DIFFERENCE
CAPITAL

Financial Statements

December 31, 2014

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, 2014 and 2013, and January 1, 2013, and the statements of loss and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2014 and 2013, 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, 2014 and 2013, and January 1, 2013, and its financial performance and its cash flows for the years ended December 31, 2014 and 2013 in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 6, 2015

STATEMENTS OF FINANCIAL POSITION

As at Amounts in thousands of Canadian dollars (except per share amounts)	**December 31, 2014**	**December 31, 2013**	**January 1, 2013**
ASSETS			
Current			
Cash and cash equivalents	**$ 11,799**	$ 24,229	$ 9,396
Marketable securities *[note 3]*	**687**	3,900	15,723
Prepaid expenses, deposits and other receivables	**674**	1,339	187
Due from broker	**1,133**	—	2,280
Interest receivable	**2,145**	2,327	745
Total current assets	**16,438**	31,795	28,331
Other receivables	**200**	—	—
Investments *[note 4]*	**98,314**	137,019	65,011
Total assets	**$ 114,952**	$ 168,814	$ 93,342
LIABILITIES			
Current			
Marketable securities sold short *[note 3]*	**$ 23**	$ 780	$ —
Performance and management fees payable *[note 12]*	**213**	651	1,880
Accounts payable and accrued liabilities	**416**	468	578
Due to broker	**26**	140	1,029
Convertible debentures *[note 6]*	**1,724**	2,207	—
Total current liabilities	**2,402**	4,246	3,487
Convertible debentures *[note 6]*	**46,616**	49,030	—
Total liabilities	**49,018**	53,276	3,487
SHAREHOLDERS' EQUITY			
Share capital *[note 7]*	**176,555**	180,875	86,455
Special warrants *[note 7]*	**—**	—	53,250
Equity component of convertible debentures *[note 6]*	**3,823**	4,119	—
Contributed surplus	**44,259**	41,159	40,747
Deficit	**(158,703)**	(110,615)	(90,597)
Total shareholders' equity	**65,934**	115,538	89,855
Total liabilities and shareholders' equity	**$ 114,952**	$ 168,814	$ 93,342

Net Asset Value per share			
Basic and diluted	**$ 1.73**	$ 2.95	$ 3.29

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 LOSS AND COMPREHENSIVE LOSS

Years ended December 31, Amounts in thousands of Canadian dollars (except for common shares and per share amounts)		**2014**		**2013**
NET REALIZED AND UNREALIZED GAIN (LOSS)				
Net realized gain on disposal of investments and marketable securities	**$**	**4,635**	$	1,680
Net change in unrealized loss on investments and marketable securities		**(43,431)**		(18,673)
		(38,796)		(16,993)
OTHER INCOME				
Interest, dividends and other income		**5,813**		4,696
Participation in advisory fees and equity capital market revenue *[note 12]*		**719**		1,167
Gain on repurchase of convertible debentures *[note 6]*		**489**		—
		7,021		5,863
EXPENSES				
Management fees *[note 12]*		**3,046**		2,753
Provision for uncollectible receivables		**3,444**		665
Harmonized sales tax		**614**		512
Professional fees		**2,408**		1,368
Operating, general and administrative *[note 12]*		**609**		541
Financing costs		**5,513**		2,823
Transaction costs		**679**		226
Total expenses		**16,313**		8,888
Net loss and comprehensive loss	**$**	**(48,088)**		**(20,018)**
Weighted average number of common shares outstanding *[note 14]*				
Basic and diluted		**38,769,190**		32,536,465
Loss per share *[note 14]*				
Basic and diluted		**$(1.24)**		$(0.62)

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	**2014**	**2013**
Share capital		
Balance, beginning of the year	**$ 180,875**	$ 86,455
Issuance of share capital, net of issuance costs *[note 7]*	**—**	95,276
Common shares repurchased and cancelled *[note 7]*	**(4,320)**	(856)
Balance, December 31	**176,555**	180,875
Special warrants		
Balance, beginning of the year	—	53,250
Issuance of special warrants *[note 7]*	—	45
Exercise of special warrants for common shares	—	(53,295)
Balance, December 31	—	—
Equity component of convertible debentures		
Balance, beginning of the year	**4,119**	—
Issuance of convertible debentures, net of issuance costs *[note 6]*	**—**	4,136
Convertible debentures repurchased and cancelled *[note 6]*	**(296)**	(17)
Balance, December 31	**3,823**	4,119
Contributed surplus		
Balance, beginning of the year	**41,159**	40,747
Common shares repurchased and cancelled *[note 7]*	**2,925**	390
Convertible debentures repurchased and cancelled *[note 6]*	**175**	22
Balance, December 31	**44,259**	41,159
Deficit		
Balance, beginning of the year	**(110,615)**	(90,597)
Net loss and comprehensive loss for the year	**(48,088)**	(20,018)
Balance, December 31	**(158,703)**	(110,615)
Net change in equity during the year	**(49,604)**	25,683
Equity, beginning of the year *[note 15]*	**115,538**	89,855
Equity, December 31	**$ 65,934**	$ 115,538

