



## **Tier One Capital Limited Partnership**

### **Unaudited Financial Statements**

**For the periods ended September 30, 2014 and  
September 30, 2013**

#### **NOTICE OF NO AUDITOR REVIEW OF THE INTERIM FINANCIAL STATEMENTS**

Tier One Capital Limited Partnership hereby gives notice that the Limited Partnership's independent auditor has not performed a review of these Interim Financial Statements in accordance with standards established by Chartered Professional Accountants of Canada.

**Tier One Capital Limited Partnership**  
**STATEMENTS OF FINANCIAL POSITION (Unaudited)**

As at September 30 2014 and 2013

|  | 2014              | 2013              |
|--|-------------------|-------------------|
| <b>ASSETS</b>  |                   |                   |
| Cash   | \$ 6,499,122      | \$ 261,248        |
| Accrued interest and other receivables   | 175,897           | 177,539           |
| Receivable on the sale of investments (note 9)   | 539,658           | 568,454           |
| <b>Investments</b>   | <b>26,770,788</b> | <b>33,495,771</b> |
| <b>Total Assets</b>  | <b>33,985,465</b> | <b>34,503,012</b> |
| <b>LIABILITIES</b>   |                   |                   |
| Class A redeemable shares (note 5)   | —                 | 12,246,678        |
| Payable on redemption of Class P shares  | 2                 | —                 |
| Accounts payable and accrued liabilities   | 280,820           | 310,153           |
| Deferred income on venture investments   | 258,567           | 312,280           |
| Class B shares (note 5)  | —                 | 1                 |
| Incentive participation amount/Class P shares (Incentive participation amount) (note 5, 6) | 537,765           | 828,068           |
| <b>Total Liabilities</b>   | <b>1,077,154</b>  | <b>13,697,180</b> |
| <b>EQUITY</b>  |                   |                   |
| Share capital -Class L, Series I shares  | —                 | 16,838,743        |
| Limited partnership units  | 33,022,276        | —                 |
| Broker warrants  | 6,609             | —                 |
| Retained (losses) earnings   | (120,574)         | 3,967,089         |
| <b>Total Shareholder's Equity</b>  | <b>32,908,311</b> | <b>20,805,832</b> |
| <b>Total Liabilities &amp; Shareholder's Equity</b>  | <b>33,985,465</b> | <b>34,503,012</b> |

Approved by the Board of Directors of T1 General Partner Corp.



Robert Roy  
Director



John Richardson  
Director

**Tier One Capital Limited Partnership**  
**STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)**  
For the periods ended September 30, 2014 and 2013

|  | 3 months ended September 30 |            | 12 months ended September 30 |              |
|--|-----------------------------|------------|------------------------------|--------------|
|  | 2014                        | 2013       | 2014                         | 2013         |
| <b>INCOME</b>  |                             |            |                              |              |
| Net gain (loss) on investments at fair value through profit and loss                         | \$ 525,656                  | \$ 186,300 | \$ 1,054,177                 | \$ 1,128,411 |
|  | 525,656                     | 186,300    | 1,054,177                    | 1,128,411    |
| <b>EXPENSES</b>  |                             |            |                              |              |
| Management fees (note 6)   | 92,608                      | 138,495    | 497,708                      | 587,765      |
| Advisory fees (note 6)   | 16,400                      | 153,851    | 496,742                      | 677,999      |
| Transfer agent, registrar and administrative (note 6)  | 63,589                      | 120,286    | 391,180                      | 481,144      |
| Legal fees   | 47,194                      | 81,467     | 195,875                      | 155,524      |
| Directors' fees and expenses   | 44,967                      | 46,764     | 154,084                      | 124,610      |
| Shareholders' reporting costs  | 5,409                       | 15,570     | 83,892                       | 61,026       |
| Audit fees   | 35,622                      | 28,814     | 68,051                       | 138,072      |
| Selling costs (note 6)   | 6,145                       | 16,858     | 42,416                       | 75,405       |
| Sponsor's fees (note 6)  | 1,244                       | 12,497     | 36,852                       | 52,256       |
| Custodian fees (note 6)  | 2,653                       | 13,361     | 23,467                       | 34,954       |
| Independent Review Committee expenses (note 6)   | 4,625                       | 2,896      | 13,255                       | 11,587       |
| Transaction fees   | —                           | —          | 798                          | 1,842        |
| Net gain (loss) on remeasurement of Class P shares (incentive participation amount) (note 6) | 34,386                      | (77,315)   | 357,057                      | 303,881      |
|  | 354,842                     | 553,544    | 2,361,377                    | 2,706,065    |
| <b>Income (Loss) before finance costs</b>  | 170,814                     | (367,244)  | (1,307,200)                  | (1,577,654)  |
| <b>FINANCE COSTS</b>   |                             |            |                              |              |
| Net gain (loss) on remeasurement of Class A redeemable shares                                | 1,047                       | (138,754)  | (499,647)                    | (684,142)    |
| <b>Net and comprehensive loss</b>  | 169,767                     | (228,490)  | (807,553)                    | (893,512)    |
| <b>Earnings (loss) per unit</b>  | 0.08                        | (0.17)     | (0.36)                       | (0.43)       |

The accompanying notes are an integral part of these financial statements.

**Tier One Capital Limited Partnership**  
**STATEMENTS OF CHANGES IN EQUITY (Unaudited)**

For the periods ended September 30, 2014 and 2013

|  | Share capital<br>Class L, Series I Shares<br>\$ | Share capital -<br>Limited Partnership<br>Units | Share capital -<br>Broker<br>Warrants | Retained<br>earnings<br>\$ | Total<br>\$ |
|--|---|---|---------------------------------------|----------------------------|-------------|
| <b>Balance as at October 1, 2012 - Class L, Series I shares</b>    | 16,838,743                                      | -   |                                       | 4,860,601                  | 21,699,344  |
| Net and comprehensive loss   | -   | -   |                                       | (893,512)                  | (893,512)   |
| <b>Balance as at September 30, 2013 - Class L, Series I shares</b> | 16,838,743                                      | -   |                                       | 3,967,089                  | 20,805,832  |
| Redemption of Class L, Series I shares                             | (49,840)  | -   |                                       | (8,938)                    | (58,778)    |
| Net and comprehensive loss (from September 30 to July 10)          | -   | -   |                                       | (888,387)                  | (888,387)   |
| Conversion of Class L shares to Limited Partnership Units          | (16,788,903)                                    | 19,867,771                                      |                                       | (3,069,764)                | 9,104       |
| Conversion of Class A shares to Limited Partnership Units          | -   | 9,963,181                                       |                                       | -                          | 9,963,181   |
| Proceeds from issue of Limited Partnership units                   | -   | 3,197,933                                       |                                       | -                          | 3,197,933   |
| Broker warrants  | -   | (6,609)   | 6,609                                 | -                          | -           |
| Net and comprehensive income (from July 11 to September 30)        | -   | -   |                                       | 80,834                     | 80,834      |
| General Partner Priority Profit Share Distribution                 | -   | -   |                                       | (201,408)                  | (201,408)   |
| <b>Balance as at September 30, 2014</b>                            | -   | 33,022,276                                      | 6,609                                 | (120,574)                  | 32,908,311  |

