DIFFERENCE
CAPITAL

Financial Statements

December 31, 2015

INDEPENDENT AUDITORS' REPORT

To the Shareholders of **Difference Capital Financial Inc.**

We have audited the accompanying financial statements of **Difference Capital Financial Inc.** ("the Company"), which comprise the statements of financial position as at December 31, 2015 and 2014, and the statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the years ended December 31, 2015 and 2014, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP
Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 9, 2016

STATEMENTS OF FINANCIAL POSITION

As at Amounts in thousands of Canadian dollars (except per share amounts)	**December 31 2015**	**December 31 2014**
ASSETS		
Current		
Cash and cash equivalents	**$ 13,051**	$ 11,799
Distribution receivables *[note 3]*	**1,728**	—
Marketable securities *[note 4]*	**378**	687
Prepaid expenses, deposits and other receivables	**98**	674
Due from broker	**—**	1,133
Interest receivable	**285**	2,145
Total current assets	**15,540**	16,438
Distribution receivables *[note 3]*	**958**	—
Other receivables	**—**	200
Investments *[note 5]*	**76,568**	98,314
Total assets	**$ 93,066**	$ 114,952
LIABILITIES		
Current		
Marketable securities sold short *[note 4]*	**$ —**	$ 23
Accounts payable and accrued liabilities	**517**	416
Management fees payable *[note 13]*	**—**	213
Accrued annual incentive plan *[note 16]*	**90**	—
Due to broker	**—**	26
Accrued interest on convertible debentures	**1,151**	1,724
Total current liabilities	**1,758**	2,402
Convertible debentures *[note 7]*	**32,432**	46,616
Total liabilities	**34,190**	49,018
SHAREHOLDERS' EQUITY		
Share capital *[note 8]*	**135,715**	176,555
Equity component of convertible debentures *[note 7]*	**2,593**	3,823
Contributed surplus	**77,126**	44,259
Deficit	**(156,558)**	(158,703)
Total shareholders' equity	**58,876**	65,934
Total liabilities and shareholders' equity	**$ 93,066**	$ 114,952
Net Asset Value per share *[note 17]*		
Basic and diluted	**$ 2.01**	$ 1.73

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)

Years ended December 31, Amounts in thousands of Canadian dollars (except for common shares and per share amounts)	**2015**	**2014**
NET REALIZED AND UNREALIZED GAIN (LOSS)		
Net realized gain (loss) on disposal of investments and marketable securities	**$ (25,269)**	$ 4,635
Net change in unrealized gain (loss) on investments and marketable securities	**38,171**	(43,431)
	12,902	(38,796)
OTHER INCOME		
Interest, dividends and other income	**2,491**	5,813
Participation in advisory fees and equity capital market revenue *[note 13]*	**157**	719
Gain on repurchase of convertible debentures *[note 7]*	**1,047**	489
	3,695	7,021
EXPENSES		
Management fees *[note 13]*	**935**	3,046
Employee compensation and benefits *[note 16]*	**1,481**	—
Professional fees	**1,370**	2,408
General and administrative *[note 13]*	**646**	609
Provision for uncollectible receivables	**932**	3,444
Harmonized sales tax	**338**	614
Financing costs	**4,768**	5,513
Transaction costs *[note 13]*	**3,982**	679
Total expenses	**14,452**	16,313
Net income (loss) and comprehensive income (loss)	**$ 2,145**	$ (48,088)
Weighted average number of common shares outstanding *[note 15]*		
Basic and diluted	**36,197,889**	38,769,190
Income (loss) per share *[note 15]*		
Basic and diluted	**$0.06**	$(1.24)

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

STATEMENTS OF CHANGES IN EQUITY

Years ended December 31, Amounts in thousands of Canadian dollars	**2015**	2014
Share capital		
Balance, beginning of the year	**$ 176,555**	$ 180,875
Normal course issuer bid common shares repurchased and cancelled *[note 8]*	**(10,431)**	(4,320)
Substantial issuer bid common shares repurchased and cancelled *[note 8]*	**(30,409)**	—
Balance, December 31	**135,715**	176,555
Equity component of convertible debentures		
Balance, beginning of the year	**3,823**	4,119
Normal course issuer bid convertible debentures repurchased and cancelled *[note 7]*	**(345)**	(296)
Substantial issuer bid convertible debentures repurchased and cancelled *[note 7]*	**(885)**	—
Balance, December 31	**2,593**	3,823
Contributed surplus		
Balance, beginning of the year	**44,259**	41,159
Normal course issuer bid common shares repurchased and cancelled *[note 8]*	**8,204**	2,925
Substantial issuer bid common shares repurchased and cancelled *[note 8]*	**23,501**	—
Normal course issuer bid convertible debentures repurchased and cancelled *[note 7]*	**383**	175
Substantial issuer bid convertible debentures repurchased and cancelled *[note 7]*	**779**	—
Balance, December 31	**77,126**	44,259
Deficit		
Balance, beginning of the year	**(158,703)**	(110,615)
Net income (loss) and comprehensive income (loss)	**2,145**	(48,088)
Balance, December 31	**(156,558)**	(158,703)
Net change in equity during the year	**(7,058)**	(49,604)
Equity, beginning of the year	**65,934**	115,538
Balance, December 31	**$ 58,876**	$ 65,934

