DIFFERENCE
CAPITAL

Interim Condensed Financial Statements

Unaudited (prepared in Canadian dollars)

For the quarter and six months ended June 30, 2016

STATEMENTS OF FINANCIAL POSITION (unaudited)

As at Amounts in thousands of Canadian dollars (except per share amounts)		June 30 2016		December 31 2015
ASSETS				
Current				
Cash and cash equivalents	**$**	**15,846**	$	13,051
Distribution receivables *[note 3]*		**2,909**		1,728
Marketable securities *[note 4]*		**76**		378
Prepaid expenses, deposits and other receivables		**169**		98
Interest receivable		**186**		285
Total current assets		**19,186**		15,540
Distribution receivables *[note 3]*		**552**		958
Investments *[note 5]*		**70,823**		76,568
Total assets	**$**	**90,561**	$	93,066
LIABILITIES				
Current				
Accounts payable and accrued liabilities	**$**	**520**	$	517
Accrued annual incentive plan *[note 16]*		**—**		90
Accrued interest on convertible debentures		**1,055**		1,151
Total current liabilities		**1,575**		1,758
Convertible debentures *[note 7]*		**30,213**		32,432
Total liabilities		**31,788**		34,190
SHAREHOLDERS' EQUITY				
Share capital *[note 8]*		**135,715**		135,715
Equity component of convertible debentures *[note 7]*		**2,382**		2,593
Contributed surplus *[note 9]*		**77,613**		77,126
Deficit		**(156,937)**		(156,558)
Total shareholders' equity		**58,773**		58,876
Total liabilities and shareholders' equity	**$**	**90,561**	$	93,066
Net Asset Value per share				
Basic and diluted	**$**	**2.00**	$	2.01

See accompanying notes, which are an integral part of these interim condensed financial statements.

On behalf of the Board of Directors:

"John Albright"
Director

"Henry Kneis"
Director

STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) (unaudited)

Amounts in thousands of Canadian dollars (except for common shares and per share amounts)	Three months ended June 30 2016	2015	Six months ended June 30 2016	2015
NET REALIZED AND UNREALIZED GAIN (LOSS)				
Net realized gain (loss) on disposal of investments and marketable securities	**$ (8,655)**	$ 346	**$ (11,100)**	$ (8,004)
Net change in unrealized gain (loss) on investments and marketable securities	**13,582**	(1,925)	**13,892**	12,236
	4,927	(1,579)	**2,792**	4,232
OTHER INCOME				
Interest, dividends and other income	**303**	595	**639**	1,493
Participation in advisory fees and equity capital market revenue *[note 13]*	**—**	40	**—**	113
Gain on repurchase of convertible debentures *[note 7]*	**162**	74	**162**	449
	465	709	**801**	2,055
EXPENSES				
Management fees *[note 13]*	**—**	366	**—**	935
Performance fees *[note 13]*	**—**	(866)	**—**	—
Employee compensation and benefits *[note 9 & 16]*	**589**	133	**1,439**	133
Professional fees	**132**	367	**318**	704
General and administrative *[note 13]*	**128**	148	**313**	314
Provision for uncollectible receivables	**3**	541	**3**	581
Harmonized sales tax	**24**	(20)	**56**	236
Financing costs	**885**	1,246	**1,834**	2,593
Transaction costs	**7**	2,446	**9**	2,526
Total expenses	**1,768**	4,361	**3,972**	8,022
Net income (loss) and comprehensive income (loss)	**$ 3,624**	$ (5,231)	**(379)**	$ (1,735)
Weighted average number of common shares outstanding *[note 15]*				
Basic and diluted	**29,361,984**	36,119,610	**29,361,984**	36,577,295
Income (loss) per share *[note 15]*				
Basic and diluted	**$0.12**	$(0.14)	**$(0.01)**	$(0.05)

See accompanying notes, which are an integral part of these interim condensed financial statements.

STATEMENTS OF CHANGES IN EQUITY (unaudited)

Amounts in thousands of Canadian dollars	Three months ended June 30 2016	Three months ended June 30 2015	Six months ended June 30 2016	Six months ended June 30 2015
Share capital				
Balance, beginning of the period	**$ 135,715**	$ 167,959	**$ 135,715**	$ 176,555
Normal course issuer bid common shares repurchased and cancelled *[note 8]*	**—**	(1,835)	**—**	(10,431)
Balance, June 30	**135,715**	166,124	**135,715**	166,124
Equity component of convertible debentures				
Balance, beginning of the period	**2,593**	3,563	**2,593**	3,823
Normal course issuer bid convertible debentures repurchased and cancelled *[note 7]*	**(211)**	(52)	**(211)**	(312)
Balance, June 30	**2,382**	3,511	**2,382**	3,511
Contributed surplus				
Balance, beginning of the period	**77,434**	51,256	**77,126**	44,259
Stock option expense *[note 9]*	**107**	—	**415**	—
Normal course issuer bid common shares repurchased and cancelled *[note 8]*	**—**	1,469	**—**	8,204
Normal course issuer bid convertible debentures repurchased and cancelled *[note 7]*	**72**	72	**72**	334
Balance, June 30	**77,613**	52,797	**77,613**	52,797
Deficit				
Balance, beginning of the period	**(160,561)**	(155,207)	**(156,558)**	(158,703)
Net income (loss) and comprehensive income (loss)	**3,624**	(5,231)	**(379)**	(1,735)
Balance, June 30	**(156,937)**	(160,438)	**(156,937)**	(160,438)
Net change in equity during the period	**3,592**	(5,577)	**(103)**	(3,940)
Equity, beginning of the period	**55,181**	67,571	**58,876**	65,934
Balance, June 30	**$ 58,773**	$ 61,994	**$ 58,773**	$ 61,994

See accompanying notes, which are an integral part of these interim condensed financial statements.