**Tier One Capital Limited Partnership**  
**STATEMENTS OF CASH FLOWS (Unaudited)**  
For the periods ended September 30, 2014 and 2013

|   | 2014                | 2013               |
|---|---------------------|--------------------|
| <b>Cash provided by (used in)</b>                                     |                     |                    |
| <b>Operating activities</b>   |                     |                    |
| Net loss  | \$ (807,553)        | \$ (893,512)       |
| Adjustments for:  |                     |                    |
| Net loss on remeasurement of Class A redeemable shares                | (499,647)           | (684,142)          |
| Change in unrealized (appreciation) depreciation on investments       | (489,246)           | 103,618            |
| Realized loss on sale of investments                                  | 1,870,374           | 1,246,031          |
| Non-cash interest and other income                                    | (76,921)            | (111,776)          |
| Net change in non-cash balances related to operations                 | (342,910)           | 1,667,716          |
| Proceeds from maturities of short-term investments                    | 16,984,930          | 25,476,945         |
| Proceeds from disposal of venture investments                         | 8,860,378           | 7,926,653          |
| Proceeds from disposal of public company investments                  | 57,628              | 182,237            |
| Purchase of short-term investments                                    | (12,988,410)        | (23,478,625)       |
| Purchase of venture investments                                       | (7,493,750)         | (8,982,000)        |
|   | <u>5,074,873</u>    | <u>2,453,145</u>   |
| <b>Financing activities</b>   |                     |                    |
| Proceeds from issue of Limited Partnership units                      | 3,282,035           | —                  |
| Amounts paid for Class A shares redeemed                              | (1,776,336)         | (3,685,139)        |
| Amounts paid for Class L shares redeemed                              | (58,778)            | —                  |
| Commissions paid on Limited Partnership unit issuance costs           | (84,102)            | —                  |
| Redemption fees charged for Class A, Series I shares early redemption | 1,590               | 8,855              |
| General Partner Priority Profit Share                                 | (201,408)           | —                  |
|   | <u>1,163,001</u>    | <u>(3,676,284)</u> |
| <b>Increase (Decrease) in cash during the period</b>                  | 6,237,874           | (1,223,139)        |
| <b>Cash - Beginning of period</b>                                     | 261,248             | 1,484,387          |
| <b>Cash - End of period</b>   | <u>\$ 6,499,122</u> | <u>\$ 261,248</u>  |
| <b>Supplemental Information</b>                                       |                     |                    |
| Interest Paid   | -                   | -                  |
| Interest Received   | \$ 2,041,797        | \$ 1,997,272       |

The accompanying notes are an integral part of these financial statements.

**Tier One Capital Limited Partnership**  
**SCHEDULE OF INVESTMENT PORTFOLIO (Unaudited)**  
**As at September 30, 2014**

| Par value/<br>number<br>of shares          | Issuer                                 | Maturity date/<br>expiration date | Cost    | Fair<br>value |
|--|--|-----------------------------------|---------|---------------|
| <b>PUBLIC COMPANY INVESTMENTS (0.14%)*</b> |  |                                   |         |               |
| 31,000                                     | Cymat Technologies Ltd., common shares |                                   | 55,800  | \$ 5,890      |
| 376,924                                    | TransGaming Inc., common shares        |                                   | 69,731  | 32,038        |
| <b>Total public company investments</b>    |  |                                   | 125,531 | \$ 37,928     |

| Par value/<br>number<br>of shares                                      | Investee companies      | Maturity date/<br>expiration date | Cost<br>\$ | Fair<br>value<br>\$ |
|--|-------------------------|-----------------------------------|------------|---------------------|
| <b>VENTURE INVESTMENTS (99.86%)*</b>                                   |                         |                                   |            |                     |
| <b>Industrial and financial (22.75% of total venture investments)*</b> |                         |                                   |            |                     |
| <b>Brompton Corporation</b>  |                         |                                   |            |                     |
| 42,291   | Common shares           |                                   |            |                     |
| <b>CNSX Markets Inc.</b>   |                         |                                   |            |                     |
| 1,455,087  | Common shares           |                                   |            |                     |
| <b>Couch Commerce Inc.</b>   |                         |                                   |            |                     |
| 380,815  | Promissory note, 14.50% | August 22, 2015                   |            |                     |
| 78,519   | Promissory note, 14.50% | April 4, 2016                     |            |                     |
| 39,259   | Promissory note, 14.50% | April 4, 2016                     |            |                     |
| <b>ERMS Corporation</b>  |                         |                                   |            |                     |
| 75,000   | Promissory note, 20.00% | January 15, 2015                  |            |                     |
| 2,824  | Preferred shares        |                                   |            |                     |
| 264,464,964  | Common shares           |                                   |            |                     |
| <b>logen Corporation</b>   |                         |                                   |            |                     |
| 1,927,914  | Class A Common shares   |                                   |            |                     |
| <b>nCrowd Inc.</b>   |                         |                                   |            |                     |
| 771,407  | Promissory Note 8%      | September 24, 2019                |            |                     |
| <b>Total industrial and financial</b>                                  |                         |                                   | 14,399,235 | \$ 6,082,823        |

|  |                                |                    |  |  |
|--|--------------------------------|--------------------|--|--|
| <b>Technology (77.25% of total venture investments)*</b> |                                |                    |  |  |
| <b>AcuityAds Inc.</b>                                    |                                |                    |  |  |
| 1,107,000  | Promissory note, 16.50%        | January 9, 2016    |  |  |
| <b>ArcticAx Inc.</b>                                     |                                |                    |  |  |
| 550,000  | Promissory note, 16.00%        | March 26, 2016     |  |  |
| 55,000   | Common shares purchase warrant | July 6, 2016       |  |  |
| <b>Cognivue Corp.</b>                                    |                                |                    |  |  |
| 200,000  | Promissory note, 16.00%        | December 17, 2015  |  |  |
| 2,312  | Common shares purchase warrant | December 17, 2016  |  |  |
| <b>Datazen Inc.</b>                                      |                                |                    |  |  |
| 350,000  | Promissory note, 15.50%        | July 20, 2015      |  |  |
| <b>Dealer-FX Group Inc.</b>                              |                                |                    |  |  |
| 650,000  | Promissory note, 13.50%        | September 28, 2016 |  |  |
| 28,483   | Common shares purchase warrant | March 28, 2019     |  |  |

The accompanying notes are an integral part of these financial statements.

**Tier One Capital Limited Partnership**  
**SCHEDULE OF INVESTMENT PORTFOLIO (Unaudited)**  
**As at September 30, 2014**

|           |  |                          |
|-----------|--|--------------------------|
|           | <b>Dejero Labs Inc.</b>                        |                          |
| 1,700,000 | Promissory note, 16.50%                        | April 15, 2019           |
| 121,588   | Common shares purchase warrant                 | April 15, 2019           |
|           | <b>DisclosureNet Inc.</b>                      |                          |
| 14        | Preferred Shares                               |                          |
| 6,090     | Preferred Shares                               |                          |
| 7,980     | Common Shares, Class A                         |                          |
| 317,180   | Common Shares, Class B                         |                          |
|           | <b>FileTrek Inc.</b>                           |                          |
| 60,795    | Common shares                                  |                          |
| 2,144,005 | Preferred shares, Class A                      |                          |
| 1,317,650 | Preferred shares, Class A1                     |                          |
|           | <b>Geminare Inc.</b>                           |                          |
| 3,603,604 | Preferred shares                               |                          |
| 3,602,380 | Common shares, Class B                         |                          |
| 75,313    | Common shares                                  |                          |
|           | <b>Health Care Services International Inc.</b> |                          |
| 4,250     | Common shares                                  |                          |
|           | <b>Hipplay Inc.</b>                            |                          |
| 1,048     | Common shares                                  |                          |
|           | <b>Infonaut Inc.</b>                           |                          |
| 508       | Common shares                                  |                          |
|           | <b>Intelligent Mechatronic System Inc.</b>     |                          |
| 1,104,469 | Promissory note, 15.00%                        | February 5, 2015         |
| 963,900   | Promissory note, 15.00%                        | September 15, 2015       |
| 1         | Common shares purchase warrant                 |                          |
|           | <b>PitchPoint Solutions Inc.</b>               |                          |
| 1,400,000 | Debenture 12%                                  | November 18, 2016        |
| 1,166,667 | Common shares purchase warrant                 | November 18, 2016        |
|           | <b>PowerBand Global Inc.</b>                   |                          |
| 1         | Common shares purchase warrant                 | October 2, 2015          |
| 1         | Common shares purchase warrant                 | October 2, 2015          |
|           | <b>Shareholderco (7182171 Canada Inc.)</b>     |                          |
| 5,843,131 | Non-Voting common shares                       |                          |
| 5,843,131 | Special voting shares                          |                          |
|           | <b>Skura Corp.</b>                             |                          |
| 570,000   | Promissory note, 14.00%                        | September 13, 2016       |
| 250,000   | Promissory note, 14.00%                        | September 13, 2016       |
| 1         | Common shares purchase warrant                 | September 13, 2018       |
|           | <b>Spinco (4515218 Canada Inc.)</b>            |                          |
| 1,000,000 | Series A exchangeable preferred shares         |                          |
| 1,463,195 | Series B exchangeable preferred shares         |                          |
| 3,379,936 | Series C exchangeable preferred shares         |                          |
| 5,843,131 | Special voting shares                          |                          |
|           | <b>TransGaming Inc.</b>                        |                          |
| 651,640   | Promissory note, 10.00%                        | July 5, 2016             |
| 1,812,500 | Common shares purchase warrant                 | July 5, 2018             |
| 1,270,000 | Common shares purchase warrant                 | July 6, 2016             |
|           | <b>Total technology</b>                        | 26,520,696 \$ 20,650,037 |
|           | <b>Total venture investments (99.86%)*</b>     | 40,919,931 \$ 26,732,860 |
|           | <b>Total investments (81.35%)*</b>             | 41,045,462 \$ 26,770,788 |

The accompanying notes are an integral part of these financial statements.