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

STATEMENTS OF CASH FLOWS

Years ended December 31, Amounts in thousands of Canadian dollars	2015	2014
OPERATING ACTIVITIES		
Net income (loss) for the year	**$ 2,145**	$ (48,088)
Items not affecting cash:		
Net realized (gain) loss on disposal of investments and marketable securities	**25,269**	(4,635)
Net change in unrealized (gain) loss on investments and marketable securities	**(38,171)**	43,431
Net change in participation in advisory fees payable in shares	**200**	(101)
Amortization of financing costs on convertible debentures	**1,097**	1,168
Non-cash payment of transaction costs	**1,035**	—
(Gain) on repurchase of convertible debentures	**(1,047)**	(489)
Conversion of interest revenue into equities and debentures	**(1,376)**	(661)
Net change in non-cash working capital balances	**262**	(1,474)
Purchase of marketable securities	**(1,841)**	(3,949)
Proceeds from disposal of marketable securities	**7,494**	13,051
Purchase of investments	**(6,000)**	(36,707)
Proceeds from disposal and maturity of investments	**35,622**	30,633
Cash provided by (used in) operating activities	**24,689**	(7,821)
FINANCING ACTIVITIES		
Normal course issuer bid common shares repurchased and cancelled *[note 8]*	**(2,227)**	—
Substantial issuer bid common shares repurchased and cancelled *[note 8]*	**(6,908)**	—
Normal course issuer bid convertible debentures repurchased and cancelled *[note 7]*	**(3,743)**	(1,395)
Substantial issuer bid convertible debentures repurchased and cancelled *[note 7]*	**(10,559)**	(3,214)
Cash used in financing activities	**(23,437)**	(4,609)
Net increase (decrease) in cash during the year	**1,252**	(12,430)
Cash and cash equivalents, beginning of the year	**11,799**	24,229
Cash and cash equivalents, end of the year	**$ 13,051**	$ 11,799
Interest received	**$ 1,949**	$ 1,961
Dividends received	**210**	165
Interest paid	**4,194**	4,824

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

SCHEDULE OF INVESTMENTS

Amounts in thousands of Canadian dollars	INVESTMENT TYPE	COUNTRY	December 31, 2015 AVERAGE COST $	FAIR VALUE $
FINANCIAL TECHNOLOGIES				
Carta Solutions Holding Corporation	equity securities and warrants	Canada	3,655	
Ethoca Solutions Inc.	equity securities	Canada	1,508	
Mogo Finance Technology Inc.	common shares	Canada	2,094	
			7,257	8,901
HEALTHCARE				
BrainScope Company Inc.	equity securities	United States	1,563	
Cardiac Dimensions Pty. Ltd.	equity securities	United States	2,183	
Fem Med Formulas Limited Partnership	convertible debentures	Canada	2,500	
Other	equity securities and warrants	Canada	72	
			6,318	5,072
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	1,010	
Shop.ca Network Inc.	equity securities	Canada	1,600	
			21,296	19,003
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	6,500	
iPowow! Inc.	equity securities	Canada	5,462	
			22,749	13,405
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	
Quickplay Media Inc.	equity securities	Canada	3,365	
BTI Systems Inc.	equity securities and warrants	United States	1,887	
BTI Systems Inc.	convertible debentures	United States	252	
Embotics Corporation	convertible debentures	Canada	1,000	
WG Limited	equity securities and warrants	Canada	3,839	
Other	equity securities	Canada and United States	1,004	
			23,889	20,380
OTHER				
Difference RM Holdings Corp.	equity securities	United States	6,108	
Waterloo Innovation Network LP	limited partnership units	Canada	2,000	
Crailar Technologies Inc.	convertible debentures	Canada	5,100	
Kalina Power Ltd. (formerly Enhanced Systems Technologies)	equity securities	Australia	3,335	
Other	convertible debentures, equity securities and units	Australia and Canada	718	
			17,261	9,807
TOTAL INVESTMENTS			**98,770**	**76,568**

PORTFOLIO INVESTMENTS AND FAIR VALUE

Significant purchases, sales and changes in valuation of investments for the year ended December 31, 2015 included the following:

Bluedrop Performance Learning Inc. ("Bluedrop")
As at December 31, 2014, the Company held $3.0 million of Bluedrop unsecured convertible debentures that pays 14% interest per annum and are convertible into common shares of Bluedrop at the option of the Company at anytime prior to maturity at a conversion price of $0.15 per common share. In February 2015, the Company invested an additional $0.6 million in an unsecured convertible debenture of Bluedrop under the same terms. In December 2015, the Company agreed to an extension of the maturity of its $3.0 million unsecured convertible debenture of Bluedrop from December 30, 2016 to December 30, 2017.

BTI Systems Inc. (“BTI”)
Subsequent to year-end, BTI was acquired by Juniper Networks Inc. ("Juniper"). The Company had invested US$1.8 million in preferred shares and US$0.2 million in convertible debentures of BTI. As at December 31, 2015, the Company's investments in BTI were valued based on the expected proceeds from the Juniper sale, resulting in approximately a $0.4 million unrealized gain during the year.

Chieftain Residential, LP (“Chieftain”)
In January 2015, the Company sold its interest in Chieftain for aggregate proceeds of $12.9 million, resulting in approximately $2.4 million of realized gain during the year ended December 31, 2015.

Ethoca Solutions Inc. ("Ethoca")
In July 2015, Ethoca completed a US$45.0 million primary and secondary equity offering round led by a major private equity firm. The common shares of Ethoca held by the Company were revalued based on this most recent round of financing, resulting in approximately $2.1 million of unrealized gain during the year ended December 31, 2015.

