



Interim Condensed Financial Statements

Unaudited (prepared in Canadian dollars)

For the quarter ended March 31, 2017

Notice to Shareholders:

The Company's independent auditor has not performed a review of these unaudited interim condensed financial statements for the period ended March 31, 2017.

STATEMENTS OF FINANCIAL POSITION (unaudited)

As at	March 31,	December 31,
Amounts in thousands of Canadian dollars (except per share amounts)	2017	2016
ASSETS		
Current		
Cash and cash equivalents	\$ 9,708	\$ 10,848
Distribution receivables [note 3]	2,545	2,898
Marketable securities [note 4]	735	735
Prepaid expenses, deposits and other receivables	224	170
Interest receivable	193	164
Total current assets	13,405	14,815
Investments [note 5]	60,950	60,834
Total assets	\$ 74,355	\$ 75,649
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 154	\$ 379
Accrued interest on convertible debentures	385	983
Total current liabilities	539	1,362
Convertible debentures [note 7]	28,280	28,059
Total liabilities	28,819	29,421
SHAREHOLDERS' EQUITY		
Share capital [note 8]	135,397	135,397
Equity component of convertible debentures [note 7]	2,180	2,180
Contributed surplus	78,236	78,143
Deficit	(170,277)	(169,492)
Total shareholders' equity	45,536	46,228
Total liabilities and shareholders' equity	\$ 74,355	\$ 75,649
Net Asset Value per share		
Basic and diluted	\$ 7.77	\$ 7.89

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

On behalf of the Board of Directors:

"John Albright"
Director

"Henry Kneis"
Director

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

For the three months ended March 31	2017	2016
Amounts in thousands of Canadian dollars (except for common shares and per share amounts)		
NET REALIZED AND UNREALIZED GAIN (LOSS)		
Net realized gain (loss) on disposal of investments and marketable securities	\$ 260	\$ (2,445)
Net change in unrealized gain on investments and marketable securities	172	310
	432	(2,135)
OTHER INCOME		
Interest, dividends and other income	316	336
	316	336
EXPENSES		
Employee compensation and benefits <i>[note 15]</i>	421	850
Professional fees	161	186
General and administrative	123	185
Harmonized sales tax	20	32
Financing costs	806	949
Transaction costs	2	2
Total expenses	1,533	2,204
Net loss and comprehensive loss	\$ (785)	\$ (4,003)
Weighted average number of common shares outstanding <i>[note 14]</i>		
Basic and diluted	5,858,637	5,872,397
Income (loss) per share <i>[note 14]</i>		
Basic and diluted	\$(0.13)	\$(0.70)

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

STATEMENTS OF CHANGES IN EQUITY (unaudited)

For the three months ended March 31	2017	2016
Amounts in thousands of Canadian dollars		
Share capital		
Balance, beginning of the period	\$ 135,397	\$ 135,715
Balance, March 31	135,397	135,715
Equity component of convertible debentures		
Balance, beginning of the period	2,180	2,593
Balance, March 31	2,180	2,593
Contributed surplus		
Balance, beginning of the period	78,143	77,126
Stock option expense <i>[note 9]</i>	93	308
Balance, March 31	78,236	77,434
Deficit		
Balance, beginning of the period	(169,492)	(156,558)
Net income (loss) and comprehensive income (loss)	(785)	(4,003)
Balance, March 31	(170,277)	(160,561)
Net change in equity during the period	(692)	(3,695)
Equity, beginning of the period	46,228	58,876
Balance, March 31	\$ 45,536	\$ 55,181

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

STATEMENTS OF CASH FLOWS (unaudited)

For the three months ended March 31	2017	2016
Amounts in thousands of Canadian dollars		
OPERATING ACTIVITIES		
Net loss for the period	\$ (785)	(4,003)
Items not affecting cash:		
Net realized (gain) loss on disposal of investments and marketable securities	(260)	2,445
Net change in unrealized (gain) on investments and marketable securities	(172)	(310)
Amortization of financing costs on convertible debentures	221	230
Equity-based compensation	93	308
Net change in non-cash working capital balances	(553)	(668)
Purchase of marketable securities	(118)	—
Proceeds from disposal of marketable securities	457	289
Purchase of investments	—	(896)
Proceeds from disposal and maturity of investments	—	150
Cash used in operating activities	(1,117)	(2,455)
Effect of exchange rate changes on cash and cash equivalents	(23)	(213)
Net increase (decrease) in cash during the period	(1,140)	(2,668)
Cash and cash equivalents, beginning of the period	10,848	13,051
Cash and cash equivalents, end of the period	\$ 9,708	\$ 10,383
Interest received	\$ 225	\$ 154
Dividends received	40	40
Interest paid	1,182	1,406