STATEMENTS OF CASH FLOWS (unaudited)

Amounts in thousands of Canadian dollars	Three months ended June 30 2016	Three months ended June 30 2015	Six months ended June 30 2016	Six months ended June 30 2015
OPERATING ACTIVITIES				
Net income (loss) for the period	**$ 3,624**	$ (5,231)	**$ (379)**	$ (1,735)
Items not affecting cash:				
Net realized (gain) loss on disposal of investments and marketable securities	**8,655**	(346)	**11,100**	8,004
Net change in unrealized (gain) loss on investments and marketable securities	**(13,582)**	1,925	**(13,892)**	(12,236)
Net change in participation in advisory fees payable in shares	**—**	193	**—**	200
Amortization of financing costs on convertible debentures	**220**	277	**450**	588
Gain on repurchase of convertible debentures	**(162)**	(74)	**(162)**	(449)
Conversion of interest revenue into equities and debentures	**—**	(620)	**—**	(862)
Equity-based compensation	**107**	—	**415**	—
Net change in non-cash working capital balances	**(262)**	3,209	**(930)**	3,049
Effect of foreign exchange on cash	**(34)**	—	**(247)**	—
Purchase of marketable securities	**—**	(1,631)	**—**	(2,450)
Proceeds from disposal of marketable securities	**7**	485	**296**	5,368
Purchase of investments	**(26)**	(1,900)	**(922)**	(4,706)
Proceeds from disposal and maturity of investments	**9,562**	2,728	**9,712**	21,290
Cash provided by (used in) operating activities	**8,109**	(985)	**5,441**	16,061
FINANCING ACTIVITIES				
Normal course issuer bid common shares repurchased and cancelled *[note 8]*	**—**	(366)	**—**	(2,227)
Normal course issuer bid convertible debentures repurchased and cancelled *[note 7]*	**(2,646)**	(550)	**(2,646)**	(3,363)
Cash used in financing activities	**(2,646)**	(916)	**(2,646)**	(5,590)
Net increase (decrease) in cash during the period	**5,463**	(1,901)	**2,795**	10,471
Cash and cash equivalents, beginning of the period	**10,383**	24,171	**13,051**	11,799
Cash and cash equivalents, end of the period	**$ 15,846**	$ 22,270	**$ 15,846**	$ 22,270
Interest received	**$ 467**	$ 970	**$ 621**	$ 1,577
Dividends received	**40**	40	**80**	130
Interest paid	**—**	—	**1,406**	2,073

See accompanying notes, which are an integral part of these interim condensed financial statements.

SCHEDULE OF INVESTMENTS (unaudited)

Amounts in thousands of Canadian dollars	INVESTMENT TYPE	COUNTRY	June 30, 2016 AVERAGE COST $	June 30, 2016 FAIR VALUE $
FINANCIAL TECHNOLOGIES				
Carta Solutions Holding Corporation	equity securities and warrants	Canada	3,655	
Carta Solutions Holding Corporation	loans	Canada	680	
Ethoca Solutions Inc.	equity securities	Canada	1,508	
Mogo Finance Technology Inc.	common shares	Canada	2,094	
			7,937	8,049
HEALTHCARE				
BrainScope Company Inc.	equity securities	United States	1,563	
Cardiac Dimensions Pty. Ltd.	equity securities	United States	2,183	
Fem Med Formulas Limited	equity securities	Canada	2,500	
Other	equity securities and warrants	Canada	72	
			6,318	4,833
INTERNET				
BuildDirect.com Technologies Inc.	equity securities and warrants	Canada	7,000	
Vision Critical Communications Inc.	equity securities	Canada	4,997	
Scribble Technologies Inc.	equity securities	Canada	4,609	
Hootsuite Media Inc.	equity securities	Canada	2,080	
EQ Inc.	equity securities	Canada	646	
			19,332	18,514
MEDIA/MEDIA TECHNOLOGIES				
Thunderbird Films Inc.	equity securities	Canada	6,000	
Blue Ant Media Inc.	equity securities	Canada	4,787	
Cricket Media Group Ltd.	convertible debentures	Canada	4,575	
			15,362	12,745
TECHNOLOGIES				
Vena Solutions	equity securities and warrants	Canada	1,500	
Vena Solutions	convertible debentures	Canada	3,647	
Baanto International Ltd.	equity securities	Canada	1,070	
Baanto International Ltd.	convertible debentures	Canada	2,700	
Bluedrop Performance Learning Inc.	convertible debentures	Canada	3,625	
WG Limited	equity securities and warrants	Canada	3,839	
Other	equity securities	Canada and United States	1,004	
			17,385	13,240
OTHER				
Difference RM Holdings Corp.	equity securities	United States	6,108	
Waterloo Innovation Network LP	limited partnership units	Canada	2,000	
Kalina Power Ltd. (formerly Enhanced Systems Technologies)	equity securities	Australia	3,335	
Other	convertible debentures, equity securities and units	Australia and Canada	910	
			12,353	13,442
TOTAL INVESTMENTS			**78,687**	**70,823**

SCHEDULE OF INVESTMENTS (unaudited) (continued)

PORTFOLIO INVESTMENTS AND FAIR VALUE

Significant purchases, sales and changes in valuation of investments for the period ended June 30, 2016 included the following:

BTI Systems Inc. (“BTI”)
In April 2016, the acquisition of BTI by Juniper Networks Inc. closed. As part of the transaction, the Company expects to receive a total of $2.6 million. The Company received $2.1 million during the quarter and expects to receive the remaining $0.5 million from escrow in the second quarter of 2017. The Company realized a gain of $0.4 million on the BTI transaction.