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		**2014**		2013
OPERATING ACTIVITIES				
Net loss for the year	**$**	**(48,088)**		(20,018)
Items not affecting cash:				
Net realized gain on disposal of investments and marketable securities		**(4,635)**		(1,680)
Net change in unrealized loss on investments and marketable securities		**43,431**		18,673
Participation in advisory fees payable in shares		**(101)**		(145)
Amortization of financing costs on convertible debentures		**1,168**		570
Gain on repurchase of convertible debentures		**(489)**		—
Conversion of interest payment into equities		**(661)**		—
Net change in non-cash working capital balances		**(1,474)**		(330)
Purchase of marketable securities		**(3,949)**		(26,567)
Proceeds from disposal of marketable securities		**13,051**		24,329
Purchase of investments		**(36,707)**		(76,027)
Proceeds from disposal and maturity of investments		**30,633**		1,931
Cash used in operating activities		**(7,821)**		(79,264)
FINANCING ACTIVITIES				
Proceeds from common shares and special warrants, net of issuance costs		**—**		41,981
Proceeds from convertible debentures, net of issuance costs *[note 6]*		**—**		52,812
Proceeds from loan		**—**		555
Repayment of loan		**—**		(555)
Proceeds from promissory note		**—**		2,500
Repayment of promissory note		**—**		(2,519)
Common shares repurchased and cancelled *[note 7]*		**(1,395)**		(466)
Convertible debentures repurchased and cancelled *[note 6]*		**(3,214)**		(211)
Cash provided by (used in) financing activities		**(4,609)**		94,097
Net increase (decrease) in cash during the year		**(12,430)**		14,833
Cash and cash equivalents, beginning of the year		**24,229**		9,396
Cash and cash equivalents, end of the year	**$**	**11,799**	$	24,229
Interest received	**$**	**1,961**	$	1,309
Dividends received		**165**		33
Interest paid		**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, 2014 AVERAGE COST $	FAIR VALUE $
PUBLICLY LISTED				
HEALTHCARE				
Aurinia Pharmaceuticals Inc.	common shares	Canada	1,965	3,647
CLEAN TECHNOLOGIES				
Lignol Energy Corporation	common shares	Canada	5,557	-
Crailar Technologies, Inc.	convertible debentures	Canada	1,690	254
			7,247	254
OTHER				
Other listed securities	common shares, units	Canada	5,053	812
UNLISTED				
MEDIA				
Blue Ant Media Inc.	common shares	Canada	4,787	5,745
Thunderbird Films Inc.	common shares	Canada	4,000	4,000
Thunderbird Films Inc.	preferred shares	Canada	2,000	2,000
			10,787	11,745
HEALTHCARE				
InfraReDx, Inc.	convertible promissory note and warrants	United States	5,093	6,163
Aurinia Pharmaceuticals Inc.	warrants	Canada	113	764
BrainScope Company Inc.	preferred shares	United States	1,563	1,789
Cardiac Dimensions Pty. Ltd.	preferred shares	United States	2,183	2,320
Fem Med Formulas Limited Partnership	convertible debentures	Canada	2,500	-
			11,452	11,036
E-COMMERCE				
BuildDirect.com Technologies Inc.	common shares	Canada	7,000	9,514
			7,000	9,514
FINANCIAL TECHNOLOGIES				
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	69
Mogo Finance Technology Inc.	preferred shares	Canada	2,000	2,000
			9,013	9,513
AD TECHNOLOGIES				
Appinions Inc.	preferred shares	United States	688	314
Appinions Inc.	common shares	United States	1,060	-
Appinions Inc.	convertible debentures	United States	2,388	2,001
Vision Critical Communications Inc.	preferred shares	Canada	3,500	3,500
Vision Critical Communications Inc.	common shares	Canada	824	824
			8,460	6,639
MEDIA TECHNOLOGIES				
Hootsuite Media Inc.	preferred shares	Canada	2,080	2,204
iPowow! Inc.	common shares	Canada	1,028	195
iPowow! Inc.	preferred shares	Canada	4,434	1,515
iPowow! Inc.	loan	Canada	150	150
Quickplay Media Inc.	common shares	Canada	2,365	2,365
			10,057	6,429
EDUCATION TECHNOLOGIES				
Cricket Media Group Ltd.	convertible debentures	Canada	3,500	1,925
Bluedrop Performance Learning Inc.	convertible debentures	Canada	3,000	3,000
			6,500	4,925
ENTERPRISE SOFTWARE				
Vena Solutions	units	Canada	500	500
Vena Solutions	convertible debentures	Canada	3,347	3,347
Embotics Corporation	convertible debentures	Canada	1,000	1,000
			4,847	4,847
HARDWARE				
Baanto International Ltd.	common shares	Canada	300	157
Baanto International Ltd.	convertible debentures	Canada	2,700	2,025
BTI Systems Inc.	preferred shares	United States	1,887	1,719
			4,887	3,901

SCHEDULE OF INVESTMENTS (continued)

Amounts in thousands of Canadian dollars

	INVESTMENT TYPE	COUNTRY	December 31, 2014 AVERAGE COST $	FAIR VALUE $
GAMING				
WG Limited ("World Gaming")	common shares	Canada	4,677	2
WG Limited ("World Gaming")	convertible debentures	Canada	21,782	2,536
			26,459	2,538
CLEAN TECHNOLOGIES				
Lignol Energy Corporation	promissory note	Canada	12,285	1,000
Crailar Technologies, Inc.	convertible debentures	Canada	3,310	481
Enhanced Systems Technologies	common shares	Australia	3,335	-
			18,930	1,481
REAL ESTATE				
Chieftain Residential, LP	partnership interest	United States	7,485	8,504
Chieftain Residential, LP	promissory note	United States	2,538	2,900
Difference RM Holdings Corp.	common shares	United States	5,432	6,334
			15,455	17,738
OTHER				
Waterloo Innovation Network LP	limited partnership units		2,000	2,000
Other equities	common shares, preferred shares, warrants and units		2,656	895
Other debt	debt		2,421	400
			7,077	3,295
TOTAL INVESTMENTS			**155,189**	**98,314**

