common shares were consolidated on the basis of one (1) post-consolidation common share for every ten (10) existing shares. Concurrently, the Company changed its name from “TriNorth Capital Inc.” to “Difference Capital Funding Inc.” and undertook a reorganization of its business (collectively, the “**Difference Transaction**”).

At the Company’s annual and special meeting of the shareholders held on June 13, 2013 (the “**2013 AGM**”), the Company obtained approvals for a reorganization of its corporate structure, which the Company determined to not implement. On June 17, 2013, following approval from the Company’s shareholders at the 2013 AGM, the Company amended its articles whereby the existing common shares were consolidated on the basis of one (1) post-consolidation common share (each, a “**Common Share**”) for every ten (10) existing shares (the “**Consolidation**”). Concurrently, the Company changed its name from “Difference Capital Funding Inc.” to “Difference Capital Financial Inc.”.

The Company’s head office is located at 130 Adelaide St. 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.

GENERAL DEVELOPMENT OF THE BUSINESS

Three Year History of the Business

Details of the events that have influenced the general development of the Company’s business over its last three completed financial years are provided below. Additional information concerning the Company’s business is provided elsewhere in this AIF under the heading “Description of the Business”. Additional information relating to the Company’s investments is provided in the Company’s financial statements and management discussion and analysis for its financial year ended December 31, 2014.

2015

On February 13, 2015, the Company made a \$625,000 investment in Bluedrop Performance Learning Inc. (“**Bluedrop**”) in the form of unsecured convertible debentures.

In January 2015, the Company made an additional investment in WG Limited (“**World Gaming**”) of US\$0.5 million by way of units (the “**WG Financing**”). Each unit consisted of one common share and one common share purchase warrant of World Gaming. In connection with the WG Financing, the Company converted all of its WG Debentures (as hereinafter defined) plus outstanding accrued interest at 30% face value into common shares of World Gaming. The Company now owns approximately 70% of the issued and outstanding common shares of World Gaming on a basic basis.

In January 2015, the Company sold its interests in Chieftain Residential Limited Partnership for aggregate gross proceeds of US\$10.2 million.

2014

On December 8, 2014, the Company announced that the Toronto Stock Exchange (the “TSX”) had approved its notice of intention to renew its normal course issuer bid to acquire up to 2,402,991 Common Shares and up to \$4,248,400 principal amount of Debentures (as hereinafter defined) in the 12-month period commencing December 10, 2014 and ending on December 9, 2015, which figures represent 10% of the public float of outstanding Common Shares and 10% of the public float of outstanding Debentures as of November 30, 2014.

On August 22, 2014, the Company appointed Bowra Group Inc. (the “**Lignol Receiver**”) as receiver-manager of all of the assets, undertaking and properties of Lignol Energy Corporation (“**Lignol**”) as a result of the default by Lignol of its obligations pursuant to the New Lignol Note (as hereinafter defined). The Company continues to work with the Lignol Receiver to realize value through a sale of Lignol’s assets.

On August, 18, 2014, the Company announced that it had received approval from the TSX to amend its normal course issuer bid in order to increase the maximum principal amount of Debentures that may be purchased under the normal course issuer bid from \$2,000,000 to \$4,370,400, representing 10.0% of \$43,704,000, being the Company’s public float of outstanding Debentures as of November 29, 2013. A total of 983,300 Common Shares and \$4,242,000 Debentures were purchased by the Company under this normal course issuer bid.

On August 8, 2014, the Company announced that Neil Johnson had resigned from his position as President of the Company.

In August 2014, the Company purchased an additional \$2.0 million of common shares of BuildDirect.com Technologies Inc. (“**BuildDirect**”).

On July 17, 2014, the Company announced that Wes Hall, Ivan Fecan and Paul Sparkes had resigned from the Company’s board of directors (the “**Board**”). Henry Kneis, Chief Financial Officer of the Company, was appointed to the Board. Michael Wekerle assumed responsibilities as Chairman of the Board, and John Albright assumed responsibilities as the Company’s lead independent director.

On May 20, 2014, the Company announced that it had made an additional \$2.0 million investment in Thunderbird Films Inc. (“**Thunderbird**”) in connection with a private placement financing for aggregate gross proceeds to Thunderbird of \$11.5 million.

On May 2, 2014, the Company announced that it had participated in a Series B private placement financing of SHOP.ca Network Inc. (“**Shop.ca**”) for aggregate gross proceeds to SHOP.ca of \$31 million.

On April 2, 2014, the Company announced the appointment of Arthur Mesher to the Board.

On March 24, 2014, the Company announced that it had acquired ownership and control of 7,220,300 common shares (“**Benev Shares**”) of Benev Capital Inc. (“**Benev**”). On March 21, 2014, the Company purchased the Benev Shares in a single transaction at a price of \$1.91 per Benev Share (the “**Benev Transaction**”) for total consideration of approximately \$13.8 million. The Company subsequently sold all of its Benev Shares for total consideration of approximately \$22 million.

On March 10, 2014, Jeff Kehoe stepped down as Secretary of the Company, and DSA Corporate Services Inc. was appointed to provide corporate secretarial services to the Company.

On February 20, 2014, the Company announced that Michael Wekerle would become Chief Executive Officer of the Company and Neil Johnson would become President of the Company.

2013

On December 30, 2013, the Company made a \$3.0 million investment in Bluedrop in the form of unsecured convertible debentures.

On December 23, 2013, the Company made a \$3.0 million investment in Baanto International Ltd. in the form of unsecured convertible debentures and common shares, as part of a \$6.0 million round of financing.

On December 23, 2013, the Company made a \$1.9 million investment in BTI Systems Inc. in the form of preferred shares, as part of a \$27.0 million round of financing.

On December 17, 2013, the Company made a \$3.5 million investment in Vision Critical Communications Inc. in the form of preferred shares.

On December 3, 2013, the Company obtained applicable regulatory approval to purchase for cancellation up to one million Common Shares and up to \$2.0 million principal amount of Debentures, through to December 4, 2014. During the year ended December 31, 2013, 185,300 Common Shares were repurchased under the normal course issuer bid at an average cost of \$2.52 per Common Share for total consideration of \$466,437 and \$232,000 principal amount of Debentures were repurchased under the normal course issuer bid for aggregate consideration of \$210,849.

On November 7, 2013, the Company announced that it had made a \$5.0 million investment in BuildDirect in the form of common shares.

On November 5, 2013, the Company announced that it had made a \$3.0 million investment in Vena Solutions International Inc. in the form of unsecured convertible debentures.

On October 29, 2013, the Company announced the resignation of Jim Shaw from the Board.

On October 21, 2013, the Company received final approval from the TSX to graduate from the TSX Venture Exchange (the “**TSXV**”) and list its Common Shares and Debentures on the TSX. The Common Shares and Debentures commenced trading on the TSX as of the opening of the markets on October 21, 2013 and were concurrently delisted from the TSXV.

On October 7, 2013, the Company announced that it had made an investment of approximately \$2.0 million in Aurinia Pharmaceuticals Inc. in the form of common shares and common share purchase warrants.

On September 30, 2013, the Company announced that it had invested \$2.0 million in Carta Solutions Holding Corporation in the form of common shares and common share purchase warrants.

On September 25, 2013, the Company announced that it had invested an additional \$3.0 million investment in iPowow, Inc. (“**iPowow**”) in the form of preferred shares.

On September 25, 2013, the Company announced that it had invested an additional \$5.0 million in World Gaming in the form of convertible unsecured debentures (the “**WG Debentures**”).

On August 15, 2013, Tom Liston joined Difference Capital Management Inc. as Managing Partner.

On August 14, 2013, the Company entered into a new secured grid promissory note (the “**New Lignol Note**”) with Lignol. The New Lignol Note replaced the outstanding Lignol Credit Facility (as hereinafter defined), paid 9% interest per annum and had a maturity date of December 31, 2014. The New Lignol Note had a maximum principal amount of \$12.5 million, of which Lignol drew down \$11.8 million. Lignol defaulted on the New Lignol Note and the Company appointed the Lignol Receiver as receiver-manager of all of the assets, undertaking and properties of Lignol. The Company continues to work with the Lignol Receiver to realize value through a sale of Lignol’s assets.