Difference RM Holdings Corp. ("Difference RM")
The Company indirectly owns 52% of a 40% tenants-in-common interest in a 635 acre parcel of undeveloped land in the City of Rancho Mirage, California, immediately to the southeast of Palm Springs (the “Property”). An impediment to the sale of the Property has been resolved, permitting the Company to actively consider its liquidity options for this investment. The Company marked up its investment in the Property by $4.5 million during the quarter.

Embotics Corporation ("Embotics")
In June 2016, the Company received repayment of the $1.0 million principal plus accrued interest on the Embotics convertible debenture.

Quickplay Media Inc. ("Quickplay")
In May 2016, Quickplay was acquired by AT&T. As part of the transaction, the Company expects to receive a total of $5.8 million. The Company has received $5.2 million and expects to receive the remaining $0.6 million from escrow in the fourth quarter of 2017. The transaction resulted in a realized gain on investment of $2.5 million during the period.

Other
During the quarter, the Company recorded $11.8 million of realized capital losses on its investments in Crailar Technologies Inc. ("Crailar"), Shop.ca Network Inc. ("Shop.ca"), and iPowow! Inc. ("iPowow"). The Company had previously marked down its investment in Crailar, Shop.ca, and iPowow, and thus there was minimal impact to net income during the quarter other than a reversal of previously recorded unrealized losses to realized losses. In addition, the Company recorded $0.6 million in unrealized losses in Waterloo Innovation Network I LP due to the decrease in its net asset value per unit during the period.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 (unaudited - in Canadian dollars)

1. COMPANY INFORMATION

Difference Capital Financial Inc. ("Difference Capital" or the "Company") is a publicly listed company on the Toronto Stock Exchange (TSX: DCF) incorporated and domiciled in Canada. The registered address of the Company is Wildeboer Dellelce Place, Suite 800, 365 Bay Street, Toronto, Ontario, M5H 2V1.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim condensed financial statements of Difference Capital have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and consistent with International Financial Reporting Standards ("IFRS") accounting policies Difference Capital adopted in its financial statements as at and for the year ending December 31, 2015.

These unaudited interim condensed financial statements should be read in conjunction with Difference Capital's 2015 annual audited financial statements.

These financial statements were authorized for issuance by the Board of Directors of Difference Capital on August 11, 2016. The following are the significant accounting policies used in the preparation of these financial statements:

Basis of presentation

The financial statements of Difference Capital have been prepared on a going concern basis and under the historical cost convention, except for marketable securities and investments, which are measured at fair value. The financial statements are presented in Canadian dollars, which is also the Company's functional currency.

Critical accounting estimates and judgments

The preparation of the Company's financial statements in accordance with IFRS requires management to make estimates and exercise judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Key areas of estimation where management has made difficult, complex or subjective judgments include:

Fair Value of privately held investments

The determination of the fair value of privately held investments, which include debt and equity securities, requires that judgement be applied to the facts and circumstances of each investment. Actual results could differ from these estimates. See Note 12, Fair Value Measurement, in the annual 2015 audited financial statements, for disclosure on fair value estimation of private investments.

Equity-based compensation

The compensation expense for awards of stock options is estimated using a Black-Scholes option pricing model which requires the use of assumptions. Further details regarding the assumptions used in the option pricing model are provided in Note 9.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity-based compensation

The Company has an incentive stock option plan (the "Stock Option Plan"), as amended and restated on June 13, 2013, for the directors, officers and employees of the Company.

The Company uses the fair value method to account for stock options. The fair value of stock options, determined on the grant date, using the Black-Scholes option-pricing model, is expensed using the graded vesting method over the vesting period as compensation expense with a corresponding increase in contributed surplus. When the options are exercised, amounts originally recorded against contributed surplus as well as any consideration paid by the option holder is credited to share capital.

The amount recognized as compensation expense is adjusted to reflect the number of stock options for which the related service conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of stock options that do meet the related service condition at the vesting date.

Future accounting changes

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

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

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

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15")

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

Annual Improvements 2012-2014 Cycle

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Future accounting changes (continued)

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

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

Amendments to IAS 7, *Statement of Cash Flows* ("IAS 7")

In January 2016, the IASB issued amendments to IAS 7, which will require specific disclosures for movements in certain liabilities on the statement of cash flow. These amendments are effective January 1, 2017 and are not expected to have a significant impact on the Company.

Amendments to IAS 12, *Income Taxes* ("IAS 12")

In January 2016, the IASB issued amendments to IAS 12, clarifying how to account for deferred tax assets related to debt instruments measured at fair value. These amendments are effective January 1, 2017 and are not expected to have a significant impact on the Company.