PORTFOLIO INVESTMENTS AND FAIR VALUE

Significant purchases, sales and changes in valuation of investments for the year ended December 31, 2014 included the following:

Appinions Inc. (“Appinions”)
During the year ended December 31, 2014, the Company converted US$0.8 million of the 10.0% convertible senior unsecured debentures with a maturity date of September 19, 2014 plus outstanding accrued interest into common shares of Appinions. In addition, the Company invested an additional US$0.3 million in Appinions in the form of convertible senior unsecured debentures, paying interest of 12.0% per annum with a maturity of December 31, 2015, convertible into common shares of Appinions. The Company recorded approximately $1.6 million in unrealized depreciation for the Appinions investments based on its estimated fair value using comparable public company trading multiples, taking into consideration qualitative observations reflecting the current financial situation of Appinions.

Baanto International Ltd. ("Baanto")
During 2014, the Company recorded approximately $0.8 million of unrealized depreciation relating to its investments in Baanto based on estimated fair value using comparable public company trading multiples, taking into consideration qualitative observations reflecting current operating results and financial situation of Baanto.

Benev Capital Inc. ("Benev")
As at December 31, 2013, the Company held approximately 2.5 million shares of Benev. During 2014, the Company acquired an additional 8.6 million shares of Benev for total consideration of $16.1 million and subsequently sold all the shares for the total consideration of approximately $22 million. The disposition generated approximately $1.7 million in realized gain.

Blue Ant Media Inc. ("Blue Ant")
As at December 31, 2014, the Company held $4.8 million of Blue Ant common shares. As at December 31, 2014, the common shares were revalued based on the most recent round of financing. The revaluation resulted in approximately $1.0 million of unrealized appreciation in 2014.

BrainScope Company Inc. (“BrainScope”)
As at December 31, 2013, the Company held US$1.2 million of secured convertible promissory note of Brainscope, with interest at the rate of 8% per annum, and a maturity date of June 30, 2014. During 2014, the Company invested another US$0.2 million in the same promissory note and subsequently converted the entire US$1.4 million of the promissory note plus outstanding accrued interest into BrainScope series C preferred shares.

BuildDirect.com Technologies Inc. (“BuildDirect”)
As at December 31, 2013, the Company held $5 million of BuildDirect common shares. During 2014, the Company purchased an additional $2.0 million of BuildDirect common shares. The Company recorded approximately $2.5 million in unrealized appreciation in its BuildDirect investment, based on the fair value determined from this most recent round of financing.

Cardiac Dimensions Pty. Ltd. (“Cardiac Dimensions”)
During the year ended December 31, 2014, the Company invested US$2.0 million in Series A preferred shares in Cardiac Dimensions. Cardiac Dimensions is a private life sciences company focused on the development and commercialization of Carillon, a medical device for the treatment of heart disease.

SCHEDULE OF INVESTMENTS (continued)

Amounts in thousands of Canadian dollars

Carta Solutions Holding Corporation (“Carta”)

During the year ended December 31, 2014, the Company invested an additional $1.5 million in Carta through the purchase of units (the “2014 Carta Units”). 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 until September 11, 2017.

The Company also held $2.0 million units of Carta (the “2013 Carta Units”) as at December 31, 2013. 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 until June 30, 2016. The Company also holds 0.5 million common share purchase warrants, with each whole warrant exercisable for a further common share until May 20, 2017. During the year ended December 31, 2014, approximately $0.5 million change in appreciation was recorded for the 2013 Carta Units based on the recent 2014 Carta Units financing.

Chieftain Residential, LP (“Chieftain”)

During the fourth quarter of 2014, the Company entered into an agreement to sell its investments in Chieftain for aggregate proceeds of US$10.2 million. The transaction closed in January 2015 and the Company's investments in Chieftain were valued at this transaction price as at December 31, 2014.

Crailar Technologies Inc. (“Crailar”)

As at December 31, 2014, the Company held $1.8 million of convertible debentures that pay 10% interest per annum and are convertible into common shares of Crailar at a price of $2.90 per common share with a maturity date of September 30, 2017 and $3.2 million of convertible debentures that pay 10% interest per annum and are convertible into common shares of Crailar at a price of $1.25 per common share with a maturity date of July 26, 2016. As at December 31, 2014, Crailar's publicly-listed convertible debenture had a bid price of $12.25 and an ask price of $40.00. The Company used the publicly listed convertible debentures as a benchmark to fair value these debentures, resulting in $1.8 million of unrealized depreciation in 2014.

Cricket Media Group Ltd. (“Cricket Media”)

As at December 31, 2014, the Company held $6.5 million of Cricket Media secured convertible debentures that pay 10% interest per annum and are convertible into common shares of Cricket Media at $0.40 per share with a maturity date of October 31, 2016. During the year ended December 31, 2014, the Company recorded approximately $1.6 million in unrealized depreciation of these debentures, based on estimated value using comparable publicly traded debt instruments, taking into consideration qualitative observations of the current financial situation of Cricket Media.

Enterprise Group (“Enterprise”)

As at December 31, 2013, the Company held $2.2 million of convertible unsecured subordinated debentures of Enterprise with a par value of $2.2 million. During 2014, the Company converted the entire $2.2 million of the debentures into Enterprise common shares and sold all such shares in the market. The Company recorded a realized gain of $2.7 million on the conversion and sale of the Enterprise common shares.

