DIFFERENCE
CAPITAL

Interim Condensed Financial Statements

Unaudited (prepared in Canadian dollars)

For the quarter and six months ended June 30, 2015

STATEMENTS OF FINANCIAL POSITION (unaudited)

As at Amounts in thousands of Canadian dollars (except per share amounts)		**June 30 2015**		**December 31 2014**
ASSETS				
Current				
Cash and cash equivalents	**$**	**22,270**	$	11,799
Marketable securities *[note 3]*		**1,869**		687
Prepaid expenses, deposits and other receivables		**188**		674
Due from broker		**59**		1,133
Interest receivable		**577**		2,145
Total current assets		**24,963**		16,438
Other receivables		**—**		200
Investments *[note 4]*		**82,729**		98,314
Total assets	**$**	**107,692**	$	114,952
LIABILITIES				
Current				
Marketable securities sold short *[note 3]*	**$**	**26**	$	23
Performance and management fees payable *[note 11]*		**—**		213
Accounts payable and accrued liabilities		**173**		416
Due to broker		**522**		26
Convertible debentures		**1,605**		1,724
Total current liabilities		**2,326**		2,402
Convertible debentures *[note 6]*		**43,372**		46,616
Total liabilities		**45,698**		49,018
SHAREHOLDERS' EQUITY				
Share capital *[note 7]*		**166,124**		176,555
Equity component of convertible debentures *[note 6]*		**3,511**		3,823
Contributed surplus		**52,797**		44,259
Deficit		**(160,438)**		(158,703)
Total shareholders' equity		**61,994**		65,934
Total liabilities and shareholders' equity	**$**	**107,692**	$	114,952
Net Asset Value per share *[note 14]*				
Basic and diluted	**$**	**1.72**	$	1.73

See accompanying notes, which are an integral part of these unaudited 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 2015	Three months ended June 30 2014	Six months ended June 30 2015	Six months ended June 30 2014
NET REALIZED AND UNREALIZED GAIN (LOSS)				
Net realized gain (loss) on disposal of investments and marketable securities	**$ 346**	$ 1,015	**$ (8,004)**	$ 4,068
Net change in unrealized gain (loss) on investments and marketable securities	**(1,925)**	(11,217)	**12,236**	(10,066)
	(1,579)	(10,202)	**4,232**	(5,998)
OTHER INCOME				
Interest, dividends and other income	**595**	1,589	**1,493**	3,291
Participation in advisory fees and equity capital market revenue *[note 11]*	**40**	259	**113**	536
Gain on repurchase of convertible debentures *[note 6]*	**74**	—	**449**	—
	709	1,848	**2,055**	3,827
EXPENSES				
Management fees *[note 11]*	**366**	817	**935**	1,666
Performance fees *[note 11]*	**(866)**	—	**—**	—
Salaries and wages	**133**	—	**133**	—
Professional fees	**367**	836	**704**	1,218
General and administrative *[note 11]*	**148**	241	**314**	388
Provision for uncollectible receivables	**541**	1,104	**581**	1,352
Harmonized sales tax	**(20)**	142	**236**	292
Financing costs	**1,246**	1,388	**2,593**	2,814
Transaction costs *[note 11]*	**2,446**	113	**2,526**	236
Total expenses	**4,361**	4,641	**8,022**	7,966
Net gain (loss) and comprehensive income (loss)	**(5,231)**	**(12,995)**	**$ (1,735)**	**(10,137)**
Weighted average number of common shares outstanding *[note 13]*				
Basic and diluted	**36,119,610**	39,025,008	**36,577,295**	39,078,374
Gain (loss) per share *[note 13]*				
Basic and diluted	**$(0.14)**	$(0.33)	**$(0.05)**	$(0.26)

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

STATEMENTS OF CHANGES IN EQUITY (unaudited)