3. DISTRIBUTION RECEIVABLES

Distribution receivables as at June 30, 2016 and December 31, 2015 represent amounts held in escrow to cover potential indemnification claims of WG Limited, Infraredx Inc., BTI, and Quickplay on recent sale transactions. A breakdown of the expected escrow release dates are as follows:

Expected Release date	June 30, 2016 $000	December 31, 2015 $000
September 2016	683	770
October 2016	901	958
April 2017	1,325	958
December 2017	552	-
	3,461	2,686

4. MARKETABLE SECURITIES

Marketable securities consist of the following:

As at	June 30, 2016 $000	December 31, 2015 $000
Equity securities	76	378
	76	378

5. INVESTMENTS

Investments consist of the following by investment type:

As at	June 30, 2016 $000	December 31, 2015 $000
Equity securities	45,519	54,374
Convertible debentures	10,926	12,203
Debentures, loans and promissory notes	872	150
Partnership interests	1,637	2,000
Real estate	11,614	7,557
Warrants	255	284
	70,823	**76,568**

See Schedule of Investments on pages 6 and 7 for further details.

6. INVESTMENTS IN ASSOCIATES AND SUBSIDIARIES

Information about the Company's interests in unconsolidated associates and subsidiaries are as follows:

Name	Relationship	Principal Place of Business	Ownership interest and Voting Rights %	
			June 30, 2016	December 31, 2015
Difference RM Holding Corp.	Subsidiary	United States	100%	100%
Fem Med Formulas Limited	Subsidiary	Canada	70%	14%
Gotham Analytics, LLC	Associate	United States	40%	40%
WG Limited	Associate	Canada	38%	38%

Difference RM Holding Corp. owns 100% of Difference RM Holding USA Inc., which in turn owns 52% of Difference RM Properties LLC ("DRM Properties"). DRM Properties owns a 40% tenants-in-common interest in a 635 acre parcel of undeveloped land in the City of Rancho Mirage, California, immediately to the southeast of Palm Springs.

Difference Capital owns 38% of WG Limited, which in turn owns 100% of Intertaintech Corporation, which owns approximately 20% of 2480625 Limited Partnership (the "LP"), with Cineplex Inc. holding approximately 80% of the LP.

Difference Capital owns 70% of Fem Med Formulas Limited, which was acquired through the exchange of debt in Fem Med Formulas Limited Partnership.

The Company has no current commitments or intentions to provide financial or other support, including commitments or intentions to assist the subsidiaries in obtaining financial support, to the associates and subsidiaries listed above.

7. CONVERTIBLE DEBENTURES

The changes in the liability component of the Debentures during the period ended June 30, 2016 were as follows:

	$000
Liability component, January 1, 2015	46,616
Accretion of discount	1,097
Normal course issuer bid repurchases	(4,251)
Substantial issuer bid repurchase	(11,030)
Liability component, December 31, 2015	32,432
Accretion of discount	450
Normal course issuer bid repurchases	(2,669)
Liability component, June 30, 2016	**30,213**

The changes in the principal amount of the Debentures outstanding during the period ended June 30, 2016 were as follows:

	$000
Principal amount, January 1, 2015	51,831
Normal course issuer bid repurchases	(4,686)
Substantial issuer bid repurchase	(11,999)
Principal amount, December 31, 2015	35,146
Normal course issuer bid repurchases	(2,857)
Principal amount, June 30, 2016	**32,289**

On December 11, 2015, the Company received approval from the TSX to renew its normal course issuer bid (“2016 Debenture NCIB”) to repurchase its Debentures. Pursuant to the policies of the TSX, the Company is authorized to acquire up to $3.3 million principal amount of its Debentures, representing 10% of the public float of the outstanding Debentures. The 2016 Debenture NCIB will expire on December 14, 2016.

During the six months ended June 30, 2016, the Company repurchased $2.9 million principal amount of the Debentures [June 30, 2015 - $4.2 million], for an aggregate consideration of $2.6 million [June 30, 2015 - $3.4 million]. Out of the amount paid, $2.4 million [June 30, 2015 - $3.8 million] was recorded as a reduction to the liability component of the Debentures, $0.2 million [June 30, 2015 - $0.3 million] was recorded as a reduction to the Equity Component of the Debentures, $0.2 million [June 30, 2015 - $0.4 million] was recorded as a gain on repurchase of convertible debentures in Net Income, and $0.1 million [June 30, 2015 - $0.3 million] was recorded as an increase in Contributed Surplus.

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8. SHARE CAPITAL

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 common shares are listed for trading on the TSX. No preference shares have been issued.

A summary of the changes to the Company's share capital is as follows:

	Number of Shares	Stated Value $000
Common shares, January 1, 2015	39,197,734	176,555
Normal course issuer bid repurchases	(2,256,800)	(10,431)
Substantial issuer bid repurchase	(6,578,950)	(30,409)
Common shares, December 31, 2015 and June 30, 2016	**29,361,984**	**135,715**

During the six months ended June 30, 2015, 2.3 million common shares were repurchased under the normal course issuer bid at an average cost of $0.99 per common share for total consideration of $2.2 million. Contributed Surplus was increased by $8.2 million for the cost of the common shares repurchased below their stated value.

9. STOCK OPTION PLAN

Under the Stock Option Plan, the number of common shares that may be issued as a result of the grant of options shall not exceed 10% of the number of the then-issued an outstanding common shares of the Company at the time of grant. As at June 30, 2016, 10% of the issued and outstanding common shares was 2,936,198 common shares.

On March 14, 2016, the Company granted 2,025,000 options [March 31, 2015 – nil] to its directors, officers and employees. Each option is exercisable for a ten-year period, expiring March 13, 2026, to acquire one common share at a price of $1.34 per share. One-third of the options vested immediately; one third of the options shall vest on the first anniversary of the grant date; and one third of the options shall vest on the second anniversary of the grant date.