On August 8, 2013, the Company acquired an additional stake in Lignol through the purchase of an additional 5,500,000 common shares in the capital of Lignol (the “**Lignol Shares**”) through the facilities of the TSXV. As at the date hereof, the Company owns approximately 44.4% of the issued and outstanding Lignol Shares on a fully diluted basis.

On July 26, 2013, the Company announced that it had completed a public offering of 12,000,000 Common Shares at a price of \$3.75 per Common Share for aggregate gross proceeds of \$45.0 million.

On July 25, 2013, the Company acquired an additional stake in Lignol through the purchase of an additional 7,900,000 Lignol Shares through the facilities of the TSXV.

On July 19, 2013, the Company completed the sale of 6,079 Debentures pursuant to the partial exercise of the over-allotment option granted in connection with a public offering of 500,000 Debentures completed on July 4, 2013 (the “**Debenture Offering**”) for aggregate gross proceeds of approximately \$6.0 million. See “Description of Capital Structure – Debentures” for details on the terms of the Debentures.

On July 10, 2013, the Company purchased 3,829,795 common shares in the capital of Blue Ant Media Inc. (“**Blue Ant**”) for total consideration of \$4.8 million in a related party transaction.

On July 4, 2013, the Company completed the Debenture Offering for aggregate gross proceeds of \$50.0 million. See “Description of Capital Structure – Debentures” for details on the terms of the Debentures.

On June 17, 2013, the Company announced the appointment of Ivan Fecan to the Board.

On May 31, 2013, May 10, 2013 and March 20, 2013, the Company made investments of approximately \$1.3 million, \$1.3 million and \$1.0 million, respectively, in Cricket Media Group Ltd. (“**Cricket Media**”, formerly “ePals Corporation”) in the form of senior secured convertible debentures.

On May 24, 2013, the Company made a \$3.0 million investment in InfraReDx, Inc. (“**InfraReDx**”) in the form of convertible debentures and warrants.

On May 16, 2013, the Company made a \$2.7 million investment in Enterprise Group, Inc. (“**Enterprise**”) in the form of a convertible debenture. During 2014, the Company converted its debentures into Enterprise common shares and realized a \$2.7 million gain on the disposition of such shares in the market.

On May 10, 2013, the Company issued a promissory note in the principal amount of \$2.5 million bearing interest at 5% per annum (the “**Note**”) to Michael Wekerle, the then-Executive Chairman and current Chief Executive Officer and director of the Company. The amounts funded under the Note were used primarily to satisfy certain contractual obligations as well as for general corporate purposes. All of the obligations under the Note were repaid in full.

On April 19, 2013, the Company made a \$0.5 million investment in iPowow in the form of common shares.

On April 8, 2013, Tom Astle joined Difference Capital Management Inc. as Head of Investment Strategy.

On April 3, 2013 and April 12, 2013, the Company made investments of approximately US\$0.3 million and US\$0.6 million, respectively, in Appinions Inc. (“**Appinions**”) in the form of convertible debentures.

On March 12, 2013, the Company obtained a receipt from the Ontario Securities Commission for its final short form prospectus filed in each of the Provinces of Canada, other than Québec, qualifying the distribution of 39,810,696 Units (as hereinafter defined) issuable upon the exercise of 39,810,696 Special Warrants (as hereinafter defined) previously issued by the Company in connection with the Second Tranche (as hereinafter defined). Each Special Warrant entitled the holder to receive one unit (a “**Unit**”) of the Company, for no additional consideration, upon the exercise or deemed exercise of the Special Warrants. Each Unit is comprised of one pre-Consolidation common share and one-half of one pre-Consolidation common share purchase warrant (each whole warrant, a “**Warrant**”). Each Warrant permitted the holder to purchase one pre-Consolidation common share upon the payment of \$0.60 until October 3, 2014. All such Warrants expired unexercised.

On February 28, 2013, Henry Kneis resigned as Secretary of the Company and Jeff Kehoe joined the Company as General Counsel and was appointed as Secretary of the Company.

On February 27, 2013, Lignol entered into a secured credit facility for up to \$5.0 million with the Company (the “**Lignol Credit Facility**”). The Lignol Credit Facility was replaced on August 8, 2013 with the New Lignol Note.

On February 26, 2013, the Company made a \$1.8 million investment in Crailar Technologies Inc. (“**Crailar**”) in the form of a secured convertible debenture.

On February 6, 2013, the Company announced that the Special Warrants issued during the First Tranche (as hereinafter defined) were exercised into 114,539,084 pre-Consolidation common shares and 57,269,530 Warrants.

On January 29, 2013, the Company announced that it had sold approximately 15% of its \$19.9 million aggregate principal amount of WG Debentures at a 20% premium to its acquisition price on June 5, 2012. The sale of the WG Debentures took place in two separate transactions, both to institutional investors. One sale was made as part of a larger secondary transaction pursuant to which a global institutional investor acquired common shares in the capital of World Gaming (the “**WG Shares**”) and \$2.0 million of WG Debentures for a total investment of \$10 million in World Gaming. The Company subsequently sold an additional \$1.1 million principal amount of its WG Debentures. During January and February 2013, the Company also purchased an aggregate of approximately \$2.3 million of WG Shares from World Gaming shareholders through a number of separate transactions.

2012

During the period between December 4 and December 19, 2012, the Company made investments totaling more than \$9.0 million in Brainscope Company, Inc., SoMedia Networks Inc., iPowow, Enhanced Systems Technologies Ltd. (formerly “Wasabi Energy Limited”) and Thunderbird.

On December 4, 2012, the Company announced that it had made strategic investments totaling more than \$14 million in QuickPlay Media Inc. (“**QuickPlay**”), Fem Med Formulas Limited Partnership, Crailar, Cricket Media, InfraReDx and GuestLogix Inc. from August 1, 2012 to November 30, 2012.

On November 21, 2012, the Company announced that it had entered into share exchange agreements with certain shareholders of Ethoca Solutions Inc. (“**Ethoca**”) to acquire 35,578 common shares of Ethoca, for total consideration of approximately \$1.0 million, in exchange for the issuance of 2,795,413 pre-Consolidation common shares of the Company at a price of \$0.35 per share (the “**Ethoca Share Exchange**”). The Ethoca Share Exchange transaction was completed on December 18, 2012.

On November 19, 2012, the Company completed a non-brokered private placement of approximately 154,349,780 special warrants (the “**Special Warrants**”), raising an aggregate of approximately \$54.0 million (the “**Special Warrant Consideration**”). The Special Warrants were issued in separate tranches on October 3, 2012, October 4, 2012 (collectively, the “**First Tranche**”), and November 19, 2012 (the “**Second Tranche**”). As part of the Special Warrant Consideration, the Company received WG Shares valued at \$500,000 in exchange for 1,428,571 Special Warrants pursuant to a securities exchange agreement with a World Gaming shareholder.

On August 27, 2012, the Company purchased 12.5 million Lignol Shares for a total investment of \$1.0 million. On December 17, 2012, the Company purchased 9 million units of Lignol (the “**Lignol Units**”) for \$1.35 million, as well as 7,666,667 subscription receipts of Lignol, which were subsequently exercised for Lignol Units, for \$1.15 million. Each Lignol Unit was comprised of one Lignol Share and one-half of one Lignol Share purchase warrant. The Company also purchased an aggregate of 46.1 million Lignol Shares through the facilities of the TSXV.

On June 29, 2012, the Company made a US\$2.0 million investment in Appinions in the form of a convertible debenture.

On June 11, 2012, the Company announced that it had closed a non-brokered private placement for gross proceeds of approximately \$30.0 million through the issuance of 100,935,603 pre-Consolidation common shares.

On June 5, 2012 the Company announced it had made a \$19.9 million investment in World Gaming in the form of WG Debentures.