Amounts in thousands of Canadian dollars	Three months ended June 30 2015	2014	Six months ended June 30 2015	2014
Share capital				
Balance, beginning of the period	**$ 167,959**	$ 180,875	**$ 176,555**	$ 180,875
Common shares repurchased and cancelled *[note 7]*	**(1,835)**	(1,276)	**(10,431)**	(1,276)
Balance, June 30	**166,124**	179,599	**166,124**	179,599
Equity component of convertible debentures				
Balance, beginning of the period	**3,563**	4,118	**3,823**	4,119
Convertible debentures repurchased and cancelled *[note 6]*	**(52)**	—	**(312)**	(1)
Balance, June 30	**3,511**	4,118	**3,511**	4,118
Contributed surplus				
Balance, beginning of the period	**51,256**	41,160	**44,259**	41,159
Common shares repurchased and cancelled *[note 7]*	**1,469**	745	**8,204**	745
Convertible debentures repurchased and cancelled *[note 6]*	**72**	—	**334**	1
Balance, June 30	**52,797**	41,905	**52,797**	41,905
Deficit				
Balance, beginning of the period	**(155,207)**	(107,757)	**(158,703)**	(110,615)
Net loss and comprehensive loss for the period	**(5,231)**	(12,995)	**(1,735)**	(10,137)
Balance, June 30	**(160,438)**	(120,752)	**(160,438)**	(120,752)
Net change in equity during the period	**(5,577)**	(13,526)	**(3,940)**	(10,668)
Equity, beginning of the period	**67,571**	118,396	**65,934**	115,538
Balance, June 30	**$ 61,994**	$ 104,870	**$ 61,994**	$ 104,870

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

STATEMENTS OF CASH FLOWS (unaudited)

Amounts in thousands of Canadian dollars	Three months ended June 30 2015	Three months ended June 30 2014	Six months ended June 30 2015	Six months ended June 30 2014
OPERATING ACTIVITIES				
Net loss for the period	**$ (5,231)**	$ (12,995)	**$ (1,735)**	$ (10,137)
Items not affecting cash:				
Net realized gain (loss) on disposal of investments and marketable securities	**(346)**	(1,015)	**8,004**	(4,068)
Net change in unrealized (gain) on investments and marketable securities	**1,925**	11,217	**(12,236)**	10,066
Net change in participation in advisory fees payable in shares	**193**	(67)	**200**	(168)
Amortization of financing costs on convertible debentures	**277**	288	**588**	600
(Gain) on repurchase of convertible debentures	**(74)**	—	**(449)**	—
Conversion of interest payment into equities	**(620)**	(156)	**(862)**	(156)
Net change in non-cash working capital balances	**3,209**	4,960	**3,049**	(921)
Purchase of marketable securities	**(1,631)**	(1,600)	**(2,450)**	(2,558)
Proceeds from disposal of marketable securities	**485**	2,911	**5,368**	12,070
Purchase of investments	**(1,900)**	(6,701)	**(4,706)**	(23,683)
Proceeds from disposal and maturity of investments	**2,728**	4,026	**21,290**	4,724
Cash provided by (used in) operating activities	**(985)**	868	**16,061**	(14,231)
FINANCING ACTIVITIES				
Common shares repurchased and cancelled *[note 7]*	**(366)**	(531)	**(2,227)**	(531)
Convertible debentures repurchased and cancelled *[note 6]*	**(550)**	—	**(3,363)**	(9)
Cash used in financing activities	**(916)**	(531)	**(5,590)**	(540)
Net increase (decrease) in cash during the period	**(1,901)**	337	**10,471**	(14,771)
Cash and cash equivalents, beginning of the period	**24,171**	9,121	**11,799**	24,229
Cash and cash equivalents, end of the period	**$ 22,270**	$ 9,458	**$ 22,270**	$ 9,458
Interest received	**$ 970**	$ 647	**$ 1,577**	$ 1,148
Dividends received	**40**	—	**130**	35
Interest paid	**—**	—	**2,073**	2,564

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

SCHEDULE OF INVESTMENTS (unaudited)