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

SCHEDULE OF INVESTMENTS (unaudited)

			March 31, 2017	
			AVERAGE	
			COST	FAIR VALUE
Amounts in thousands of Canadian dollars			\$	\$
INVESTMENT TYPE	COUNTRY			
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	2,116	
			7,959	7,200
HEALTHCARE				
BrainScope Company Inc.	equity securities	United States	1,821	
Cardiac Dimensions Pty. Ltd.	equity securities	United States	2,183	
			4,004	4,984
INTERNET				
BuildDirect.com Technologies Inc.	equity securities and warrants	Canada	7,000	
BuildDirect.com Technologies Inc.	convertible promissory notes	Canada	1,508	
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	
			20,194	11,201
MEDIA and 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	11,445
TECHNOLOGIES				
Vena Solutions	equity securities and warrants	Canada	1,030	
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	3,000	
WG Limited	equity securities and warrants	Canada	3,839	
ViXS Systems Inc.	convertible debentures	Canada	340	
Other	equity securities	Canada & U.S.	1,005	
			16,631	13,519
OTHER				
Difference RM Holdings Corp.	equity securities	United States	6,320	
Waterloo Innovation Network LP	limited partnership units	Canada	2,000	
Other	convertible debentures and equity securities	Canada	768	
			9,088	12,601
TOTAL INVESTMENTS			73,238	60,950

There were no significant purchases, sales and changes in valuation of investments for the three months ended March 31, 2017.

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2017 (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 healthcare 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, 2016.

These unaudited interim condensed financial statements should be read in conjunction with Difference Capital’s 2016 annual audited financial statements.

These financial statements were authorized for issuance by the Board of Directors of Difference Capital on May 11, 2017. 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: the determination of the fair value of privately held investments, which include debt and equity securities.

Fair value of privately held investments

Estimating fair value requires that judgment be applied to the specific facts and circumstances of each investment. Actual results could differ from these estimates. Refer to Note 12, Fair Value Measurement, for specific disclosure on fair value estimation of privately held investments.

Equity based compensation

The compensation expense for awards of stock options is estimated using the 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.

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2017 (unaudited in Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 currently reviewing the standard and assessing the areas of impact.

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 new standard is not expected to have a significant impact on the Company's financial statements.

3. DISTRIBUTION RECEIVABLES

Distribution receivables as at March 31, 2017 of \$2.5 million (December 31, 2016 - \$2.9 million) included the following:

- \$0.9 million from the sale of Infraredx Inc. held in escrow to cover potential indemnification claims, which was received during the second quarter of 2017 (December 31, 2016 - \$0.9 million);
- \$0.4 million from the sale of BTI Systems Inc. held in escrow to cover potential indemnification claims, which is anticipated to be released in the second quarter of 2017 (December 31, 2016 - \$0.5 million);
- \$0.5 million from the sale of Quickplay Media Inc. held in escrow to cover potential indemnification claims, which is anticipated to be released in the fourth quarter of 2017 (December 31, 2016 - \$0.5 million) and;
- \$0.7 million from the sale of the operational assets of WG Limited ("World Gaming") held in escrow to cover potential indemnification claims (December 31, 2016 - \$0.7 million). The Company is currently in negotiation with the buyer to have the escrow released and it is the opinion of the Company that there is no impairment to the expected distribution of the escrow.

4. MARKETABLE SECURITIES

Marketable securities consist of the following:

As at	March 31, 2017 \$000	December 31, 2016 \$000
Equity securities	735	735
	735	735

DIFFERENCE CAPITAL FINANCIAL INC.

NOTES TO THE FINANCIAL STATEMENTS
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5. INVESTMENTS

Investments consist of the following by investment type:

As at	March 31, 2017 \$000	December 31, 2016 \$000
Equity securities	35,285	35,064
Convertible debentures	12,358	12,370
Debentures, loans and promissory notes	730	730
Partnership interests	1,320	1,320
Real estate	11,231	11,320
Warrants	26	30
	60,950	60,834

See Schedule of Investments on page 6 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 %	
			March 31, 2017	December 31, 2016
Difference RM Holding Corp.	Subsidiary	United States	100%	100%
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.