On June 1, 2012, the Company appointed Michael Wekerle as its Chief Executive Officer and John Albright as a director of the Company.

On May 30, 2012, the Company issued 71,776,261 pre-Consolidation common shares in connection with the first tranche of a non-brokered private placement of the Company and, on June 8, 2012, the Company issued 29,159,331 pre-Consolidation common shares under the second tranche of the private placement (collectively, the “**May Private Placement**”).

Concurrent with the closing of the first tranche of the May Private Placement, and as approved by the Company's shareholders at the annual and special meeting of shareholders of the Company on May 24, 2012, Henry Kneis and Paul Sparkes joined the Board.

On May 30, 2012 the Company transferred approximately 14.9 million common shares (the "**Feronia Shares**") of Feronia Inc. ("**Feronia**") it held to a trust created for the benefit of eligible shareholders of the Company. On August 30, 2012, the Company distributed the Feronia Shares to such eligible shareholders.

On April 5, 2012, in connection with the announcement of the Difference Transaction, the Company announced that it had terminated the previously announced proposal to engage Roger Dent as its Chief Investment Officer and concurrent non-brokered private placement of convertible debentures.

DESCRIPTION OF THE BUSINESS

General

Difference Capital invests in and advises growth companies. The Company leverages its capital market expertise to help unlock the value in technology, media and healthcare and intellectual property-rich companies as they approach important milestones in their business lifecycle. The Company also considers opportunistic investments that come to its attention through its proprietary deal flow.

Investment Strategies and Criteria

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 early stage private companies as well as opportunistic investments in distressed United States real estate. The Company no longer seeks to allocate capital to real estate investments, and will seek to divest such assets at the discretion of the Manager.

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 merchant banks 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 investment allocations range from \$2.0 million to \$5.0 million. While some investments in the past have been in the form of convertible debt, many of the newer investments are in the form of equity. We generally feel that equity capital structures are more appropriate for growth companies and offer more upside potential to the Company.

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 national/international market potential; (ii) an established business model with high gross margins that support strong competitive advantages; (iii) the ability to sustain 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 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 of its 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 Manager also considers opportunistic investments that come to its attention through its proprietary deal flow. The Manager 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 Manager 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 this 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.

Types of Investments

The Company may create a concentrated portfolio consisting of equity and/or debt investments. The composition of the portfolio will depend, in part, on available capital and investment opportunities available to the Company and will vary over time depending on an array of factors, including the state of financial markets.

Diversification and Risk Mitigation

The Company's policy with respect to investment diversification is to investigate a wide range of opportunities from emerging technologies to products available for everyday use. Each investment will be assessed on its own merits and its potential to generate gains for the Company.

The Company may seek board representation, board observation rights or to participate on the board of advisors in investments that may benefit from such participation, although it is not required and is at the discretion of the Company's management. Debt placements with equity conversion rights may be secured by the borrower's assets. The Company has no particular requirements with respect to the allocation of its investments between equity and debt. Investment allocations will be made on the merits of individual investments.

Investment Committee

The Company has an investment committee (the "**Investment Committee**") consisting of John Albright (Chair), Tom Astle, Henry Kneis and Michael Wekerle to monitor and review the Company's investments. Members of the Investment Committee are appointed annually by the Board. The Chairman of the Investment Committee is appointed by the members of the Investment Committee. The members of the Investment Committee have a significant degree of investment expertise. The Investment Committee is responsible for overseeing the management of the Company's investments.

The Manager has discretion to make investments in an amount equal to or less than 10% of the Management Fee NAV (as hereinafter defined) at the time of such investment. In order for the Manager to make an investment equaling more than 10% of the Management Fee NAV at the time of such investment, the Manager is required to seek approval from an independent director who sits on the Investment Committee or, in the event such an individual is not available, the Manager must seek approval from another independent director.

The Investment Committee meets as required and reports to the Board as required with respect to its decisions and activities.

Investment Selection

To identify potential investments, the Company relies on the members of its management, including the Manager, the Board and the Advisory Board and from time to time other reliable business affiliations. These persons have a broad range of international business experience and their own networks of business partners, financiers and venture capitalists through whom potential investments may be identified. Once an investment has been pre-screened by the Manager, it is presented to the investment committee of the Manager, the Investment Committee and/or the Board, as applicable, for review and approval. In the event that a director or member of any investment committee or any member of the Board has a personal interest in any proposed investment, that interest must be declared and the matter dealt with as set forth below under "Conflict Provisions".

Participation in Advisory Fees

The Manager operates a complementary advisory and consulting services business to assist clients with capital markets, media, communications, government, regulatory and strategic advice. The Manager's advisory and consulting services are focused on delivering impartial, creative, and long-term ideas to clients by a management team with diverse and complementary skill sets. The model focuses on a relationship-driven approach that provides advice tailored to each client's specific needs and

circumstances to ensure delivery of individual solutions. The Manager works with advisory clients' senior management to deliver solutions for a range of issues.

Under the management agreement between the Company and the Manager, the Company is entitled to receive 40% of any advisory or consultancy fees, net of direct expenses, earned by the Manager from the Company's investee companies. Additionally, effective July 1, 2013, the Company is entitled to receive 40% of all advisory revenue generated by the Manager, whether or not generated from investee companies. As there are no direct expenses associated with this revenue stream and the Company has significant operating tax loss carry forwards, the Company's entire advisory revenue stream effectively flows straight through to net income.

Conflict Provisions

The Company believes that it has assembled a strong Board and Advisory Board, with diverse backgrounds and significant international business expertise and experience. In assembling a Board and Advisory Board with these characteristics, the Company's primary goal is to gain exposure to a wide variety of potential investments, including investments with which Board members or management may already be familiar or that come to their attention through other business dealings.

The Company has no restrictions with respect to investing in companies in which a Board member or a member of the management team of the Company or the Manager may already have an interest. Any conflict of interest with respect to a proposed investment shall be disclosed to the Board, which, at its sole discretion, shall determine if the conflicted person shall abstain from making further recommendations or decisions with respect to the investment.

Prior to making any investment commitment, all members of management, the Manager, the Board, the Advisory Board and the Investment Committee are required to disclose their interest in the potential investment. Where a conflict is determined to exist within the Board, the director having a conflict of interest abstains from making further decisions or recommendations concerning the potential investment and from voting on all matters related to the potential investment. Where a conflict exists within the Investment Committee, the member having a conflict of interest abstains from making recommendations with respect to the proposed investment.

The Company is also subject to the "related party" transaction policies of the applicable securities laws, which mandates disinterested Board approval for certain transactions.

Employees

As at the date hereof, the Company has two individuals who perform management and executive functions.

NET ASSET VALUE CALCULATION

Net Asset Value means the net asset value of the Company, as determined 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. In determining Net Asset Value, the Company shall pursue a valuation policy that is consistently applied and is based on measures considered reasonable in the industry. Without limiting the generality of the foregoing, the Manager, in applying the Company's valuation policy, will take into account the following:

- (a) the valuation guidance offered by the Canadian Securities Administrators which is applicable to the Company;
- (b) the valuation guidance set out in the applicable accounting standards;
- (c) the value of each of any cash on hand or on deposit, bills and demand notes and accounts receivable, prepaid expenses, cash received (or declared to holders of record on a date before the date as of which the NAV is being determined and to be received) and interest accrued and not yet received, shall be deemed to be the full amount thereof, provided that: (i) the value of any security which is a debt obligation which, at the time of acquisition, had a remaining term to maturity of one year or less shall be the amount paid to acquire the obligation plus the amount of any interest accrued on such obligation since the time of acquisition (for the purposes of the foregoing, interest accrued will include amortization over the remaining term to maturity of any discount or premium from the face value of an obligation at the time of its acquisition); and (ii) if the Manager has determined that any such deposit, bill, demand note, or account receivable is not worth the full amount thereof, the value thereof shall be deemed to be such value as the Manager determines to be the fair value thereof;
- (d) the value of any security which is listed or traded upon a stock exchange will be the closing price of the security on such date or, if there is no sale reported to have taken place on that day, the simple average of the closing bid and ask prices (unless, in the opinion of the Manager, acting reasonably, such value does not reflect the value thereof, in which case the Manager will employ acceptable valuation techniques appropriate in the circumstances), as at the valuation date on which the Net Asset Value is being determined, all as reported by any means in common use;
- (e) the value of securities quoted in foreign currencies will be translated into Canadian currency at the exchange rate at noon on such date as announced by the Bank of Canada;
- (f) the value of any securities traded over-the-counter will be the simple average of the closing bid and ask prices on such date or, if there is no current bid price, the closing sale price on such date, all as reported by the financial press or an independent reporting organization, unless a different fair value is otherwise determined by the Manager employing acceptable valuation techniques appropriate in the circumstances;
- (g) the value of any security or other asset for which a market quotation is not readily available will be its cost, which shall approximate the fair value of the security or other asset, as applicable, upon acquisition, unless a different fair value is determined by the Manager employing acceptable valuation techniques appropriate in the circumstances;
- (h) the value of any security or property or other assets to which, in the Manager's opinion, the above principles cannot be applied (whether because no price or yield equivalent quotations are available as above provided, or for any other reason) shall be valued at the fair value thereof determined in good faith in such manner as the Manager from time to time determines; and
- (i) all expenses or liabilities (including fees payable to the Manager) of the Company shall be calculated on an accrual basis.

The Manager may vary any of the foregoing provisions relating to the computation of Net Asset Value of the Company where such variation is required under applicable securities or tax laws or in order to conform with industry practices or generally accepted accounting principles.

Under certain circumstances, the Manager may, to the extent not already reserved for in the accounts of the Company, establish a reserve for contingent liabilities or uncollectible amounts which reduces the Net Asset Value.

DIVIDENDS AND DISTRIBUTIONS

Subject to the solvency restrictions in the CBCA, there are no other restrictions in the Company's articles or elsewhere that would prevent it from paying dividends or distributions on the Common Shares. While the Company had considered instituting a regular dividend in the past, it does not currently plan to do so. The declaration of any future dividends by the Company is within the discretion of the Board and will be dependent on the Company's earnings, financial condition and capital requirements, as well as any other factors deemed relevant by the Board.

DESCRIPTION OF CAPITAL STRUCTURE

The Company has two authorized classes of shares: an unlimited number of Common Shares and an unlimited number of preference shares, issuable in series (the "**Preference Shares**").

Common Shares

The holders of Common Shares are entitled to one vote per Common Share at all meetings of the Company's shareholders. Holders of the Common Shares are entitled to receive dividends as and when declared by the Board, and to receive a *pro rata* share of the assets of the Company available for distribution to the holders of Common Shares in the event of liquidation, dissolution or winding up of the Company.

As at the date hereof, there are 36,517,434 Common Shares issued and outstanding.

Preference Shares

The Preference Shares may be issued, from time to time, in one or more series with such rights, privileges, restrictions and conditions as the Board may determine, including, without limiting the generality of the foregoing, the issue price per share of the shares of such series; the rate or amount of any dividends or the method of calculating any dividends; the dates of payment thereof; any redemption, purchase and/or conversion prices; terms and conditions of any redemption, purchase and/or conversion; and any sinking fund or other provisions.

The Preference Shares of each series will rank on a parity with the Preference Shares of every other series and are entitled to preference over the Common Shares and any other shares ranking junior to the Preference Shares with respect to the payment of dividends and in the distribution of the assets of the Company in the event of liquidation, dissolution or winding-up. If any dividends or amounts payable on the return of capital in respect of a series of Preference Shares are not paid in full, all series of Preference Shares shall participate rateably in respect of such dividend or return of capital. The Preference Shares of any series may be made convertible into Common Shares. Unless the directors determine otherwise, the Preference Shares shall have no voting rights as a class.

As at the date hereof, there are no outstanding Preference Shares.

Warrants

The Company also has outstanding Warrants. The Warrants were issued pursuant to the terms of a warrant indenture (the “**Warrant Indenture**”) dated October 3, 2012 and entered into between Difference Capital and Computershare Trust Company of Canada, as warrant agent thereunder. Following the Consolidation, there were Warrants outstanding to acquire 7,717,486 Common Shares at an exercise price of \$6.00 per Common Share, subject to adjustment. The Warrants expired unexercised on October 3, 2014.

As at the date hereof, there are no outstanding Warrants.

Debentures

On July 4, 2013, the Company completed the Debenture Offering, which consisted of the sale of an aggregate principal amount of \$50,000,000 of 8.0% convertible unsecured subordinate debentures due July 31, 2018 (the “**Debentures**”). Subsequently, on July 19, 2013, the Company sold a further \$6,079,000 aggregate principal amount of Debentures pursuant to the partial exercise of the over-allotment option granted in connection with the Debenture Offering.

The Debentures are convertible into Common Shares at the option of the holder at any time prior to the close of business on the earlier of the business day immediately preceding July 31, 2018 and, if called for redemption, the business day immediately preceding the date specified by the Company in a redemption notice of the Company, at a conversion price of \$5.75 per Common Share (the “**Conversion Price**”), being a conversion rate of approximately 173.91 Common Shares per \$1,000 principal amount of Debentures.

On and after July 31, 2016 and prior to July 31, 2017, the Debentures may be redeemed from holders selected by the Company, in whole or in part, from time to time at the option of the Company on not more than 60 days and not less than 30 days prior notice at a price equal to their principal amount plus accrued and unpaid interest, provided that 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 date of determination (the “**Current Market Price**”) on the date on which the notice of redemption is given is not less than 125% of the Conversion Price. On or after July 31, 2017 and prior to July 31, 2018, the Debentures may be redeemed in whole or in part at the option of the Company on not more than 60 days and not less than 30 days prior notice at a price equal to their principal amount plus accrued and unpaid interest.

The Company has the option to satisfy its obligation to repay the principal amount of the Debentures, in whole or in part, due upon redemption or on July 18, 2018, upon at least 40 days and not more than 60 days prior notice, by delivering that number of freely tradeable Common Shares obtained by dividing the principal amount of the Debentures by 95% of the Current Market Price on the date of redemption or on July 18, 2018, as applicable.

As at the date hereof, there is an aggregate principal amount of \$51,306,002 of Debentures outstanding, convertible into 8,922,783 Common Shares. Should all Debentures be converted, the number of Common Shares outstanding would increase to 45,440,217.

MARKET FOR SECURITIES

Common Shares

The Common Shares are listed for trading on the TSX under the trading symbol “DCF”. The following table sets forth the reported intraday high and low prices and the trading volume by month for the Common Shares on the TSX for the year 2014.

<u>2014</u>	<u>High (\$)</u>	<u>Low (\$)</u>	<u>Volume</u>
December	1.23	0.82	1,499,647
November	1.35	0.90	1,255,778
October	1.37	1.12	394,037
September	1.44	1.24	794,775
August	1.47	1.20	4,767,742
July	1.77	1.44	1,676,577
June	2.08	1.55	2,008,696
May	2.20	1.99	652,865
April	2.27	1.99	1,224,388
March	2.65	2.18	1,414,927
February	2.73	2.21	999,446
January	2.74	2.20	861,422

Debentures

The Debentures are listed for trading on the TSX under the trading symbol “DCF.DB”. The following table sets forth the reported intraday high and low prices and the trading volume by month for the Debentures on the TSX for the year 2014.

<u>2014</u>	<u>High (\$)</u>	<u>Low (\$)</u>	<u>Volume</u>
December	80.51	71.05	1,702,000
November	83.00	78.06	1,009,000
October	82.71	78.74	4,375,000
September	85.99	81.99	507,000
August	84.99	80.00	9,104,000
July	87.49	80.99	4,506,000
June	87.00	82.50	1,460,000
May	91.99	85.51	896,000
April	92.01	87.01	743,000
March	96.00	90.00	1,016,000
February	90.00	87.00	859,000
January	92.00	87.50	2,075,000

Prior Sales

No Common Shares or securities convertible into Common Shares have been issued by the Corporation during the 12-month period preceding the date hereof.