Amounts in thousands of Canadian dollars

	INVESTMENT TYPE	COUNTRY	June 30, 2015 AVERAGE COST $	June 30, 2015 FAIR VALUE $
PUBLICLY LISTED				
FINANCIAL TECHNOLOGIES				
Mogo Finance Technology Inc.	common shares	Canada	2,000	1,836
			2,000	1,836
OTHER				
Other listed securities	common shares, units	Canada	5,948	473
TOTAL LISTED SECURITIES			7,948	2,309
UNLISTED				
MEDIA				
Blue Ant Media Inc.	equity securities	Canada	4,787	5,745
Thunderbird Films Inc.	equity securities	Canada	6,000	6,000
			10,787	11,745
HEALTHCARE				
InfraReDx, Inc.	convertible promissory note and warrants	United States	5,093	3,766
BrainScope Company Inc.	equity securities	United States	1,563	1,923
Cardiac Dimensions Pty. Ltd.	equity securities	United States	2,183	2,495
Fem Med Formulas Limited Partnership	convertible debentures	Canada	2,500	-
			11,339	8,184
E-COMMERCE				
BuildDirect.com Technologies Inc.	equity securities	Canada	7,000	9,514
FINANCIAL TECHNOLOGIES				
Carta Solutions Holding Corporation	equity securities and warrants	Canada	3,355	4,135
Ethoca Solutions Inc.	equity securities	Canada	1,508	1,508
			4,863	5,643
AD TECHNOLOGIES				
Scribble Technologies Inc.	equity securities	Canada	4,609	3,006
Vision Critical Communications Inc.	equity securities	Canada	4,647	4,647
			9,256	7,653
MEDIA TECHNOLOGIES				
Hootsuite Media Inc.	equity securities	Canada	2,080	2,370
iPowow! Inc.	equity securities	Canada	5,462	1,329
Quickplay Media Inc.	equity securities	Canada	3,365	3,365
			10,907	7,064
EDUCATION TECHNOLOGIES				
Cricket Media Group Ltd.	convertible debentures	Canada	3,500	1,925
Bluedrop Performance Learning Inc.	convertible debentures	Canada	3,625	3,625
			7,125	5,550
ENTERPRISE SOFTWARE				
Vena Solutions	units	Canada	1,000	1,000
Vena Solutions	convertible debentures	Canada	3,347	3,347
Embotics Corporation	convertible debentures	Canada	1,000	1,000
			5,347	5,347
HARDWARE				
Baanto International Ltd.	equity securities	Canada	1,070	927
Baanto International Ltd.	convertible debentures	Canada	2,700	2,025
BTI Systems Inc.	equity securities	United States	1,887	1,849
BTI Systems Inc.	convertible debentures	United States	252	249
			5,909	5,050
GAMING				
WG Limited ("World Gaming")	equity securities	Canada	30,943	3,599
			30,943	3,599
REAL ESTATE				
Difference RM Holdings Corp.	equity securities	United States	5,858	6,811
			5,858	6,811
OTHER				
Waterloo Innovation Network LP	limited partnership units		2,000	2,000
Other equities	equity securities, warrants and units		6,231	1,729
Other debt	debt		4,570	531
			12,801	4,260
TOTAL INVESTMENTS			**130,083**	**82,729**

PORTFOLIO INVESTMENTS AND FAIR VALUE

Significant purchases, sales and changes in valuation of investments for the period ended June 30, 2015 included the following:

Baanto International Ltd. ("Baanto")
In April 2015, the Company invested an additional $0.5 million in Baanto through the purchase of Class "B" special shares and converted $0.3 million accrued interest into these Class "B" special shares.

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

Mogo Finance Technology Inc. ("Mogo")
On June 25, 2015, Mogo completed its initial public offering, issuing 5 million common shares at a price of $10 per share. The Company's shares in Mogo are subject to a lock-up agreement which expires on December 22, 2015. At June 30, 2015, the Company fair valued Mogo based on its June 30, 2015 closing price less a 15% discount to reflect the trading restriction.

Scribble Technologies Inc. ("Scribble")
In April 2015, Appinions was purchased through a share exchange by Scribble, a private, Toronto based leading provider of content marketing software platforms backed by several prominent venture capitalists.

Vena Solutions ("Vena")
In June 2015, the Company invested an additional $0.5 million in Vena units ("Unit"). Each Unit consists of one common share and one-half of one common share purchase warrant.

Vision Critical Communications Inc. ("Vision")
In June, 2015, the Company acquired through the secondary market an additional $0.3 million in common shares of Vision.

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015 (unaudited - in Canadian dollars)

1. COMPANY INFORMATION

Difference Capital Financial Inc. ("Difference Capital" or the "Company") is a publicly listed company (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 a specialty finance company focused on creating shareholder value through strategic investments in growth companies, particularly in the technology, media and healthcare sectors, as well as opportunistic investments in undervalued financial assets and real property.

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, 2014.

These unaudited interim condensed financial statements should be read in conjunction with Difference Capital's 2014 annual audited financial statements.

These financial statements were authorized for issuance by the Board of Directors of Difference Capital on August 11, 2015. 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 on the historical cost basis, except for marketable securities and investments that have been measured at fair value to the extent required or permitted under the applicable accounting standards. 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. Estimating fair value requires that judgment be applied to the specific facts and circumstances of each investment. Actual results could differ from these estimates.