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

InfraReDx, Inc. ("Infraredx")
In October 2015, Infraredx was sold to Nipro Corporation ("Nipro"). The Company had invested US$5.0 million in convertible debentures of Infraredx and expects to receive full payment, subject to certain conditions. As of December 31, 2015, the Company had received US$3.5 million representing the first tranche of payment. The remaining amount of $1.9 million has been placed in escrow to cover potential indemnification claims and will be released to the Company in two tranches in the fourth quarter of 2016 and in the second quarter of 2017, respectively. The Company recorded approximately $1.4 million in realized gain from the Nipro transaction.

Lignol Energy Corporation (“Lignol”)
In 2014, the Company placed Lignol into receivership. The Company, as a senior secured creditor, recovered approximately $5.2 million in total cash distributions from the sale of the Lignol assets and assumed a 21% interest in Australian Renewal Fuels Limited ("AR Fuels"), a publicly traded company on the Australian Securities Exchange. The Company recorded a net gain on investment of $4.5 million during the year. Subsequent to year-end, AR Fuels was placed into voluntary administration. The impact of this event is not material to the 2015 financial statements of the Company.

Quickplay Media Inc. ("Quickplay")
In February 2015, the Company invested an additional $1.0 million in Quickplay common shares.

Scribble Technologies Inc. ("Scribblelive")
In April 2015, Appinions Inc., a portfolio company of the Company, was purchased through a share exchange by Scribblelive. As at December 31, 2015, the Company adjusted its holding of Scribblelive based on the expected shares to be received from the transaction valued at the most recent round of financing. As a result, the Company recorded approximately $1.7 million in unrealized loss during the year.

Vena Solutions ("Vena")
In 2015, the Company invested an additional $1.0 million in Vena units (“Unit”). Each Unit consists of one common share and one-half of one common share warrant. As at December 31, 2015, the Units were revalued based on the most recent round of financing. The revaluation resulted in approximately $1.4 million of unrealized gain in 2015.

Vision Critical Communications Inc. ("Vision")
During 2015, the Company acquired through the secondary market an additional $0.3 million in common shares and $0.4 million in preferred shares of Vision. As at December 31, 2015, the common and preferred shares were revalued based on the most recent round of financing. The revaluation resulted in approximately $0.5 million of unrealized gain in 2015.

WG Limited ("World Gaming")
In September 2015, World Gaming sold its operational assets to Cineplex Inc. ("Cineplex"). As part of the transaction, Cineplex paid US$10.0 million to acquire the assets in exchange for 80% ownership of a new company, and will invest an additional US$5.0 million to expand the business model. In connection with this sale, the Company expects to receive $7.4 million, net of transaction costs. Of this amount, the Company had received $6.6 million and expects to receive the remaining $0.8 million from escrow in the third quarter of 2016. In addition, the Company will continue to hold a small indirect equity interest in the new company going forward. The transaction resulted in a net gain on investment of $7.1 million during the year.

Other
During the year ended December 31, 2015, the Company made fair value adjustments to its investments in Baanto International Ltd., Crailar Technologies Inc., Cricket Media Group Ltd., and iPowow! Inc. based on comparable publicly traded instruments and/or qualitative observations reflecting the current financial situation of these companies. The adjustments resulted in $4.4 million of unrealized loss in the fair value of these investments in 2015.

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 audited financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements were authorized for issuance by the Board of Directors of Difference Capital on March 9, 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 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. Refer to Note 12, Fair Value Measurement, for specific disclosure on fair value estimation of privately held investments.

Financial instruments

The Company records financial instruments at fair value upon initial recognition. Regular way purchases and sales of financial assets are recognized at their trade date. The Company measures its investments, marketable securities and marketable securities sold short at fair value through profit and loss ("FVTPL"). These financial assets and financial liabilities are classified as held for trading ("HFT") or designated by management at FVTPL at inception. The classification depends on the purpose for which the financial assets were acquired. Marketable securities and marketable securities sold short are classified as HFT since they are acquired with the intent to sell or repurchase in the short term. Investments are designated as FVTPL upon initial recognition on the basis that they are part of a group of financial assets that are managed and have their performance evaluated on a fair value basis, in accordance with risk management and investment strategies of the Company. After recognition, the Company's investments, marketable securities and marketable securities sold

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

short are measured at fair value with unrealized gains or losses presented in the statements of income (loss) comprehensive income (loss) in the period in which they arise. All other financial assets, including cash and cash equivalents, receivables, and due from broker, are measured at amortized cost. All other financial liabilities, including payables, accrued liabilities, due to broker and convertible debentures, are measured at amortized cost using the effective interest rate method and transaction costs associated with convertible debentures are amortized through income over the life of the instrument.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or derived from such prices. Where observable prices or inputs are not available, valuation techniques are applied. These valuation techniques involve varying levels of management estimation and judgement, the degree of which is dependent on a variety of factors.

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. The type of investments and marketable securities included in this category are publicly traded equities, debt and securities sold short;

(ii) Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. The type of investments included in this category include less liquid and restricted equity securities and certain over-the-counter derviatives; and

(iii) Level 3 — Inputs for the asset or liability that are not based on observable market data. Investments classified within this category consist of private equity and debt securities.

See Note 12 Fair Value Measurement for additional disclosure of the Company's investments and marketable securities by the level in the fair value hierarchy into which the fair value measurement is categorized and the Company's valuation techniques that involve unobservable inputs.

Investments in associates and subsidiaries

The Company has determined that it meets the definition of an "investment entity" and as a result, it measures subsidiaries and associates at FVTPL. An investment entity is an entity that obtains funds from one or more investors for the purpose of providing them with investment management services, commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both, and measures and evaluates the performance of substantially all of its investments on a fair value basis. The Company believes it meets all of the requirements listed above. Refer to Note 6 for specific disclosures related to investments in associates and subsidiaries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash is comprised of deposits held with financial institutions and cash equivalents consist of bank term deposits with original maturities of three months or less.