Fem Med Formulas Limited Partnership (“Fem Med”)

As at December 31, 2014, the Company held $2.5 million of Fem Med secured convertible debentures that accrue 8% interest per annum to the maturity date of August 31, 2015. The Company wrote off the investment to nil, primarily due to uncertainty as to the collectability of debt given the current financial situation of Fem Med.

Hootsuite Media Inc. (“Hootsuite”)

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

InfraReDx, Inc. (“infraReDx”)

As at December 31, 2014, the Company held US$5.0 million in infraReDx secured convertible debentures and preferred share warrants. The convertible debentures pay 6.0% per annum and convert into either: (i) common shares of infraReDx at the initial public offering (“IPO”) price; (ii) common shares at US$0.62 per share upon an asset sale, acquisition or merger; or, (iii) into preferred shares upon, and at the same price as, a preferred equity financing. Warrants are exercisable into infraReDx’s Series E Preferred Stock at US$0.04 per share (prior to 40:1 reverse split) at any time prior to November 30, 2017. As at December 31, 2014, the Company recorded $2.3 million in unrealized depreciation in its infraReDx warrants based on the fair value determined from the recent infraReDx's released target IPO price.

iPowow! Inc. (“iPowow”)

As at December 31, 2013, the Company's investment in iPowow consisted of $3.0 million in preferred "A" shares that pay 8.0% cumulative annual dividend and are convertible into common shares, and $1.0 million in common shares. During 2014, the Company provided an additional $1.2 million in short term loans to iPowow and invested $0.4 million in preferred "B" shares. Approximately $0.4 million of the short term loans were converted into preferred "A" shares and approximately $0.7 million were converted into preferred "B" shares. Based on the valuation ascribed to the most recent round of financing, the Company recorded approximately $3.8 million in unrealized depreciation in its iPowow investments at the end of the year.

Lignol Energy Corporation (“Lignol”)

During 2014, the Company placed Lignol into receivership. 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, which represented estimated net recoverable value of the Lignol assets. The Company has ascribed no value to the common shares of Lignol.

Mogo Finance Technology Inc. ("Mogo")

During 2014, the Company invested $2.0 million in Mogo preferred shares. The preferred shares are convertible into common shares at a ratio of 1:1 at any time at the option of the Company or upon an IPO. Mogo is a Vancouver-based online consumer lending platform.

SCHEDULE OF INVESTMENTS (continued)

Amounts in thousands of Canadian dollars

Thunderbird Films Inc. ("Thunderbird")

As at December 31, 2013, the Company's investment in Thunderbird included $4.0 million of common shares. During 2014, the Company acquired $2.0 million of Thunderbird preferred shares. The preferred shares pay an 8% per annum dividend and convert into a minimum of one common share upon an IPO or other liquidity event.

Vena Solutions ("Vena Solutions")

As at December 31, 2013, the Company held $3.0 million in Vena Solutions in the form of unsecured convertible debentures that pay 10% interest per annum and are convertible into common shares of Vena Solutions with a maturity of November 4, 2016. During 2014, the Company invested an additional $0.5 million in Vena Solutions through the purchase of units (the “Vena Solutions Units”). Each Vena Solutions Unit comprises of one Class G common share in the capital of Vena Solutions and one Class G common share in the capital of Vena Solutions International Inc. In addition, the Company converted $0.3 million of accrued interest into a non-interest bearing convertible debenture that converts into common shares of Vena Solutions with a maturity date of November 4, 2016.

Vision Critical Communications Inc. ("Vision")

As at December 31, 2013, the Company held $3.5 million of Vision Series 2 Class B Preferred Shares. During 2014, the Company acquired, through the secondary market, $0.8 million in common shares of Vision.

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

During the year ended December 31, 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”)

As at December 31, 2013, the Company's investment in World Gaming included $16.8 million in convertible debentures that paid 5% interest per annum, matured June 15, 2014 and were convertible into common shares of World Gaming at the option of the Company; $5.0 million in convertible debentures that pay 10% interest per annum, mature September 30, 2016 and convertible into common shares of World Gaming at the option of the Company; and $3.2 million of common shares based on Fair Market Value.

During 2014, the maturity on the 5% convertible debentures was amended from June 15, 2014 to June 15, 2015 and the interest rate was increased to 10% per annum.

Subsequent to year end, the Company agreed to convert all of its convertible debentures plus outstanding accrued interest at 30% face value into common shares of World Gaming. In addition, the Company invested an additional US$0.5 million in units of World Gaming (each a "Unit"). Each Unit consists of 1 common share and 1 common share purchase warrant. The Company recorded an aggregate unrealized depreciation of $19.5 million in its World Gaming investments in 2014 based on fair value established from most recent round of financing and qualitative observations reflecting the current financial situation of World Gaming.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014 (in Canadian dollars)

1. COMPANY INFORMATION

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

Difference Capital is a specialty finance company focused on creating shareholder value through strategic investments in growth companies, particularly in the technology, media and healthcare sectors, as well as opportunistic investments in undervalued financial assets and real property.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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 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 14 to these financial statements.

These financial statements were authorized for issuance by the Board of Directors of Difference Capital on March 6, 2015. The following are the significant accounting policies used in the preparation of these financial statements:

Basis of presentation

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

Critical accounting estimates and judgments

The preparation of the Company's financial statements in accordance with IFRS requires management to make estimates and exercise judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Key areas of estimation where management has made difficult, complex or subjective judgments include the determination of the fair value of privately held investments which include debt and equity securities. Estimating fair value requires that judgment be applied to the specific facts and circumstances of each investment. Actual results could differ from these estimates. Refer to the fair value measurement note below for further details on fair value measurement of investments.