ESCROWED SECURITIES

To the knowledge of the Company, none of the outstanding Common Shares are held in escrow or subject to a contractual restriction on transfer.

DIRECTORS AND OFFICERS

Name, Occupation and Security Holding

The following table sets forth the name, province or state, and country of residence of each of the Company's directors and executive officers, and their respective positions or offices held with the Company and their principal occupation during the last five years.

Name and Municipality of Residence	Position with Company	Principal Occupation During Five Preceding Years	Director Since ⁴
Michael Wekerle ³ Toronto, Ontario, Canada	Chief Executive Officer, Director and Executive Chairman	Executive Chairman of Difference Capital Inc. from April 2012 to present; Vice-Chairman, Institutional Trading at Griffiths McBurney Canada Corp., the general partner of GMP Securities L.P., an investment dealer, until August 2011. Mr. Wekerle was a co-founder of Griffiths McBurney & Partners (a predecessor of GMP Securities L.P.) where he co-founded the firm's sales and trading operations and served from 1995 until August 2011.	October 3, 2012
Henry Kneis ³ Toronto, Ontario, Canada	Chief Operating Officer, Chief Financial Officer and Director	Chief Operating Officer, Chief Financial Officer and Managing Partner of Difference Capital Inc. from April 2012 to present; Chief Executive Officer and Chief Investment Officer of Abria Alternative Investments Inc., a fund of hedge funds investment manager, from July 1999 to March 2012.	July 17, 2014
Riyaz Lalani ^{1,2} Toronto, Ontario, Canada	Director	Chief Executive Officer of Bayfield Strategy, Inc.; Chief Operating Officer of Kingsdale Shareholder Services Inc. (" Kingsdale ") from February 2010 to February 2013.	June 30, 2010
John Albright ^{1,2,3} Toronto, Ontario, Canada	Director	Managing Partner of Relay Ventures since May 1996; formerly known as JLA Ventures.	June 1, 2012
Arthur Mesher ^{1,2}	Director	Chief Executive Officer of The Descartes Systems Group Inc. from November 2004 until November	April 2, 2014

		2013; Chairman of the board of directors of VersaPay Corporation since August 20, 2014; Director of QHR Corp. since July 2012.	
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Notes:

- (1) Member of the Corporate Governance, Compensation and Nominating Committee.
- (2) Member of the Audit Committee.
- (3) Member of the Investment Committee.
- (4) Each director will hold his office as director until the next annual meeting or until his successor is duly elected, unless his office is vacated earlier.

Biographies of Directors and Executive Officers

Michael Wekerle – Chief Executive Officer, Executive Chairman and Director

Mr. Wekerle was a co-founder and partner of Griffiths McBurney & Partners' sales and trading operations in 1995. He served as Vice Chairman of Institutional Trading at GMP Securities L.P. until August 2011 where he was widely considered a leading investment advisor in Canada. During his time, he helped establish the firm's hedge fund and institutional trading desk and developed a reputation for assisting clients in profiting from large-scale transactions. Prior to his tenure at GMP, Mr. Wekerle was head of institutional trading at First Marathon Securities Ltd.

Henry Kneis – Chief Operating Officer, Chief Financial Officer and Director

Mr. Kneis has over 25 years of experience specializing in hedge fund investment management, structured product development, equity derivatives and proprietary arbitrage trading. He was the founder, Chief Executive Officer and Chief Investment Officer of Abria Financial Group ("**Abria**"), where he managed three portfolios of hedge funds. Abria was the inaugural winner of the 2004 Canadian Investment Awards "Best Fund of Hedge Funds". Prior to founding Abria, Mr. Kneis was the Chief Executive Officer of Maple Securities Ltd. ("**Maple Securities**"), a privately held, \$100 million investment dealer and TSX member. Mr. Kneis managed proprietary trading portfolios for Maple Securities and its affiliates with aggregate balance sheet assets of \$3.0 billion. Mr. Kneis is Chief Investment Officer of the Manager. Mr. Kneis holds a B.A.Sc in Engineering Science from the University of Toronto and an MBA from the Schulich School of Business at York University.

Riyaz Lalani – Director

Mr. Lalani is the Chief Executive Officer of Bayfield Strategy, Inc., a public relations strategy and consulting firm. From February 2010 to February 2013, Mr. Lalani oversaw the execution of Kingsdale's client engagements and managed Kingsdale's internal operations as its Chief Operating Officer. At Kingsdale, he led client services teams to complete high profile client engagements, including hostile bids, complex merger-and-acquisition transactions and proxy contests. Prior to joining Kingsdale, Mr. Lalani worked for an international asset manager for almost 10 years in New York and Toronto. He filled a variety of analytical, business development and operational roles at the firm, eventually heading up the overall research and operational function. Teamed with the chief investment officer, he helped originate, negotiate and structure billions of dollars of direct and secondary market equity investments into small, mid and large cap public companies in North America, Asia, Europe and the Middle East. Mr. Lalani's prior experience includes roles with two Canadian bank-owned investment dealers. He is a past director of URSA Major Minerals Inc. and Royal Standard Minerals Inc.

John Albright – Director

Mr. Albright is Co-Founder and Managing Partner of Relay Ventures, an early stage venture fund exclusively focused on mobile computing. During his tenure in the venture capital business, he has raised in excess of \$750 million and has assisted entrepreneurial companies in achieving significant growth. Mr. Albright currently serves as a director of theScore, Inc., Bionym Inc., TouchBistro Inc., Kira Talent Inc., inPowered, Inc., mDialog Corp., Catalog Spree, Nexage, Inc., Fuse Powered Inc., Digby, Achievers Corp., ClearFit Inc. and Blue Ant. In addition, he serves as a member of the Board of Governors of OCAD University. He previously served on the board of, amongst others, FUN Technologies Inc. (IPO in 2003, acquired by Liberty Media Corporation in 2006), Q9 Networks Inc. (IPO in 2004, acquired by Abry Partners in 2008), Descartes (IPO in 1997), Triple G Systems Group, Inc. (IPO in 2001, acquired by General Electric Company in 2003), Bioscrypt Inc. (IPO in 2002, acquired by L1 Identity Solutions, Inc. in 2008) and Sirit Inc. (IPO in 1998, acquired by Federal Signal Corporation in 2010). Mr. Albright is a Chartered Financial Analyst and received his Bachelor of Business Administration degree from the Schulich School of Business at York University.

Arthur Mesher – Director

Mr. Mesher is currently the Chancellor of Clean Sl8 DNA and the Chairman of the Board of VersaPay Corporation (TSXV:VPY). He also sits on the Board of Directors for Absolute Software Corporation (TSX:ABT), QHR Corp. (TSXV:QHR) and Nulogy Corporation. Previously, Mr. Mesher was the Chief Executive Officer and Chairman of Descartes Systems Group Inc. (TSX:DSG) (“Descartes”). During his tenure, Descartes was awarded Best Canadian Corporation and Best Business Turnaround in 2006 along with winning One of Canada’s 10 Most Admired Corporate Cultures in 2012. Previously, Mr. Mesher was Chairman of the Board of Sirit Inc. (TSX:SI), which was sold to Federal Signal Corp (NYSE:FSS). Mr. Mesher is the recipient of the Council of Supply Chain Management Professional’s (CSCMP) 2008 Distinguished Service Award, which he was awarded based on his lifetime of achievements and industry contributions.

As at the date hereof, the Company’s directors and executive officers, as a group, beneficially own, or control or direct, directly or indirectly, 9,481,250 Common Shares, representing approximately 26% of the issued and outstanding Common Shares.

Conflicts of Interest

The Chief Executive Officer and director of the Manager is the Chief Financial Officer and Chief Operating Officer of the Company and a director of the Manager is the Executive Chairman and Chief Executive Officer of the Company.

