Financial Statements

Difference Capital Funding Inc.

(formerly TriNorth Capital Inc.)

December 31, 2012

Independent auditors' report

To the Shareholders of
Difference Capital Funding Inc. (formerly TriNorth Capital Inc.)

We have audited the accompanying financial statements of Difference Capital Funding Inc. [the "Company"], which comprise the balance sheets as at December 31, 2012 and 2011, the statements of operations and deficit, changes in shareholders' equity, and cash flows for the years then ended, 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 Canadian generally accepted accounting principles, 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, 2012 and 2011, the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Canada
April 18, 2013.

Difference Capital Funding Inc.
(formerly TriNorth Capital Inc.)

BALANCE SHEETS

As at December 31,

	2012	2011
	$	$
ASSETS		
Cash and cash equivalents	**9,396,405**	83,383
Prepaid expenses and other receivables *[note 8]*	**186,544**	11,340
Due from broker	**2,280,000**	—
Marketable securities *[note 3]*	**26,534,756**	—
Investments *[notes 3 and 13]*	**54,944,019**	3,131,010
Total Assets	**93,341,724**	3,225,733
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Performance and management fees payable *[note 8]*	**1,880,120**	—
Accounts payable and accrued liabilities	**578,113**	335,616
Due to broker	**1,028,772**	—
Total liabilities	**3,487,005**	335,616
Shareholders' equity		
Share capital *[note 5]*	**86,455,084**	55,525,029
Special Warrants *[note 5]*	**53,250,319**	—
Contributed surplus	**40,746,790**	40,746,790
Deficit	**(90,597,474)**	(93,381,702)
Total shareholders' equity	**89,854,719**	2,890,117
	93,341,724	3,225,733

See accompanying notes

On behalf of the Board:

Wesley Hall — Director

Michael Wekerle — Director

Difference Capital Funding Inc.
(formerly TriNorth Capital Inc.)

STATEMENTS OF OPERATIONS AND DEFICIT

Years Ended December 31,

	2012	2011
	$	$
REVENUE		
Realized gain on disposal of investments and marketable securities	**872,497**	47,914
Change in unrealized gain (loss) on investments and marketable securities *[note 4]*	**6,025,540**	(1,686,923)
Dividends	**40,238**	—
Interest	**865,584**	1,494
	7,803,859	(1,637,515)
EXPENSES		
Management fee *[note 8]*	**562,516**	7,124
Performance fee *[note 8]*	**1,253,263**	—
Operating, general and administrative	**1,458,878**	701,356
Transaction costs	**253,675**	2,335
	3,528,332	710,815
Net income (loss) for the year	**4,275,527**	(2,348,330)
Deficit, beginning of year	**(93,381,702)**	(91,033,372)
Distribution of Feronia shares *[note 5]*	**(1,491,299)**	—
Deficit, end of year	**(90,597,474)**	(93,381,702)
Basic and diluted income (loss) per share	**$0.0402**	($0.1556)
Weighted average number of common shares outstanding	**106,284,285**	15,085,654

See accompanying notes

Difference Capital Funding Inc.
(formerly TriNorth Capital Inc.)

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years Ended December 31,

	2012	2011
	$	$
Share capital		
Balance, beginning of year	**55,525,029**	55,518,529
Issuance of share capital *[note 5]*	**31,259,075**	6,500
Issuance costs for common shares	**(329,020)**	—
Balance, end of year	**86,455,084**	55,525,029
Special Warrants		
Balance, beginning of year	**—**	—
Issuance of Special Warrants *[note 5]*	**53,979,460**	—
Issuance costs for Special Warrants	**(729,141)**	—
Balance, end of year	**53,250,319**	—
Contributed surplus		
Balance, beginning of year	**40,746,790**	40,746,790
Balance, end of year	**40,746,790**	40,746,790
Deficit		
Balance, beginning of year	**(93,381,702)**	(91,033,372)
Net income (loss) for the year	**4,275,527**	(2,348,330)
Distribution of Feronia shares *[note 5]*	**(1,491,299)**	—
Balance, end of year	**(90,597,474)**	(93,381,702)
Net change in shareholders' equity during the year	**86,964,602**	(2,341,830)
Shareholders' equity, beginning of year	**2,890,117**	5,231,947
Shareholders' equity, end of year	**89,854,719**	2,890,117

See accompanying notes

Difference Capital Funding Inc.
(formerly TriNorth Capital Inc.)