# **TIER ONE CAPITAL LIMITED PARTNERSHIP**

## **NOTES TO FINANCIAL STATEMENTS (Unaudited)**

**As at September 30, 2014 and September 30, 2013**

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### **1. STATUS AND OPERATIONS**

Tier One Capital Limited Partnership (the “Limited Partnership”) is a limited partnership formed under the laws of the Province of Ontario. The Limited Partnership became a limited partnership effective on February 21, 2014, the date of filing of its declaration of Limited Partnership. The General Partner of the Limited Partnership is T1 General Partner LP limited partnership formed under the laws of the Province of Ontario. The general partner of the General Partner is T1 General Partner Corp., a corporation incorporated under the laws of Ontario.

On July 11, 2014 (the “Effective Date”), the Limited Partnership acquired substantially all of the assets of The Business, Engineering, Science & Technology Discoveries Fund Inc. (the “Fund”) as part of a transaction (the “Transaction”) that was approved by shareholders of the Fund at a special meeting held on March 28, 2014. In exchange for the assets of the Fund, the shareholders of the Fund received limited partnership units (the “Units”) of the Limited Partnership.

Each Class A Shareholder and Class L Shareholder of the Fund received an equivalent value of Units in payment for the redemption price of the Class A Shares and Class L Shares held by that shareholder on the Effective Date. The number of Units that a Class A Shareholder or Class L Shareholder received was calculated as the number of Class A Shares or Class L Shares held multiplied by the net asset value of the applicable series of shares on the valuation date immediately prior to the Effective Date divided by the deemed issue price per Unit of \$14.00. Fractional Units were not be issued, and the number of Units issued to a shareholder of the Fund was rounded down to the next whole number of Units. The net asset value per share for each series of outstanding Class A Shares and Class L Shares used in the exchange ratio calculation was as follows: (i) \$9.3384 Class A Shares, Series I; (ii) \$9.2352 Class A Shares, Series II; (iii) \$9.3009 Class A Shares, Series III; (iv) \$9.4066 Class A Shares, Series IV; and (v) \$9.4804 Class L Shares, Series I.

The Limited Partnership is focused on funding rapidly growing private Canadian companies by providing them with the capital needed to execute their growth strategies and acquisition plans. Its primary focus will be on companies with recurring revenue streams in the technology, healthcare and financial services industry. The limited partnership will initially focus its investments on companies in the expansion phase of development in mid to late stages. The Limited Partnership will not be subject to any investment restrictions regarding any particular sector, industry or stage of development.

The Units are listed on the Canadian Securities Exchange under the symbol “TLP.UN”.

The principal address of the Limited Partnership, the General Partner and the general partner of the General Partner is 15 Toronto Street, Suite 400, Toronto, Ontario, M5C 2E3.

These financials statements were authorized for issue by the General Partner on November 25, 2014.

### **2. BASIS OF PRESENTATION AND ADOPTION OF IFRS**

These financial statements of the Limited Partnership have been prepared in compliance with International Financial Reporting Standards (“IFRS”), including IAS 34 “Interim Financial Reporting”, as published by the International Accounting Standards Board. The Financial information for the period ended September 30, 2013 is that of the Fund prior to the Transaction.



# TIER ONE CAPITAL LIMITED PARTNERSHIP

## NOTES TO FINANCIAL STATEMENTS (Unaudited)

As at September 30, 2014 and September 30, 2013

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Limited Partnership are as follows:

#### **Financial instruments**

The Limited Partnership recognizes financial instruments at fair value upon initial recognition.

Regular way purchases and sales of financial assets are recognized at their trade date. The Limited Partnership's investments in financial assets have been designated at fair value through profit and loss and are subsequently measured at fair value through profit and loss.

Short-term investments and publicly traded investments are valued based on quoted bid prices. Venture investments, having quoted market values and being publicly traded on a recognized stock exchange, and not otherwise restricted, are recorded at values based on their bid prices.

Investments in securities not having quoted market values are recorded at estimated fair value determined on a going concern basis, or if appropriate, assuming an orderly disposition over a reasonable period of time. Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is determined using an appropriate valuation methodology after considering the history and nature of the business, operating results and financial conditions, the general economic and market conditions, capital market and transaction market conditions, independent valuations of businesses, contractual rights relating to the investment, public market comparable transactions and other pertinent considerations.

For warrants which are not traded on a recognized securities exchange, no market value is readily available. When there are sufficient and reliable observable market inputs, a valuation technique such as the Black-Scholes model is used; if no such market inputs are available, other appropriate methodologies are used.

Cash and receivables represent loans and receivables and are subsequently measured at amortized cost, which approximates fair value due to their short-term nature.

Accounts payable and accrued liabilities are classified as other financial liabilities and are measured at amortized cost, which approximates fair value due to their short term nature.

Units of the Limited Partnership are non-redeemable, do not carry any fixed dividends and have been classified as equity.

Broker warrants issued to dealers on the issuance of new Units have been classified as equity.

Prior to the Transaction, Class A shares were redeemable on an ongoing basis and were convertible into Class L shares. They were classified as financial liabilities as they were equally subordinate to other classes of shares issued by the Fund which do not have identical features.

Class B shares had no dividend entitlement, did not participate in the residual returns of the Fund and were redeemable for \$1 upon liquidation. As a result, the Class B shares were classified as financial liabilities prior to the Transaction.

Class P shares were redeemable in certain circumstances and contained a mandatory cumulative dividend equal to the Manager's Incentive Performance Amount and therefore, were classified as financial liabilities prior to the Transaction.

The Class A, B and P shares were accounted for at amortized cost. In measuring the Class P shares at amortized cost, an adjustment was recorded in net income each period based on the revised cash flows expected to be paid as dividends pursuant to the incentive participation amount (IPA) (see note 6). The adjustment incorporated the IPA payable based on realization

# **TIER ONE CAPITAL LIMITED PARTNERSHIP**

## **NOTES TO FINANCIAL STATEMENTS (Unaudited)**

**As at September 30, 2014 and September 30, 2013**

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events which have occurred and the contingent portion of the IPA which represents the IPA which would be payable if the portfolio were to be liquidated based on the fair value of investments held at the measurement date.

Class L shares were non-redeemable, did not carry any fixed dividends and were classified as equity prior to the Transaction.

### **Investments in subsidiaries, associates and joint ventures**

Subsidiaries are all entities over which the Limited Partnership has control. The Limited Partnership controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Limited Partnership has determined that it is an investment entity and as such, it accounts for subsidiaries at fair value with the exception of any subsidiaries which provide services related to the Limited Partner's investment activities, which are consolidated. Associates and joint ventures are investments over which the Limited Partner has significant influence or joint control, which have been designated at fair value through profit or loss.

### **Income recognition, transaction costs and expenses**

Gains and losses on investments includes realized gains (losses), changes in unrealized appreciation (depreciation) and interest and are recorded as net gain (loss) on investments at fair value through profit and loss ("FVTPL") on the Statements of Comprehensive Income (Loss).

Transaction costs, if incurred, are expensed in the Statements of Comprehensive Income (Loss). Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commission paid to agents, advisors, brokers and dealers.

Expenses directly attributable to a series or class are charged to that series or class. Other expenses are allocated proportionately to each series or class based upon the relative net asset values of each series.

### **Earnings per Unit**

Earnings per Unit is disclosed in the Statements of Comprehensive Income (Loss) and is determined by dividing net income for the period divided by the weighted average number of Units outstanding during the period.

### **Earnings per Share**

Earnings per share is disclosed in the Statements of Comprehensive Income (Loss) and is determined by dividing net income for the period divided by the weighted average number of shares outstanding during the period.

### **Income taxes**

These financial statements represent the assets and liabilities of the Limited Partnership and do not include the other assets, liabilities, income and expenses of the partners. Income taxes are the responsibility of the partners and not the Limited Partnership. Accordingly, no provisions for income taxes have been recorded in the financial statements.