Financial instruments

The Company recognizes financial instruments at fair value upon initial recognition. Regular way purchases and sale of financial assets are recognized at their trade date. The Company classifies 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 held for trading since they are acquired with the intent to sell or repurchase in the short term. Investments are designated as FVTPL. These financial assets are designated upon initial recognition on the basis that they are part of a group of financial assets which 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 short are measured at fair value with unrealized gains or losses recognized in profit and loss. For investments and marketable securities where there is an active market, the fair value is determined using last traded prices within a bid-ask spread. For investments and marketable securities where there is no active market, the fair value is determined using appropriate valuation techniques. 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. The fair value of the Company's financial assets and liabilities are determined as follows:

Marketable securities and marketable securities sold short

Marketable securities and marketable securities sold short are acquired principally for the purpose of selling or repurchasing in the near term. Marketable securities include equity securities, debt securities and warrants of public company issuers that are publicly traded on recognized stock exchanges. Marketable securities are carried at their fair value and any changes in fair value are recognized in income as a change in unrealized gain (loss) on investments and marketable securities. The fair value of marketable 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.

Investments

Investments consist of common shares, preferred shares, convertible debentures, loans, debentures, promissory notes, warrants of public and private companies and limited partnerships that are acquired and held for long-term investment. Investments are carried at fair value and any changes in the fair value are recognized in income as a change in unrealized gain (loss) on investments and marketable securities. When investments are initially recognized, the fair value is generally the value of consideration paid. For investments that are publicly traded, the Company uses the same fair valuation methodologies as the marketable securities which are discussed above. For investments that are not publicly traded, subsequent to initial recognition, the fair value of these investments is determined by the Company using an appropriate valuation methodology after considering: the history and nature of the business; operating results and financial conditions; the general economic, industry and market conditions; capital market and transaction market conditions; independent valuations of the business; contractual rights relating to the investment; comparable company trading and transaction multiples, where applicable, and other pertinent considerations. The Company considers the most appropriate market valuation techniques, which maximize the use of relevant observable inputs. Such valuation techniques include, but are not limited, to comparable recent arm's length transactions, discounted cash flow analysis, option pricing models, multiples of earnings or production, the liquidation approach, the movement in economic and sector indicators such as market indices and comparison with other securities of similar companies. Specific techniques listed above or a combination of these techniques may be employed by the Company based on its best estimate and judgment under the applicable circumstance. 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 the underlying common shares exceeds the conversion price; or valued based on quoted market prices of similar convertible debt investments of the same issuer.

For public company warrants (i.e., the underlying security of which is traded on a recognized stock exchange), the Black-Scholes valuation model is 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 of which is not traded on a recognized stock exchange, fair value is determined consistently with other investments that do not have an active market as described above.

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.

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 4 for specific disclosures related to investments in associates and subsidiaries.

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 balance sheet 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

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The Company applies the following specific revenue recognition policies:

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.

Under the terms of the Management Agreement with Difference Capital Management Inc. ("DCM"), the Company is entitled to a 40% share of all advisory and equity capital market revenue generated by DCM. The Company recognizes revenue as services are provided under contractual arrangements between DCM and its advisory clients.

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 loss and comprehensive 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 loss and comprehensive loss by adjusting the carrying amount of the receivable accordingly.

As at December 31, 2014, interest and other receivables with an initial value of $5.6 million (December 31, 2013 - $3.5 million, January 1, 2013 - $0.7 million) were identified as impaired and a provision for impairment was provided for. The movements in the provision for impairment of interest and other receivables were as follow:

	$000
Provision, at January 1, 2013	-
Increase in provision, bad debts	665
Provision utilized	-
Provision, at December 31, 2013	665
Increase in provision, bad debts	3,444
Provision utilized	(2,345)
Provision, at December 31, 2014	**1,764**

Refer to Note 10 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 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 13 for further details.

Income tax

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in profit or 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 recognized 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 5 for further details.

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.

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

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

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

Annual Improvements 2012-2014 Cycle

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

3. MARKETABLE SECURITIES AND MARKETABLE SECURITIES SOLD SHORT

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

As at	December 31, 2014		December 31, 2013		January 1, 2013	
	Marketable securities $000	Marketable Securities sold short $000	Marketable securities $000	Marketable Securities sold short $000	Marketable securities $000	Marketable Securities sold short $000
Equity securities	687	23	3,785	780	15,723	-
Warrants	-	-	115	-	-	-
	687	**23**	3,900	780	15,723	-

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014 (in Canadian dollars)

4. INVESTMENTS

Investments consist of the following by investment type:

As at	December 31, 2014 $000	December 31, 2013 $000	January 1, 2013 $000
Equity securities	57,819	58,070	18,903
Convertible debentures	21,790	52,026	35,694
Debentures, loans and promissory notes	6,400	14,327	5,054
Partnership interests	10,504	7,977	4,975
Warrants	1,801	4,619	385
	98,314	137,019	65,011

See Schedule of Investments on pages 7 to 10 for further details.