Transaction costs

Acquisition and transaction costs relating to marketable securities and investments are recognized as expenses as incurred.

Foreign currency translation

The value of assets and liabilities quoted in foreign currencies are translated into Canadian dollars at the exchange rate in effect on the relevant statement of financial position date. Purchases and sales of investments, income and expenses are translated into Canadian dollars at the foreign exchange rates prevailing on the dates of such transactions. Foreign exchange gains and losses are included in income in the period in which they occur.

Revenue recognition

Realized gain or loss on disposal of investments and marketable securities and unrealized gain or loss on investments and marketable securities are determined based on the weighted average cost. Interest income is recorded on an accrual basis. Dividend income is recognized on the ex-dividend date.

Impairment

Accrued interest and other receivables are considered impaired when there is objective evidence that the full carrying amount of the accrued interest or account receivable is not collectible. When an impaired receivable is identified, the carrying amount of the loan or receivable is reduced to its estimated realizable amount, which is measured by discounting the expected future cash flows at the original effective interest rate of the loan or receivable. The excess of the carrying amount over the estimated realizable value of the loan or receivable represents an impairment loss which is recognized in the statements of income (loss) and comprehensive income (loss). If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognized, any reversal of impairment is recognized in the current period statements of income (loss) and comprehensive income (loss) by adjusting the carrying amount of the receivable accordingly.

As at December 31, 2015, interest and other receivables with an initial value of $2.4 million (December 31, 2014 - $5.6 million) were identified as impaired and a provision for impairment was made. The movements in the provision for impairment of interest and other receivables were as follows:

	$000
Provision, at January 1, 2014	665
Provision for uncollectible receivables	3,444
Provision utilized	(2,345)
Provision, at December 31, 2014	1,764
Provision for uncollectible receivables	932
Provision utilized	(2,417)
Provision, at December 31, 2015	**279**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment (continued)

Refer to Note 11 on credit risk, which discusses how the Company seeks to mitigate credit risk where possible.

Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated using the weighted average number of shares that would have been outstanding during the period had all potential common shares been issued at the beginning of the period, or when other potential dilutive instruments were granted or issued, if later. Refer to Note 15 for further details.

Income tax

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in the statements of income (loss) and comprehensive income (loss) except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences, and the carry forward of non-capital losses, can be utilized. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the tax laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future profit will allow the deferred tax asset to be recovered and/or the carrying value of temporary differences exceed their tax basis.

Convertible debentures

Convertible debentures are separated into their liability and equity components on the statements of financial position. The liability component is initially recognized at fair value, determined as the net present value of future payments of interest and principal, discounted at the market rate for similar non-convertible liabilities at the time of issue. The liability component is subsequently measured at amortized cost, using the effective interest method, until extinguished upon conversion, maturity or a normal course issuer bid. The fair value of the equity component of the convertible debentures is estimated using the residual method in which the difference between the face value of the instrument and the fair value of the debt component is allocated as the fair value of the equity component. The issuance costs have been allocated on a pro-rata basis between the debt and equity components. Refer to Note 7 for further details.

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 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.

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 an 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 December 31, 2015 included $0.8 million from the sale of the operational assets of World Gaming to Cineplex held in escrow to cover potential indemnification claims, which is anticpated to be released to Difference Capital in the third quarter of 2016; and $1.9 million from the sale of Infraredx to Nipro held in escrow to cover potential indemnification claims, which is anticipated to be released to Difference Capital in two tranches in the fourth quarter of 2016 and the second quarter of 2017, respectively.

4. MARKETABLE SECURITIES AND MARKETABLE SECURITIES SOLD SHORT

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

As at	December 31, 2015		December 31, 2014	
	Marketable securities $000	Marketable securities sold short $000	Marketable securities $000	Marketable securities sold short $000
Equity securities	378	-	687	23
	378	**-**	687	23

5. INVESTMENTS

Investments consist of the following by investment type:

As at	December 31, 2015 $000	December 31, 2014 $000
Equity securities	61,931	57,819
Convertible debentures	12,203	21,790
Debentures, loans and promissory notes	150	6,400
Partnership interests	2,000	10,504
Warrants	284	1,801
	76,568	98,314

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 %	
			December 31, 2015	December 31, 2014
Difference RM Holding Corp.	Subsidiary	United States	100%	100%
Gotham Analytics, LLC	Associate	United States	40%	48%
iPowow! Inc.	Associate	Canada	20%	44%
World Gaming	Associate	Canada	38%	18%

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,

6. INVESTMENTS IN ASSOCIATES AND SUBSIDIARIES (continued)

immediately to the southeast of Palm Springs.

Difference Capital owns 38% of World Gaming, 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.

7. CONVERTIBLE DEBENTURES

In July 2013, the Company issued senior unsecured convertible debentures (the "Debentures") in an aggregate principal amount of $56.1 million.