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

IFRS 15, *Revenue from Contracts and Customers* (“IFRS 15”)

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

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

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

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

Annual Improvements 2012-2014 Cycle

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

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

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

3. MARKETABLE SECURITIES AND MARKETABLE SECURITIES SOLD SHORT

Marketable securities and marketable securities sold short consist of the following:

As at	June 30, 2015		December 31, 2014	
	Marketable securities $000	Marketable Securities sold short $000	Marketable securities $000	Marketable Securities sold short $000
Equity securities	1,869	26	687	23
	1,869	**26**	687	23

4. INVESTMENTS

Investments consist of the following by investment type:

As at	June 30, 2015 $000	December 31, 2014 $000
Equity securities	63,460	57,819
Convertible debentures	16,025	21,790
Debentures, loans and promissory notes	50	6,400
Partnership interests	2,000	10,504
Warrants	1,194	1,801
	82,729	98,314

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

5. 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, 2015	December 31, 2014
Difference RM Holding Corp.	Subsidiary	United States	100%	100%
World Gaming Limited	Subsidiary	Canada	67%	23%
Gotham Analytics, LLC	Associate	United States	48%	48%
iPowow Inc.	Associate	Canada	31%	44%

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.

Other than the current investments in associates and subsidiaries listed above, the Company has no further financial commitments.

6. CONVERTIBLE DEBENTURES

From the 2015 Debenture Normal Course Issuer Bid renewal period (December 10, 2014) to June 30, 2015, the Company had repurchased $4.2 million principal amount of its Debentures.

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

The changes in the liability component of the Debentures during the period ended June 30, 2015 were as follows:

	$000
Liability component, January 1, 2014	49,030
Accretion of discount	1,167
Normal course issuer bid repurchases	(3,581)
Liability component, December 31, 2014	46,616
Accretion of discount	588
Normal course issuer bid repurchases	(3,832)
Liability component, June 30, 2015	**43,372**

The changes in the principal amount of Debentures outstanding during the period ended June 30, 2015 was as follows:

	$000
Principal amount, January 1, 2014	55,847
Normal course issuer bid repurchases	(4,016)
Principal amount, December 31, 2014	51,831
Normal course issuer bid repurchases	(4,233)
Principal amount, June 30, 2015	**47,598**

7. 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, balance, January 1, 2014	39,132,334	180,875
Normal course issuer bid repurchases	(934,600)	(4,320)
Common shares, December 31, 2014	38,197,734	176,555
Normal course issuer bid repurchases	(2,256,800)	(10,431)
Common shares, June 30, 2015	**35,940,934**	**166,124**

From the 2015 Share Normal Course Issuer Bid ("2015 Share NCIB") renewal period (December 10, 2014) to June 30, 2015, the Company had repurchased 2.4 million Common Shares.

During the six months ended June 30, 2015, 2.3 million Common Shares were repurchased under the 2015 Share NCIB 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.

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8. 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, 2015	Held for Trading $000	FVTPL Designated at inception $000	Total $000	Amortized Cost $000	Total $000
Assets					
Marketable securities	1,869	-	1,869	-	1,869
Investments	-	82,729	82,729	-	82,729
Cash	-	-	-	22,270	22,270
Prepaid expenses, deposits and other receivables	-	-	-	188	188
Due from broker	-	-	-	59	59
Interest receivable	-	-	-	577	577
Total Financial Assets	**1,869**	**82,729**	**84,598**	**23,094**	**107,692**
Liabilities					
Marketable securities sold short	26	-	26	-	26
Accounts payable and accrued liabilities	-	-	-	173	173
Due to broker	-	-	-	522	522
Convertible debentures	-	-	-	44,977	44,977
Total Financial Liabilities	**26**	**-**	**26**	**45,672**	**45,698**

As at December 31, 2014	Held for Trading $000	FVTPL Designated at inception $000	Total $000	Amortized Cost $000	Total $000
Assets					
Marketable securities	687	-	687	-	687
Investments	-	98,314	98,314	-	98,314
Cash	-	-	-	11,799	11,799
Prepaid expenses, deposits and other receivables	-	-	-	674	674
Due from broker	-	-	-	1,133	1,133
Interest receivable	-	-	-	2,145	2,145
Other receivables	-	-	-	200	200
Total Financial Assets	**687**	**98,314**	**99,001**	**15,951**	**114,952**
Liabilities					
Marketable securities sold short	23	-	23	-	23
Accounts payable and accrued liabilities	-	-	-	629	629
Due to broker	-	-	-	26	26
Convertible debentures	-	-	-	48,340	48,340
Total Financial Liabilities	**23**	**-**	**23**	**48,995**	**49,018**