5. INVESTMENTS IN ASSOCIATES AND SUBSIDIARIES

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

Name	Relationship	Principal Place of Business	Ownership interest and Voting Rights %		
			December 31, 2014	December 31, 2013	January 1, 2013
Difference RM Holding Corp.	Subsidiary	United States	100%	100%	100%
Livereel Media Corporation	Subsidiary	Canada	88%	88%	-
Gotham Analytics, LLC	Associate	United States	48%	48%	48%
Chieftain Residential LP	Associate	United States	50%	50%	50%
iPowow Inc.	Associate	Canada	44%	32%	19%
Lignol Energy Corporation	Associate	Canada	28%	30%	25%
Appinions Inc.	Associate	United States	23%	24%	15%

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

During the year ended December 31, 2014, the Company advanced Difference RM Properties LLC in the amount of $0.01 million (2013 - $0.01 million) and Livereel Media Corporation in the amount of $0.01 million (2013 - $0.01 million).

6. 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. The Debentures are not redeemable prior to July 31, 2016. On and 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 which 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 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 NCIB in order to increase the maximum principal amount of convertible debentures that may be purchased under the 2014 NCIB from $2.0 million to $4.4 million. The 2014 NCIB expired on December 4, 2014.

On December 8, 2014, the Company received approval from the TSX to renew its NCIB ("2015 NCIB") to repurchase its Debentures. Pursuant to the policies of the TSX, daily purchases made by the Company will not exceed $26,498 principal amount of convertible debentures other than block purchase exceptions. The Company is authorized to acquire up to $4.2 million principal amount of its Debentures, representing 10.0% of the outstanding Debentures. The 2015 NCIB expires on December 9, 2015.

During the year ended December 31, 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 loss, 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 year ended December 31, 2014 was as follows:

	$000
Liability component, January 1, 2013	-
Issuance of convertible debentures	51,687
Issuance costs	(3,012)
Accretion of discount	559
Normal course issuer bid repurchases	(204)
Liability component, December 31, 2013	49,030
Accretion of discount	1,167
Normal course issuer bid repurchases	(3,581)
Liability component, December 31, 2014	**46,616**

7. SHARE CAPITAL

The Company has two authorized classes of shares: an unlimited number of Common Shares and an unlimited number of Preference Shares, issuable in series. The Common Shares are listed for trading on the TSX. No Preference Shares have been issued.

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

	Number of Shares	Stated Value $000
Common shares, balance, January 1, 2013	11,882,736	86,455
Issuance of share capital on exercise of Special Warrants (1)	15,434,898	53,295
Issuance of share capital on equity offering (2)	12,000,000	41,981
Share repurchase (3)	(185,300)	(856)
Common shares, December 31, 2013	39,132,334	180,875
Share repurchase (3)	(934,600)	(4,320)
Common shares, December 31, 2014	**38,197,734**	**176,555**

Notes:

(1) On February 6, 2013, the Company announced that the Special Warrants issued on October 3, and 4, 2012 were exercised into 11,453,908 Common Shares and 57,269,530 Purchase Warrants. On March 11, 2013, the Company filed a final short form prospectus (the "Prospectus") qualifying the distribution of 3,981,070 units of the Company issuable upon the exercise of 3,981,070 Special Warrants issued by the Company on November 19, 2012. Upon exercise, each Special Warrant entitled the holder thereof to receive, for no additional consideration, one unit. Each unit consisted of one Common Share and five Common Share Purchase Warrants. Each ten Purchase Warrants entitle the holder to purchase one Common Share at an exercise price of $6.00 per share until October 3, 2014.

(2) On July 26, 2013, the Company completed its public offering of Common Shares (the "Equity Offering") pursuant to which the Company sold 12 million Common Shares for aggregate gross proceeds of $45.0 million. The Common Shares sold pursuant to the Equity Offering were priced at $3.75 per share.

(3) 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 (also "2014 NCIB"). The Company also received approval from the TSX for an automatic purchase plan, which allows 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 NCIB, all trades are entirely at the broker's discretion. Outside of these pre-determined black-out periods, shares will be purchased in accordance with management's discretion. Under its 2014 NCIB, the Company was permitted to purchase up to 1,000,000 Common Shares, representing 2.5% of the issued and outstanding Common Shares on the date of the receipt of regulatory approval through to December 4, 2014. On December 8, 2014, the Company received approval to renew its NCIB ("2015 NCIB"). The Company is authorized to acquire up to 2.4 million Common Shares. Pursuant to the policies of the TSX, daily purchases made by the Company will not exceed 16,508 Common Shares other than block purchase exceptions. The 2015 NCIB expires on December 9, 2015.

During the year ended December 31, 2014, 934,600 Common Shares were repurchased under the NCIB at an average cost of $1.50 per Common Share for total consideration of $1.4 million. Contributed Surplus was increased by $2.9 million for the cost of the Common Shares repurchased below their stated value.

8. INCOME TAXES

As at December 31, 2014, the Company has unrecognized deferred tax assets consisting of: capital losses of approximately $147.2 million [December 31, 2013 – $149.8 million], unrealized capital losses of approximately $56.2 million [December 31, 2013 - $13.6 million], unamortized financing costs of $4.6 million [December 31, 2013 - $6.0 million], and non-capital losses of approximately $29.1 million [December 31, 2013 – $18.8 million] that may be carried forward to reduce income taxes in future years. If not utilized, the non-capital losses will expire as follows:

2015	367,041
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	11,570,740
	$29,140,338

The Company has not recognized any of these benefits in the financial statements because 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:

Net loss before income taxes	$(48,088)
Tax rate (Federal and Ontario)	26.5%
Income tax recovery	(12,743)

Adjustments from:

Income losses not subject to tax	$5,686
Benefit of losses not recognized in income	7,057
Total income tax expense	-
Tax provision per FS	-

The remainder of this page is intentionally blank.

