Interim Condensed Financial Statements

Unaudited (prepared in Canadian dollars)

For the quarter and nine months ended September 30, 2014

STATEMENTS OF FINANCIAL POSITION (unaudited)

As at Amounts in thousands of Canadian dollars (except per share amounts)	**September 30, 2014**	**December 31, 2013**
ASSETS		
Current		
Cash and cash equivalents	**$ 17,684**	$ 24,229
Marketable securities *[note 2]*	**1,116**	3,900
Prepaid expenses, deposits and other receivables	**884**	1,339
Interest receivable	**3,109**	2,327
Total current assets	**22,793**	31,795
Other receivables	**237**	—
Investments *[note 3]*	**116,895**	137,019
Total assets	**$ 139,925**	$ 168,814
LIABILITIES		
Current		
Marketable securities sold short *[note 2]*	**$ —**	$ 780
Performance and management fees payable *[note 9]*	**317**	651
Accounts payable and accrued liabilities	**565**	468
Due to broker	**51**	140
Convertible debentures *[note 4]*	**662**	2,207
Total current liabilities	**1,595**	4,246
Convertible debentures *[note 4]*	**46,332**	49,030
Total liabilities	**47,927**	53,276
SHAREHOLDERS' EQUITY		
Share capital *[note 5]*	**177,227**	180,875
Equity component of convertible debentures *[note 4]*	**3,823**	4,119
Contributed surplus	**43,746**	41,159
Deficit	**(132,798)**	(110,615)
Total shareholders' equity	**91,998**	115,538
Total liabilities and shareholders' equity	**$ 139,925**	$ 168,814
Net Asset Value per share		
Basic and diluted	**$ 2.40**	$ 2.95

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

On behalf of the Board of Directors:

"John Albright"
Director

"Michael Wekerle"
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 September 30 2014	2013	Nine months ended September 30 2014	2013
NET REALIZED AND UNREALIZED GAIN (LOSS)				
Net realized gain (loss) on disposal of investments and marketable securities	**$ 340**	$ (87)	**$ 4,408**	$ 2,410
Net change in unrealized gain (loss) on investments and marketable securities	**(9,958)**	1,865	**(20,024)**	(1,095)
	(9,618)	1,778	**(15,616)**	1,315
OTHER INCOME				
Interest, dividends and other income	**1,589**	1,315	**4,880**	3,068
Participation in advisory fees and equity capital market revenue *[note 9]*	**86**	410	**622**	845
Gain on repurchase of convertible debentures [note 4]	**488**	—	**488**	—
	2,163	1,725	**5,990**	3,913
EXPENSES				
Management fees *[note 9]*	**737**	917	**2,403**	1,873
Provision for uncollectible receivables	**581**	—	**1,933**	—
Harmonized sales tax	**155**	151	**447**	354
Professional fees	**1,153**	365	**2,371**	998
Operating, general and administrative *[note 9]*	**183**	103	**571**	266
Financing costs	**1,348**	1,390	**4,162**	1,415
Transaction costs	**434**	105	**670**	178
Total expenses	**4,591**	3,031	**12,557**	5,084
Net income (loss) and comprehensive income (loss)	**$ (12,046)**	**$ 472**	**$ (22,183)**	**$ 144**
Weighted average number of common shares outstanding *[note 11]*				
Basic and diluted	**38,784,041**	36,056,764	**38,922,309**	30,262,689
Earnings (loss) per share *[note 11]*				
Basic and diluted	**$(0.31)**	$0.01	**$(0.57)**	$0.00

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

STATEMENTS OF CHANGES IN EQUITY (unaudited)