As at June 30, 2016, an additional 911,198 common shares [December 31, 2015 – 2,936,198] could have been granted under the Company's Stock Option Plan.

The fair value of options granted on March 14, 2016 was estimated at $0.45 per option [2015 – nil] using the Black-Scholes option-pricing model. The following inputs were used:

Year of grant	2016
Risk-free interest rate	0.75%
Expected dividend yield	0%
Expected share price volatility	45%
Expected option life (years)	5
Expected forfeiture rate	6%

Due to the short time the Company has been in existence, expected share price volatility was based on a weighted average historical share price volatility of the Company as well as a selection of peers. The weighted average expected life of the options was based on expectations of future employee behaviour. The Company estimated a 6% annual forfeiture rate based on expectation of future forfeitures. The Company will adjust the impact of the revision of original forfeiture estimates, if any, in the income statement, with a corresponding adjustment to equity.

9. STOCK OPTION PLAN (continued)

The following is a summary of the stock option activity under the Company's Stock Option Plan as at June 30, 2016:

	Number of options	Exercise price
Options outstanding, December 31, 2015	-	-
Options granted	2,025,000	$1.34
Options outstanding, June 30, 2016	2,025,000	$1.34
Options exercisable, June 30, 2016	675,000	$1.34

The equity-based compensation expense under the share option plan for the six-month period ended June 30, 2016 of $0.4 million [June 30, 2015 – nil] has been included in employee compensation and benefits.

Options outstanding and exercisable as at June 30, 2016 are as follows:

Expiry date	Exercise Price	Options Outstanding	Options Exercisable
2026	$1.34	2,025,000	675,000

10. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following tables present the carrying amounts of the Company's financial assets and financial liabilities by category:

As at June 30, 2016	Held for Trading $000	FVTPL Designated at inception $000	Total $000	Amortized Cost $000	Total $000
Assets					
Marketable securities	76	-	76	-	76
Investments	-	70,823	70,823	-	70,823
Cash and cash equivalents	-	-	-	15,846	15,846
Distribution receivables				3,461	3,461
Prepaid expenses, deposits and other receivables	-	-	-	169	169
Interest receivable	-	-	-	186	186
Total Financial Assets	**76**	**70,823**	**70,899**	**19,662**	**90,561**
Liabilities					
Accounts payable and accrued liabilities	-	-	-	520	520
Accrued interest on convertible debentures	-	-	-	1,055	1,055
Convertible debentures	-	-	-	30,213	30,213
Total Financial Liabilities	-	-	-	**31,788**	**31,788**

10. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

As at December 31, 2015	Held for Trading $000	FVTPL Designated at inception $000	Total $000	Amortized Cost $000	Total $000
Assets					
Marketable securities	378	-	378	-	378
Investments	-	76,568	76,568	-	76,568
Cash and cash equivalents	-	-	-	13,051	13,051
Distribution receivables				2,686	2,686
Prepaid expenses, deposits and other receivables	-	-	-	98	98
Interest receivable	-	-	-	285	285
Total Financial Assets	**378**	**76,568**	**76,946**	**16,120**	**93,066**
Liabilities					
Accounts payable and accrued liabilities	-	-	-	517	517
Accrued annual incentive plan	-	-	-	90	90
Accrued interest on convertible debentures	-	-	-	1,151	1,151
Convertible debentures	-	-	-	32,432	32,432
Total Financial Liabilities	-	-	-	**34,190**	**34,190**

For the three months ended June 30, 2016, the total of the change in unrealized gain (loss) and realized gain (loss) from disposal of financial assets classified as Held for Trading was $(0.1) million [June 30, 2015 – $0.1 million], and the total of the change in unrealized gain (loss) and realized gain (loss) from disposal of financial assets classified as Fair Value Through Profit and Loss was $5.0 million [June 30, 2015 – $(1.7) million].

For the six months ended June 30, 2016, the total of the change in unrealized gain (loss) and realized gain (loss) from disposal of financial assets classified as Held for Trading was $0.0 million [June 30, 2015 – $0.5 million], and the total of the change in unrealized gain (loss) and realized gain (loss) from disposal of financial assets classified as Fair Value Through Profit and Loss was $2.8 million [June 30, 2015 – $3.7 million].

11. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Company's business activities expose it to a variety of financial risks: market risk (which includes interest rate risk, currency risk, and price risk), credit risk; and liquidity risk. The following is a description of these risks and how they are managed:

a) Market risk

Market risk is defined for these purposes as the risk that the fair value or future cash flows of a financial instrument held by the Company will fluctuate because of changes in market prices. Market risk includes the risk of changes in interest rates, currency exchange rates and changes in market prices due to factors other than interest rates or currency exchange rates, such as changes in equity prices, commodity prices or credit spreads.

11. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

Interest rate risk

The observable impacts on the fair values and future cash flows of financial instruments that can be directly attributable to interest rate risk include changes in net income from financial instruments whose cash flows are determined with reference to floating interest rates and changes in value of financial instruments whose cash flows are fixed in nature.