9. 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, 2014	Held for Trading $000	FVTPL Designated at inception $000	Total $000	Amortized Cost $000	Total $000
Assets					
Marketable securities	687	-	687	-	687
Investments	-	98,314	98,314	-	98,314
Cash	-	-	-	11,799	11,799
Prepaid expenses, deposits and other receivables	-	-	-	674	674
Due from broker	-	-	-	1,133	1,133
Interest receivable	-	-	-	2,145	2,145
Other receivables	-	-	-	200	200
Total Financial Assets	**687**	**98,314**	**99,001**	**15,951**	**114,952**
Liabilities					
Marketable securities sold short	23	-	23	-	23
Accounts payable and accrued liabilities	-	-	-	629	629
Due to broker	-	-	-	26	26
Convertible debentures	-	-	-	48,340	48,340
Total Financial Liabilities	**23**	**-**	**23**	**48,995**	**49,018**

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

As at January 1, 2013	Held for Trading $000	FVTPL Designated at inception $000	Total $000	Amortized Cost $000	Total $000
Assets					
Marketable securities	15,723	-	15,723	-	15,723
Investments	-	65,011	65,011	-	65,011
Cash	-	-	-	9,396	9,396
Prepaid expenses, deposits and other receivables	-	-	-	187	187
Due from broker	-	-	-	2,280	2,280
Interest receivable	-	-	-	745	745
Total Financial Assets	15,723	65,011	80,734	12,608	93,342
Liabilities					
Accrued liabilities	-	-	-	2,458	2,458
Due to broker	-	-	-	1,029	1,029
Total Financial Liabilities	**-**	**-**	**-**	3,487	3,487

For the year ended December 31, 2014, the total of the change in unrealized gain (loss) and realized gain from disposal on financial assets designated as HFT was $3.8 million [December 31, 2013 – ($0.1) million], the total of the change in unrealized gain (loss) and realized gain from disposal on financial assets designated as FVTPL was ($42.9) million [December 31, 2013 – ($16.7) million] and the total of the change in unrealized gain (loss) and realized gain on financial liabilities designated as HFT was $0.3 million [December 31, 2013 – ($0.2) million].

10. 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 December 31, 2014, the Company holds the following fixed-rate debt instruments: (a) $23.1 million [December 31, 2013 - $53.6 million, January 1, 2013 – $36.4 million] in convertible debentures with a weighted average interest rate of 8.86% [December 31, 2013 – 7.80%, January 1, 2013 – 6.07%] and a weighted average term to maturity of approximately 1.4 years [December 31, 2013 – 1.6 years, January 1, 2013 – 1.9 years]; and (b) $6.9 million [December 31, 2013 - $14.9 million, January 1, 2013 – $5.0 million] in non-convertible debentures with a weighted average interest rate of 10.56% [December 31, 2013 – 8.68%, January 1, 2013 – 9.60%] and a weighted average term to maturity of approximately 1.7 years [December 31, 2013 – 1.7 years, January 1, 2013 – 1.1 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.

If interest rates were higher by 1% per annum, the potential effect to the Company would be a decrease in net income of approximately $0.4 million [December 31, 2013 - $ 1.0 million, January 1, 2013 – $0.7 million]. If interest rates were lower by 0.5% per annum, the potential effect would be an increase in net income of approximately $0.2 million [December 31, 2013 - $0.5 million, January 1, 2013 – $0.4 million].

Currency risk

Changes in currency rates will impact the carrying value of financial instruments denominated in currencies other than the Canadian dollar. As at December 31, 2014, the Company is exposed to foreign exchange risk through its US dollar denominated investments of $34.2 million [December 31, 2013 - $31.1 million, January 1, 2013 – $16.0 million] and its Australian dollar denominated investments of nil [December 31, 2013 - nil, January 1, 2013 – $3.5 million], which represents approximately 29.8% of total assets. The Company does not currently hedge its foreign currency exposure. If the Canadian dollar strengthened or weakened by 1% in relation to the foreign currencies, the investments would decrease or increase by approximately $0.3 million respectively [December 31, 2013 - $0.3 million, January 1, 2013 – $0.2 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 loss of approximately $9.9 million [December 31, 2013 - $14.0 million, January 1, 2013 – $8.1 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 December 31, 2014 is $30.0 million [December 31, 2013 - $68.5 million, January 1, 2013 – $41.5 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 December 31, 2014 and 2013, 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, 2014 and 2013.

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

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

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

As at January 1, 2013	Less than one year $000	One to three years $000	Over three years $000	Total $000
Financial Liabilities				
Performance and management fees payable	1,880	-	-	1,880
Accounts payable and accrued liabilities	578	-	-	578
Due to broker	1,029	-	-	1,029
Total Financial Liabilities	3,487	-	-	3,487

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.

11. 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 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**

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

As at January 1, 2013	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Equities	17,062	3,811	13,753	34,626
Convertible debentures	-	5,598	30,096	35,694
Debentures, loans and promissory notes	-	-	5,054	5,054
Partnership interest	-	-	4,975	4,975
Warrants	-	383	2	385
Total Financial Assets	17,062	9,792	53,880	80,734

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, 2014, there were $0.7 million of equities transferred from Level 2 to Level 1 [December 31, 2013 - $1.8 million] and there were no transfers from Level 1 to Level 2 [December 31, 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 [December 31, 2013 – nil] and there were no transfers from Level 3 to Level 2 [December 31, 2013 – nil]. The transfer out of Level 2 to Level 3 was a result of using non-observable inputs to value the convertible debenture.