Amounts in thousands of Canadian dollars	Three months ended September 30 2014	Three months ended September 30 2013	Nine months ended September 30 2014	Nine months ended September 30 2013
Share capital				
Balance, beginning of the period	**$ 179,599**	$ 139,750	**$ 180,875**	$ 86,455
Issuance of share capital, net of issuance costs *[note 5]*	**—**	41,982	**—**	95,277
Common shares repurchased and cancelled *[note 5]*	**(2,372)**	—	**(3,648)**	—
Balance, September 30	**177,227**	181,732	**177,227**	181,732
Special Warrants				
Balance, beginning of the period	—	—	—	53,250
Issuance of special warrants *[note 5]*	—	—	—	45
Exercise of special warrants for common shares	—	—	—	(53,295)
Balance, September 30	—	—	—	—
Equity component of convertible debentures				
Balance, beginning of the period	**4,118**	—	**4,119**	—
Convertible debentures repurchased and cancelled *[note 4]*	**(295)**	4,136	**(296)**	4,136
Balance, September 30	**3,823**	4,136	**3,823**	4,136
Contributed surplus				
Balance, beginning of the period	**41,905**	40,747	**41,159**	40,747
Common shares repurchased and cancelled *[note 5]*	**1,667**	—	**2,412**	—
Convertible debentures repurchased and cancelled *[note 4]*	**174**	—	**175**	—
Balance, September 30	**43,746**	40,747	**43,746**	40,747
Deficit				
Balance, beginning of the period	**(120,752)**	(91,784)	**(110,615)**	(90,597)
Net income (loss) and comprehensive income (loss) for the period	**(12,046)**	472	**(22,183)**	144
Balance, September 30	**(132,798)**	(91,312)	**(132,798)**	(90,453)
Net change in equity during the period	**(12,872)**	46,590	**(23,540)**	46,307
Equity, beginning of the period *[note 12]*	**104,870**	89,572	**115,538**	89,855
Equity, September 30	**$ 91,998**	$ 136,162	**$ 91,998**	$ 136,162

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

STATEMENTS OF CASH FLOWS (unaudited)

Amounts in thousands of Canadian dollars	Three months ended September 30 2014	2013	Nine months ended September 30 2014	2013
OPERATING ACTIVITIES				
Net income (loss) for the period	**$ (12,046)**	$ 472	**$ (22,183)**	$ 144
Items not affecting cash:				
Net realized (gain) loss on disposal of investments and marketable securities	**(340)**	87	**(4,408)**	(2,410)
Net change in unrealized (gain) loss on investments and marketable securities	**9,958**	(1,865)	**20,024**	1,095
Participation in advisory fees payable in shares	**30**	—	**(138)**	—
Amortization of financing costs on convertible debentures	**278**	293	**878**	293
Gain on repurchase of convertible debentures	**(488)**	—	**(488)**	—
Conversion of interest payment into equities	**(138)**	—	**(294)**	(922)
Net change in non-cash working capital balances	**(1,376)**	(572)	**(2,297)**	980
Purchase of marketable securities	**(1,162)**	(16,257)	**(3,720)**	(24,406)
Proceeds from disposal of marketable securities	**97**	1,316	**12,167**	21,641
Purchase of investments	**(7,350)**	(26,096)	**(31,033)**	(52,735)
Proceeds from disposal and maturity of investments	**24,667**	977	**29,391**	2,825
Cash provided by (used in) operating activities	**12,130**	(41,645)	**(2,101)**	(53,495)
FINANCING ACTIVITIES				
Proceeds from common shares and special warrants, net of issuance costs *[note 5]*	**—**	41,981	**—**	42,026
Proceeds from convertible debentures, net of issuance costs *[note 5]*	**—**	52,812	**—**	52,812
Proceeds from loan	**—**	—	**—**	555
Repayment of loan	**—**	—	**—**	(555)
Proceeds from promissory note	**—**	—	**—**	2,500
Repayment of promissory note	**—**	(2,519)	**—**	(2,519)
Common shares repurchased and cancelled *[note 5]*	**(704)**	—	**(1,235)**	—
Convertible debentures repurchased and cancelled *[note 4]*	**(3,200)**	—	**(3,209)**	—
Cash provided by (used in) financing activities	**(3,904)**	92,274	**(4,444)**	94,819
Net increase (decrease) in cash during the period	**8,226**	50,629	**(6,545)**	41,324
Cash and cash equivalents, beginning of the period	**9,458**	91	**24,229**	9,396
Cash and cash equivalents, end of the period	**$ 17,684**	$ 50,720	**$ 17,684**	$ 50,720
Interest received	**$ 414**	$ 344	**$ 1,562**	$ 625
Dividends received	**90**	—	**125**	—
Interest paid	**2,233**	—	**4,797**	—

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

SCHEDULE OF INVESTMENTS (unaudited)