For the three-month period ended June 30, 2015 the total of the change in unrealized gain (loss) and realized gain (loss) from disposal of financial assets designated as held for trading ("HFT") was $0.1 million [June 30, 2014 – $3.3 million], the total of the change in unrealized gain (loss) and realized gain (loss) from disposal on financial assets designated as fair value through profit and loss

("FVTPL") was ($1.7) million [June 30, 2014 – ($13.5) million] and the total of the change in unrealized gain (loss) and realized gain (loss) on financial liabilities designated as HFT was nil [June 30, 2014 – nil].

For the six-month period ended June 30, 2015 the total of the change in unrealized gain (loss) and realized gain (loss) from disposal of financial assets designated as held for trading ("HFT") was $0.5 million [June 30, 2014 – $3.7 million], the total of the change in unrealized gain (loss) and realized gain (loss) from disposal on financial assets designated as fair value through profit and loss ("FVTPL") was $3.7 million [June 30, 2014 – ($9.9) million] and the total of the change in unrealized gain (loss) and realized gain (loss) on financial liabilities designated as HFT was nil [June 30, 2014 – $0.2 million].

9. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Company is exposed to a variety of risks as a result of holding financial instruments: market risk (which includes interest rate risk, currency risk, and other 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.

As at June 30, 2015, the Company holds the following fixed-rate debt instruments: (a) $16.6 million [December 31, 2014 - $23.1 million] in convertible debentures with a weighted average interest rate of 10.07% [December 31, 2014 – 8.86%] and a weighted average term to maturity of approximately 1.2 years [December 31, 2014 – 1.4 years]; and (b) $0.1 million [December 31, 2014 - $6.9 million] in non-convertible debentures with a weighted average interest rate of 10.00% [December 31, 2014 – 10.56%] and a weighted average term to maturity of approximately 2.4 years [December 31, 2014 – 1.7 years]. Should market interest rates rise, then the fair value of these convertible and non-convertible debentures will decrease. Conversely, should market interest rates fall, the fair value of these assets will 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, 2015, if interest rates were higher by 1% per annum, the potential effect to the Company would be a decrease in net income of approximately $0.2 million [December 31, 2014 - $ 0.4 million]. If interest rates were lower by 1% per annum, the potential effect would be an increase in net income of approximately $0.2 million [December 31, 2014 - $0.4 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, 2015, the Company is primarily exposed to foreign exchange risk through its US dollar denominated investments of $23.1 million [December 31, 2014 - $34.2 million] which represent approximately 21.6% [December 31, 2014 – 29.8%] of total assets. The Company does not currently hedge its foreign currency exposure. If the Canadian dollar strengthened or weakened by 1% in relation to the foreign currencies, the investments would decrease or increase by approximately $0.2 million respectively [December 31, 2014 - $0.3 million].

Other price risk

Other price risk is the risk of variability in fair value due to movements in equity prices or other market prices such as commodity prices and credit spreads. The Company incurs other price risk through its portfolio of investments and marketable securities. 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 $8.5 million [December 31, 2014 - $9.9 million]. Refer to the Schedule of Investments and notes 3 and 4 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 is exposed to credit risk through certain debt instruments held in the investments portfolios. Refer to the Schedule of Investments and notes 3 and 4 for additional details regarding the nature of these financial assets. The Company seeks to mitigate credit risk where possible by obtaining security over the assets of the issuer and by limiting the size of its investments to an amount such that a debt instrument held by the Company could be repaid through the liquidation of a defaulting issuer.

The Company considers its maximum exposure to credit risk as at June 30, 2015 is $16.7 million [December 31, 2014 - $30.0 million].

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'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, 2015, 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, 2015.