The Company pays legal, professional, and other fees and expenses on behalf of DRM Properties and recovers these amounts from DRM Properties through capital calls throughout the year. During the period ended March 31, 2017, the Company paid \$0.2 million [December 31, 2016 - \$0.5 million] in expenses on behalf of DRM Properties and received \$0.2 million [December 31, 2016 - \$0.4 million] through capital calls. A receivable from DRM Properties of \$0.1 million is outstanding as at quarter end [December 31, 2016 - \$0.1 million]. No provisions or expense for doubtful receivables were recognized related to the amounts owing from DRM Properties as at and for the periods ended March 31, 2017 and December 31, 2016.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

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7. CONVERTIBLE DEBENTURES

The changes in the liability component of the Debentures during the period ended March 31, 2017 were as follows:

	\$000
Liability component, January 1, 2016	32,432
Accretion of discount	888
Normal course issuer bid repurchased and cancelled	(5,261)
Liability component, December 31, 2016	28,059
Accretion of discount	221
Liability component, March 31, 2017	28,280

The changes in the principal amount of the Debentures outstanding during the period ended March 31, 2017 were as follows:

	\$000
Principal amount, January 1, 2016	35,146
Normal course issuer bid repurchased and cancelled	(5,585)
Principal amount, December 31, 2016 and March 31, 2017	29,561

On December 13, 2016, the Company received approval from the TSX to renew its Normal Course Issuer Bid ("2017 Debentures NCIB") to repurchase its Debentures. The Company also received approval from the TSX for an automatic purchase plan, which allowed for purchases by the Company of its Debentures during Company-imposed black-out periods, and, subject to pre-determined pricing and volume restrictions imposed by the Company, to the rules and policies of the TSX and to specific terms of the 2017 Debentures NCIB. Outside of these pre-determined black-out periods, Debentures were purchased in accordance with management's discretion. Pursuant to the policies of the TSX, the Company is authorized to acquire up to \$3.2 million principal amount of its Debentures, representing 10% of the public float of the outstanding Debentures. The 2017 Debentures NCIB will expire on December 14, 2017.

During the three months ended March 31, 2017 and 2016, the Company did not repurchase any Debentures.

8. SHARE CAPITAL

The Company has two authorized classes of shares: an unlimited number of common shares without par value and an unlimited number of preference shares without par value, 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 ⁽¹⁾	Stated Value \$000
Common shares, January 1, 2016	5,872,397	135,715
Normal course issuer bid repurchased and cancelled	(13,760)	(318)
Common shares, December 31, 2016 and March 31, 2017	5,858,637	135,397

(1) On November 30, 2016, shareholders of the Company approved the consolidation of its common shares (the "Common Shares") on the basis of one post consolidation common share for every five pre-consolidation common shares outstanding (the "Consolidation"). The table above is shown after giving effect to the Consolidation.

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2017 (unaudited in Canadian dollars)

8. SHARE CAPITAL (continued)

On September 13, 2016, the Company received approval from the TSX to renew its normal course issuer bid ("2016 Common Shares NCIB") to repurchase its common shares. The Company also received approval from the TSX for an automatic purchase plan, which allowed for purchases by the Company of its common shares during Company-imposed black-out periods, and, subject to pre-determined pricing and volume restrictions imposed by the Company, to the rules and policies of the TSX and to specific terms of the 2016 Common Shares NCIB. Outside of these pre-determined black-out periods, shares were purchased in accordance with management's discretion. Pursuant to the policies of the TSX, the Company is authorized to repurchase up to 1.6 million of its pre-Consolidation [0.3 million post-Consolidation] common shares, representing 10% of the public float of the outstanding common shares. The 2016 Common Shares NCIB will expire on September 14, 2017.

During the three months ended March 31, 2017 and 2016, the Company did not repurchase any common shares.

9. STOCK OPTION PLAN

All amounts in this note have been adjusted for the Consolidation. See Note 8 for specific disclosures on the Consolidation.

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 and outstanding common shares of the Company at the time of grant. As at March 31, 2017, 10% of the issued and outstanding common shares was 585,864 common shares.