Amounts in thousands of Canadian dollars

	INVESTMENT TYPE	COUNTRY	September 30, 2014 AVERAGE COST $	FAIR VALUE $
PUBLICLY LISTED				
CLEAN TECHNOLOGIES				
Lignol Energy Corporation	common shares	Canada	5,557	-
Crailar Technologies, Inc.	convertible debentures	Canada	1,690	676
			7,247	676
HEALTHCARE				
Aurinia Pharmaceuticals Inc.	common shares	Canada	2,096	3,385
EDUCATION TECHNOLOGIES				
Cricket Media Group Ltd.	convertible debentures	Canada	3,000	2,250
AD TECHNOLOGIES				
EQ Inc.	common shares	Canada	1,010	333
OTHER				
Other listed securities	common shares, units	Canada	1,043	783
UNLISTED				
GAMING				
WG Limited ("World Gaming")	common shares	Canada	4,677	216
WG Limited ("World Gaming")	convertible debentures	Canada	21,782	13,069
			26,459	13,285
PAYMENTS				
Carta Solutions Holding Corporation	common shares	Canada	3,479	3,960
Carta Solutions Holding Corporation	warrants	Canada	26	26
Ethoca Solutions Inc.	common shares	Canada	1,508	1,508
Guestlogix Inc.	promissory notes	Canada	1,950	1,950
Guestlogix Inc.	warrants	Canada	50	220
			7,013	7,664
CLEAN TECHNOLOGIES				
Lignol Energy Corporation	promissory note	Canada	12,285	1,000
Lignol Energy Corporation	warrants	Canada	-	-
Crailar Technologies, Inc.	convertible debentures	Canada	3,310	1,293
Crailar Technologies, Inc.	warrants	Canada	-	-
Enhanced Systems Technologies	common shares	Australia	3,335	-
			18,930	2,293
HEALTHCARE				
InfraReDx, Inc.	convertible promissory note and warrants	United States	5,093	8,681
Aurinia Pharmaceuticals Inc.	warrants	Canada	113	525
BrainScope Company Inc.	preferred shares	United States	1,563	1,728
Cardiac Dimensions Pty. Ltd.	preferred shares	United States	2,182	2,242
Fem Med Formulas Limited Partnership	convertible debentures	Canada	2,500	625
			11,451	13,801
MEDIA				
Blue Ant Media Inc.	common shares	Canada	4,787	4,787
Thunderbird Films Inc.	common shares	Canada	4,000	4,000
Thunderbird Films Inc.	preferred shares	Canada	2,000	2,000
			10,787	10,787
MEDIA TECHNOLOGIES				
Hootsuite Media Inc.	preferred shares	Canada	2,080	2,130
iPowow! Inc.	common shares	Canada	1,028	450
iPowow! Inc.	preferred shares	Canada	3,365	3,365
iPowow! Inc.	loan	Canada	400	400
Quickplay Media Inc.	common shares	Canada	2,365	2,365
SoMedia Networks Inc.	convertible debentures	Canada	600	150
SoMedia Networks Inc.	loan	Canada	360	90
			10,198	8,950
HARDWARE				
Baanto International Ltd.	preferred shares	Canada	300	300
Baanto International Ltd.	convertible debentures	Canada	2,700	2,700
BTI Systems Inc.	preferred shares	United States	1,887	1,995
			4,887	4,995

SCHEDULE OF INVESTMENTS (continued) (unaudited)

Amounts in thousands of Canadian dollars

	INVESTMENT TYPE	COUNTRY	September 30, 2014 AVERAGE COST $	FAIR VALUE $
AD TECHNOLOGIES				
Appinions Inc.	preferred shares	United States	688	724
Appinions Inc.	common shares	United States	1,060	1,076
Appinions Inc.	convertible debentures	United States	2,048	2,040
Vision Critical Communications Inc.	preferred shares	Canada	3,500	3,500
			7,296	7,340
E-COMMERCE				
BuildDirect.com Technologies Inc.	common shares	Canada	6,500	6,500
SHOP.CA Network Inc.	common shares	Canada	1,600	2,780
			8,100	9,280
EDUCATION TECHNOLOGIES				
Cricket Media Group Ltd.	convertible debentures	Canada	3,500	2,625
Bluedrop Performance Learning Inc.	convertible debentures	Canada	3,000	3,000
			6,500	5,625
ENTERPRISE SOFTWARE				
Vena Solutions	units	Canada	500	500
Vena Solutions	convertible debentures	Canada	3,000	3,000
Embotics Corporation	convertible debentures	Canada	1,000	1,000
			4,500	4,500
REAL ESTATE				
Chieftain Residential, LP	partnership interest	United States	7,485	8,406
Chieftain Residential, LP	promissory note	United States	2,538	2,802
Difference RM Holdings Corp.	common shares	United States	5,432	6,120
			15,455	17,328
OTHER				
Other equities	common shares, preferred shares, warrants and units		3,835	3,370
Other debt	debt		450	250
			4,285	3,620
TOTAL INVESTMENTS			**150,257**	**116,895**

PORTFOLIO INVESTMENTS AND FAIR VALUE

Significant purchases, sales and changes in valuation of investments during the quarter ended September 30, 2014 included the following:

Appinions Inc. (“Appinions”)
During the quarter ended September 30, 2014, the Company agreed converted US$0.8 million of the 10.0% convertible senior unsecured debentures with a maturity of September 19, 2014 plus outstanding accrued interest into common shares of Appinions at the conversion price of US$0.858 per common share.