STATEMENTS OF CASH FLOWS

Years Ended December 31,

	2012	2011
	$	$
OPERATING ACTIVITIES		
Net income (loss) for the year	**4,275,527**	(2,348,330)
Items not affecting cash:		
Realized (gain) loss on disposal of investments	**(872,497)**	(47,914)
Change in unrealized (gain) loss on investments	**(6,025,540)**	1,686,923
Accrued interest	**(865,584)**	—
Net change in non-cash working capital balances	**696,185**	277,477
Purchase of marketable securities	**(49,541,846)**	—
Proceeds from disposal of marketable securities	**27,212,813**	—
Purchase of investments	**(50,631,250)**	—
Proceeds from disposal of investments	**2,576,015**	159,981
Cash used in operating activities	**(73,176,177)**	(271,863)
FINANCING ACTIVITIES		
Proceeds from common shares and Special Warrants *[note 5]*	**82,501,980**	6,500
Payment of promissory notes and interest	**(3,012,782)**	—
Proceeds from demand promissory notes	**3,000,000**	—
Cash provided by financing activities	**82,489,198**	6,500
Net increase (decrease) in cash during the year	**9,313,022**	(265,363)
Cash and cash equivalents, beginning of year	**83,383**	348,746
Cash and cash equivalents, end of year	**9,396,405**	83,383

See accompanying notes

1. DESCRIPTION OF BUSINESS

Difference Capital Funding Inc. (formerly TriNorth Capital Inc.) ("Difference Capital" or the "Company") is a Toronto-based merchant bank focused on creating shareholder value through strategic investments in, and advisory services for, growth companies, particularly in the technology and media sectors, as well as opportunistic investments in undervalued financial assets and real property. The Company's common shares are listed on the TSX Venture Exchange under the symbol "DCF".

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are presented in Canadian dollars and have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The Company is considered an Investment Company under Accounting Guideline 18 ("*AcG-18").*

The following are the significant accounting policies used in the preparation of the financial statements:

Cash and cash equivalents
Cash and cash equivalents consist of cash on hand and cash deposits held at various brokers including cash held in high interest savings account.

Marketable securities
Marketable securities consist of common shares, convertible debentures 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. Marketable securities held long which are listed on an exchange are valued at the bid price as at the balance sheet date. Short positions in marketable securities which are listed on an exchange are valued at the ask price as at the balance sheet date. Acquisition and transaction costs relating to marketable securities are not included as part of the initial fair value of an investment.

Investments
Investments consist of common shares, membership units, convertible debentures, debentures, and warrants of public and private companies and limited partnerships that are not publicly traded investments. Investments are carried at fair value and any changes in fair value are recognized in income as change in unrealized gain (loss) on investments. When investments are initially recognized, the fair value is generally the value of consideration paid. Acquisition and transaction costs relating to investments are not included as part of the initial fair value of an investment.

Subsequent to initial recognition, the fair value is determined on the basis of the expected realizable value of the investments as if they were disposed of in an orderly manner over a reasonable period of time. Given that these investments are generally not quoted in an active market, the Company uses estimation techniques to determine fair value, which may include arm's length transactions, discounted cash flows, multiples of earnings or production, 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.

The process of valuing investments for which no active market exists is inevitably based on inherent uncertainties and the resulting values may differ 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.

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, revenue and expenses are translated into Canadian dollars at the foreign exchange rates prevailing on the dates of such transactions. Exchange gains and losses are included in income in the period in which they occur.

Income recognition
Investment transactions are accounted for on a trade date basis. Realized gain or loss on sale of investments and unrealized gain or loss on investments 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.

Income (loss) per share
Basic income (loss) per share is calculated based on the weighted average number of shares outstanding during the year.

Income taxes
The Company records income tax expense using the liability method of income tax allocation. Under this method, income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are determined for each temporary difference based on income tax rates that are expected to be in effect when the asset or liability is settled.

Stock-based compensation plan
The Company has a stock-based compensation plan for directors as described in Note 10. The awards may be made in the form of shares or equity settled options, and the related cost is measured based on the estimated fair value on the date the awards are granted. The fair value of options is estimated at the date of grant using the Black-Scholes option pricing

model. The fair value of these options is recognized as an expense over the applicable vesting period. Any consideration received on the exercise of stock options or sale of stock is credited to share capital.

Use of estimates
The preparation of the Company's financial statements in accordance with GAAP requires management to make estimates and assumptions 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 revenues and expenses during the reporting period. In determining the fair value of certain investments, management has made significant estimates and assumptions. Actual results could differ from these estimates.

3. INVESTMENTS AND MARKETABLE SECURITIES

The Company's investments are as follows:

Name	**Description**	**2012 $**	2011 $
WG Limited ("Virgin Gaming")	convertible debentures	**22,023,993**	-
Difference RM Holding Corporation	common shares	**5,432,154**	-
Chieftain Residential, L.P.	partnership interest	**4,974,500**	-
Thunderbird Films, Inc.	common shares	**4,000,000**	-
Wasabi Energy Limited	debentures	**3,113,257**	
	warrants	-	-
Fem MED Formulas Limited Partnership	secured convertible debentures	**2,566,849**	-
QuickPlay Media Inc.	common shares	**2,364,880**	-
Appinions Inc.	convertible debentures	**2,050,312**	-
InfraReDx, Inc.	convertible debentures	**1,999,749**	-
	warrants	**2,118**	-
GuestLogix Inc.	debentures	**1,970,000**	-
	warrants	**320,000**	-
Ethoca Solutions Inc.	common shares	**1,178,395**	-
Brainscope Company, Inc.	convertible debentures	**999,322**	-
Gotham Analytics LLC	membership units	**746,175**	-
SoMedia Networks Inc.	convertible debentures	**602,959**	-
iPowow! Ltd.	convertible debentures	**519,159**	-
Other debt	loan	**50,197**	-
Other equity	common shares	**30,000**	-
		54,944,019	-