## **4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

### **Management's estimates**

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Significant estimates include the fair

# TIER ONE CAPITAL LIMITED PARTNERSHIP

## NOTES TO FINANCIAL STATEMENTS (Unaudited)

As at September 30, 2014 and September 30, 2013

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value of venture investments. The valuation of venture investments determines the amount of expenses such as the management fees and the incentive participation amount. While management believes that the estimates used in preparing its financial statements are reasonable and prudent, actual results could differ from these estimates.

The process of valuing venture investments is inevitably based on inherent uncertainties and the resulting values will differ, perhaps materially, from the amounts ultimately realized. Also, because these venture investments have been valued on a going concern basis, the values may differ materially from those realized on forced sale or liquidation.

The Limited Partnership recognizes a contingent incentive participation amount that might become payable at a future date on the realized income and gains and unrealized appreciation in the investment portfolio, based on the assumption that all the investments are liquidated at the estimated fair value as at the date of the financial statements.

### Investment entity status

The Limited Partnership has early adopted the amendments made to IFRS 10 *Consolidated financial statements* and IFRS 12 *Disclosure of interests in other entities* for investment entities. A significant judgment made in preparing the Limited Partnership's financial statements relate to the determination that the Limited Partnership is an investment entity, including that its objective is to invest in eligible Canadian venture investments solely for the purpose of generating investment income and that fair value is the primary measurement attribute to measure and evaluate the performance of substantially all of its investments. This also includes management's judgment that investment related activities with its subsidiaries do not represent a substantial business activity or source of income.

## 5. NET ASSETS ATTRIBUTABLE TO PARTNERS

The following is a description of the authorized and issued Units of the Limited Partnership:

### Authorized and issued Units of the Limited Partnership:

The interests of the Limited Partners are represented by Units. The Units are treated as equity as they are not redeemable at the option of the Limited Partner.

| Issued                                    | Number of Units<br>2014 |
|---|-------------------------|
| Limited Partner Units                     |                         |
| Balance forward from prior period         | -                       |
| Issued on Transaction                     | 2,128,741               |
| Issued from treasury on private placement | 622,777                 |
| Balance at end of period                  | 2,751,518               |

The Limited Partnership issued 2,128,741 Units to shareholders of the Fund for the acquisition of substantially all the assets of the Fund. The Limited Partnership issued 622,777 on the closing of the private placement for \$5.27 per Unit for total gross proceeds of \$3,282,035.

### Broker warrants

During the period, the Limited Partnership issued warrants to brokers ("Broker Warrants") as compensation for the distribution of Units. At September 30, 2014 there were 9,575 Broker Warrants outstanding. The Broker Warrants are exercisable into one Unit each at the exercise price of \$5.27. The Broker Warrants expire on September 15, 2015.

# **TIER ONE CAPITAL LIMITED PARTNERSHIP**

## **NOTES TO FINANCIAL STATEMENTS (Unaudited)**

**As at September 30, 2014 and September 30, 2013**

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### **Commissions to agents on the distribution of Units**

Sales commissions related to the sale of Units are charged to share capital as a share issuance cost.

### **Authorized and issued shares of the Fund prior to the Transaction:**

Unlimited number of Class L Shares, Series I issuable in series, with voting rights, discretionary dividend entitlement with redemption and other rights at the discretion of the Board of Directors. As at September 30, 2013 there were 2,100,911 Class L Shares, Series I outstanding.

25,000 Class B shares, issuable only to the Sponsor or permissible employee organizations, with voting rights, no dividend entitlement. As at September 30, 2013 there was 1 Class B share outstanding.

Unlimited number of Class C shares, issuable in series, without voting rights, with discretionary dividend entitlement and with such other terms as the Board of Directors may determine in respect of a particular series. The issuance of Class C shares was subject to prior approval of the Ministry of Finance (Ontario). As at September 30, 2013 there were no Class C shares outstanding.

Unlimited number of Class P shares, issuable in series, to the Manager and the Management Advisor, without voting rights, dividend entitlement determined in accordance with the Management Agreement and the Management Advisor Agreement incentive participation amount with the rights, privileges, restrictions and conditions as determined and approved by the Board of Directors of the Fund and the Ministry of Finance (Ontario). As at September 30, 2013 there were 2 Class P shares outstanding.

Unlimited number of Class A shares, issuable in series, with voting rights, discretionary dividend entitlement, restrictions on transfer and redemption, redeemable at the net asset value less applicable early redemption fee. As approved by the shareholders on December 21, 2001, three series of Class A shares were designated, the Series I shares, the Series II shares and the Series III shares. Each of the three series of Class A shares had a different sales commission, redemption fee and service fee structure. The rights of the Class A shares were the same in all material respects for each series. The offering of Class A, Series II shares and Class A, Series III shares commenced on January 4, 2002.

Pursuant to the Plan of Arrangement, the Class A Series I shareholders had the right to convert their Class A shares into Class A Shares, Series IV or Class L Shares, Series I. On the second anniversary following the Effective Date, the Class A Shares were given the right to convert to Class L Shares, Series I.

The Class A Shares, Series IV had in all material respects the same rights as the other Class A shares.

# TIER ONE CAPITAL LIMITED PARTNERSHIP

## NOTES TO FINANCIAL STATEMENTS (Unaudited)

### As at September 30, 2014 and September 30, 2013

The following table outlines the movement in Class A redeemable shares of the Fund:

| Class A   | Series I shares |                      | Series II shares |                      | Series III shares |                      | Series IV shares |                      | Total                |
|---|-----------------|----------------------|------------------|----------------------|-------------------|----------------------|------------------|----------------------|----------------------|
|   | Shares          | Carrying Amount (\$) | Shares           | Carrying Amount (\$) | Shares            | Carrying Amount (\$) | Shares           | Carrying Amount (\$) | Carrying Amount (\$) |
| <b>Balance - September 30, 2012</b>                           | 715,881         | 7,362,116            | 496,640          | 5,062,540            | 59,064            | 605,128              | 330,305          | 3,412,363            | 16,442,147           |
| Net gain (loss) on remeasurement of Class A redeemable shares | -               | (298,390)            | -                | (204,499)            | -                 | (25,932)             | -                | (155,321)            | (684,142)            |
| Share redemptions   | (178,201)       | (1,795,871)          | (145,746)        | (1,453,608)          | (8,781)           | (88,513)             | (17,644)         | (173,335)            | (3,511,327)          |
| <b>Balance - September 30, 2013</b>                           | <b>537,680</b>  | <b>5,267,855</b>     | <b>350,894</b>   | <b>3,404,433</b>     | <b>50,283</b>     | <b>490,683</b>       | <b>312,661</b>   | <b>3,083,707</b>     | <b>12,246,678</b>    |
| Net gain (loss) on remeasurement of Class A redeemable shares |                 | (209,606)            |                  | (138,684)            |                   | (22,286)             |                  | (129,071)            | (499,647)            |
| Share redemptions   | (86,572)        | (845,614)            | (54,900)         | (532,196)            | (1,552)           | (15,154)             | (39,146)         | (381,782)            | (1,774,746)          |
| Balance at July 10, 2014                                      | <b>451,108</b>  | <b>4,212,635</b>     | <b>295,994</b>   | <b>2,733,553</b>     | <b>48,731</b>     | <b>453,243</b>       | <b>273,515</b>   | <b>2,572,854</b>     | <b>9,972,285</b>     |
| Share conversion to Units                                     | (451,108)       | (4,212,635)          | (295,994)        | (2,733,553)          | (48,731)          | (453,243)            | (273,515)        | (2,572,854)          | (9,972,285)          |
| <b>Balance - September 30, 2014</b>                           | -               | -                    | -                | -                    | -                 | -                    | -                | -                    | -                    |

### Capital risk management

Units issued and outstanding are considered to be the capital of the Limited Partnership. The Units are not redeemable. The Units are entitled to distributions, if any, at the discretion of the General Partner. The Units are traded on the Canadian Securities Exchange under the symbol "TLP.UN"

Shares issued and outstanding in all classes and series were capital of the Fund. The Fund was a mutual fund corporation which derives its capital from subscriptions from investors in Class A Shares of the Fund. The Class A Shares were redeemable and were entitled to distributions, if any, and to payment of a proportionate share based on the Class A net asset value per share upon redemption.