BuildDirect.com Technologies Inc. (“BuildDirect”)
During the quarter ended September 30, 2014, the Company invested an additional $1.5 million in BuildDirect in the form of common shares at a price that is subject to final adjustment upon completion of the financing which is anticipated during the fourth quarter of 2014. Subsequent to quarter end, the Company invested an additional $0.5M in BuildDirect under the same terms and conditions.

Carta Solutions Holding Corporation (“Carta”)
During the quarter ended September 30, 2014, the Company invested an additional $1.5 million in Carta through the purchase of 1.5 million units (the “2014 Carta Units”) at a price of $1.00 per unit. Each 2014 Carta unit comprises of one common share of Carta and one common share purchase warrant, with each whole warrant exercisable for a further common share at an exercise price of $1.25 until June 30, 2017.

The Company also holds 2.5 million units of Carta at a cost of $0.80 per unit (the “2013 Carta Units”). Each 2013 Carta Unit consists of one common share of Carta and ¼ common share purchase warrant, with each whole warrant exercisable for a further common share at an exercise price of $1.25 until June 30, 2016. The Company also holds 0.5 million common share purchase warrant, with each whole warrant excercisable for a further common share at an exercise price of $1.00 until May 20, 2017. During the quarter ended September 30, 2014, approximately $0.4 million change in appreciation was recorded for the 2013 Carta Units based on the recent 2014 Carta Units financing.

Cricket Media Group Ltd. (“Cricket Media”)
The Company holds $6.5 million of Cricket Media secured convertible debentures that pay 10% interest per annum and have a maturity date of October 31, 2016. In September 2014, Cricket Media exercised its option to extend the maturity date of these convertible debentures from October 31, 2014 to October 31, 2016. During the quarter, the Company recorded approximately $1.3 million in unrealized depreciation for the Cricket Media convertible debentures.

SCHEDULE OF INVESTMENTS (continued) (unaudited)

Amounts in thousands of Canadian dollars

Fem Med Formulas Limited Partnership (“Fem Med”)

The Company holds $2.5 million of Fem Med secured convertible debentures that accrue 8% interest per annum and have a maturity date of August 31, 2015. During the quarter ended September 30, 2014, the Company recorded a further $1.3 million in unrealized depreciation for the Fem Med debentures.

Hootsuite Media Inc. (“Hootsuite”)

During the quarter ended September 30, 2014, the Company invested in 5.0 million Class B preferred shares in Hootsuite for total consideration of US $2.0 million. Hootsuite provides a web-based social media management platform for businesses and organizations to collaboratively execute campaigns across various social networks.

iPowow! Inc. (“iPowow”)

During the quarter ended September 30, 2014, the Company provided an addition $0.3 million in short term loans to iPowow, The Company recorded approximately $0.6 million of unrealized depreciation on the common shares of iPowow.

Lignol Energy Corporation (“Lignol”)

During the quarter ended September 30, 2014, the Company placed Lignol in receivership and appointed The Bowra Group Inc. as the receiver. The Company is currently working with the receiver to maximize the recoverable value through the sale of Lignol assets.

The Company reduced the fair value of the promissory note to $1 million as at September 30, 2014, which represented estimated net recoverable value of the Lignol assets. The common shares of Lignol are currently halted and as such, the Company ascribed no value to these shares as at September 30, 2014.

Vena Solutions ("Vena")

During the quarter ended September 30, 2014, the Company invested an additional $0.5 million in Vena through the purchase of 238,095 units (the “Vena Units”) at a price of $2.10 per unit. Each Vena Unit comprises of one Class G common share in the capital of Vena Solutions Canada Inc.at $1.995 per share and one Class G common share in the capital of Vena Solutions International Inc. at $0.105 per share.

Waterloo Innovation Network I LP ("WIN I LP")

During the quarter ended September 30, 2014, the Company invested $2.0 million in limited partnership units of WIN I LP. WIN I LP is an investment fund which invests in venture stage communications and information technology based businesses principally originating in North America.