WG Limited ("Virgin Gaming" or "Virgin")
On June 5, 2012, the Company made a $19.9 million investment in Virgin Gaming in the form of convertible debentures, with a maturity date of June 15, 2014, paying interest of 5% per annum and convertible into common shares of Virgin, at the option of the Company, at $1.00 per share. If Virgin fails to complete a liquidity transaction by September 5, 2013, the Company will thereafter be entitled to receive an additional 100 common shares for each $1,000 par value debenture held (representing a 10% penalty).

On December 31, 2012, the Company sold $2.0 million face amount of Virgin's debentures at a 20% premium to its acquisition price. The fair value of the investment in Virgin Gaming is based on this transacted price

Virgin is a destination for competitive console gamers to meet, challenge and play in tournament challenges for cash, points and prizes.

Difference RM Holding Corporation ("Difference RM")
On November 27, 2012, the Company invested US $5.4 million in Difference RM a wholly-owned subsidiary. 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.

Chieftain Residential, L.P. ("Chieftain")
In 2012, the Company purchased US $5.0 million in limited partnership units in Chieftain. Chieftain is a residential investment platform that focuses on purchasing distressed single family homes.

Thunderbird Films, Inc. ("Thunderbird")
On December 4, 2012, the Company invested $4.0 million in Thunderbird in the form of common shares. Thunderbird is a multiplatform media production, distribution and rights management company.

Wasabi Energy Limited ("Wasabi")
On December 19, 2012, the Company invested AUD $3.0 million in Wasabi in the form of debentures and warrants to purchase common shares of Wasabi. The debentures pay 8% interest per annum and mature on December 14, 2013. The warrants are exercisable into common shares of Wasabi at $0.02 per share at any time prior to December 14, 2013. Wasabi is an emerging power producer that also invests in sustainable technologies to deliver power from waste heat and geothermal sources in the U.S., U.K. and Australia.

Fem MED Formulas Limited Partnership ("Fem MED")
On August 30, 2012, the Company made a $2.5 million investment in Fem MED in the form of secured convertible debentures, with a three-year term, accruing interest at 8% per annum and payable on maturity. The debentures are convertible into limited partnership units of Fem MED at a price of $2.50 per unit. The debentures are secured under the *Personal Property Security Act* (Ontario) by all of the real property and assets of Fem MED. Fem MED is a mass channel retail brand of doctor-formulated, condition-specific supplements designed specifically to address women's most common health concerns.

QuickPlay Media Inc. ("QuickPlay")
On August 8, 2012, the Company made a $2.4 million investment in the newly established, single purpose holding company of QuickPlay in the form of common shares. QuickPlay is a provider of cloud-based infrastructure for premium media services used by large communication companies.

Appinions Inc. ("Appinions")
On June 29, 2012, the Company made a US $2.0 million investment in Appinions in the form of convertible senior debentures, with a three-year term, paying interest at 6.0% per annum, convertible into common shares of Appinions at the option of the Company at US $0.06103 per share. Appinions' Influencer Exchange service allows public relations agencies and brand owners to identify the influencers for any topic, brand, issue or person.

InfraReDx, Inc. ("InfraReDx")
On November 30, 2012, the Company invested US $2.0 million in InfraReDx in the form of secured convertible debentures and preferred share warrants. The convertible debentures pay 6.0% interest per annum and convert, at the discretion of the Company, into either: (i) common shares of InfraReDx at the initial public offering ("IPO") price; (ii) common shares at $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 $0.04 per share at any time prior to November 30, 2017. InfraReDx is a privately-funded medical device company dedicated to helping provide practitioners with the information needed for enhanced clinical decision making in treating coronary artery disease.

GuestLogix Inc. ("GuestLogix")
On November 30, 2012, the Company invested $2.0 million in GuestLogix in the form of debentures and warrants to purchase common shares. The GuestLogix notes bear interest at a rate of 12% payable on the earlier of: (i) March 31, 2014; and (ii) the completion of a corporate transaction. The GuestLogix warrants are exercisable into common shares at $0.80 per GuestLogix common share at any time prior to the earlier of: (a) March 31, 2014; and (b) the completion of a corporate transaction. GuestLogix is a global provider of onboard store technology and payment solutions designed and developed to help airlines

and other travel operators create, manage, and control onboard retail environments that are tailored to their needs and the needs of their passengers.