The Fund's capital also consisted of Class L Shares, Series I which were generally not redeemable but which were tradable on the Canadian Securities Exchange under the symbol "VC". The Class L Shares, Series I were entitled to distributions, if any, at the discretion of the Board of Directors.

The Fund made investments in eligible Canadian businesses as defined in the CSBIF Act with the objective of achieving maximum long-term capital appreciation. The Fund's objective was to invest the Fund's capital in order to provide a return to shareholders in accordance with the objective and strategy of the Fund. The Fund was not subject to any externally imposed capital requirements.

The Fund's accounting policies for measuring the fair value of its investments were identical to those used in measuring its net asset value for transactions with shareholders. A net asset value was calculated on every valuation date for each series of

# TIER ONE CAPITAL LIMITED PARTNERSHIP

## NOTES TO FINANCIAL STATEMENTS (Unaudited)

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Class A shares and Class L shares. The net asset value of a particular series or class of shares was computed by calculating the value of the series' or classes' proportionate share of the assets and liabilities of the Fund common to all series and classes less the liabilities of the Fund attributable only to that series or class.

The net assets per Class A and Class L share were as follows:

|                     | September 30, 2013 |
|---------------------|--------------------|
| Class A, Series I   | \$9.80             |
| Class A, Series II  | \$9.70             |
| Class A, Series III | \$9.76             |
| Class A, Series IV  | \$9.86             |
| Class L, Series I   | \$9.90             |

### Commissions to agents on distribution of Class A shares

Sales commission on Class A, Series I shares was 6.25% of the amount invested. Sales commission on Class A, Series II shares was 10.00% of the amount invested, consisting of a 6.25% sales commission plus an additional 3.75% sales commission in lieu of any service fees being payable before the eighth anniversary of the date of issue of the Series II shares. No sales commission was payable on the sale of Class A, Series III shares.

Sales commissions related to the sale of Class A, Series I and Class A, Series II shares were charged to share capital as a share issuance cost.

No sales commissions were paid on the issuance of Class A Shares, Series IV or Class L Shares, Series I.

## 6. OPERATING ARRANGEMENTS

### Limited Partnership

#### *Management Fee*

The General Partner will be entitled to receive an annual management fee (the "LP Management Fee") equal to 0.995% of the total assets of the Limited Partnership. The LP Management Fee will be calculated and paid monthly in arrears based on the total assets of the Limited Partnership as at the end of the applicable month.

#### *Priority Profit Allocation*

The General Partner will share in the profits of the Limited Partnership by receiving, among other things, a priority share of the net income of the Limited Partnership (the "Priority Profit Allocation"). Distributions may be made to the General Partner (the "Priority Profit Distribution") in respect of its established or potential future entitlement to the Priority Profit Allocation, calculated as of the last day of each calendar quarter, equal to one quarter of 2.68% of the total assets of the Limited Partnership as at the last day of each calendar quarter (the "Priority Profit Quantum").

#### *Performance Allocation*

The General Partner will be entitled to an additional share of the net income of the Limited Partnership if certain conditions are satisfied (the "Performance Allocation").

# TIER ONE CAPITAL LIMITED PARTNERSHIP

## NOTES TO FINANCIAL STATEMENTS (Unaudited)

As at September 30, 2014 and September 30, 2013

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The Performance Allocation shall be an amount equal to the aggregate of: (a) 100% of the realized gains and income earned on investments in portfolio companies in excess of a 12% annual average rate of return on such investments up to and including a 15% annual average rate of return on such investments; and (b) 20% of the realized gains and income earned on such investments in excess of the 15% annual average rate of return earned on such investments.

In order for the Performance Allocation to be allocable to the General Partner, the following conditions (the "Performance Allocation Conditions") must be satisfied: (a) the total net realized and unrealized gains and income from the Limited Partnership from its portfolio of eligible investments since January 1, 1997 must have generated a return greater than the annualized average rate of return on five year Guaranteed Investment Certificates offered by a Schedule 1 Canadian chartered bank plus 2%; (b) the compounded annual rate of return (including realized and unrealized gains and income) from the particular eligible investment since its acquisition by the Limited Partnership (or the Fund for investments held by the Fund and transferred to the Limited Partnership in the Transaction) must equal or exceed 12% per annum; and (c) the Limited Partnership (including the time such investments were held by the Fund for investments held by the Fund and transferred to the Limited Partnership in the Transaction) must have recouped an amount equal to all capital or principal invested in the particular investment.

The General Partner will receive advance distributions in respect of its entitlement to the Performance Allocation, calculated and paid quarterly in arrears, as of the last day of each calendar quarter.

### *Allocation of Income to the General Partner*

To the extent that the net income of the Limited Partnership is insufficient in any year to fully allocate an amount equal to the Priority Profit Quantum and the Performance Allocation for the year to the General Partner, the differential will be carried forward and factored into the allocation of the net income of the Limited Partnership in subsequent years, including in the year in which the termination of the General Partner occurs.

### *Advisor Fee*

The General Partner and the Limited Partnership have engaged B.E.S.T. Investment Counsel Limited (the "Advisor") to provide oversight and advice to the General Partner in respect of the investment activities of the Limited Partnership; assist the General Partner in the formation of the investment objectives, restrictions and procedures of the Limited Partnership; assist the General Partner in analyzing and evaluating potential investments; and provide such other services as agreed to from time to time by the General Partner and the Advisor. The General Partner will pay to the Advisor an advisory fee) equal to an amount agreed to in a separate letter agreement between the General Partner and the Advisor commensurate with the Services provided under this Agreement.

The Limited Partnership and the General Partner have retained CIBC Mellon Global Security Services Company to provide custody services to the Limited Partnership. The fees paid to CIBC Mellon Global Security Services Company are included in Transfer agent registrar and administrative costs.

The Limited Partner pays all direct costs and expenses incurred in the operation of the Limited Partnership, including: custodian fees, insurance, legal, audit, valuation and marketing expenses.

### **The Fund**

Prior to the Transaction, the Fund had an agreement with B.E.S.T. Investment Counsel Limited (the "Manager" and "Management Advisor") to provide management and advisory services.

The Fund paid an annual management fee to the Manager of 1.50% per annum of the net asset value of the Fund and subject to meeting certain conditions, an Incentive Participation Amount ("IPA"). The Fund also paid the Management Advisor an

# TIER ONE CAPITAL LIMITED PARTNERSHIP

## NOTES TO FINANCIAL STATEMENTS (Unaudited)

As at September 30, 2014 and September 30, 2013

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annual advisor fee of 1.75% of the net asset value of the Fund and, subject to certain conditions, an IPA. The Manager and the Management Advisor was not be entitled to receive the IPA unless: (1) the compound annual internal rate of return, including realized and unrealized gains and income, from an eligible investment since its acquisition equals or exceeds 12.00% per year; (2) the total net realized and unrealized gains and income from the portfolio of eligible investments since January 1, 1997 exceeded the annualized average rate of return on five-year GICs offered by a Schedule 1 Canadian chartered bank plus 2.00%; and (3) the Fund had recouped an amount equal to all principal invested in the particular eligible investment.

Upon satisfying the above conditions, the IPA was determined on the following basis:

The proceeds from the disposition of each particular eligible investment in each calendar quarter of the Fund after deducting the cost of such investment was allocated and paid as follows:

- a) The Fund received an amount equal to all gains and income earned from each particular eligible investment which provides a cumulative investment return at an annual average rate equal to 12.00% since investment.
- b) The Management Advisor received all gains and income earned from each particular eligible investment in excess of the 12.00% annual average rate of return up to and including 15.00% of the annual average rate of return earned from the particular eligible investment.
- c) All gains and income earned on each particular investment after deducting the amounts calculated in accordance with (a) and (b) above was allocated as 80.00% to the Fund; 16.00% to the Management Advisor; and 4.00% to the Manager.

The IPA was paid as a dividend on the Class P shares held by the Manager and the Management Advisor. For the year ended September 30, 2013 the Fund reported a net IPA of \$303,881. The net IPA is a result of the paid and payable IPA of \$437,877 and the change in the contingent incentive participation amount on unrealized gains and income on the investment portfolio during the period of (\$133,996). As at September 30, 2013 an IPA in the amount of \$343,751 was payable based on the realized gains and income earned by the Fund. As at September 30, 2013, the Fund had a contingent incentive participation amount of \$484,315 that would have become payable at a future date on the realized income and gains and unrealized appreciation in the investment portfolio, based on the assumption that all the investments are liquidated at the estimated fair value as at the date of the financial statements. The IPA and the contingent incentive participation amount are recorded as net gain (loss) on remeasurement of Class P shares (incentive participation amount) on the Statements of Comprehensive Income. Amounts owing at period-end have been included in Class P shares (incentive participation amount) on the Statements of Financial Position.