The Debentures mature on July 31, 2018 and bear interest at a rate of 8% per annum payable January 31, 2014 and semi-annually thereafter. Each $1,000 principal amount of the Debentures is convertible into 173.91 common shares of the Company, at the option of the holder, representing a conversion price of $5.75 per share. On or after July 31, 2016 and prior to July 31, 2017, the Debentures may be redeemed from holders selected by the Company, in whole or in part, from time to time at the option of the Company on not more than 60 days and not less than 30 days prior notice at a price equal to their principal amount plus accrued and unpaid interest, provided that the current market price on the date on which the notice of redemption is given is not less than 125% of the conversion price. After the Company has sent a notice of redemption, any subsequent conversion of such Debentures that were the subject of the notice, prior to the date of redemption, shall be at the discretion of the Company. On or after July 31, 2017 and prior to the maturity date, the Debentures may be redeemed in whole or in part at the option of the Company on not more than 60 days and not less than 30 days prior notice at a price equal to their principal amount plus accrued and unpaid interest. The Debentures are compound financial instruments that consist of the debt instrument and the equity conversion feature. At initial recognition, the Company allocated the proceeds between liabilities and equity. The allocation was performed by first estimating the fair value of the Debentures, which is the liability in absence of the conversion feature using a market rate of interest of 10%. The Company then used the residual method to determine the value of the equity component represented by the conversion feature. The amounts allocated between liabilities and equity, net of transaction costs, were $48.7 million and $4.1 million, respectively.

On December 3, 2013, the Company announced a normal course issuer bid ("2014 Debentures NCIB") to repurchase its Debentures. The Company was authorized to repurchase for cancellation up to $2.0 million principal amount of its Debentures, representing 3.5% of the issued and outstanding Debentures. In August 2014, the Company received approval from the Toronto Stock Exchange ("TSX") to amend its 2014 Debentures NCIB in order to increase the maximum principal amount of convertible debentures that may be purchased under the 2014 Debentures NCIB from $2.0 million to $4.4 million. The 2014 Debentures NCIB expired on December 4, 2014.

On December 8, 2014, the Company received approval from the TSX to renew its NCIB ("2015 Debentures NCIB") to repurchase its Debentures. Pursuant to the policies of the TSX, the Company was authorized to acquire up to $4.2 million principal amount of its Debentures, representing 10% of the public float of outstanding Debentures. The 2015 Debentures NCIB expired on December 9, 2015.

On October 15, 2015, the Company completed its substantial issuer bid ("2015 Debentures SIB") to purchase for cancellation from holders of the outstanding Debentures $12.0 million aggregate

7. CONVERTIBLE DEBENTURES (continued)

principal amount of the issued and outstanding Debentures at a purchase price of $880 per $1,000 principal amount of Debentures.

On December 11, 2015, the Company received approval from the TSX to renew its NCIB (“2016 Debentures 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 Debentures NCIB will expire on December 14, 2016.

During the year ended December 31, 2015, the Company repurchased $16.7 million principal amount of the Debentures [December 31, 2014 – $4.0 million], for an aggregate consideration of $14.3 million [December 31, 2014 – $3.2 million]. Out of the amount paid, $15.3 million was recorded as a reduction to the liability component of the Debentures [December 31, 2014 – $3.6 million], $1.2 million was recorded as a reduction to the equity component of the Debentures [December 31, 2014 – $0.3 million], $1.0 million was recorded as a gain on repurchase of convertible debentures in the statements of income (loss) and comprehensive income (loss) [December 31, 2014 – $0.5 million], and $1.2 million was recorded as an increase in contributed surplus [December 31, 2014 – $0.2 million].

The changes in the liability component of the Debentures during the year ended December 31, 2014 and 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	1,097
Normal course issuer bid repurchases	(4,251)
Substantial issuer bid repurchase	(11,030)
Liability component, December 31, 2015	**32,432**

The changes in the principal amount of the Debentures outstanding during the year ended December 31, 2014 and 2015 were 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	(4,686)
Substantial issuer bid repurchase	(11,999)
Principal amount, December 31, 2015	**35,146**

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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, 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)
Substantial issuer bid repurchase	(6,578,950)	(30,409)
Common shares, December 31, 2015	**29,361,984**	**135,715**

On December 3, 2013, the Company obtained applicable regulatory approval to purchase for cancellation, from time to time, its issued and outstanding common shares, through the facilities of the TSX ("2014 Common Shares NCIB"). 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 2014 Common Shares NCIB. Outside of these pre-determined black-out periods, shares were purchased in accordance with management's discretion. Under its 2014 Common Shares NCIB, the Company was permitted to purchase up to 1.0 million common shares, representing 2.5% of the then issued and outstanding common shares. The 2014 Common Shares NCIB expired on December 4, 2014.

On December 8, 2014, the Company received approval to renew its NCIB ("2015 Common Shares NCIB"). The Company was authorized to acquire up to 2.4 million common shares, representing 10% of the public float of the then issued and outstanding common shares. The 2015 Common Shares NCIB expired on December 9, 2015.

On December 30, 2015, the Company completed its substantial issuer bid ("2015 Common Shares SIB") to purchase for cancellation 6.6 million of its common shares in the capital of the Company at a purchase price of $1.05 per common share, for a total cost of approximately $6.9 million.

During the year ended ended December 31, 2015, 8.8 million common shares were repurchased [December 31, 2014 – 0.9 million] at an average cost of $1.03 per common share [December 31, 2014 – $1.50] for total consideration of $9.1 million [December 31, 2014 – $1.4 million]. Contributed surplus was increased by $31.7 million [December 31, 2014 – $2.9 million] for the cost of the common shares repurchased below their stated value.

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9. INCOME TAXES

As at December 31, 2015, the Company has unrecognized deductible temporary differences consisting of: capital losses of approximately $168.5 million [December 31, 2014 – $147.2 million], unrealized capital losses of approximately $22.0 million [December 31, 2014 – $56.2 million], unamortized financing costs of $3.0 million [December 31, 2014 – $4.6 million], and non-capital losses of approximately $33.3 million [December 31, 2014 – $29.1 million] that may be carried forward to reduce income taxes in future years. If not utilized, the non-capital losses will expire as follows:

2026	801,603
2027	1,673,226
2028	2,982,447
2029	3,447,337
2030	1,120,101
2031	978,440
2032	2,309,061
2033	3,890,342
2034	11,363,927
2035	4,765,582
	$33,332,066

The Company has not recognized any of these benefits in the financial statements as it is uncertain that these tax benefits will be utilized in the foreseeable future and, accordingly, the Company has not recognized any tax recoveries in its financial statements.