WG Limited (“World Gaming”)

During the quarter ended September 30, 2014, the Company recorded a further $0.3 million in unrealized depreciation of its investments in World Gaming.

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.

1. 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 expects to adopt in its financial statements as at and for the year ending December 31, 2014.

The Company's financial statements were previously prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Canadian GAAP differs in some areas from IFRS. In preparing these financial statements, the Company has amended certain accounting policies applied in the Canadian GAAP financial statements to comply with IFRS. The comparative figures for 2013 were restated to reflect these differences. These unaudited interim condensed financial statements should be read in conjunction with Difference Capital's 2013 annual financial statements and in consideration of the IFRS transition disclosures included in Note 12 to these financial statements and the unaudited financial statements as at and for the three months ended March 31, 2014 and for the six months ended June 30, 2014.

These financial statements were authorized for issuance by the Board of Directors of Difference Capital on November 11, 2014. The following are the significant accounting policies used in the preparation of these financial statements:

Basis of presentation

The consolidated 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.

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 the fair value measurement note below for further details on fair value measurement of investments.

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, 2017. The Company is evaluating the potential impacts of this new standard on the financial statements.

2. MARKETABLE SECURITIES AND MARKETABLE SECURITIES SOLD SHORT

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

As at	September 30, 2014		December 31, 2013	
	Marketable securities $000	Marketable securities sold short $000	Marketable securities $000	Marketable securities sold short $000
Equity securities	1,116	-	3,785	780
Warrants	-	-	115	-
	1,116	-	3,900	780

3. INVESTMENTS

Investments consist of the following by investment type:

As at	September 30, 2014 $000	December 31, 2013 $000
Equity securities	58,116	58,070
Convertible debentures	37,899	52,026
Debentures, loans and promissory notes	6,243	14,327
Partnership interests	10,406	7,977
Warrants	4,231	4,619
	116,895	137,019

See Schedule of Investments on pages 6 to 8 for further details.

4. CONVERTIBLE DEBENTURES

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

In August 2014, the Company received approval from the Toronto Stock Exchange ("TSX") to amend its normal course issuer bid (the "NCIB") in order to increase the maximum principal amount of convertible debentures that may be purchased under the NCIB from $2.0 million to $4.4 million. During the nine months ended September 30, 2014, the Company had repurchased $4.0 million principal amount of the Debentures, for an aggregate consideration of $3.2 million. Out of the amount paid, $3.6 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, $0.5 million was recorded as a gain on repurchase of convertible debentures in Net Income, and $0.2 million was recorded as an increase in Contributed Surplus.

The balance of the Debentures outstanding and changes in the liability component during the period ended September 30, 2014 was as follows:

	$000
Liability component, December 31, 2013	49,030
Accretion of discount	878
Normal course issuer bid repurchases	(3,576)
Liability component, September 30, 2014	**46,332**

5. 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.

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

	Number of Shares	Stated Value $000
Common shares, December 31, 2013	**39,132,334**	**180,875**
Share repurchase (1)	**(781,900)**	**(3,648)**
Common shares, September 30, 2014	**38,350,434**	**177,227**

Notes:

(1) The Company has obtained applicable regulatory approval to purchase for cancellation, from time to time, its issued and outstanding Common Shares, through the facilities of the TSX. During the nine months ended September 30, 2014, 781,900 Common Shares were repurchased under the normal course issuer bid at an average cost of $1.58 per Common Share for total consideration of $1.2 million. Contributed Surplus was increased by $2.4 million for the cost of the Common Shares repurchased below their stated value.

6. FINANCIAL INSTRUMENTS

The following tables present the carrying amounts of the Company's financial instruments by category:

As at September 30, 2014	Held for Trading $000	FVTPL Designated at inception $000	Total $000	Amortized Cost $000	Total $000
Assets					
Marketable securities	1,116	-	1,116	-	1,116
Investments	-	116,895	116,895	-	116,895
Cash	-	-	-	17,684	17,684
Prepaid expenses, deposits and other receivables	-	-	-	884	884
Interest receivable	-	-	-	3,109	3,109
Other receivables	-	-	-	237	237
Total Financial Assets	**1,116**	**116,895**	**118,011**	**21,914**	**139,925**
Liabilities					
Marketable securities sold short	-	-	-	-	-
Accounts payable and accrued liabilities	-	-	-	882	882
Due to broker	-	-	-	51	51
Convertible debentures	-	-	-	46,994	46,994
Total Financial Liabilities	**-**	**-**	**-**	**47,927**	**47,927**