The services of the Manager are currently exclusive to the Company; however, the Manager may in the future act as manager or investment manager of other companies or funds which invest primarily in the same securities or which employ the same investment strategies and which could be considered competitors of the Company. In addition, the directors and officers of the Manager may be directors, officers, shareholders or security holders of one or more issuers from which the Company may acquire securities.

From time to time, directors and officers of the Company may serve as directors, officers, and members of management of other public companies, including companies in which the Company has investments, and may also be shareholders of such companies, and therefore it is possible that a conflict may arise between their duties as a director, officer, or member of management of such other companies, or their interests as a shareholder of such other companies, and as a director or officer of the Company.

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.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

No director or executive officer of the Company is, as at the date of this AIF, or was within the 10 years prior to the date of this AIF, a director, chief executive officer or chief financial officer of any company that:

- (a) was subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation for a period of more than 30 consecutive days (any of such orders, an "**Order**"), which Order was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or
- (b) was subject to an Order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

No director or executive officer of the Company, or shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company:

- (a) is, as at the date of this AIF, or has been within the 10 years before the date of this AIF, a director or executive officer of any company that, while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (b) has, within the 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold his assets.

No director or executive officer of the Company, or shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, has been subject to:

- (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) any other penalties or sanctions by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

THE MANAGER OF THE COMPANY

The head office of the Manager is located at 130 Adelaide St. West, Suite 1010, Toronto, Ontario, M5H 3P5.

The directors and officers of the Manager are Henry Kneis (Chief Executive Officer and a director) and Michael Wekerle (a director). The Manager is registered with the Ontario Securities Commission as an exempt market dealer, portfolio manager and investment fund manager.

The Management Agreement

Pursuant to a management agreement dated January 18, 2013 with effect as of May 29, 2012, as amended by an amending agreement dated March 26, 2014 with effect as of July 1, 2013 (the “**Management Agreement**”), the Manager has the exclusive authority to manage the undertaking, business and affairs of the Company and to make all decisions regarding the business of the Company. As such, the Manager shall work to develop and implement communications, marketing and distribution strategies of the Company, and is responsible for providing or arranging for administrative services required by the Company including, without limitation: authorizing the payment of all expenses; preparing financial statements, income tax returns and other reports and continuous disclosure materials; ensuring that the Company complies with regulatory requirements; preparing the reports of the Company to securityholders and the Canadian securities regulatory authorities; determining the amount of distributions to be paid by the Company; and retaining and negotiating contractual agreements with third party providers of services, including advisors, registrars, transfer agents, auditors and printers.

The Manager also provides investment management and investment advisory services to the Company, which include making all investment decisions (with the exception of investment decisions made by the Investment Committee or the Board, as applicable, pursuant to its mandate as described in “Description of the Business – Investment Committee”). The Manager, on behalf of the Company, may engage a portfolio manager to manage any investment assets of the Company in accordance with the investment policy, as described above. Additionally, the Manager may provide two (2) nominees to serve as directors of the Corporation.

The Manager, and any agent to whom the Manager has delegated any of its duties, is required to exercise its powers and discharge the duties of its office honestly and in good faith and to exercise the care, diligence and skill that a reasonably prudent manager would exercise in comparable circumstances. The Management Agreement provides that the Manager will not be liable in any way for any default, failure or defect of the assets held by the Company if it has satisfied the duties and standard of care, diligence and skill set forth above. The Manager will incur liability in cases of wilful misconduct, bad faith, gross negligence or disregard of its duties or standard of care, diligence and skill.

The Management Agreement will continue for an initial term expiring June 30, 2015, subject to automatic renewal for additional one year terms. Either the Manager or the Company may terminate the Management Agreement, provided that the terminating party has given the other party 180 days’ prior written notice of its intention to do so. If during any fiscal year of the Company the Net Asset Value decreases by 50% or more from the Net Asset Value on December 31 of the previous fiscal year, then the Company may convene a special meeting of the shareholders to seek approval by way of special resolution to terminate the Management Agreement. Either the Manager or the Company may terminate the Management Agreement if the other party is in material breach or default of the provisions of the Management Agreement and, if capable of being cured, such breach or default is not cured within 30 days’ notice of such breach or default to the defaulting party. The Company may terminate the Management Agreement immediately in the event of the commission by the Manager of any fraudulent

act or if the Manager becomes bankrupt, insolvent or makes a general assignment for the benefit of its creditors.

Other than payment of the fees payable to the Manager and the reimbursement of the Manager's expenses pursuant to the Management Agreement up to and including the date of termination of the Management Agreement, no additional payments will be required to be made by the Company to the Manager as a result of any termination related to a termination by special resolution, material breach by the Manager or any fraudulent acts, bankruptcy or insolvency of the Manager, as described above. If, however, the Management Agreement is terminated for any other reason, including upon a Change of Control (as such term is defined in the Management Agreement), then the Company shall pay to the Manager on the termination date an amount equal to 5% of the Net Asset Value of the Company on such date, and continue to pay to the Manager Performance Fees (as defined below) for a period of two years from the date of termination. The payment of the termination fee to the Manager shall be in addition to any accrued compensation and reimbursement of expenses to which the Manager is then entitled.

As compensation for its management services, the Company pays the Manager an annual management fee (the "**Management Fee**") in the amount equal to 2% plus HST of the net asset value of the Company, as determined by subtracting the aggregate fair value of the liabilities of the Company (excluding any convertible debentures or debentures that have a term of greater than one (1) year, in each case, for greater certainty, debentures that have been issued by the Company which includes the Debentures) from the aggregate fair value of the assets of the Corporation on the date on which the calculation is being made, calculated and payable monthly as of the last business day of each month (the "**Management Fee NAV**"). In addition to the Management Fee, the Manager will be entitled to receive, for each fiscal year of the Company, a performance fee (the "**Performance Fee**") equal to 20% of any increase in the net asset value 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 Fees are calculated and accrued monthly but will be paid to the Manager only after the year end.

Under the Management Agreement, the Company is entitled to receive 40% of any advisory or consultancy fees, net of direct expenses, earned by the Manager from the Company's investee companies. Additionally, effective July 1, 2013, the Company is entitled to receive 40% of all advisory revenue generated by the Manager, whether or not generated from investee companies.

The management services of the Manager are not exclusive and nothing in the Management Agreement prevents the Manager or any of its affiliates from providing similar management services to other clients, including investment funds (whether or not their investment objectives, strategies and policies are similar to those of the Company) or from engaging in other activities.

LEGAL AND ADMINISTRATIVE PROCEEDINGS

The Company is not aware of any material legal, administrative or regulatory proceedings to which the Company is or was a party to, or that any of the Company's property is or was the subject of, during the Company's financial year ended December 31, 2014. Further, the Company is not aware of any such material legal, administrative or regulatory proceedings being contemplated.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Management Agreement

By virtue of being officers and directors of the Manager, Henry Kneis and Michael Wekerle have an interest in the Management Agreement. See under the heading “Management Agreement” for details concerning the Manager’s services, the term of the agreement and the compensation paid to the Manager.

AUDIT COMMITTEE DISCLOSURE

National Instrument 52-110 – *Audit Committees* (“**NI 52-110**”) requires the Company to disclose annually in its AIF certain information concerning the constitution of the Company’s audit committee (the “**Audit Committee**”) and its relationship with the Company’s independent auditor, as set forth below.

Audit Committee Charter

The text of the Audit Committee’s charter is attached as Schedule “A” to this AIF.

Composition of the Audit Committee

As of the date of this AIF, the Audit Committee is comprised of three Board members – John Albright, Arthur Mesher and Riyaz Lalani. Each of the committee members is considered to be “independent” and “financially literate”, for the purposes of NI 52-110. Financial literacy includes the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues similar to those expected to arise in the context of the Company.