Ethoca Solutions Inc. ("Ethoca")

On December 18, 2012, the Company acquired 35,578 common shares of Ethoca in exchange for the issuance of 2,795,413 common shares of the Company ("Common Shares") at a price of $0.35 per Common Share in several separate secondary market transactions for a value of $978,395. In connection with the Company's second tranche private placement of special warrants ("Special Warrants") on November 19, 2012, the Company also acquired 5,000 shares of Ethoca in exchange for 571,428 Special Warrants at a price of $0.35 per Special Warrant for a value of $200,000. Ethoca is a global collaboration-based technology company serving merchants and card issuing banks in the online payment industry.

Brainscope Company, Inc. ("Brainscope")

On December 11, 2012, the Company invested US $1.0 million in Brainscope in the form of a secured convertible debenture. The debenture pays 8% interest per annum and converts into Series C preferred shares at $1.00 per share or common shares at a price per share equal to that paid under a qualified financing. Brainscope is a privately-held medical neurotechnology company developing a new generation of handheld, portable, simple-to-use non-invasive tools to rapidly and objectively assess brain function at the initial point of care to aid in detection and objective assessment of traumatic brain injury/concussion.

Gotham Analytics LLC ("Gotham")

On August 7, 2012, the Company made a US $750,000 investment in Gotham in the form of membership units. The Company purchased 48 million units at US $0.02 per unit representing 48% of the equity of Gotham. Gotham specializes in the delivery of systems and solutions that leverage satellite communications for mission critical remote monitoring applications.

SoMedia Networks Inc. ("SoMedia")

On December 18, 2012, the Company invested $600,000 in SoMedia in the form of a convertible debenture. The debenture pays 10% interest per annum and converts into common shares at any time prior to the maturity date at a price per share that is the lesser of: (a) $0.30; and (b) 85% of the price of any IPO or other financing relating to a public listing of SoMedia's common shares. SoMedia provides cloud-based video content production platforms and massive scale video production services. SoMedia provides resale, white-label, and on-demand video production services to web services companies, digital publishers, agencies, corporate brands and broadcasters across North America.

iPowow! Ltd. ("Ipowow")

On December 18, 2012, the Company invested AUD $500,000 in Ipowow in the form of a convertible debenture. The debenture pays 12% interest per annum and converts into common shares of the Ipowow based on a fixed percentage at the option of the Company at any time prior to the maturity date. Ipowow is an interactive media company focused on participation television and second screen content. Ipowow gives broadcasters, TV producers and advertisers the power to create a new breed of participation television that engages the viewer.

Marketable securities include, but are not limited to, the following investments:

Lignol Energy Corporation ("Lignol")

On August 27, 2012, the Company purchased 12.5 million common shares at $0.08 per common share for a total consideration of $1 million as part of a non-brokered private placement undertaken by Lignol. Subsequently, the Company purchased in the secondary market an additional 3,549,000 common shares. On December 17, 2012, the Company purchased from Lignol 9 million units ("Unit" or "Units") for a total investment of $1.35 million, as well as 7,666,667 Lignol subscription receipts for a total investment of $1.15 million. Each Lignol Unit is comprised of one common share of Lignol and one-half of one common share purchase warrant. Each whole warrant will allow the Company to purchase one additional common share of Lignol until December 17, 2014 at an exercise price of $0.20 per share. Each Lignol subscription receipt will automatically convert, without further payment, to a Lignol Unit, once approval is received from the shareholders of Lignol for the Company to become a new control person of Lignol.

As at December 31, 2012, the Company held 16,049,000 common shares, 9 million Units and 7,666,667 subscription receipts of Lignol.

ePals Corporation ("ePals")

On October 2012, the Company invested $3.0 million in ePals in the form of convertible debentures with a maturity date of October 31, 2014, and an option for the issuer to extend to October 31, 2016. The ePals' debentures have a two-year term, pay interest semi-annually at a rate of 6.5% and are convertible into common shares in the capital of ePals at a price of $0.60 per ePals share at the option of the Company.

Crailar Technologies Inc. ("Crailar")

On September 20, 2012, the Company made a $2.5 million investment in Crailar (formerly Naturally Advanced Technologies Inc.) in the form of listed convertible secured debentures, with a five-year term, paying 10% interest per annum and convertible into common shares of Crailar at a price of $2.90 per common share with a maturity date of September 30, 2017. Crailar has developed proprietary technologies for the production of flax fibers, typically used in linen production, that can be woven into fabrics indistinguishable from cotton.

Cyberplex Inc. ("Cyberplex")
Between October and December 2012, the Company acquired an aggregate of 15,231,000 Cyberplex common shares.

Neulion, Inc. ("Neulion")
On September 25, 2012, the Company made a $500,000 investment in Neulion in the form of 2,500,000 units at a price of $0.20 per unit. Each unit consists of one common share of Neulion and one-half of one purchase warrant. Each warrant entitles the holder to purchase one common share at $0.30 until February 25, 2015.

Feronia Inc. ("Feronia")
On August 30, 2012, 14,912,984 common shares of Feronia were distributed to shareholders of record as of May 11, 2012. The closing price of Feronia shares on the distribution date was $0.10 per common share. The distribution resulted in each shareholder of record receiving 0.0988 Feronia common shares for each pre-consolidation Common Share of the Company. The Company retained 1,000,014 Feronia shares to offset certain liabilities. The investment in Feronia has been reclassified to marketable securities. See also Note 4.