As at December 31, 2013	Held for Trading $000	FVTPL Designated at inception $000	Total $000	Amortized Cost $000	Total $000
Assets					
Marketable securities	3,900	-	3,900	-	3,900
Investments	-	137,019	137,019	-	137,019
Cash	-	-	-	24,229	24,229
Prepaid expenses, deposits and other receivables	-	-	-	1,339	1,339
Interest receivable	-	-	-	2,327	2,327
Total Financial Assets	3,900	137,019	140,919	27,895	168,814
Liabilities					
Marketable securities sold short	780	-	780	-	780
Accounts payable and accrued liabilities	-	-	-	1,119	1,119
Due to broker	-	-	-	140	140
Convertible debentures	-	-	-	51,237	51,237
Total Financial Liabilities	780	-	780	52,496	53,276

For the three-month period ended September 30, 2014, the total of the change in unrealized gain (loss) and realized gain from disposal on financial assets designated as held for trading ("HFT") was $(0.1) million, the total of the change in unrealized gain (loss) and realized gain from disposal financial assets designated as fair value through profit and loss ("FVTPL") was $(9.5) million and the total of the change in unrealized gain (loss) and realized gain on financial liabilities designated as HFT was nil.

For the nine-month period ended September 30, 2014, the total of the change in unrealized gain (loss) and realized gain from disposal on financial assets designated as held for trading (“HFT”) was $3.6 million, the total of the change in unrealized gain (loss) and realized gain from disposal financial assets designated as fair value through profit and loss (“FVTPL”) was $(19.4) million and the total of the change in unrealized gain (loss) and realized gain on financial liabilities designated as HFT was $0.2 million.

7. 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 September 30, 2014, the Company holds the following fixed-rate debt instruments: (a) $40.6 million [December 31, 2013 - $53.6 million] in convertible debentures with a weighted average interest rate of 8.06% [December 31, 2013 – 7.80%] and a weighted average term to maturity of approximately 1.5 years [December 31, 2013 – 1.6 years]; and (b) $6.7 million [December 31, 2013 - $14.9 million] in non-convertible debentures with a weighted average interest rate of 9.57% [December 31, 2013 – 8.68%] and a weighted average term to maturity of approximately 1.9 years [December 31, 2013 – 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.

The Company is also exposed to interest rate risk through its debt investments. If interest rates were higher by 1% per annum, the potential effect would be a decrease in net income of approximately $0.7 million [December 31, 2013 - $ 1.0 million]. If interest rates were lower by 0.5% per annum, the potential effect would be an increase in net income of approximately $0.4 million [December 31, 2013 - $0.5 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 September 30, 2014, the Company is exposed to foreign exchange risk through its US dollar denominated investments of $38.4 million [December 31, 2013 - $31.1 million], which represents approximately 27.4% 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 $0.4 million [December 31, 2013 - $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 income of approximately $11.8 million [December 31, 2013 - $14.0 million]. Refer to the Schedule of Investments and notes 2 and 3 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 and marketable securities portfolios. Refer to the Schedule of Investments and notes 2 and 3 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 the Company's debentures could be repaid through the liquidation of a defaulting issuer.

The Company considers its maximum exposure to credit risk as at September 30, 2014 is $47.3 million [December 31, 2013 - $68.5 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 September 30, 2014, 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 September 30, 2014.

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

As at September 30, 2014	Less than one year $000	One to three years $000	Over three years $000	Total $000
Financial Liabilities				
Performance and management fees payable	317	-	-	**317**
Accounts payable and accrued liabilities	565	-	-	**565**
Due to broker	51	-	-	**51**
Accrued interest on convertible debentures	4,147	8,294	4,147	**16,588**
Convertible debentures	-	-	51,837	**51,837**
Total Financial Liabilities	**5,107**	**8,294**	**55,984**	**69,358**

As at December 31, 2013	Less than one year $000	One to three years $000	Over three years $000	Total $000
Financial Liabilities				
Performance and management fees payable	651	-	-	651
Accounts payable and accrued liabilities	468	-	-	468
Due to broker	140	-	-	140
Accrued interest on convertible debentures	4,825	8,936	8,936	22,697
Convertible debentures	-	-	55,847	55,847
Total Financial Liabilities	6,084	8,936	64,783	79,803

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 convertible debentures, so as to rank ahead of the common shares in the capital structure 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 debentures – 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.