The Fund retained Convexus Managed Services Inc. (“Convexus”) to provide fund accounting, shareholder recordkeeping and administration services, including registrar and transfer agency services. The Fund paid Convexus a fund accounting fee at a fixed amount and shareholder recordkeeping and administration fees at a fixed amount per account. The fees paid to Convexus for these services are included in Transfer agent, registrar and administrative costs.

The Fund and the Manager retained Equity Financial Trust Company to provide registrar and transfer agent services to the Fund for the Class L Shares, Series I. The fees paid to Equity Financial Trust Company are included in Transfer agent, registrar and administrative costs.

The Fund and the Manager retained the Management Advisor to provide sales and marketing services to the Fund pursuant to the terms of a sales and marketing services agreement dated July 10, 2003 effective August 1, 2003. The Fund paid the Management Advisor an annual sales and marketing fee (calculated daily and paid monthly in arrears) as follows: (i) the aggregate of 0.425% on the first \$50 million of the net asset value of the Fund, 0.40% on the next \$50 million, 0.375% on the next \$50 million and 0.35% on any amount of the net asset value of the Fund above \$150 million, (ii) less \$96,000. The fees paid to the Management Advisor for sales and marketing services are included in Selling costs.



# **TIER ONE CAPITAL LIMITED PARTNERSHIP**

## **NOTES TO FINANCIAL STATEMENTS (Unaudited)**

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The Fund and the Manager also retained the Management Advisor to provide accounting and administrative services to the Fund and to supervise the services to be provided by the registrar pursuant to the terms of an accounting and administrative services agreement dated as of September 1, 2003. The Fund paid the Management Advisor an annual accounting and administrative fee (payable monthly in arrears) equal to \$96,000. The fees paid to the Management Advisor for accounting and administrative services are included in Transfer agent, registrar and administrative costs.

The Fund and the Manager retained CIBC Mellon Global Security Services Company to provide custody services to the Fund. The fees paid to CIBC Mellon Global Security Services Company are included in Transfer agent registrar and administrative costs.

The Fund pays all direct costs and expenses incurred in the operation of the Fund, including directors' fees, custodian fees, insurance, legal, audit, valuation and marketing expenses.

The International Federation of Professional and Technical Engineers – Local #164, the sponsor of the Fund, received an annual fee of 0.15% of the net asset value of the Fund.

### **7. INCOME TAXES**

#### **The Limited Partnership**

Income taxes are the responsibility of the partners and not the Limited Partnership. Accordingly, no provisions for income taxes have been recorded in the financial statements.

### **8. FINANCIAL INSTRUMENTS**

The Limited Partnership's investment objectives will be to provide a return on investment for Limited Partners and provide regular cash distributions.

The Limited Partnership's financial instruments consist primarily of marketable securities and venture investments. Venture investments in private companies consist of convertible debt, equity, or equity equivalents. These investments in private companies are typically illiquid. The Limited Partnership seeks to reduce the risks typically associated with such investments by diversifying the investment portfolio, by investing in eligible companies that are in differing stages of development in a variety of high growth potential industries, by using a disciplined investment decision process and by working with investee companies through, among other things, providing business advice and other services, aiding in the recruitment process, and helping in the process of raising additional capital.

The Limited Partnership's activities expose it to a variety of financial risks: market risk (comprising currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The General Partner seeks to minimize potential adverse effects of these risks on the Limited Partnership's performance by employing professional experience, daily monitoring of the Fund's positions and market events, by diversifying the investment portfolio within the constraints of the investment objectives and by structuring investments to provide the Limited Partnership with the maximum protection in the event of problems with the issuer of the security. The investment portfolio is primarily comprised of small and medium-sized private Canadian companies, many of which are at an early stage of development. Investments of this type, by their nature, involve a longer investment time horizon than that which is typical for other types of investments. There is no assurance that the portfolio companies will be successful in developing and bringing their products to market in commercially viable quantities at reasonable costs and consequently, there is no assurance that the Fund's holdings in these portfolio companies will achieve desired returns.

Sensitivity analyses are provided for information purposes only. In practice, the actual results may differ from the sensitivity analysis and the differences may be material.

# TIER ONE CAPITAL LIMITED PARTNERSHIP

## NOTES TO FINANCIAL STATEMENTS (Unaudited)

As at September 30, 2014 and September 30, 2013

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### Currency Risk

Currency risk arises from financial instruments that are denominated in a currency other than the Canadian dollar, which is the Fund's functional and presentation currency. The Limited Partnership is exposed to the risk that the fair value of securities denominated in other currencies will fluctuate due to changes in the exchange rates. As at September 30, 2014 all of the Limited Partnership's securities were denominated in Canadian dollars. As at September 30, 2013 all of the Fund's securities were denominated in Canadian dollars.

### Interest Rate Risk

Interest rate risk arises on interest-bearing financial instruments held in the investment portfolio such as bonds and debentures. The Limited Partnership is exposed to the risk that the value of interest-bearing financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. The table below summarizes the Limited Partnership's exposure to interest rate risks. It includes the Limited Partnership's assets and liabilities, categorized by the earlier of contractual re-pricing or maturity dates.

#### September 30, 2014

|              | Less than 1 year | 1 -5 years   | Non-interest bearing | Total        |
|--------------|------------------|--------------|----------------------|--------------|
| Investments  | \$312,830        | \$10,134,075 | \$16,285,955         | \$26,732,860 |
| Cash         |                  |              | \$6,499,122          | \$6,499,122  |
| Other assets |                  | \$539,658    | \$175,897            | \$715,555    |
| Liabilities  |                  |              | \$817,587            | \$817,587    |

#### September 30, 2013

|              | Less than 1 year | 1 -5 years  | Non-interest bearing | Total        |
|--------------|------------------|-------------|----------------------|--------------|
| Investments  | \$11,720,449     | \$4,390,518 | \$17,384,804         | \$33,495,771 |
| Cash         |                  |             | \$261,248            | \$261,248    |
| Other assets |                  | \$539,658   | \$206,335            | \$745,993    |
| Liabilities  |                  |             | \$13,384,900         | \$13,384,900 |

As at September 30, 2014 had prevailing interest rates raised or lowered by 1.00%, with all other variables held constant, net assets would have decreased or increased, respectively, by \$109,866 or 0.33% of the total net assets (September 30, 2013: \$166,506 or 0.48%; September 30, 2012: \$188,648 or 0.49%).

The interest bearing securities with a maturity of less than one year are comprised of short-term commercial paper investments of \$Nil (September 30, 2013: \$3,996,520; September 30, 2012: \$5,994,840) and venture investment in debt securities of \$312,830 (September 30, 2013: \$7,723,929; September 30, 2012: \$3,504,011) which mature in less than one year.

### Other Price Risk

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. All securities present a risk of loss of

# TIER ONE CAPITAL LIMITED PARTNERSHIP

## NOTES TO FINANCIAL STATEMENTS (Unaudited)

As at September 30, 2014 and September 30, 2013

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capital. The General Partner moderates this risk through careful selection of securities and other financial instruments within the parameters of the investment strategy. The maximum risk resulting from financial instruments is equivalent to their fair value. The Limited Partnership's equity and debt instruments are susceptible to market price risk arising from uncertainties about future prices of the instruments.

As at September 30, 2013, if equity prices on the Toronto Stock Exchange had increased or decreased by 5%, all other variables held constant, the net assets of the Fund attributed to public portfolio companies would have increased or decreased, respectively, by approximately \$1,896 or approximately 0.01% of total net assets (September 30, 2013: \$3,286 or 0.01%; September 30, 2012: \$6,462 or 0.02% ).

The Limited Partnership's venture investments (unlisted) are susceptible to market price risk arising from uncertainties about future values of the investment securities. The General Partner and the Advisor provide the Limited Partnership with investment advice and its portfolio companies with business advice to limit and manage market risk.

As at September 30, 2013, if the value of the Fund's equity venture investments had increased or decreased by 5%, all other variables held constant, the net assets of the Fund attributed to venture investments would have increased or decreased respectively by approximately \$814,297 or approximately 2.47% of net assets (September 30, 2013: \$865,954 or 2.62%; September 30, 2012: \$870,225 or 2.28%).