During the quarter ended March 31, 2017, the Company did not grant any options [March 31, 2016 – 405,000] 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 \$6.70 per share. One-third of the options vested immediately; one-third of the options vested 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 March 31, 2017, an additional 181,298 common shares [December 31, 2016 – 587,240] could have been granted under the Company's Stock Option Plan.

The fair value of options granted on March 14, 2016 was estimated at \$2.25 per option 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 statements of income (loss) and comprehensive income (loss), with a corresponding adjustment to equity.

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2017 (unaudited in Canadian dollars)

9. STOCK OPTION PLAN (continued)

The following is a summary of the stock option activity under the Company's Stock Option Plan as at March 31, 2017 and 2016:

	Number of options	Exercise price
Options outstanding, December 31, 2016	405,000	\$6.70
Options outstanding, March 31, 2017	405,000	\$6.70
Options exercisable, March 31, 2017	270,000	\$6.70

	Number of options	Exercise price
Options outstanding, December 31, 2015	-	-
Options granted	405,000	\$6.70
Options outstanding, March 31, 2016	405,000	\$6.70
Options exercisable, March 31, 2016	135,000	\$6.70

The equity-based compensation expense under the share option plan for the period ended March 31, 2017 of \$0.1 million [March 31, 2016 – \$0.3 million] has been included in employee compensation and benefits.

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 March 31, 2017					
	Held for Trading \$000	FVTPL Designated at Inception \$000	Total \$000	Amortized Cost \$000	Total \$000
Assets					
Marketable securities	735	-	735	-	735
Investments	-	60,950	60,950	-	60,950
Cash and cash equivalents	-	-	-	9,708	9,708
Distribution receivables	-	-	-	2,545	2,545
Prepaid expenses, deposits and other receivables	-	-	-	224	224
Interest receivable	-	-	-	193	193
Total Financial Assets	735	60,950	61,685	12,670	74,355
Liabilities					
Accounts payable and accrued liabilities	-	-	-	154	154
Accrued interest on convertible debentures	-	-	-	385	385
Convertible debentures	-	-	-	28,280	28,280
Total Financial Liabilities	-	-	-	28,819	28,819

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March 31, 2017 (unaudited in Canadian dollars)

10. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

As at December 31, 2016					
	Held for Trading \$000	FVTPL Designated at inception \$000	Total \$000	Amortized Cost \$000	Total \$000
Assets					
Marketable securities	735	-	735	-	735
Investments	-	60,834	60,834	-	60,834
Cash and cash equivalents	-	-	-	10,848	10,848
Distribution receivables	-	-	-	2,898	2,898
Prepaid expenses, deposits and other receivables	-	-	-	170	170
Interest receivable	-	-	-	164	164
Total Financial Assets	735	60,834	61,569	14,080	75,649
Liabilities					
Accounts payable and accrued liabilities	-	-	-	379	379
Accrued interest on convertible debentures	-	-	-	983	983
Convertible debentures	-	-	-	28,059	28,059
Total Financial Liabilities	-	-	-	29,421	29,421

For the three months ended March 31, 2017, the total of the change in unrealized gain (loss) and realized gain (loss) from disposal of financial assets classified as Held for Trading was \$0.3 million [March 31, 2016 – \$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 \$0.1 million [March 31, 2016 – \$(2.0) 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

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11. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

As at March 31, 2017, the Company holds the following fixed-rate debt instruments: (a) \$12.6 million [December 31, 2016 – \$12.5 million] in convertible debentures with a weighted average interest rate of 10.51% [December 31, 2016 – 10.53%] and a weighted average term to maturity of approximately 1.1 years [December 31, 2016 – 1.4 years]; and (b) \$0.7 million [December 31, 2016 – \$0.7 million] in non-convertible debentures with a weighted average interest rate of 33.6% [December 31, 2016 – 33.6%] that are due on demand [December 31, 2016 – due on demand]. 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 March 31, 2017, 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, 2016 – \$0.2 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, 2016 – \$0.2 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 March 31, 2017, the Company is primarily exposed to foreign exchange risk through its US dollar denominated investments of \$23.6 million [December 31, 2016 – \$23.7 million], which represent approximately 31.7% [December 31, 2016 – 30.8%] 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 \$1.2 million, respectively [December 31, 2016 – \$1.2 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 \$6.2 million [December 31, 2016 – \$6.2 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
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11. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