As at June 30, 2016, the Company holds the following fixed-rate debt instruments: (a) $11.1 million [December 31, 2015 - $12.5 million] in convertible debentures with a weighted average interest rate of 10.11% [December 31, 2015 – 10.75%] and a weighted average term to maturity of approximately 0.9 years [December 31, 2015 – 1.1 years]; and (b) $0.9 million [December 31, 2015 – $0.2 million] in non-convertible debentures with a weighted average interest rate of 30.3% [December 31, 2015 – 4.85%] and a weighted average term to maturity of less than a month [December 31, 2015 – 1.0 year]. Should market interest rates rise, then the fair value of these convertible and non-convertible debentures may decrease. Conversely, should market interest rates fall, the fair value of these assets may increase. The effect of changes in interest rates on the fair value of these debt instruments is partially muted by the nature of the investments. Convertible debentures placed in early stage investees are typically less sensitive to changes in market interest rates than non-convertible debt instruments placed in more mature investees. Additionally, the economic exposure to interest rate risk is mitigated by the Company's intention to either convert the debentures into the related underlying equities or, in the case of non-convertible debentures, to hold the instrument until maturity.

As at June 30, 2016, if interest rates were higher by 1% per annum, the potential effect to the Company would be a decrease in net income of approximately $0.1 million [December 31, 2015 – $0.1 million]. If interest rates were lower by 1% per annum, the potential effect would be an increase in net income of approximately $0.1 million [December 31, 2015 – $0.1 million].

Currency risk

Changes in currency rates will impact the carrying value of financial instruments denominated in currencies other than the Canadian dollar. As at June 30, 2016, the Company is primarily exposed to foreign exchange risk through its US dollar denominated investments of $21.9 million [December 31, 2015 - $21.3 million], which represent approximately 24.2% [December 31, 2015 – 22.7%] of total assets. The Company does not currently hedge its foreign currency exposure. If the Canadian dollar strengthened or weakened by 5% in relation to the foreign currencies, the investments would decrease or increase in value by approximately $1.1 million, respectively [December 31, 2015 – $1.1 million].

Price risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. The Company's marketable securities and investments are susceptible to price risk arising from uncertainties about their future values. If the fair value of these financial assets were to increase or decrease by 10%, the Company would incur an associated increase or decrease in net gain (loss) of approximately $7.1 million [December 31, 2015 – $7.7 million]. Refer to the Schedule of Investments and Notes 4 and 5 for additional details regarding the fair value of marketable securities and investments, respectively.

11. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

b) Credit risk

Credit risk is the risk of loss due to the failure of a borrower or counterparty to fulfill its contractual obligations. The Company's exposure to credit risk principally arises from the risk of non-payment of its debt investments or the interest due on debts provided to portfolio companies and its cash deposits held with a financial institution.

The table below analyzes the Company's maximum exposure to credit risk at the reporting date:

	June 30, 2016 $000	December 31, 2015 $000
Cash and cash equivalents	15,846	13,051
Distribution receivables	3,461	2,686
Convertible debentures	10,926	12,203
Debentures, loans and promissory notes	872	150
Accrued interest	186	285
Other receivables	169	98
	31,460	**28,473**

Cash deposits are held through a large Canadian bank with a credit rating of AA.

The Company's debt securities are primarily invested in private growth companies in technology-related industries. Given the nature of lending to these types of businesses, no collateral is generally held in respect of these loans. In the event of a default on the Company's debt investments, the Company will bear a risk of loss of principal and accrued interest of the investment. The credit quality of these debts is based on the financial performance of the underlying businesses. A change in credit quality is reflected in the fair value of the debt instrument.

As at June 30, 2016, there were $0.7 million of debts overdue [December 31, 2015 – nil]. For the six months period ended June 30, 2016, no unrealized losses [June 30, 2015 – nil] were attributable to changes in credit risk of the debt instruments.

As at June 30, 2016, $0.3 million of interest receivable was past due [December 31, 2015 – $0.3 million]. During the period ended June 30, 2016, a nominal allowance for impairment in respect of accrued interest [June 30, 2015 – $0.5 million] was taken.

c) Liquidity risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund an obligation as it comes due. The Company aims to invest principally in private companies with a medium to long-term investment horizon. These investments are inherently illiquid. Capital invested and potential capital gains are only realized when the investment is partially or fully sold, either through an M&A or IPO transaction, which can take years to materialize. For the majority of its investments, the Company has little to no control over the timing and management of the ultimate liquidity events.

The Company's management is responsible for reviewing liquidity resources to ensure funds are readily available to meet its financial obligations as they come due, as well as ensuring adequate funds exist to support business strategies and operations growth. As at June 30, 2016, the Company's liquidity risk is limited to exposure to accounts payable and accrued liabilities and accrued interest on convertible debentures, which are due within 12 months of June 30, 2016.

11. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

b) Liquidity risk (continued)

The following are the contractual maturities of financial liabilities including estimated interest payments:

As at June 30, 2016	Less than one year $000	One to three years $000	Over three years $000	Total $000
Financial Liabilities				
Accounts payable and accrued liabilities	520	-	-	**520**
Accrued interest on convertible debentures	2,583	3,875	-	**6,458**
Convertible debentures	-	32,289	-	**32,289**
Total Financial Liabilities	**3,103**	**36,164**	**-**	**39,267**

As at December 31, 2015	Less than one year $000	One to three years $000	Over three years $000	Total $000
Financial Liabilities				
Accounts payable and accrued liabilities	517	-	-	**517**
Accrued annual incentive plan	90	-	-	**90**
Accrued interest on convertible debentures	2,812	5,623	-	**8,435**
Convertible debentures	-	35,146	-	**35,146**
Total Financial Liabilities	**3,419**	**40,769**	**-**	**44,188**

Risk management

The Company manages risks on corporate investments through its approach to planning, setting of investment criteria, performance of due diligence on investment opportunities and oversight responsibilities with existing investee companies and by conducting activities in accordance with investment policies that are approved by the Board of Directors. The Company seeks to mitigate company specific business risk by investing, where possible, in the highest ranking securities in the capital structure, so as to rank ahead of the common shares of the issuer. The Company seeks to mitigate credit risk by investing, where possible, in senior debt securities; and/or, by limiting the amount of debt that may rank ahead of, or pari passu to, the securities being purchased. The Company seeks to mitigate interest rate risk by investing in relatively short duration convertible debentures and conventional debt – typically no longer than three years in term. The Company considers exposure to foreign currency assets as a hedge against the possible decrease in the value of the Canadian dollar.