### **Credit Risk**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. The carrying amount of the debt investments as presented in the Schedule of Investments Portfolio represents the maximum credit risk exposure as at September 30, 2013. This also applies to other assets, as they have a short term to settlement.

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trades will fail if the other party fails to meet its obligations. All transactions in private issuers are settled/paid for upon delivery using a third party agent such as a law firm as an intermediary. The risk of default is considered minimal as delivery of the securities sold is only made once the agent or legal counsel acting as the intermediary has received payment.

# TIER ONE CAPITAL LIMITED PARTNERSHIP

## NOTES TO FINANCIAL STATEMENTS (Unaudited)

As at September 30, 2014 and September 30, 2013

The Fund's financial assets exposed to credit risk were concentrated in the following industries:

### September 30, 2014

| Asset  | Security  | Counterparty   | Amount       |
|--|---|--|--------------|
| Cash   |   | CIBC Mellon  | \$6,499,122  |
| Technology   | Debt Securities Secured by General Security Agreement | AcuityAds Inc., ArticAX Inc., Cognivue Corp., Datazen Inc., Dealer-FX Group Inc., Dejero Labs Inc., Intelligent Mechatronic Systems Inc., Skura Inc., TransGaming Inc. | \$8,044,955  |
| Financial and Industrial                               | Debt Securities Secured by General Security Agreement | Couch Commerce Inc., ERMS Corporation, nCrowd Inc., PitchPoint Solutions Inc.  | \$2,401,950  |
| Total cash, short-term investments and debt securities |   |  | \$16,946,027 |

### September 30, 2013

| Asset  | Security  | Counterparty  | Amount       |
|--|---|---|--------------|
| Cash   |   | CIBC Mellon   | \$261,248    |
| Financial  | Commercial Paper rated R1                             | HSBC Bank Canada  | \$3,996,520  |
| Technology   | Debt Securities Secured by General Security Agreement | AcuityAds Inc., ArticAX Inc., Axentra Corporation, Echoworx Corporation, Intelligent Mechatronic Systems Inc., Skura Inc., TransGaming Inc. | \$6,431,447  |
| Financial and Industrial                               | Debt Securities Secured by General Security Agreement | Questrade Inc., Compower Systems Inc., Couch Commerce Inc.  | \$5,683,000  |
| Total cash, short-term investments and debt securities |   |   | \$16,372,215 |

Credit risk arising on debt instruments is partially mitigated by investing primarily in rated instruments of R1 for commercial paper instruments or by investing in debt securities which are secured by a general security agreement on the assets of the issuing portfolio company. Investments in the debt securities in the venture portfolio are non-investment grade and therefore subject to higher credit risk.

Other than outlined above, there were no significant concentrations of credit risk to counterparties as at September 30, 2014, September 30, 2013 and September 30, 2012.

The business of the Limited Partnership is to make investments in small and medium-sized eligible businesses in order to generate interest and dividend income and long-term capital appreciation. In order to achieve this objective the Limited Partnership invests in two broad industry sectors: i) industrial and financial and ii) technology related businesses. The Limited Partnership's General Partner and Advisor seek out eligible investments which will meet the investment objectives of

# TIER ONE CAPITAL LIMITED PARTNERSHIP

## NOTES TO FINANCIAL STATEMENTS (Unaudited)

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the Limited Partnership while maintaining risk at acceptable levels. The Limited Partnership attempts to limit the risk to any one venture investment by limiting the amount invested in any one company. As at September 30, 2014, 71.88% of the Limited Partnership's venture investments were concentrated in the Technology Sector and spread between eighteen venture companies (September 30, 2013: 61.46%, thirteen companies, September 30, 2012: 62.80%, fourteen venture companies).

### Liquidity Risk

The Limited Partnership is not exposed to daily cash redemptions of the Units.

In the past the Fund was exposed to daily cash redemptions on its redeemable Class A shares. The Fund invested a portion of its assets in investments that were traded in an active market that could be readily disposed of and the Fund retained sufficient cash and cash equivalent positions to maintain liquidity. In any financial year, the Fund was not required to redeem Class A shares having an aggregate redemption price exceeding 20% of the net asset value of the Class A shares of the Fund calculated on the last day of the preceding financial year end and may suspend redemptions for substantial periods of time in such circumstances. Shareholders that redeem their Class A shares before the eighth anniversary of their original purchase were required to repay the tax credit they received upon the purchase of the shares. Rules directed at ensuring liquidity and diversification of investments and certain other investment restrictions and practices normally applicable to mutual funds did not apply to the Fund.

All the financial liabilities of the Limited Partnership as at September 30, 2014, September 30, 2013 and September 30, 2012 fall due within twelve months with the exception of the Class A shares and the contingent incentive participation amount. The maturity of the contingent incentive participation amount is uncertain and is dependent on the realization of venture investments.

### Fair value measurement

The Limited Partnership classifies its investments within a fair value hierarchy, based on the inputs used in their fair value measurement. The hierarchy of inputs is summarized as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: Inputs are unobservable for the asset or liability.

The following tables indicate the fair value hierarchy of the inputs used in valuing the Limited Partnership's investments.

#### September 30, 2014

|            | Quoted Prices in<br>Active Market<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable Inputs<br>(Level 3) | Total        |
|------------|--|---|---|--------------|
| Fixed Term | -  | -   | \$10,446,905                                    | \$10,446,905 |
| Equities   | \$37,928                                       | -   | \$16,285,955                                    | \$16,323,883 |
| Total      | \$37,928                                       | -   | \$26,732,860                                    | \$26,770,788 |

# TIER ONE CAPITAL LIMITED PARTNERSHIP

## NOTES TO FINANCIAL STATEMENTS (Unaudited)

As at September 30, 2014 and September 30, 2013

September 30, 2013

|            | Quoted Prices in Active Market (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total        |
|------------|--|---|---|--------------|
| Fixed Term | -  | \$3,996,520                                   | \$12,114,447                              | \$16,110,967 |
| Equities   | \$65,718                                 | -   | \$17,319,086                              | \$17,384,804 |
| Total      | \$65,718                                 | \$3,996,520                                   | \$29,433,533                              | \$33,495,771 |

The carrying value of all other financial instruments of the Limited Partnership, which may include receivables on the sale of investments, accrued interest and other receivables, accounts payable and accrued liabilities approximates their fair value. During the years ended September 30, 2014 and 2013 there were no investments transferred between Level 1, Level 2, or Level 3. The Limited Partnership's policy is to recognize transfers into and out of the fair value hierarchy as of the date of the event or change in circumstances giving rise to the transfer.

| Level 3   | September 30, 2014 | September 30, 2013 |
|---|--------------------|--------------------|
| Balance - beginning of period   | \$29,433,533       | \$29,734,774       |
| Purchases   | \$8,342,079        | \$8,993,042        |
| Sales   | (\$9,631,785)      | (\$7,926,653)      |
| Realized Gains (Losses)   | (\$1,897,000)      | (\$1,320,794)      |
| Unrealized Gains (Losses)   | \$486,033          | (\$46,836)         |
| Balance – end of period   | \$26,732,860       | \$29,433,533       |
| Unrealized Gains (Losses) during the year attributed to investments held at end of period | (\$1,410,967)      | (\$1,343,407)      |

The equity investments are valued with reference to the last round of equity financing, comparable public companies, transactions involving similar companies and reference to third party valuations among other things. If the equity investment includes a put right the investment may be valued by applying a discount for the expected time to exercise the Limited Partnership's put right to realize on this investment.

The fixed term securities are valued at fair value. Adjustments to fair value are made in cases where the operating results and financial condition of the investee company suggest that the Limited Partnership may not be able to realize the full amount of the investment. The Limited Partnership reviews the investee company's compliance with financial covenants, ability to make interest and principal payments, changes in the market interest rates for similar investments, operating performance relative to budget and the need for further financing among other factors in determining the fair value of the investment.