Relevant Education and Experience

The education and experience of each member of the Company’s Audit Committee that is relevant to the performance of his responsibilities as a member of the Audit Committee is summarized below:

John Albright

Mr. Albright is Co-Founder and Managing Partner of Relay Ventures. Mr. Albright currently serves as a director of QuickPlay, Nexage, Inc., Aepona, Fuse Powered Inc., Padopolis, Inc., Digby, Achievers Corp., ClearFit, NetShelter Technology Media and Blue Ant. In addition, he serves as a director of the Canadian Venture Capital and Private Equity Association. Mr. Albright is a Chartered Financial Analyst and received his Bachelor of Business Administration degree from the Schulich School of Business at York University.

Arthur Mesher

Mr. Mesher is currently the Chancellor of Clean Sl8 DNA and the Chairman of the Board of VersaPay Corporation (TSXV:VPY). He also sits on the Board of Directors for Absolute Software Corporation (TSX:ABT), QHR Corp. (TSXV:QHR) and Nulogy Corporation. Previously, Mr. Mesher was the Chief Executive Officer and Chairman of Descartes Systems Group Inc. (TSX:DSG).

Riyaz Lalani

Mr. Lalani is the Chief Executive Officer of Bayfield Strategy, Inc. He is a past Chief Operating Officer of Kingsdale and a past Senior Research Analyst for Acqua Capital Management Company, as

well as a past director of URSA Major Minerals Inc. and Royal Standard Minerals Inc. Mr. Lalani holds a Bachelor of Environmental Studies degree from the University of Waterloo.

Audit Committee Oversight

At no time since the commencement of the Company's most recently completed financial year has any recommendation of the Audit Committee respecting the appointment and/or compensation of the Company's external auditors not been adopted by the Board.

Reliance on Certain Exemptions

At no time since the commencement of the Company's most recently completed financial year has the Company relied on exemptions in relation to "*De Minimis Non-Audit Services*" or any exemption provided by Part 8 of NI 52-110.

External Auditors Service Fees

- (a) *Audit Fees* – The aggregate amounts paid or accrued by the Company to the external auditors for audit services for the fiscal years ended December 31, 2014 and 2013 were \$185,000 and \$155,000 respectively.
- (b) *Audit-Related Fees* – The aggregate amounts paid or accrued by the Company to the external auditors for audit-related services for the fiscal years ended December 31, 2014 and 2013 were \$50,000 and \$25,000 respectively. The services comprising these fees were quarterly reviews of the Company's financial statements.
- (c) *Tax Fees* – The aggregate amounts paid or accrued by the Company to the external auditors for tax related services for the fiscal years ended December 31, 2014 and 2013 were \$16,650 and \$8,775 respectively. The services comprising these fees were tax compliance and other tax advice.
- (d) *All Other Fees* – No other fees were paid or accrued by the Company to the external auditors for services for the fiscal years ended December 31, 2014 and 2013, other than those reported above.

TRANSFER AGENT AND REGISTRAR

The registrar and transfer agent for the Common Shares is Computershare Trust Company of Canada ("**Computershare**"), at its offices at 100 University Avenue, Toronto, Ontario, M5J 2Y1. Computershare also acts as registrar and transfer agent in respect of the Warrants.

The registrar and transfer agent for the Debentures is TMX Equity Transfer Services, at its offices at 200 University Avenue, Suite 300, Toronto, Ontario, M5H 4H1.

MATERIAL CONTRACTS

Other than contracts entered into in the ordinary course of business, the following contracts which the Company entered into during its most recently completed financial year, or before December 31, 2013 but which are still in effect, could be considered material to the Company:

Management Agreement with the Manager

The Manager was retained as the manager of the Company pursuant to the Management Agreement dated January 18, 2013 with effect as of May 29, 2012, as amended by an amending agreement dated March 26, 2014 with effect as of July 1, 2013. The details of the Management Agreement are discussed above under the heading “The Management Agreement”. A copy of the Management Agreement is available electronically at www.sedar.com.

INTEREST OF EXPERTS

The following are the names of the persons and companies who have prepared or certified a statement, report or valuation described, included or referred to in a filing made under National Instrument 51-102 by the Company or relating to the Company’s most recently completed financial year:

The Company’s auditors, Ernst & Young LLP, prepared the auditor’s report on the Company’s annual financial statements for the financial years ended December 31, 2014, December 31, 2013, December 31, 2012 and December 31, 2011. Ernst & Young LLP was first appointed the auditors of the Company in August 2008. Ernst and Young LLP is independent in accordance with the auditor’s rules of professional conduct in Ontario. As of the date hereof, the partners and associates of Ernst & Young LLP, as a group, own beneficially, directly or indirectly, less than 1.0% of the issued and outstanding Common Shares.

RISK FACTORS

A purchase of the Common Shares or Debentures involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. The Common Shares and Debentures should not be purchased by persons who cannot afford the possibility of the loss of their entire investment. Furthermore, an investment in the Common Shares or Debentures should not constitute a major portion of an investor’s portfolio.

An investment in the Company’s securities is subject to certain risks, including those set out below and under the heading “Note Regarding Forward-Looking Information” elsewhere in this AIF, and should be carefully considered by an investor before making any investment decision. Additional risks not currently known to the Company, or that the Company currently believes to be immaterial, may also affect the Company’s business and negatively impact upon an investment in its securities.

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 or some or all of the capital invested.

Reliance on Management and the Manager

The Company is dependent upon the efforts, skill and business contacts of key members of management and the Manager 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 or the Manager, as applicable. 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 or a decrease in dividends by the Company 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 objective, 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 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 and advisory or consultancy fees earned pursuant to the Management Agreement. 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 Common Shares has been and may continue to be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control, including the following:

- actual or anticipated fluctuations in the Company's annual or quarterly results of operations;
- changes in estimates of future results of operations by the Company or by securities research analysts;
- changes in the economic performance or market valuations of other companies that investors deem comparable to the Company;
- the addition or departure of executive officers or key personnel of the Manager;
- sales or expected sales of additional Common Shares;
- changes in applicable laws and regulations, including tax laws;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors; and
- news reports relating to the conditions in the economy in general and/or trends, concerns or competitive developments, regulatory changes and other related issues in the Company's industry or target markets.

The volatility may affect the ability of holders of the Common Shares to sell Common Shares at an advantageous price.

Financial markets have, at times, experienced significant price and volume fluctuations that have particularly affected the market prices of securities of companies and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Common Shares may decline even if the Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of the Company's environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the Common Shares by those institutions, which could adversely affect the trading price of the Common Shares. There can be no assurance that fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil occur, the Company's operations could be adversely impacted and the trading price of the Common Shares may be adversely affected.

Substantial Debt Obligations

The significant amount of debt the Company has incurred as a result of the issuance of the Debentures pursuant to the Debenture Offering may hinder its growth and put it at a competitive disadvantage. The Company's indebtedness could:

- require the Company to use a substantial portion of its operating cash flow to pay interest, which reduces funds available to invest in Target Companies and for other purposes;
- place the Company at a competitive disadvantage compared to its competitors that have less debt;
- make the Company more vulnerable to economic and industry downturns and reduce its flexibility in responding to changing business and economic conditions;
- limit the Company's ability to pursue business opportunities; and
- limit the ability of the Company to borrow money for operations or capital in the future.

Significant Amounts of Cash Required

The Company will require significant amounts of cash to pay its debt, and if it fails to generate sufficient cash flow from operations, its financial condition may suffer. The Company's ability to meet its debt obligations will depend on whether it can successfully implement its business plan, as well as on economic, financial, competitive, legal and technical factors. Some of these factors are beyond the Company's control. If the Company cannot generate sufficient cash flow from operations to make scheduled interest payments or repay its debt, the Company may need to obtain additional financing, delay planned capital expenditures or sell assets. The Company's ability to obtain additional financing will depend on factors such as its financial condition at the relevant time and market conditions.

Possible Dilutive Effects on Holders of Common Shares

The Company may determine to redeem outstanding Debentures for Common Shares or repay outstanding principal amounts of the Debentures at maturity by issuing additional Common Shares. Accordingly, holders of Common Shares may suffer dilution.