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, 2014:

Investment Type	Fair Value $000	Valuation techniques and unobservable inputs applied
Equity securities	37,894	Transaction price
	7,464	Third party transaction/pricing
	6,334	Appraised value
		Market comparable companies
	1,168	EV/Sales multiple (1.2X-8.5X)
	498	Other
Convertible debentures	7,347	Transaction price
	14,189	Market comparable companies Implied market yield (9% - 12%) EV/Sales multiple (1.4X-4.0X) Discount (25% - 100%)
Debentures, loans and promissory notes	5,400	Transaction price
	1,000	Liquidation value/other
Partnership interest	10,504	Transaction price
Warrants	968	Other
	92,766	

The remainder of this page is intentionally blank. Fair Value Measurement continues.

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

	Year ended December 31, 2014 $000	Year ended December 31, 2013 $000
Opening balance, beginning of year	115,129	53,880
Purchases	24,119	76,817
Sales	(7,179)	(3,326)
Realized gains	(450)	230
Transfers into level 3	2,250	-
Change in unrealized depreciation	(41,103)	(12,472)
Balance, end of year	**92,766**	**115,129**
Total change in unrealized depreciation of assets held as at end of year	(41,553)	(12,242)

12. RELATED PARTY TRANSACTIONS

Management Agreement

The Company has a management agreement with Difference Capital Management Inc. (the "Management Agreement"). The Company accrues and pays management fees on the basis of 2% per annum of the Company's monthly management fee net asset value (the "Management Fee NAV"). The Management Fee NAV is determined by subtracting the aggregate fair value of the liabilities (excluding any convertible debentures or debentures having a term of greater than one year that have been 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. The Company accrues a performance fee equal to 20% of any increase in the performance fee net asset value (the "Performance Fee NAV") from the start of the fiscal year in question to the end of that fiscal year (the "Performance Year") less the two-year Government of Canada bond rate (the "Hurdle Rate"), with the Hurdle Rate subject to a maximum of 5%. The Performance Fee NAV is determined by subtracting the aggregate fair value of the liabilities (excluding any convertible debentures or debentures that have a term of greater than one year that have been 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 year ended December 31, 2014, management fees of $3.0 million [December 31, 2013 – $2.8 million] and performance fees of nil [December 31, 2013 – nil] were accrued. As at December 31, 2014, performance and management fees payable to the manager were $0.2 million [December 31, 2013 – $0.7 million]. The outstanding payables were paid subsequent to December 31, 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 year ended December 31, 2014, the Company accrued revenue of $0.7 million from such advisory fees [December 31, 2013 – $1.2 million].

Waterloo Innovation Network Inc., a company controlled by the CEO of the Company, owes the Company a debt of approximately $167,000 including accrued interest.

In the fourth quarter of 2014, the Company made a $350,000 short term loan to an arm's length nutraceutical manufacturer of topical neuropathic pain reliever. The Company hopes to establish synergies between this manufacturer and Fem Med. Due to the high-risk nature of this investment, the Company's CEO has provided a personal guarantee on the performance of this loan.

13. 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	December 31, 2014 $000	December 31, 2013 $000	January 1, 2013 $000
Shareholders' equity	65,934	115,538	89,855
Convertible debentures – long term portion	46,616	49,030	-
Total capital	**112,550**	164,568	89,855

14. 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 year ended December 31:

	2014 $000	2013 $000
Basic earnings (loss) per share		
Net loss	**(48,088)**	(20,018)
Weighted average common shares	**38,769,190**	32,536,465
Basic loss per share	**$(1.24)**	$(0.62)
Fully diluted earnings (loss) per share		
Net loss	**(48,088)**	(20,018)
Weighted average common shares after taking into effect dilutive convertible debentures	**38,769,190**	32,536,465
Fully diluted loss per share	**$(1.24)**	$(0.62)

In calculating diluted loss per common share for the year ended December 31, 2014 and 2013, the Company excluded nil (2013 – 7,717,486) purchase warrants and 9,014,087 (2013 – 9,712,352) common shares from the conversion of the convertible debentures as their impact was anti-dilutive.

The remainder of this page is intentionally blank.

15. TRANSITION TO IFRS

The Company's financial statements for the year ending December 31, 2014 are the first annual financial statements that comply with IFRS. 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 is 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 8) 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	December 31, 2013 $000	January 1, 2013 $000
Equity, as reported under Canadian GAAP	115,098	89,855
Revaluation of investments at FVTPL	440	-
Equity, as reported under IFRS	115,538	89,855

Comprehensive income (loss)	Year ended December 31, 2013 $000
Comprehensive loss, as reported under Canadian GAAP	(20,458)
Revaluation of investments at FVTPL	440
Comprehensive loss, as reported under IFRS	(20,018)

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.

16. SUBSEQUENT EVENTS

In January 2015, the Company sold its interest in Chieftain for aggregate proceeds of US$10.2 million or $12.9 million at the exchange rate applicable on the closing date.

In January 2015, the Company invested an additional US$0.5 million in World Gaming. See Schedule of Investments on page 10 for details on the investment and a description of the changes to the Company's holdings in World Gaming.

In February 2015, the Company invested an additional $0.6 million in an unsecured convertible debenture of BlueDrop. The convertible debenture pays 14.0% interest, matures on December 30, 2016, and it will be convertible into common shares of BlueDrop at the option of the Company at any time prior to the maturity date at a conversion price of $0.15 per common share.

In February 2015, The Company invested an additional $1.0 million in Quickplay common shares.