Rate reconciliation (amounts in thousands)

A reconciliation of accounting loss to tax expense is as follows:

Income (loss) before tax	$ 2,145
Combined statutory Canadian federal and provincial income tax rate	26.5%
Provision for (recovery of) income taxes based on statutory tax rate	568
Increase (decrease) in income taxes resulting from	
Non-deductible items	216
Utilization of previously unrecognized tax losses	(784)
Tax provision for (recovery of) income taxes	-

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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 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**

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 and cash equivalents	-	-	-	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	-	-	-	416	416
Management fees payable	-	-	-	213	213
Due to broker	-	-	-	26	26
Convertible debentures	-	-	-	48,340	48,340
Total Financial Liabilities	**23**	**-**	**23**	**48,995**	**49,018**

10. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

For the year ended December 31, 2015, the total of the change in unrealized gain (loss) and realized gain (loss) from disposal of financial assets classified as HFT was $0.1 million [December 31, 2014 – $3.8 million], the total of the change in unrealized gain (loss) and realized gain (loss) from disposal of financial assets classified as FVTPL was $12.8 million [December 31, 2014 – ($42.9) million] and the total of the change in unrealized gain (loss) and realized gain (loss) on financial liabilities designated as HFT was nil [December 31, 2014 – $0.3 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.

As at December 31, 2015, the Company holds the following fixed-rate debt instruments: (a) $12.5 million [December 31, 2014 - $23.1 million] in convertible debentures with a weighted average interest rate of 10.75% [December 31, 2014 – 8.86%] and a weighted average term to maturity of approximately 1.1 years [December 31, 2014 – 1.4 years]; and (b) $0.2 million [December 31, 2014 – $6.9 million] in non-convertible debentures with a weighted average interest rate of 4.85% [December 31, 2014 – 10.56%] and a weighted average term to maturity of approximately 1.0 year [December 31, 2014 – 1.7 years]. 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 December 31, 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 $0.1 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 $0.1 million [December 31, 2014 – $0.4 million].

11. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

Currency risk

Changes in currency rates will impact the carrying value of financial instruments denominated in currencies other than the Canadian dollar. As at December 31, 2015, the Company is primarily exposed to foreign exchange risk through its US dollar denominated investments of $21.3 million [December 31, 2014 - $34.2 million], which represent approximately 22.7% [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 5% in relation to the foreign currencies, the investments would decrease or increase in value by approximately $1.1 million, respectively [December 31, 2014 – $1.7 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 $7.7 million [December 31, 2014 – $9.9 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.

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

	December 31, 2015 $000	December 31, 2014 $000
Cash and cash equivalents	13,051	11,799
Distribution receivables	2,686	-
Convertible debentures	12,203	21,790
Debentures, loans and promissory notes	150	6,400
Accrued interest	285	2,145
Other receivables	98	674
	28,473	42,808

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.

11. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

b) Credit risk (continued)

As at December 31, 2015, there were no debts overdue [2014 – $1.2 million]. For the year ended December 31, 2015, unrealized losses of $2.5 million [2014 – $31.2 million] were attributable to changes in credit risk of the debt instruments.

As at December 31, 2015, $0.3 million of interest receivable were past due [2014 – $0.8 million]. During the year ended December 31, 2015, an allowance for impairment in respect of accrued interest of $0.9 million [2014 – $3.2 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 December 31, 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 December 31, 2015.

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

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**

As at December 31, 2014	Less than one year $000	One to three years $000	Over three years $000	Total $000
Financial Liabilities				
Marketable securities sold short	23	-	-	**23**
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	**4,825**	**8,293**	**55,977**	**69,095**

11. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

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.

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 December 31, 2015	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Equities	1,194	245	60,870	62,309
Convertible debentures	-	-	12,203	12,203
Debentures, loans and promissory notes	-	-	150	150
Partnership interest	-	-	2,000	2,000
Warrants	-	169	115	284
Total Financial Assets	**1,194**	**414**	**75,338**	**76,946**

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 year ended December 31, 2015, there were $1.1 million of equities transfered from Level 2 to Level 1 [December 31, 2014 - $0.7 million] and there were no transfers from Level 1 to Level 2 [December 31, 2014 – nil]. The transfer out of Level 2 to Level 1 consists of restricted securities where the restriction was lifted during the period. There were $0.3 million of convertible debentures transferred from Level 2 to Level 3 [December 31, 2014 – $2.3 million] and there were $2.0 million of equities transferred from Level 3 to Level 2 [December 31, 2014 – nil]. The transfer out of Level 2 to Level 3 was a result of using non-observable inputs to value a convertible debenture and the transfer out of Level 3 to Level 2

12. FAIR VALUE MEASUREMENT (continued)

consists of a private company that completed its initial public offering where the shares are subject to transfer restrictions.

Fair value estimation

On a quarterly basis, the Company utilizes a valuation committee, consisting of members from management, investment and finance, to review and approve the valuation results of every position in the portfolio. The Company may also engage an independent valuation firm to perform an independent valuation in situations where it requires additional expertise. The valuation results are reviewed with the audit committee as part of its quarterly approval of the Company's financial statements.