Other marketable securities
During periods where capital is not committed to longer-term investments, the Company seeks to deploy its capital in other listed and/or liquid investments. Holding periods in this portfolio tend to be significantly shorter than strategic investments, as they tend to be opportunistic in nature. As at December 31, 2012, the Company had invested a net amount of approximately $15.0 million in fair value in listed equity securities in this tactical portfolio, excluding the investments referenced above. The majority of this balance consists of three Canadian companies with capitalizations ranging from $100 million to $600 million. The largest such holding is in the technology industry, application software sector. The next largest investment is a media and entertainment company, while the final investment is a company that manufactures proprietary products for the transportation and defence markets.

4. IMPACT OF FERONIA

Included in revenue for 2012 is a net realized (loss) on the disposition of the Feronia shares of ($1,662,216) (2011 – realized gain of $47,914) and a change in unrealized gain (loss) of $309,021 (2011 – change in unrealized gain (loss) of ($1,686,923)). The Feronia shares were purchased prior to 2012 by a predecessor management team and were carried at a fair value of $3,130,000 at December 31, 2011.

5. SHARE CAPITAL

The Company has two authorized classes of shares: an unlimited number of Common Shares and an unlimited number of preference shares, issuable in series.

Pursuant to a shareholders' meeting on May 24, 2012, the existing Common Shares were consolidated on the basis of one post-consolidation share for every ten existing common shares.

	Number of Common Shares or securities convertible into Common Shares	
Date	**Issued**	**Outstanding**
December 31, 2011		150,963,530
May 24, 2012		15,096,353(1)
Common Shares		
May 30, 2012	71,776,261(2)	86,872,614
June 8, 2012	29,159,331(2)	116,031,945
December 18, 2012	2,795,413(3)	118,827,358
Special Warrants		
October 3, 2012	57,047,798(4)	175,875,156
October 4, 2012	57,491,286(4)	233,366,442
November 19, 2012	38,382,125(5)	271,748,567
November 19, 2012	1,428,571(6)	273,177,138

Notes:

(1) After consolidation of one new share for every 10 old shares.
(2) Represents Common Shares issued in connection with a non-brokered private placement.
(3) Represents Common Shares issued in exchange for common shares of Ethoca.
(4) Represents Special Warrants issued in connection with Tranche 1 (as defined below).
(5) Represents Special Warrants issued in connection with Tranche 2 (as defined below), including 571,418 Special Warrants issued as consideration for common shares of Ethoca.
(6) Represents Special Warrants issued as consideration for common shares of WG Limited.

71,776,261 Common Shares issued on May 30, 2012 under a private placement became freely tradable on September 30, 2012, and 29,159,331 Common Shares issued on June 8, 2012 under the second tranche of the private placement became freely tradable on October 9, 2012.

The distribution to shareholders of 14,912,984 Common Shares of Feronia on August 30, 2012 resulted in an increase in the deficit of $1,491,299.

On December 18, 2012, the Company issued 2,795,413 Common Shares at $0.35 per share in exchange for 35,578 Ethoca Solutions Inc. common shares (see Note 3).

As at December 31, 2012, there were 118,827,358 outstanding Common Shares with a stated capital of $86,455,086 (15,096,353 outstanding Common Shares with a stated capital of $55,525,029 as at December 31, 2011). There are no outstanding preference shares. Total costs of $329,020 were incurred for the year ended December 31, 2012 with respect to the issuance of Common Shares on May 30, 2012 and June 8, 2012.

On October 3 and November 19, 2012, the Company issued 154,349,780 Special Warrants at $0.35 per Special Warrant for gross proceeds of $54,022,438. Each Special Warrant is exercisable, for no additional consideration, into a unit that consists of one Common Share and one-half of one Common Share purchase warrant. Each whole purchase warrant ("Purchase Warrant") entitles the holder to purchase one Common Share at an exercise price of $0.60 per share on or prior to October 3, 2014. The Special Warrants were distributed as a non-brokered private placement. Total costs of $729,141 were incurred for the year ended December 31, 2012 with respect to the issuance of Special Warrants.

The private placement of the Special Warrants was completed in two tranches. The first tranche ("Tranche 1") was completed on October 3, 2012 and October 4, 2012, through the issuance of 114,539,084 Special Warrants. The second tranche ("Tranche 2") was completed on November 19, 2012 through the issuance of 39,810,696 Special Warrants. Pursuant to applicable Canadian securities laws, until a receipt is issued for the Qualification Prospectus, the Special Warrants and any underlying securities issuable on exercise thereof are subject to a four-month and one-day hold period from the applicable issue dates expiring on February 4, 2013 and February 5, 2013, respectively for Tranche 1 units and March 20, 2013 for Tranche 2 units.