# TIER ONE CAPITAL LIMITED PARTNERSHIP

## NOTES TO FINANCIAL STATEMENTS (Unaudited)

As at September 30, 2014 and September 30, 2013

The following tables present significant unobservable inputs used in the fair value measurements of investments classified as Level 3:

### September 30, 2014

| Level 3 Investment Valuation Metrics | Fair Value   | Valuation Technique        | Unobservable Inputs                              | Weighted Average Input | Reasonable Possible Shift | Change in Valuation +/-   |
|--------------------------------------|--------------|----------------------------|--|------------------------|---------------------------|---------------------------|
| <b>Debt Securities</b>               |              |                            |  |                        |                           |                           |
| Performing debt                      | \$10,135,519 | Discounted cash flow       | Discount rate                                    | 13.75%                 | 1.00%                     | \$1,679,430/(\$1,264,317) |
| Non-performing debt                  | \$311,386    | Estimated realizable value | Impairment provision                             | 37.55%                 | 10%                       | \$31,139/(\$31,139)       |
| <b>Equity Securities</b>             |              |                            |  |                        |                           |                           |
| Common Shares and Preferred Shares   | \$13,547,458 | Comparable Multiples       | Enterprise value/revenue multiple                | 5.37                   | 20%                       | \$2,709,491/(\$2,709,791) |
| Common Shares                        | \$1,677,286  | Comparable Multiples       | Intangible asset value/capital invested multiple | 0.33                   | 0.1                       | \$601,054/(\$602,942)     |
| Common Shares                        | \$991,347    | Transaction Value          | Transaction Value                                |                        | 10%                       | \$99,135/(\$99,135)       |
| Warrants                             | \$69,864     | Black-Scholes Model        | Volatility                                       | 90%                    | 20%                       | \$20,488/(\$49,376)       |

### September 30, 2013

| Level 3 Investment Valuation Metrics | Fair Value   | Valuation Technique        | Unobservable Inputs                               | Weighted Average Input | Reasonable Possible Shift | Change in Valuation +/-   |
|--------------------------------------|--------------|----------------------------|---|------------------------|---------------------------|---------------------------|
| <b>Debt Securities</b>               |              |                            |   |                        |                           |                           |
| Performing debt                      | \$12,051,447 | Discounted cash flow       | Discount rate                                     | 16.30%                 | 1.00%                     | \$1,249,800/(\$1,569,931) |
| Non-performing debt                  | \$63,000     | Estimated realizable value | Impairment provision                              | 96.79%                 | 10%                       | \$258,916/(\$63,000)      |
| <b>Equity Securities</b>             |              |                            |   |                        |                           |                           |
| Common Shares and Preferred Shares   | \$2,778,692  | Comparable Multiples       | Enterprise value/revenue multiple                 | 2.20                   | 20%                       | \$555,738/(\$555,738)     |
| Common Shares                        | \$2,487,009  | Comparable Multiples       | Intangible asset value/ capital invested multiple | 0.37                   | 0.1                       | \$621,834/(\$569,487)     |
| Common Shares                        | \$11,890,689 | Transaction Value          | Transaction Value                                 |                        | 10%                       | \$1,189,068/(\$1,189,068) |
| Warrants                             | \$162,696    | Black-Scholes Model        | Volatility  | 125%                   | 20%                       | \$15,529/(\$20,919)       |

## 9. RECEIVABLE ON SALE OF INVESTMENTS

Included in the receivable on sale of investments is a portion of the proceeds from the sale of a venture investment which is being held in escrow in accordance with an escrow agreement between the purchaser and the investors of the venture company. The escrow was established to protect the purchaser of the venture company against unforeseen claims at the time of the purchase. The proceeds held in escrow will be received over a period of time and in amounts which are to be determined based on the escrow agreement release provisions and any legitimate claims against these funds. The Limited Partnership has recorded a receivable of \$539,658 for the escrow amount based on its best estimate of the cash flows that it ultimately expects to recover on September 30, 2014 (September 30, 2013: \$539,658). This estimate is based on inherent uncertainties and the resulting values may differ from the amounts ultimately realized.

# TIER ONE CAPITAL LIMITED PARTNERSHIP

## NOTES TO FINANCIAL STATEMENTS (Unaudited)

As at September 30, 2014 and September 30, 2013

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### 10. RELATED PARTIES

#### The Limited Partnership

B.E.S.T. Investment Limited is the Advisor of the Limited Partnership. During the period ended September 30, 2014, the Limited Partnership and the General Partner had incurred \$Nil advisory fees for services provided by the Advisor.

#### The Fund

B.E.S.T. Investment Counsel Limited is the Manager and Management Advisor for the Fund. Included in the accrued liabilities as at September 30, 2013 are accrued Management Fees of \$49,695 and accrued Advisory Fees of \$65,354.

The Fund has retained the Management Advisor to provide sales and marketing services. During the year ended September 30, 2013, the Fund incurred sales and marketing expenses of \$58,843 for services provided by the Advisor. As at September 30, 2013 \$4,184 was included in accrued liabilities for sales and marketing services.

The Fund pays the Management Advisor an annual accounting and administrative fee of \$96,000 plus taxes. During the year ended September 30, 2013, the Fund incurred accounting and administrative fees inclusive of taxes equal to \$108,480. As at September 30, 2013 \$9,040 was included in accrued liabilities for accounting and administration fees.

During the year ended September 30, 2013, the Fund paid B.E.S.T. Capital Administration Inc. \$33,900 for storage and facilities costs. B.E.S.T. Capital Administration Inc. is wholly owned by the Chief Executive Officer of the Fund. As at September 30, 2013 \$2,825 was included in accrued liabilities for storage and facilities costs.

All related party transactions are in the normal course of operations and have been recorded at the exchange amount on the date that they occur.

### 11. INTERESTS IN UNCONSOLIDATED SUBSIDIARIES, ASSOCIATES AND STRUCTURED ENTITIES

Information about the Fund's interests in unconsolidated subsidiaries, associates and structured entities are as follows:

#### September 30, 2014

| Investment         | Principal Place of Business | Country of Incorporation | Nature of Funds Interests  | Carrying Amount | Ownership % | Voting % |
|--------------------|-----------------------------|--------------------------|--|-----------------|-------------|----------|
| ERMS Corporation   | Ontario                     | Canada                   | Preferred Shares, Common Shares  | \$2,447,024     | 74.53       | 74.53    |
| Geminare Inc.      | Ontario                     | Canada                   | Preferred Shares, Common Shares  | \$4,622,038     | 22.12       | 22.12    |
| DisclosureNet Inc. | Ontario                     | Canada                   | Preferred Shares, Common Shares, Preferred Share Purchase Warrants, Common Share Purchase Warrants | \$6,469,801     | 32.48       | 32.48    |



# TIER ONE CAPITAL LIMITED PARTNERSHIP

## NOTES TO FINANCIAL STATEMENTS (Unaudited)

As at September 30, 2014 and September 30, 2013

September 30, 2013

| Investment         | Principal Place of Business | Country of Incorporation | Nature of Funds Interests  | Carrying Amount | Ownership % | Voting % |
|--------------------|-----------------------------|--------------------------|--|-----------------|-------------|----------|
| ERMS Corporation   | Ontario                     | Canada                   | Preferred Shares, Common Shares  | \$2,447,024     | 76.57       | 76.57    |
| Geminare Inc.      | Ontario                     | Canada                   | Preferred Shares, Common Shares  | \$4,652,163     | 20.93       | 20.93    |
| DisclosureNet Inc. | Ontario                     | Canada                   | Preferred Shares, Common Shares, Preferred Share Purchase Warrants, Common Share Purchase Warrants | \$6,835,200     | 32.78       | 32.78    |

## 12. FUTURE ACCOUNTING CHANGES

### IFRS 9, Financial instruments

The final version of IFRS 9, Financial instruments, was issued by the IASB in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a model for classification and measurement, a single, forward-looking “expected loss” impairment model and a substantially reformed approach to hedge accounting. The new single, principle based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity’s own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, however is available for early adoption. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Limited Partnership is in the process of assessing the impact of IFRS 9 and has not yet determined when it will adopt the new standard.

## 13. SUBSEQUENT EVENTS

October 20, 2014, the Limited Partnership closed the second tranche of a non-brokered private placement for aggregate gross proceeds of \$4,785,618 (the “Private Placement”). The second tranche of the Private Placement is comprised of 908,087 Units at a price of \$5.27 per Unit. The Units are subject to resale restrictions pursuant to applicable securities law requirements and will not be freely tradable until February 21, 2015. The Limited Partnership paid a placement fee representing 5% of the gross proceeds together with issuing 27,242 broker warrants equal to 3% of the total number of Units sold. Each broker warrant will entitle the holder thereof to purchase one Unit at \$5.27 for a period of 12 months from the closing date.