The fair value of the Company's marketable securities and investments are determined as follows:

Listed securities

The fair value of securities traded in active markets are based on quoted market prices at the close of trading on the reporting date. The Company uses the last traded market price where the last traded price falls within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Company determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. The fair value of securities that are subject to trading restrictions are recorded at a value which takes into account the length and nature of the restrictions.

Unlisted securities

For investments that are not publicly traded, subsequent to initial recognition, the fair value of these investments is determined by the Company using the most appropriate valuation methodology in light of the nature, facts and circumstances of the investment and its materiality in the context of the total investment portfolio.

For unlisted equity instruments:

- Investments are valued at cost for a limited period after the date of acquisition, if the purchase price remains representative of the fair value at the reporting date; otherwise, investments are valued using one of the other methodologies detailed below.

- Investments in which there has been a recent or in-progress funding round involving significant financing from external investors are valued at the price of the recent funding, whereby the various shareholder categories rights are taken into account in the valuation. The price is adjusted, where appropriate, if an external investor is motivated by strategic considerations.

- Investments in which there has been a recent financing round involving only existing investors participating proportionally to their existing investments are examined as to whether specific conditions exist that could reduce the reliability of this financing round as an indication of real value. An internal financing with investors at a lower price than the valuation at the previous reporting date may indicate a decrease in value and is taken into consideration.

12. FAIR VALUE MEASUREMENT (continued)

- Investments that have achieved an exit after the valuation date but before finalization of the financial statements are valued based on the exit valuation, if the exit valuation was reasonably evident at the measurement date.

- Investments in which there has been a recent private secondary market trade of meaningful volume and the transaction is undertaken by a sophisticated, arm's-length investor are valued at the price of the recent trade and are adjusted, as appropriate, if the purchaser is motivated by strategic considerations.

- Investments in established portfolio companies for which there has not been any recent independent funding or secondary private market transaction are valued by using revenue or earnings multiples. When valued on a multiple basis, the maintainable revenue or earnings of a portfolio company are multiplied by an appropriate multiple. The multiple is derived from the market capitalization of a peer group. Companies are selected for the peer group that are comparable with the portfolio company to be valued as to their business model and size. If the portfolio company to be valued differs in certain aspects compared with features of companies in the peer group, discounts or premiums are applied to the relevant multiple or resulting valuation.

- Investments in early-stage companies not generating sustainable revenue or earnings and for which there has not been any recent independent funding are valued using alternative methodologies. The Company considers investee company performance relative to plan, going concern risk, continued funding availability, comparable peer group valuations, exit market conditions and general sector conditions and calibrates its valuation of each investment as appropriate.

- Investments in limited partnerships are valued on the most recently available value of its net assets.

- For public company warrants (i.e., the underlying security of which is traded on a recognized stock exchange), valuation models such as Black-Scholes are used when there are sufficient and reliable observable market inputs. These market inputs include risk-free interest rate, exercise price, market price at date of valuation, expected dividend yield, expected life of the instrument and expected volatility of the underlying security. To the extent that the market inputs are insufficient or unreliable, the warrants are valued at their intrinsic value, which is equal to the higher of the closing price of the underlying security less the exercise price of the warrant, or nil. For private company warrants, the underlying security is not traded on a recognized stock exchange, therefore fair value is determined consistent with other investments that do not have an active market, as described above.

Fair values for unlisted debt instruments are determined as follows:

- Loans, debentures and promissory notes issued by investees are generally valued at the price at which the instrument was issued. The Company regularly considers whether any indications of deterioration in the value of the underlying business exist, which suggest that the debt instrument will not be fully recovered. The Company may employ discounted cash flow analysis, market comparable analysis of listed debt instruments with similar credit quality or liquidation value analysis to determine the fair value of the debt instrument.

- Convertible debentures are valued at par if the price of the underlying common shares is less than the conversion price; valued as though converted to common shares if the price of

12. FAIR VALUE MEASUREMENT (continued)

the underlying common shares exceeds the conversion price; or valued using methodologies consistent to non-convertible debentures as discussed above.

The Company may apply a further illiquidity discount to the fair value of an investment if conditions exist that could make it challenging to monetize the investment in the near term at a price indicated by the valuation models. The amount of illiquidity discount applied requires considerable judgement and is based on the facts and circumstances of each investment.

The process of valuing investments for which no active market exists is inevitably based on inherent uncertainties, and the resulting values may differ significantly from values that would have been used had a ready market existed for the investments. These differences could be material to the fair value of investments in the portfolio.

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

	Year ended December 31, 2015 $000	Year ended December 31, 2014 $000
Opening balance, beginning of year	92,766	115,129
Purchases	7,283	24,119
Sales	(36,743)	(7,179)
Realized gains	(22,009)	(450)
Transfers	(1,746)	2,250
Change in unrealized gain (loss)	35,787	(41,103)
Balance, end of year	**75,338**	**92,766**
Total change in unrealized gain (loss) of assets held as at end of year	13,778	(41,553)

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December 31, 2015 (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 December 31, 2015:

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	4,109	Transaction price	Purchase price (1)	N/A	N/A	N/A	N/A
Warrants	26	Transaction price	Purchase price	N/A	N/A	N/A	N/A
Equity securities	3,707	Transaction price	Third party transactions (2)	N/A	N/A	N/A	N/A
HEALTHCARE							
Equity securities	4,902	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%-30%	17.5%	5.0%	680/(680)
Equity securities	2,714	Market comparable companies	Revenue multiple (4)	4.8x-6.6x	6.4x	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	660	Market comparable companies	Revenue multiple	2.0x	2.0x	0.5x	310/(310)
Convertible debentures	1,000	Market comparable companies	Revenue multiple	0.6x	0.6x	0.1x	743/(743)
TECHNOLOGIES							
Equity securities	5,728	Transaction price	Third party transactions	N/A	N/A	N/A	N/A
			Discount	0%-20%	7.7%	0.5%	22/(22)
Warrants	84	Transaction price	Third party transactions	N/A	N/A	N/A	N/A
			Discount	1%	1%	0.5%	-
Equity securities	3,365	Market comparable companies	Revenue multiple	3.7x	3.7x	0.5x	511/(511)
Equity securities	-	Liquidation analysis	N/A	N/A	N/A	N/A	N/A
Convertible debentures	4,625	Transaction price	Purchase price	N/A	N/A	N/A	N/A
Convertible debentures	5,303	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							
Equity securities	7,557	Appraisal value	Previous sales comparables	N/A	N/A	N/A	N/A
Equity securities	100	Other	Estimated net realizable value	N/A	N/A	N/A	N/A
Limited partnership units	2,000	Net asset value analysis	Net asset value per unit	N/A	N/A	N/A	N/A
Debt securities	150	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

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 in the second quarter.

For the year ended December 31, 2015, management fees of $0.9 million [December 31, 2014 **–** $3.0 million] and performance fees of nil [December 31, 2014 – nil] were paid to DCM, prior to the Internalization Acquisition. As at December 31, 2015, performance and management fees payable to DCM were nil [December 31, 2014 **–** $0.2 million].

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 year ended December 31, 2015, the Company accrued revenue of $0.1 million from such advisory fees [December 31, 2014 **–** $0.7 million].

Other related party transactions

The Company reimbursed DCM $0.2 million for occupancy cost during the year.

At the beginning of 2015, a company controlled by the Chairman of the Company owed the Company a debt of approximately $167,000 including accrued interest. The full amount of the debt was repaid to the Company in 2015. Late in 2014, the Company had made a $350,000 short-term loan to an arm’s length nutraceutical manufacturer of topical neuropathic pain reliever (the “Nutraceutical Manufacturer”). Due to the high-risk nature of this investment, the Company’s Chairman had provided a personal guarantee on the performance of this loan (the “Guarantee”) in favour of the Company. In 2015, the Nutraceutical Manufacturer was placed into receivership, and the Company collected on the Guarantee in order to recoup its investment, with interest.

During 2015, the Company’s Chairman personally funded US$0.6 million to Gotham Analytics, LLC (“Gotham”), a Difference Capital portfolio company, for working capital needs. Difference Capital had declined any further funding participation in this company.

In connection with the World Gaming sale of its operational assets to Cineplex, the Company agreed to pay a cash incentive fee of $0.4 million and transferred an ownership interest of approximately 2 million common shares of World Gaming, with an estimated fair value of $1.0 million, to the CEO and CFO of World Gaming. The total cost was expensed as a transaction cost during the year.

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. In October 2015, the Company successfully completed the 2015 Debentures SIB to repurchase from holders of its outstanding Debentures $12.0 million aggregate principal amount of the Debentures at a purchase price of $880 per $1,000 principal amount of the Debentures. The Company also renewed its 2016 Debentures NCIB. In 2015, the Company repurchased an aggregate principal amount of $16.7 million Debentures, resulting in a cumulative to-date repurchase of $20.9 million, or 37%, of the original $56.1 million principal amount of the Debentures issued, leaving $35.1 million Debentures currently outstanding. Management and the Board of Directors are committed to dealing with the remaining Debentures in a manner that is non-dilutive to shareholders.

In December 2015, the Company also successfully completed the 2015 Common Shares SIB to purchase for cancellation 6.6 million shares at a price of $1.05 per share for total consideration of $6.9 million.

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	December 31, 2015 $000	December 31, 2014 $000
Shareholders' equity	58,876	65,934
Convertible debentures	32,432	46,616
Total capital	**91,308**	**112,550**

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 years ended December 31:

$000 except for common shares and per share amounts	2015 $000	2014 $000
Basic income (loss) per share		
Net income (loss)	**2,145**	(48,088)
Weighted average common shares	**36,197,889**	38,769,190
Basic income (loss) per share	**$0.06**	($1.24)
Fully diluted income (loss) per share		
Net income (loss)	**2,145**	(48,088)
Weighted average common shares after taking into effect dilutive convertible debentures	**36,197,889**	38,769,190
Fully diluted income (loss) per share	**$0.06**	($1.24)

15. BASIC AND DILUTED INCOME (LOSS) PER SHARE (continued)

In calculating fully diluted gain (loss) per common share for the year ended December 31, 2015 and 2014, the Company excluded 6,112,348 [2014 – 9,014,087] common shares from the conversion of the convertible debentures 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 years ended December 31 was as follows:

As at	2015 $000	2014 $000
Salaries	1,276	259
Annual incentive plans	90	-
Total Compensation	**1,366**	259

Effective June 1, 2015, as part of the Internalization Acquisition, key management personnel of the Company became directly employed by the Company. Prior to this date, they were employees of DCI or DCM. 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 December 31, 2015, $0.1 million was accrued for the 2015 annual incentive bonus pool.

17. 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 is NAV divided by the total number of common shares of the Company outstanding as at the measurement date. Fully diluted NAV is calculated by taking basic NAV and accounting for any dilutive impact of outstanding securities of the Company that are convertible into or exercisable for common shares. The term net asset value per share does not have any standardized meaning according to IFRS and therefore may not be comparable to similar measures presented by other companies.

18. SUBSEQUENT EVENTS

Subsequent to year-end, BTI was acquired by Juniper. The Company expects to receive payment for its securities in BTI in the second quarter of 2016.