8. 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 September 30, 2014	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Equities	5,617	-	53,615	59,232
Convertible debentures	-	676	37,223	37,899
Debentures, loans and promissory notes	-	-	6,243	6,243
Partnership interest	-	-	10,406	10,406
Warrants	-	745	3,486	4,231
Total Financial Assets	**5,617**	**1,421**	**110,973**	**118,011**
Equities sold short	-	-	-	-
Total Financial Liabilities	**-**	**-**	**-**	**-**

As at December 31, 2013	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Equities	20,522	103	41,230	61,855
Convertible debentures	-	3,714	48,312	52,026
Debentures, loans and promissory notes	-	-	14,327	14,327
Partnership interest	-	-	7,977	7,977
Warrants	-	1,451	3,283	4,734
Total Financial Assets	20,522	5,268	115,129	140,919
Equities sold short	780	-	-	780
Total Financial Liabilities	780	-	-	780

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 nine month period ended September 30, 2014, there were $0.7 million of equities transferred from Level 2 to Level 1 [September 30, 2013 - nil] and there were no transfers from Level 1 to Level 2 [September 30, 2013 – nil]. The transfer out of Level 2 to Level 1 consists of restricted securities where the restriction was lifted during the period. There were $2.3 million of convertible debentures transferred from Level 2 to Level 3 [September 30, 2013 – nil] and there were no transfers from Level 3 to Level 2 [September 30, 2013 – nil]. The transfer out of Level 2 to Level 3 was a result of using non observable inputs to value the convertible debenture.

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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 September 30, 2014:

Investment Type	Fair Value $000	Valuation techniques and unobservable inputs applied
Equity securities	35,203	Transaction price
	11,872	Third party transaction/pricing
	6,120	Appraised value
	420	Other
Convertible debentures	9,950	Transaction price
	27,273	Market comparable companies Implied market yield (3% - 12%) Revenue multiple (0.4x – 0.8x) Discount (40% - 75%)
Debentures, loans and promissory notes	5,153	Transaction price
	1,090	Liquidation value/other
Partnership interest	10,406	Transaction price
Warrants	3,460	Third party transaction/pricing
	26	Other
	110,973	

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

	Three months ended September 30, 2014 $000	Nine months ended September 30, 2014 $000
Opening balance, beginning of period	105,919	115,129
Purchases	9,024	17,690
Sales	(1,536)	(5,790)
Realized gains	(500)	(500)
Transfers into level 3	2,250	2,250
Change in unrealized depreciation	(4,184)	(17,806)
Balance, end of period	**110,973**	**110,973**
Total change in unrealized depreciation of assets held as at end of period	(4,684)	(18,306)

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	Year ended December 31, 2013 $000	Year ended December 31, 2012 $000
Opening balance, beginning of period	53,880	-
Purchases	76,817	52,260
Sales	(3,326)	(2,400)
Realized gains	230	400
Change in unrealized appreciation (depreciation)	(12,472)	3,620
Balance, end of period	115,129	53,880
Total change in unrealized appreciation (depreciation) of assets held as at end of period	(12,242)	3,620

9. RELATED PARTY TRANSACTIONS

Management Agreement

For the three months ended September 30, 2014, management fees of $0.7 million [September 30, 2013 **–** $0.9 million] and performance fees of nil [September 30, 2013 – nil] were accrued. For the nine months ended September 30, 2014, management fees of $2.4 million [September 30, 2013 **–** $1.9 million] and performance fees of nil [September 30, 2013 – nil] were accrued. As at September 30, 2014, performance and management fees payable to the manager were $0.3 million [December 31, 2013 **–** $0.7 million]. The outstanding payables were paid subsequent to September 30, 2014.

Under the terms of the Management Agreement, the Company is entitled to receive 40% of all advisory and equity capital market revenues generated by Difference Capital Management Inc. ("DCM") and the Company is required to reimburse DCM for certain operating expenses. For the three months ended September 30, 2014, the Company accrued revenue of $0.1 million from such advisory fees [September 30, 2013 **–** $0.4 million]. For the nine months ended September 30, 2014, the Company accrued revenue of $0.6 million from such advisory fees [September 30, 2013 **–** $0.8 million]. As at September 30, 2014, advisory fees receivable from DCM was $0.4 million [December 31, 2013 – $0.5 million].