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

As at June 30, 2015	Less than one year $000	One to three years $000	Over three years $000	Total $000
Financial Liabilities				
Marketable securities sold short	26	-	-	**26**
Accounts payable and accrued liabilities	173	-	-	**173**
Due to broker	522	-	-	**522**
Accrued interest on convertible debentures	3,836	7,616	1,904	**13,356**
Convertible debentures	-	-	47,598	**47,598**
Total Financial Liabilities	**4,557**	**7,616**	**49,502**	**61,675**

As at December 31, 2014	Less than one year $000	One to three years $000	Over three years $000	Total $000
Financial Liabilities				
Performance and management fees payable	213	-	-	**213**
Accounts payable and accrued liabilities	416	-	-	**416**
Due to broker	26	-	-	**26**
Accrued interest on convertible debentures	4,147	8,293	4,146	**16,586**
Convertible debentures	-	-	51,831	**51,831**
Total Financial Liabilities	**4,802**	**8,293**	**55,977**	**69,072**

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; requiring security – either specific collateral or a general pledge of assets; requiring that pre-paid interest be held in escrow; 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.

10. FAIR VALUE MEASUREMENT

Financial instruments carried at fair value include investments and marketable securities. The fair value measurements underlying the carrying value of investments and marketable securities are classified within a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The level in the hierarchy within which the fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy has the following levels:

(i) Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities;
(ii) Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly; and
(iii) Level 3 Inputs for the asset or liability that are not based on observable market data.

The following tables present the level within the fair value hierarchy for the Company's investments and marketable securities:

As at June 30, 2015	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Equities	1,873	1,836	61,620	65,329
Convertible debentures	-	254	15,771	16,025
Debentures, loans and promissory notes	-	-	50	50
Partnership interest	-	-	2,000	2,000
Warrants	-	518	676	1,194
Total Financial Assets	**1,873**	**2,608**	**80,117**	**84,598**
Equities sold short	26	-	-	26
Total Financial Liabilities	**26**	**-**	**-**	**26**

As at December 31, 2014	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Equities	5,148	-	53,358	58,506
Convertible debentures	-	254	21,536	21,790
Debentures, loans and promissory notes	-	-	6,400	6,400
Partnership interest	-	-	10,504	10,504
Warrants	-	833	968	1,801
Total Financial Assets	**5,148**	**1,087**	**92,766**	**99,001**
Equities sold short	23	**-**	**-**	23
Total Financial Liabilities	**23**	**-**	**-**	**23**

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 three-month period ended June 30, 2015, there were $2 million transferred from level 3 to level 2 [June 30, 2014 – nil], there were no transfers from Level 2 to Level 1 [June 30, 2014 - $0.7 million] and there were no transfers from Level 1 to Level 2 or Level 2 to 3 [June 30, 2014 – nil]. The transfer out of level 3 to level 2 consists of a private company that completed its initial public offering where the shares are subject to restrictions.

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, 2015:

Investment Type	Fair Value $000	Valuation techniques and unobservable inputs applied
Equity securities	38,386	Transaction price
	7,594	Third party transaction/pricing
	6,811	Appraised value
	8,227	Market comparable companies EV/Sales multiple (1.2X-8.5X) Discount (64%)
	602	Other
Convertible debentures	8,221	Transaction price
	7,550	Market comparable companies Implied market yield (9% - 12%) EV/Sales multiple (0.5X-3.5X) Discount (50%)
Debentures, loans and promissory notes	50	Transaction price
Partnership interest	2,000	Transaction price
Warrants	676	Other
	80,117	

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

	Three months ended June 30, 2015 $000	Six months ended June 30, 2015 $000	Year ended December 31, 2014 $000
Opening balance, beginning of period	82,715	92,766	115,129
Purchases	2,517	8,567	24,119
Sales	(2,350)	(23,201)	(7,179)
Realized gains	50	(5,256)	(450)
Transfers	(2,000)	(2,000)	2,250
Change in unrealized gain (loss)	(815)	9,241	(41,103)
Balance, end of period	**80,117**	**80,117**	**92,766**
Total change in unrealized gain (loss) of assets held as at end of period	(765)	3,985	(41,553)

11. RELATED PARTY TRANSACTIONS

Management Agreement

Prior to June 1, 2015, the Company had a management agreement (the “Management Agreement”) with Difference Capital Management Inc. (“DCM”), whereby the Company paid management fees on the basis of 2% per annum of the Company’s monthly management fee net asset value. The Company also paid DCM a performance fee equal to 20% of any increase in the performance fee net asset value from the start of the fiscal year in question to the end of that fiscal year less the two-year Government of Canada bond rate (the “Hurdle Rate”), with the Hurdle Rate subject to a maximum of 5%.