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

As at	March 31, 2017 \$000	December 31, 2016 \$000
Cash and cash equivalents	9,708	10,848
Distribution receivables	2,545	2,898
Convertible debentures	12,358	12,370
Debentures, loans and promissory notes	730	730
Accrued interest	193	164
Other receivables	224	170
	25,758	27,180

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 March 31, 2017, there were \$0.7 million of debts overdue [December 31, 2016 – \$0.7 million]. For the three months ended March 31, 2017 and 2016, no unrealized losses were attributable to changes in credit risk of the debt instruments.

As at March 31, 2017, \$0.7 million of distribution and interest receivables was past due [December 31, 2016 – \$0.7 million]. During the period ended March 31, 2017 and 2016, no allowance for impairment in respect of accrued interest 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 March 31, 2017, 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 March 31, 2017.

In addition, the Company has \$29.6 million in principal amount of its Debentures outstanding and maturing on July 31, 2018. The Company is prudently managing its liquidity, and is focusing on monetizing its investment positions, when and where possible to repay the Debentures on the maturity date.

NOTES TO THE FINANCIAL STATEMENTS
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11. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

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

As at March 31, 2017	Less than one year \$000	One to three years \$000	Over three years \$000	Total \$000
Financial Liabilities				
Accounts payable and accrued liabilities	154	-	-	154
Accrued interest on convertible debentures	2,365	1,182	-	3,547
Convertible debentures	-	29,561	-	29,561
Total Financial Liabilities	2,519	30,743	-	33,262

As at December 31, 2016	Less than one year \$000	One to three years \$000	Over three years \$000	Total \$000
Financial Liabilities				
Accounts payable and accrued liabilities	379	-	-	379
Accrued interest on convertible debentures	2,365	2,365	-	4,730
Convertible debentures	-	29,561	-	29,561
Total Financial Liabilities	2,744	31,926	-	34,670

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 in the Company's 2016 annual audited financial statements:

As at March 31, 2017	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Equities	1,586	-	34,434	36,020
Convertible debentures	-	-	12,358	12,358
Debentures, loans and promissory notes	-	-	730	730
Partnership interest	-	-	1,320	1,320
Real estate	-	-	11,231	11,231
Warrants	-	-	26	26
Total Financial Assets	1,586	-	60,099	61,685

As at December 31, 2016	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Equities	1,279	-	34,520	35,799
Convertible debentures	-	-	12,370	12,370
Debentures, loans and promissory notes	-	-	730	730
Partnership interest	-	-	1,320	1,320
Real estate	-	-	11,320	11,320
Warrants	-	4	26	30
Total Financial Assets	1,279	4	60,286	61,569

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 March 31, 2016, there were no transfers from Level 1 to Level 2 or Level 2 to Level 1 [March 31, 2016 – Level 2 to Level 1 – \$0.1 million] and there were no transfers from Level 2 to Level 3 [March 31, 2016 – nil] or Level 3 to Level 2 [March 31, 2016 – nil].

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

	Three months ended March 31, 2017 \$000	Year ended December 31, 2016 \$000
Opening balance, beginning of period	60,286	75,338
Purchases	-	3,369
Sales	-	(11,800)
Realized loss	-	(13,009)
Transfers	-	-
Change in unrealized gain	(187)	6,388
Balance, end of period	60,099	60,286
Total change in unrealized gain (loss) as at end of period	(187)	(6,621)

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NOTES TO THE FINANCIAL STATEMENTS
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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 March 31, 2017:

INVESTMENT TYPE	FAIR VALUE	VALUATION TECHNIQUES	UNOBSERVABLE INPUTS	RANGE	WEIGHTED AVERAGE ⁽⁶⁾	REASONABLE POSSIBLE SHIFT +/- IN UNOBSERVABLE INPUTS ⁽⁷⁾	IMPACT TO VALUATION FROM CHANGES IN INPUTS +/- ⁽⁷⁾
FINANCIAL TECHNOLOGIES							
Equity securities	2,075	Fundamental analysis ⁽¹⁾	N/A	N/A	N/A	N/A	N/A
Warrants	26	Transaction price	Third-party transactions ⁽²⁾	N/A	N/A	N/A	N/A
Debt	680	Transaction price	Third-party transactions	N/A	N/A	N/A	N/A
Equity securities	3,568	Transaction price	Third-party transactions	N/A	N/A	N/A	N/A
HEALTHCARE							
Equity securities	4,983	Transaction price	Purchase price ⁽³⁾	N/A	N/A	N/A	N/A
INTERNET							
Equity securities	7,425	Transaction price	Third-party transactions	N/A	N/A	N/A	N/A
Equity securities	-	Fundamental analysis	N/A				
Equity securities	2,278	Market comparable companies	Revenue multiple ⁽⁴⁾	7.4x	7.4x	0.5x	147/(147)
Convertible debentures	1,499	Transaction price	Purchase price	N/A	N/A	N/A	N/A
MEDIA/MEDIA TECHNOLOGIES							
Equity securities	5,200	Market comparable companies	Revenue multiple	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
Convertible debentures	500	Liquidation analysis	N/A	N/A	N/A	N/A	N/A
TECHNOLOGIES							
Equity securities	3,160	Transaction price	Third-party transactions	N/A	N/A	N/A	N/A
			Discount ⁽⁵⁾	0%-20%	20.0%	0.5%	12/(12)
Equity securities	-	Liquidation analysis	N/A	N/A	N/A	N/A	N/A
Convertible debentures	3,340	Transaction price	Purchase price	N/A	N/A	N/A	N/A
Convertible debentures	5,744	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	11,231	Appraisal value	Previous sales comparables	10%-20%	19%	5.0%	449/(489)
Limited partnership units	1,320	Net asset value analysis	Net asset value per unit	N/A	N/A	N/A	N/A
Debt	50	Transaction price	Purchase price	N/A	N/A	N/A	N/A
Equity securities	-	Other	Estimated net realizable value	N/A	N/A	N/A	N/A
Debt securities	-	Liquidation analysis	Estimated net realizable value	N/A	N/A	N/A	N/A

⁽¹⁾ Represents investments valued based on quantitative and qualitative observations reflecting the current financial situation of the investment

⁽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 investments valued at cost which is representative of fair value at the measurement date

⁽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⁾ Represents amount used when the Company has determined market participants would take into account these discounts when valuing the investments

⁽⁶⁾ Unobservable inputs were weighted based on the fair value of the investments included in the range

⁽⁷⁾ 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 judgment 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.

NOTES TO THE FINANCIAL STATEMENTS

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13. 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 consists 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, deleverage 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	March 31, 2017 \$000	December 31, 2016 \$000
Shareholders' equity	45,536	46,228
Convertible debentures	28,280	28,059
Total capital	73,816	74,287

14. BASIC AND DILUTED INCOME (LOSS) PER SHARE

The following table presents the calculation of basic and fully diluted income (loss) per common share (shown post-Consolidation. See Note 8 for specific disclosures on the Consolidation):

\$000 except for common shares and per share amounts	Three months ended March 31, 2017	Three months ended March 31, 2016
Basic income (loss) per share		
Net income (loss)	(785)	(4,003)
Weighted average common shares	5,858,637	5,872,397
Basic income (loss) per share	\$(0.13)	\$(0.70)
Fully diluted income (loss) per share		
Net income (loss)	(785)	(4,003)
Weighted average common shares after taking into effect dilutive convertible debentures and stock options	5,858,637	5,872,397
Fully diluted income (loss) per share	\$(0.13)	\$(0.70)

In calculating fully diluted income (loss) per common share for the periods ended March 31, 2017 and 2016, the Company excluded 1,028,209 [2015 – 1,222,470] potential common shares from the conversion of the Debentures and 405,000 [2015 – nil] potential common shares related to outstanding stock options as their impact was anti-dilutive.

NOTES TO THE FINANCIAL STATEMENTS

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15. COMPENSATION OF KEY MANAGEMENT

The remuneration of directors and other key management personnel of the Company for the periods ended March 31 was as follows:

	2017	2016
	\$000	\$000
Salaries	349	311
Stock options	92	266
Total Compensation	441	577

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 March 31, 2017, no accrual for the 2017 annual incentive bonus pool was made [December 31, 2016 - nil].

16. SUBSEQUENT EVENTS

In April 2017, the Company acquired 612,900 additional common shares of Mogo Finance Technology Inc. for total consideration of \$2.0 million.

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