Included in the Special Warrants issued in the second tranche on November 19, 2012 were 1,428,571 Special Warrants in exchange for 555,555 Virgin Gaming common shares and 571,418 Special Warrants in exchange for 5,000 Ethoca Solutions Inc. common shares.

6. INCOME TAXES

As at December 31, 2012, the Company has capital losses of approximately $151,738,558 (2011 – $152,806,228) and non-capital losses of approximately $14,100,825 (2011 – $11,812,594) that may be carried forward to reduce income taxes in future years. If not utilized, the non-capital losses will expire as as follows:

2014	$442,399
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	2,888,231
	$14,100,825

The Company has recorded a valuation allowance for the full amount of its future income tax assets related to capital and non-capital losses carried forward because it is uncertain that these tax losses will be utilized in the foreseeable future, and accordingly, the

Company has not recognized any tax recoveries in its financial statements. The value of unused tax losses and deductible temporary differences for which no future income tax assets have been recognized, is approximately $23.3 million (2011 – $22.1 million).

7. FINANCIAL INSTRUMENTS

Financial instruments – fair value estimation

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;
(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 ,2012

($000)	**Level 1**	**Level 2**	**Level 3**	**Total**
Equities	17,062	3,811	13,753	34,626
Convertible Debentures	—	5,598	30,812	36,410
Debentures	—	—	5,083	5,083
Partnership Interests	—	—	4,975	4,975
Warrants	—	383	2	385
Total	17,062	9,792	54,625	81,479

As at December 31 ,2011

($000)	**Level 1**	**Level 2**	**Level 3**	**Total**
Equities	—	3,130	—	3,130
Total	—	3,130	—	3,130

During the year ended December 31, 2012, there were $1,591,300 of equities were transferred from Level 2 to Level 1 [2011 – $nil] and there were no transfers from Level 1 to Level 2 [2011 – $nil] of the fair value hierarchy in any of the Company's investments.

The following table presents the changes in fair value measurements of investments and marketable securities classified as Level 3.

	($000)
Opening balance, January 1, 2012	—
Purchases	52,260
Sales	(2,400)
Net transfers	—
Realized gains	400
Accrued interest	744
Change in unrealized appreciation	3,620
Balance, end of period	54,624
Total change in unrealized appreciation for assets held as at December 31, 2012	3,620

The use of alternative reasonable assumptions is not expected to impact the fair value of investments significantly as at December 31, 2012.

Included in the Company's investment portfolio (see Note 3) are the following types of investments:

Common shares and membership units are valued using quoted market rates if they are traded on a recognized stock exchange or over the counter and are generally valued using the quoted bid price on the balance sheet date. The fair value of securities which are subject to trading restrictions are recorded at a value which takes into account the length and nature of the restrictions and the liquidity of the security. Private investments for which no quoted market value exists, or investments in restricted or thinly traded securities, are recorded at estimated fair value. Convertible debentures and convertible debts are carried as though converted to common shares. When these investments are initially recognized, fair value is generally the value of consideration paid. 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. As at December 31, 2012, all common shares, membership units and convertible debentures (other than Virgin Gaming) held in private companies were valued at initial value of consideration paid which approximates the fair value, as such investments had been made within a very short time prior to the year end, and no significant changes to the underlying businesses had occurred since acquisition. Please refer to Note 3 for discussions relating to Virgin Gaming and the basis of valuation as at December 31, 2012.

For public company warrants (i.e. the underlying security of which is traded on a recognized stock exchange), the Black-Scholes option 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 issue, expected dividend yield, expected life of the instrument and expected volatility of the underlying securities. 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 bid 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 which do not have an active market as described above.

Financial instruments – risk management

The Company is exposed to the following risks as a result of holding financial instruments: market risk (which includes market risk, interest rate risk and currency 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 where cash flows are fixed in nature.

At December 31, 2012, the Company holds the following fixed-rate debt instruments: (a) $36.4 million in convertible debentures with a weighted average interest rate of 6.07% and a weighted average term to maturity of approximately 1.9 years; and (b) $5.0 million in non-convertible debentures with a weighted average interest rate of 9.6% and a weighted average term to maturity of approximately 1.1 years. Should market interest rates rise, then the fair value of these convertible and non-convertible debentures will decrease. Inversely, should market interest rates fall, the fair value of these assets will increase. The effect of changes in interest rates on the fair value of these debt instruments is partially muted by the nature of the investments. Convertible debentures placed in early stage investees are typically less sensitive to changes in market interest rates than non-convertible debt instruments placed in more mature investees. Additionally, the economic exposure to interest rate risk is mitigated by the Company's intention to either convert the debentures into the related underlying equities or, in the case of non-convertible debentures, to hold the instrument until maturity.

The Company is also exposed to interest rate risk through its cash and cash equivalents.

If interest rates were higher by 1% per annum, the potential effect would be a decrease in net income of approximately $700,000. If interest rates were lower by 0.5% per annum, the potential effect would be an increase in net income of approximately $350,000.