Foreign Currency Exposure

Certain of the investments in the Company's portfolio, at any time, may consist of securities denominated in U.S. 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 in this AIF, 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, 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 2015 and 2032. 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 market values of the securities in the Company's portfolio may occur for a number of reasons beyond the control of the Manager, 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 Manager 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 returns from investments 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 Company 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 Manager 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 Manager'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, the Manager will attempt to maintain a diversified portfolio.

ADDITIONAL INFORMATION

Additional information relating to the Company may be found on SEDAR at www.sedar.com. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans is contained in the Company's management information circular dated May 13, 2014 for the 2014 AGM. Furthermore, additional financial information is provided in the Company's financial statements and management discussion and analysis for its financial year ended December 31, 2014.

SCHEDULE “A”

CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

It is noted that Difference Capital Financial Inc. (the “**Corporation**”) entered into a management agreement with Difference Capital Management Inc. (“**DCM**”) dated January 18, 2013 with effect as of May 29, 2012 (the “**Management Agreement**”) which provides, subject to the terms and conditions contained therein, that DCM has the exclusive authority to manage the undertaking, business and affairs of the Corporation and to make all decisions regarding the business of the Company.

I. ROLE OF THE COMMITTEE

The audit committee (the “**Committee**”) is appointed by the board of directors of the Corporation (the “**Board**”) to assist the Board to promote and improve the credibility and objectivity of financial reports.

The Committee shall oversee the accounting and financial reporting processes of the Corporation and review and recommend for approval by the Board the financial statements, management’s discussion and analysis (“**MD&A**”), annual information form (“**AIF**”) and interim earnings press releases.

The Committee will manage the relationship between the Corporation and the external auditors by overseeing the work of the external auditors and by making recommendations to the Board on the engagement, remuneration and termination of the external auditors based on its evaluation of performance.

The Committee shall pre-approve all non-audit services the external auditors propose to provide to the Corporation.

The Committee shall facilitate and maintain open communications among DCM, the external auditors, and the Board.

The Committee shall be responsible for the discharge of such other duties as may be prescribed by regulatory authorities or delegated by the Board.

II. MEMBERSHIP

The Committee shall be comprised of three or more directors all of whom shall be independent as determined by the Board in conformity with the laws, regulations and listing requirements to which the Corporation is subject. An independent Committee member is one who has no direct or indirect material relationship with the Corporation. A material relationship means a relationship which could, as determined by the Board, reasonably interfere with the exercise of a member’s independent judgment. The Chair of the Committee shall be appointed by the Board. A quorum shall consist of two directors.

All members of the Committee shall in the judgment of the Board be “financially literate”. “Financially literate” shall mean the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation’s financial statements.

III. MEETINGS

The Committee shall meet at least four times per year and at such other times as any member of the Committee deems necessary to fulfill its responsibilities. The Corporation's external auditors will normally be required to attend all meetings. At each regular meeting, the Committee shall meet separately with DCM and the external auditors to discuss any matters the committee or any of these parties believe should be discussed privately.

IV. REPORTING TO THE BOARD

The Committee shall report on the results of each meeting of the Committee at the next meeting of the Board. All minutes, supporting schedules and data received and reviewed by the Committee are to be available for examination by any member of the Board upon request to the secretary of the Committee.

V. AUTHORITY

The Committee shall have direct access to all books, records, facilities and personnel of the Corporation, including to the external auditor as it determines this to be advisable. All employees of DCM and the Corporation are to cooperate as requested by Committee members.

The Committee shall have the authority to retain persons having special expertise in legal, accounting or other matters as it determines to be necessary to assist it in discharging its responsibilities. The Committee shall have the authority to set and pay the compensation of any advisors it engages.

The Board may authorize the Committee to investigate any activity of the Corporation.

VI. RESPONSIBILITIES

In the discharge of its role, the Committee will have the responsibility to:

- (a) recommend to the Board the external auditors to be nominated for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation and the compensation of the external auditors;
- (b) confirm the external auditors are participants in good standing with the Canadian Public Accountability Board;
- (c) confirm the direct reporting and accountability of the auditors to the Committee and through the Committee to the Board as representatives of the Corporation's shareholders;
- (d) pre-approve any non-audit services to be provided by the external auditors and generally assess the independence of the external auditors having reference to the independence standards of the Canadian Institute of Chartered Accountants, whereby the pre-approval requirement may be satisfied if:
 - (i) the aggregate amount of all the non-audit services that were not pre-approved constitutes no more than 5% of the total amount of revenues paid by the Corporation to its external auditors during the fiscal year in which the services were provided;
 - (ii) the services were not recognized by the Corporation at the time of the engagement to be non-audit services; and

- (iii) the services were promptly brought to the attention of the Committee and approved, prior to the completion of the audit, by the Committee or by one or more members of the Committee to whom the Committee may delegate authority to grant such approvals;
- (e) verify the rotation of the lead audit partner and/or the audit partner responsible for reviewing the audit as required by law;
- (f) review and approve the Corporation's hiring policies regarding employees or persons previously employed by the present or former external auditors;
- (g) review the scope of the external auditors' audit plan and the procedures to be utilized with the external auditors and with DCM.
- (h) review with DCM and with the external auditors all major accounting policies and practices adopted, any proposed changes in major accounting policies, the presentation and impact of significant risks and uncertainties, and key estimates and judgments of DCM that may be material to financial reporting;
- (i) question DCM regarding significant variances between comparative reporting periods;
- (j) review with DCM and the external auditors and recommend to the Board the audited annual financial statements and the quarterly financial statements of the Corporation;
- (k) question DCM and the external auditors regarding significant financial reporting issues discussed during the fiscal period and the method of resolution;
- (l) review any restrictions imposed by DCM in performing the external audit or significant accounting issues on which there was a disagreement with DCM;
- (m) review the post-audit or management letter, containing the recommendations of the external auditors, and DCM's response and subsequent follow up to any identified weakness;
- (n) review and recommend for the approval by the Board the AIF, MD&A, news releases and any financial guidance and all public disclosure documents containing audited or unaudited financial information before release;
- (o) review the audit plan issued by the external auditors and subsequent follow up to any identified weakness;
- (p) review with DCM significant financial risk exposures, the steps taken to monitor and control such exposures and approve any related policies;
- (q) review with DCM the status of any material pending or threatened litigation;
- (r) inquire of DCM as to the Corporation's disclosure controls and procedures and as to the existence of any significant deficiencies in the design or operation of internal controls and any fraud that involves employees who have a significant role in the Corporation's internal controls; and

- (s) review the status of compliance with laws and regulations and the scope and status of systems designed to ensure compliance therewith and receive reports from DCM, legal counsel and other third parties as determined by the committee on such matters, as well as major legislative risks.

VII. ALLOCATION OF RESPONSIBILITIES

DCM is responsible for operating the business of the Corporation and for its internal controls and the financial reporting process. The external auditors are responsible for performing an independent audit of the Corporation's consolidated financial statements in accordance with generally accepted auditing standards and for issuing a report thereon. The external auditors shall report and be accountable to the Committee and through the Committee to the Board as representatives of the Corporation's shareholders. The Committee's responsibility is to monitor and oversee these processes on behalf of the Board. The Committee is not charged with the duty to plan or conduct audits or to determine that the Corporation's financial statements are complete and accurate and in accordance with generally accepted accounting principles.

The existence of the Committee and the delegation to it of certain powers and duties by the Board does not relieve individual members of the Board from the responsibility of satisfying themselves that the affairs of the Corporation are being properly conducted.

VIII. COMPLAINTS

Concerns or complaints submitted to DCM received by an employee of the Corporation, including but not restricted to concerns and complaints which relate to accounting, internal accounting controls or audit matters, shall be referred to the Chair of the Committee. The Committee shall deal with all such internal complaints relating to such matters.

No reprisal, retaliation or disciplinary action shall be taken against employees for reporting, in good faith, such concerns. The Chair of the Committee shall, if requested by the complainant, keep the identity of the complainant in confidence to the extent appropriate or permitted by law.

IX. ANNUAL REVIEW

The audit committee shall review the adequacy of this Charter on an annual basis and recommend any changes to the Board.