Effective June 1, 2015, the Company executed agreements to acquire Difference Capital Inc. ("DCI") (the “Internalization Acquisition”) and terminated its Management Agreement with DCM. Upon the completion of the Internalization Acquisition, all DCI and DCM employees became employed directly by the Company. The aggregate purchase price of the Internalization Acquisition was $2.4 million. This purchase price was expensed within transaction costs during the quarter.

For the three months ended June 30, 2015, management fees of $0.4 million [June 30, 2014 **–** $0.9 million] were accrued and performance fees of $0.9 million accrued in the previous quarter were reversed [June 30, 2014 – nil]. For the six months ended June 30, 2015, management fees of $0.9 million [June 30, 2014 **–** $1.7 million] and performance fees of nil [June 30, 2014 – nil] were accrued. As at June 30, 2015, performance and management fees payable to the manager were nil [December 31, 2014 **–** $0.2 million].

Under the terms of the Management Agreement, the Company was also entitled to receive 40% of all advisory and equity capital market revenues generated by DCM and the Company was required to reimburse DCM for certain operating expenses. For the three months ended June 30, 2015, the Company accrued revenue of $0.0 million from such advisory fees [June 30, 2014 **–** $0.2 million]. For the six months ended June 30, 2015, the Company accrued revenue of $0.1 million from such advisory fees [June 30, 2014 **–** $0.5 million].

Other Related Party Transactions

Waterloo Innovation Network Inc., a company controlled by the Chairman of the Company, owed the Company a debt of approximately $167,000 including accrued interest as at March 31, 2015. The full amount of the debt including accrued interest was repaid during the quarter.

In the fourth quarter of 2014, the Company made a $350,000 short term loan to an arm's length nutraceutical manufacturer of topical neuropathic pain reliever (the "Nutraceutical Manufacturer"). The Company had hoped to establish synergies between this manufacturer and Fem Med. Due to the high-risk nature of this investment, the Company's Chairman had provided a personal guarantee on the performance of this loan. During the quarter ended March 31, 2015, the Nutraceutical Manufacturer was placed into receivership. The loan amount plus accrued interest was fully repaid by the Company's Chairman during the quarter.

12. CAPITAL MANAGEMENT

The Company's objectives in managing capital are to maintain a capital structure that allows the Company to meet its growth strategies 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 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, 2015 $000	December 31, 2014 $000
Shareholders' equity	61,994	65,934
Convertible debentures – long term portion	43,372	46,616
Total capital	**105,366**	**112,550**

13. BASIC AND DILUTED LOSS PER SHARE

The following table presents the calculation of basic and fully diluted loss per common share for the three and six months ended June 30, 2015:

$000 except per share	Three months ended June 30, 2015 $000	Three months ended June 30, 2014 $000	Six months ended June 30, 2015 $000	Six months ended June 30, 2014 $000
Basic gain (loss) per share				
Net (loss)	**(5,231)**	(12,995)	**(1,735)**	(10,137)
Weighted average common shares	**36,119,610**	39,025,008	**36,577,295**	39,078,374
Basic gain (loss) per share	**($0.14)**	($0.33)	**($0.05)**	($0.26)
Fully diluted gain (loss) per share				
Net (loss)	**(5,231)**	(12,995)	**(1,735)**	(10,137)
Weighted average common shares after taking into effect dilutive convertible debentures	**36,119,610**	39,025,008	**36,577,295**	39,078,374
Fully diluted gain (loss) per share	**($0.14)**	($0.33)	**($0.05)**	($0.26)

In calculating fully diluted loss per common share for the six months ended June 30, 2015 and 2014, the Company excluded nil (2014 – 7,717,486) purchase warrants and 8,277,913 (2014 – 9,710,782) common shares from the conversion of the convertible debentures as their impact was anti-dilutive.

14. NET ASSET VALUE

The financial statements contain references to “Net Asset Value” (basic and fully diluted) (“NAV”), which is a non-IFRS financial measure. The basic NAV is calculated by subtracting the aggregate fair value of the liabilities of the Company from the aggregate fair value of the assets of the Company on the date on which the calculation is being made and NAV per share as NAV divided by the total number of common shares of the Company outstanding as at a specific date. Fully diluted NAV is calculated by taking basic NAV and accounting for any dilutive impact of outstanding securities of the Company that are convertible into or exercisable for common shares that have been converted or exercised. The term net asset value per share does not have any standardized meaning according to IFRS and therefore may not be comparable to similar measures presented by other companies.