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, 2012, the Company is exposed to foreign exchange risk through its US dollar-denominated investments of $16.1 million [2011 – $nil] and its Australian dollar-denominated investments of $3.5 million [2011 – $nil], which together represents approximately 21.3% of total assets. The Company does not currently hedge its foreign currency exposure. If the Canadian dollar had strengthened or weakened by 1% in relation to the foreign currencies, the investments would have decreased or increased by approximately $200,000 [2011 - $nil].

Other price risk

Other price risk is the risk of variability in fair value due to movements in equity prices or other market prices such as commodity prices and credit spreads. The Company incurs other price risk through its portfolio of investments and marketable securities. If the fair value of these financial assets were to increase or decrease by 10%, the Company would incur an associated increase or decrease in net income of $8.1 million (2011 - $313,000). Refer to Note 3 for additional details regarding the fair value of investments and marketable securities, 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 Note 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 investment sizes 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 at December 31, 2012 is $41,494,014 (2011 - $nil).

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. At December 31, 2012, the Company's liquidity risk is limited to exposure to accounts payable and accrued liabilities, which are due within 12 months of December 31, 2012.

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 higher than 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 risk by investing in relatively short duration convertible debentures and debentures – typically no longer than three years in term. The Company considers exposure to foreign currency assets as a hedge against the possible decrease in the value of the Canadian dollar.

8. 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 net asset value. The net asset value of the Company is determined by subtracting the aggregate fair value of the liabilities of the Company from the aggregate fair value of the assets of the Company on the date on which the calculation is being made.

For the year ended December 31, 2012, management fees of $151,956 were paid and $410,560 were accrued.

The Company accrues a performance fee on the basis of 20% of the amount by which the net asset value as at year end exceeds the sum of (i) the net asset value at the beginning of the year (or period), and (ii) a hurdle amount.

The monthly hurdle amount is determined by multiplying the net asset value at the beginning of the month by the two-year Government of Canada bond index rate (capped at a maximum of 5% per annum) and dividing the result by 12. The annual (or period) hurdle amount is the sum of the monthly hurdle amounts during the year (period).

The starting date for the performance evaluation was May 30, 2012, the date of closing of the first Common Share issuance following the May 24, 2012 shareholders' meeting. For the year ended December 31, 2012, performance fees of $1,253,263 were accrued.

The Company had a management contract with a previous manager to manage the undertakings of the Company. The Company had agreed to pay such manager a 2% management fee per annum, based on the Company's net asset value, and a performance fee, based upon the increase in the Company's net asset value above a benchmark. The contract with the previous manager terminated effective January 25, 2011. For the year ended December 31, 2011, a management fee of $7,124 was recorded.

Other Related Party Transactions

The Company had a demand promissory note outstanding from September 19, 2012 to October 3, 2012 bearing interest at 5% per annum and payable to a corporation which is 50% owned by a director of the Company. The Company repaid the promissory note in full together with total interest of $2,882, on October 3, 2012.

Two of the officers and directors of the Company are shareholders of Virgin, a director is a shareholder of Cyberplex and an officer of the Company is a shareholder of Crailar. An officer of the Company that was a shareholder of Ethoca took part in the Ethoca share exchange described in Note 3. $1 million of the QuickPlay investment was purchased from an entity 50% owned by a director of the Company. The conflicts of interest were disclosed to the Board of Directors prior to the Company making its investments in these companies.

As part of its investment process and where the Company is making a significant investment relative to the total outstanding equity of an investee, the Company may seek representation on the Board of Directors of such investee companies, or rights to attend and observe board meetings. A director of the Company acts as a board director for Thunderbird, Gotham and Fem MED.

Officers and directors of the Company subscribed for approximately 24.1 million Common Shares ($7.3 million) and about 30.8 million Special Warrants ($10.8 million). See Note 5 for a description of the Common Share and Special Warrant financings.

The Company has a receivable outstanding of $128,398 from Difference RM for legal expenses paid by the Company and to be reimbursed by Difference RM.

These transactions occurred in the normal course of operations and were recorded at the exchange amount that had been established and agreed to by the related parties.

9. CAPITAL MANAGEMENT

The Company's capital is comprised of shareholders' equity. The Company's objective for its capital is to maximize shareholder value. In this regard, the Company invests in growth oriented companies that have the potential of providing an above average return on investment and also opportunistic purchases of financial assets and real property it believes to be undervalued. The Company does not have any externally imposed capital requirements and believes that it has sufficient working capital for ongoing operations.

10. STOCK OPTION PLAN

The Company has implemented a stock option plan which permits the Company to issue stock options to employees, directors and consultants of the Company. Each option granted under the plan is for a maximum term of seven years with an exercise price equal to the greater of the Company's net asset value or closing share price on the last day of the applicable quarter and vests immediately. The Company permits directors to receive their quarterly fees in cash, shares, share options or a combination thereof. A director electing to exercise an option is required to provide funds to purchase the shares for the exercise price.

All amounts in this note have been adjusted for a one post-consolidation share for every ten pre-consolidation shares reorganization approved by shareholders at the May 24, 2012 shareholders' meeting.