10. 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	September 30, 2014 $000	December 31, 2013 $000
Shareholders' equity	91,998	115,538
Convertible debentures – long-term portion	46,332	49,030
Total capital	**138,330**	164,568

11. BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

The following table presents the calculation of basic and fully diluted earnings (loss) per common share for the three and nine months ended September 30:

	Three months ended September 30, 2014 $000	Three months ended September 30, 2013 $000	Nine months ended September 30, 2014 $000	Nine months ended September 30, 2013 $000
Basic earnings (loss) per share				
Net income (loss)	**(12,046)**	472	**(22,183)**	144
Weighted average common shares	**38,784,041**	36,056,764	**38,922,309**	30,262,689
Basic earnings (loss) per share	**$(0.31)**	$0.01	**$(0.57)**	$0.00
Fully diluted earnings (loss) per share				
Net income (loss)	**(12,046)**	472	**(22,183)**	144
Weighted average common shares after taking into effect dilutive convertible debentures	**38,784,041**	36,056,764	**38,922,309**	30,262,689
Fully diluted earnings (loss) per share	**$(0.31)**	$0.01	**$(0.57)**	$0.00

In calculating diluted earnings (loss) per common share for the nine months ended September 30, 2014 and 2013, the Company excluded 7,717,486 (2013 – 7,717,486) purchase warrants and 9,710,782 (2013 – 9,752,699) common shares from the conversion of the convertible debentures as their impact was anti-dilutive.

12. TRANSITION TO IFRS

The Company's financial statements for the year ending December 31, 2014 will be the first annual financial statements that comply with IFRS. Accordingly, the Company will make an unreserved statement of compliance with IFRS beginning with its 2014 annual financial statements. The Company's transition date is January 1, 2013 ("Transition Date") and the Company has prepared its IFRS opening balance sheet at that date. These financial statements have been prepared in accordance with the accounting policies described in note 1.

a) Initial elections on first-time adoption of IFRS

   IFRS 1, *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"), requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be December 31, 2014. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

b) The only voluntary exemption adopted by the Company upon transition was the ability to designate financial assets or financial liabilities at fair value through profit or loss upon transition to IFRS. All financial assets designated at FVTPL upon transition (see note 6) were previously carried at their fair value under Canadian GAAP as required by Accounting Guideline 18, *Investment Companies*.

c) In accordance with the mandatory exceptions to retroactive restatement under IFRS 1, hindsight was not used to create or revise estimates at the Transition Date, and accordingly the estimates previously made by the Company under Canadian GAAP are consistent with the application under IFRS, except where necessary to reflect any difference in accounting policies.

Reconciliation of equity and comprehensive income (loss) as previously reported under Canadian GAAP to IFRS:

Equity	September 30, 2013 $000
Equity, as reported under Canadian GAAP	134,901
Revaluation of investments at FVTPL	1,261
Equity, as reported under IFRS	136,162

Comprehensive income (loss)	Quarter Ended September 30, 2013 $000
Comprehensive income (loss), as reported under Canadian GAAP	70
Revaluation of investments at FVTPL	403
Comprehensive income, as reported under IFRS	472

Revaluation of investments at FVTPL

Under Canadian GAAP, the Company measured the fair value of its publicly traded marketable securities and investments in accordance with Section 3855, *Financial Instruments – Recognition and Measurement*, which required the use of bid prices for long positions and ask prices for short positions, to the extent such prices are available. Under IFRS, the Company measures the fair value of its publicly traded marketable securities and investments using the guidance in IFRS 13, *Fair Value Measurement* ("IFRS 13"), which requires that if an asset or liability has a bid price and an ask price, then its fair value is to be based on a price within the bid-ask spread that is most representative of fair value. It also allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. As a result, upon adoption of IFRS, an adjustment was recognized to increase the earnings amount of the Company's investments by $0.4 million for the year ended December 31, 2013 with a corresponding adjustment to equity.

d) Presentation reclassifications

The Company has elected to reclassify certain amounts, including marketable securities, concurrent with its adoption of IFRS. Previously, all equity securities, debt securities and warrants of public company issuers that are publicly traded on recognized stock exchanges were classified under marketable securities, regardless of whether these securities were acquired principally for the purpose of selling or repurchasing in the near term. The Company has elected to classify as marketable securities only equity securities, debt securities and warrants of public company issuers that are publicly traded on recognized stock exchanges and are acquired principally for the purpose of selling or repurchasing in the near term. Those securities acquired and held for long-term investment, regardless of public or private, are classified as investments. The Company has reclassified from marketable securities to investments in the amount of $20.4 million as at December 31, 2013 and $10.7 million as at January 1, 2013.

13. SUBSEQUENT EVENTS

Subsequent to September 30, 2014, the Company entered into an agreement to sell its interests in Chieftain Residential Limited Partnership for aggregate proceeds of US $10.2 million. The transaction is expected to close in the fourth quarter of 2014.