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12. FAIR VALUE MEASUREMENT

The following tables summarize the valuation of the Company's financial assets and liabilities reported at fair value by the fair value hierarchy levels described in Note 2, Summary of Significant Accounting Policies:

As at June 30, 2016	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Equities	616	-	44,979	45,595
Convertible debentures	-	-	10,926	10,926
Debentures, loans and promissory notes	-	-	872	872
Partnership interest	-	-	1,637	1,637
Real estate	-	-	11,614	11,614
Warrants	-	224	31	255
Total Financial Assets	**616**	**224**	**70,059**	**70,899**

As at December 31, 2015	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Equities	1,194	245	53,313	54,752
Convertible debentures	-	-	12,203	12,203
Debentures, loans and promissory notes	-	-	150	150
Partnership interest	-	-	2,000	2,000
Real estate	-	-	7,557	7,557
Warrants	-	169	115	284
Total Financial Assets	**1,194**	**414**	**75,338**	**76,946**

Transfers between levels of the fair value hierarchy are deemed to have occurred at the date of the event or change in circumstance that caused the transfer. During the period ended June 30, 2016, there were no transfers from Level 1 to Level 2 or vice versa or level 2 to 3 [June 30, 2015 - nil] and there were no transfers from Level 3 to Level 2 [June 30, 2016 – $2 million].

The following table presents the changes in fair value measurements of investments classified as Level 3:

	Three months ended June 30, 2016 $000	Six months ended June 30, 2016 $000	Year ended December 31, 2015 $000
Opening balance, beginning of period	74,376	75,338	92,766
Purchases	26	1,001	7,283
Sales	(9,562)	(9,825)	(36,743)
Realized gain (loss)	(8,658)	(10,899)	(22,009)
Transfers	-	-	(1,746)
Change in unrealized gain (loss)	13,877	14,444	35,787
Balance, end of period	**70,059**	**70,059**	**75,338**
Total change in unrealized gain (loss) on assets held as at end of period	5,219	3,545	13,778

June 30, 2016 (unaudited - in Canadian dollars)

12. FAIR VALUE MEASUREMENT (continued)

The table below presents the valuation techniques and the nature of significant inputs used to determine the fair values of the Level 3 investments as at June 30, 2016:

INVESTMENT TYPE	FAIR VALUE	VALUATION TECHNIQUES	UNOBSERVABLE INPUTS	RANGE	WEIGHTED AVERAGE [5]	REASONABLE POSSIBLE SHIFT +/- IN OBSERVABLE INPUTS [6]	IMPACT TO VALUATION FROM CHANGES IN INPUTS +/- [6]
FINANCIAL TECHNOLOGIES							
Equity securities	3,319	Transaction price	Purchase price [1]	N/A	N/A	N/A	N/A
			Discount [3]	20%	20%	5.0%	208/(208)
Warrants	26	Transaction price	Purchase price	N/A	N/A	N/A	N/A
Debt	680	Transaction price	Purchase price	N/A	N/A	N/A	N/A
Equity securities	3,484	Transaction price	Third party transactions [2]	N/A	N/A	N/A	N/A
HEALTHCARE							
Equity securities	4,607	Transaction price	Purchase price	N/A	N/A	N/A	N/A
INTERNET							
Equity securities	16,289	Transaction price	Third party transactions	N/A	N/A	N/A	N/A
			Discount [3]	0%-31%	18.1%	5.0%	689/(689)
Equity securities	2,225	Market comparable companies	Revenue multiple [4]	6.6x	6.6x	0.5x	149/(149)
MEDIA/MEDIA TECHNOLOGIES							
Equity securities	6,000	Transaction price	Purchase price	N/A	N/A	N/A	N/A
Equity securities	5,745	Transaction price	Third party transactions	N/A	N/A	N/A	N/A
Equity securities	-	Liquidation analysis	N/A	N/A	N/A	N/A	N/A
Convertible debentures	1,000	Liquidation analysis	N/A	N/A	N/A	N/A	N/A
TECHNOLOGIES							
Equity securities	3,314	Transaction price	Third party transactions	N/A	N/A	N/A	N/A
			Discount	0%-20%	16.5%	0.5%	9/(9)
Equity securities	-	Liquidation analysis	N/A	N/A	N/A	N/A	N/A
Convertible debentures	3,625	Transaction price	Purchase price	N/A	N/A	N/A	N/A
Convertible debentures	5,026	Transaction price	Third party transactions	N/A	N/A	N/A	N/A
Convertible debentures	1,275	Liquidation analysis	Estimated net realizable value	N/A	N/A	N/A	N/A
OTHER							
Real estate	11,614	Appraisal value	Previous sales comparables	10%-20%	19%	5.0%	511/(469)
Equity securities	-	Other	Estimated net realizable value	N/A	N/A	N/A	N/A
Limited partnership units	1,638	Net asset value analysis	Net asset value per unit	N/A	N/A	N/A	N/A
Debt securities	192	Liquidation analysis	Estimated net realizable value	N/A	N/A	N/A	N/A