There were no options issued for the years ended December 31, 2012 and 2011. No options were exercised for the year ended December 30, 2012. During the year ended December 31, 2011, 21,667 options with a strike price of $0.30 were exercised for proceeds of $6,500.

At December 31, 2012, the number of options outstanding and exercisable is as follows:

Exercise Price	Quantity	Expiry Date
$1.90	3,470	May 12, 2015
$3.00	2,880	June 30, 2015
$1.10	5,870	September 30, 2015

11. COMMITMENTS

As at December 31, 2012, the Company had commitments to purchase investments in InfraRedX and Ipowow, totaling US $3 million in convertible debentures and preferred share warrants and $0.5 million in equity respectively, if called upon to do so by the issuers.

12. COMPARATIVE FIGURES

Certain comparative figures from the prior period have been reclassified to conform with the current year's presentation.

13. SUBSEQUENT EVENTS

Beginning January 1, 2013, the Management Agreement calls for Difference Capital Management Inc. ("DCM") to share with the Company 40% of any advisory or consultancy fees, net of direct expenses, earned by DCM from investee companies.

On January 29, 2013, the Company announced that it had sold approximately 15% of its $19.9 million unsecured convertible debentures in Virgin Gaming at a 20% premium to its acquisition price on June 5, 2012. While the first transaction settled in January 2013, the trade took place on December 31, 2012 and is therefore reflected in these financial statements. The Company subsequently sold an additional $1.1 million principal amount of its Virgin Gaming debentures at $1,200 per debenture (see Note 3). During January and February 2013, the Company also purchased an aggregate of approximately $2.3 million of Virgin Gaming shares from Virgin Gaming shareholders through a number of separate transactions.

On January 29, 2013 the Company purchased another US $2.5 million of limited partnership units in Chieftain. On March 27, 2013 the Company made a further investment in Chieftain of US $2.5 million in the form of a promissory note due March 27, 2018, paying interest of 8.0% per annum upon maturity.

On February 6, 2013, the Company announced that the Special Warrants issued during Tranche 1 were exercised into 114,539,084 Common Shares and 57,269,530 Purchase Warrants.

On February 7, 2013, the Company made a $1.0 million investment in Amaya Gaming Group Inc. in the form of a debenture and warrants.

In March 2013, the Company sold all of its Feronia shares at an average price of $0.086 per share.

On March 11, 2013, the Company filed a final short form prospectus (the "Prospectus") qualifying the distribution of 39,810,696 units of the Company issuable upon the exercise of 39,810,696 Special Warrants issued by the Company in Tranche 2. Upon exercise, each Special Warrant entitled the holder thereof to receive, for no additional consideration, one Unit. Each Unit was comprised of one Common Share and one-half of one Common Share Purchase Warrant. Each whole Purchase Warrant entitles the holder to purchase one Common Share at an exercise price of $0.60 until October 3, 2014.

On March 11, 2013, upon obtaining a receipt for the Prospectus, the Company announced that the Special Warrants issued during Tranche 2 were exercised into 39,810,696 Common Shares and 19,905,334 Purchase Warrants. Total Common Shares outstanding are now 273,177,138, and total Purchase Warrants outstanding are 77,174,864.

On March 20, 2013, the Company invested $1 million into a new issue of senior secured convertible debentures of ePals and has an obligation to invest up to an additional $2.5 million into such debentures. The debentures pay 10% per annum interest and have a maturity date of October 31, 2014, with an option for the issuer to extend the maturity date to October 31, 2016. The conversion price is $0.40 per common share of ePals.

On April 2, 2013, InfraRedX, Inc. called on the Company's past commitment to purchase an additional US $3 million of convertible debentures and preferred share warrants. As at the date of these financial statements, this additional investment had not yet been made.

14. INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

Investment companies that are publicly accountable enterprises are required to adopt IFRS for the first time for interim and annual financial statements relating to annual periods beginning on or after January 1, 2014. As a result, the Company will adopt IFRS beginning January 1, 2014 and publish its first financial statements, prepared in accordance with IFRS, for the interim period ending March 31, 2014. The 2014 interim and annual financial statements will include 2013 comparative financial information and an opening balance sheet as at January 1, 2014, also prepared in accordance with IFRS.

The Company has developed a transition plan to change over to IFRS and meet the required timetable. As at December 31, 2012, the expected impact to the financial statements based on the Company's assessment of the differences between current Canadian GAAP and IFRS are as follows:

- IFRS 13 Fair Value Measurement permits the use of mid-market prices 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, the valuation of the investments may be impacted.

- IFRS 10 Consolidated Financial Statements provides an exception to the consolidation requirements and requires investment entities to account for subsidiaries at fair value through profit or loss. Although not impacting current presentation, additional disclosure would be required relating to how the investment entity definition was met, information about each unconsolidated subsidiary, and details of financial and contractual arrangements.

Other reclassifications, presentation differences, and additional disclosures will also be required in the financial statements to comply with the new requirements under IFRS.