[1] Represents investments valued at cost which is representative of fair value at the measurement date

[2] Represents investments valued based on recent completed third party transactions including external funding round, secondary market trades or merger/acquisition events near the measurement date

[3] Represents amount used when the Company has determined market participants would take into account these discounts when valuing the investments

[4] Represents investments valued using revenue or earnings multiples depending on the stage of development of the business. The revenue or earnings multiples are derived from the market capitalization of peer group

[5] Unobservable inputs were weighted based on the fair value of the investments included in the range

[6] The impact to valuation from changes in inputs disclosed in the above table shows the relative increase or decrease in the input variables deemed to be subjected to the most judgement and estimate and the respective impact on the fair value of the investments. Changes in market comparable multiples, market yields, discount rates, each in isolation, would change the value of the Company's investments. Generally, an increase (decrease) in market yields or discount rates or decrease (increase) in market comparable multiples would result in a higher (lower) fair value of the Company's investments.

13. RELATED PARTY TRANSACTIONS

Prior to June 1, 2015, the Company had a management agreement (the "Management Agreement") with Difference Capital Management Inc. ("DCM"). Effective June 1, 2015, the Management Agreement with Difference Capital Management Inc. ("DCM") was terminated in connection with the internalization acquisition (the "Internalization Acquisition") of Difference Capital Inc. ("DCI") and all DCM and DCI employees became employees of the Company.

For the six months period ended June 30, 2015, management fees of $0.9 million and no performance fees were accrued.

Under the terms of the Management Agreement prior to the Internalization Acquisition, the Company was also entitled to receive 40% of all advisory and equity capital market revenues generated by DCM, and the Company was required to reimburse DCM for certain operating expenses. For the six months period ended June 30, 2015, the Company accrued revenue of $0.1 million from such advisory fees. The Company reimbursed DCM $0.1 million [June 30, 2015 - nil] for occupancy cost during the six months period ended June 30, 2016.

14. CAPITAL MANAGEMENT

The Company's objectives in managing capital are to maintain a capital structure that allows the Company to meet its growth objectives and build long-term shareholder value, while satisfying its financial obligations and meeting its working capital needs.

The Company's capital is comprised of shareholders' equity and long-term debt. The Company's management is responsible for the management of capital. The Company's Board of Directors is responsible for reviewing and approving the Company's capital policy and management.

The Company continued to prudently manage its liquidity and capital and, where desirable, de-lever its statement of financial position.

The Company does not have any externally imposed capital requirements and management believes that it has sufficient working capital for ongoing operations.

The Company's capital consists of the following:

As at	June 30, 2016 $000	December 31, 2015 $000
Shareholders' equity	58,773	58,876
Convertible debentures	30,213	32,432
Total capital	**88,986**	**91,308**

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15. BASIC AND DILUTED INCOME (LOSS) PER SHARE

The following table presents the calculation of basic and fully diluted income (loss) per common share for the three and six months ended June 30:

$000 except for common shares and per share amounts	Three months ended June 30, 2016 $000	Three months ended June 30, 2015 $000	Six months ended June 30, 2016 $000	Six months ended June 30, 2015 $000
Basic income (loss) per share				
Net income (loss)	**3,624**	(5,231)	**(379)**	(1,735)
Weighted average common shares	**29,361,984**	36,119,610	**29,361,984**	36,577,295
Basic income (loss) per share	**$0.12**	$(0.14)	**$(0.01)**	$(0.05)
Fully diluted income (loss) per share				
Net income (loss)	**3,624**	(5,231)	**(379)**	(1,735)
Weighted average common shares after taking into effect dilutive convertible debentures and stock options	**29,361,984**	36,119,610	**29,361,984**	36,577,295
Fully diluted income (loss) per share	**$0.12**	$(0.14)	**$(0.01)**	$(0.05)

In calculating fully diluted gain (loss) per common share for the periods ended June 30, 2016 and 2015, the Company excluded 5,615,478 [2015 – 8,277,913] common shares from the conversion of the convertible debentures and 2,025,000 [2015 – nil] common shares related to outstanding stock options as their impact was anti-dilutive.

16. COMPENSATION OF KEY MANAGEMENT

The remuneration of directors and other key management personnel of the Company for the periods ended June 30 was as follows:

As at	Three months ended June 30, 2016 $000	Three months ended June 30, 2015 $000	Six months ended June 30, 2016 $000	Six months ended June 30, 2015 $000
Salaries	311	96	622	152
Stock options	93	-	359	-
Total Compensation	**404**	**96**	**981**	152

In addition to their annual salary, key management personnel are entitled to an annual incentive cash bonus pool equivalent to 20% of the increase in investable assets over a hurdle rate of 3.0% per annum, with a perpetual high watermark beginning with investable assets as at December 31, 2014. Investable assets are determined by subtracting the aggregate fair value of the liabilities of the Company (excluding any convertible debentures or debenture issued by the Company) from the aggregate fair value of the assets of the Company on the date on which the calculation is being made. For the purposes of the annual incentive cash bonus calculation, investable assets exclude any equity and debt capital raised or repurchased by the Company during the period in which the calculation is being made. Individual bonus pool allocations to management and employees are subject to Board approval. As at June 30, 2016, no accrual for the 2016 annual incentive bonus pool was made [December 31, 2015 - $0.1 million].