DIFFERENCE CAPITAL FUNDING INC.
MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2012

April 18, 2013

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Management's Discussion and Analysis

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The following provides additional analysis of the operations and financial position of Difference Capital Funding Inc. (formerly TriNorth Capital Inc. "TriNorth") ("Difference Capital" or the "Company") (TSXV: DCF). It is supplementary information and should be read in conjunction with the Company's audited financial statements and accompanying notes as at December 31, 2012. All dollar amounts in this MD&A are reported in Canadian dollars, unless otherwise stated.

Regulatory filings for Difference Capital may be found on SEDAR at www.sedar.com, while other information related to the Company is published on its website at www.differencecapital.com.

All capitalized terms herein that are not defined shall have the same meaning as set forth in the Company's Annual Information Form dated February 22, 2013.

FORWARD-LOOKING STATEMENTS

Included in this Management Discussion & Analysis are matters that constitute "forward-looking" information within the meaning of Canadian securities law. Such forward-looking statements may be identified by words such as "plans", "proposes", "estimates", "intends", "expects", "believes", "may" or words of a similar nature. There can be no assurance that such statements will prove to be accurate. Actual results and future events could differ materially from such statements. Factors that could cause actual results to differ materially include among others, equity market regulatory risks, risk inherent in foreign operations and competition. These factors are largely outside the control of the Company. All subsequent forward-looking statements attributable to the Company or its agents are expressly qualified in their entirety by these cautionary comments. Except as otherwise required by applicable securities statutes or regulation, the Company expressly disclaims any intent or obligation to update publicly forward-looking information, whether as a result of new information, future events or otherwise.

NOTE REGARDING NON-GAAP FINANCIAL MEASURES

This document contains references to "net asset value" ("Net Asset Value" or "NAV"), which is a non-GAAP financial measure. We calculate NAV by subtracting the aggregate fair value of the liabilities of the Company from the aggregate fair value of the assets of the Company on the date on which the calculation is being made and NAV per share as NAV divided by the total number of common shares of the Company outstanding as at a specific date. The term net asset value per share does not have any standardized meaning according to generally accepted accounting principles ("GAAP") and therefore may not be comparable to similar measures presented by other companies. We believe that the measure can provide information useful to our shareholders in understanding our performance and facilitate the comparison of the results of our ongoing operations, and may assist in the evaluation of our business relative to that of our peers.

ABOUT DIFFERENCE CAPITAL

Difference Capital is a publicly listed merchant bank focused on creating shareholder value through strategic investments in, and advisory services for, growth companies, particularly in the technology, media and healthcare sectors, as well as opportunistic investments in undervalued financial assets and real property. The Company's investment strategy is currently focused on investments in debt and equity securities in both privately held and public target companies ("Target Companies").

On May 24, 2012, the Company's shareholders adopted a number of initiatives in order to establish the company as a merchant bank with its current focus. These initiatives included a change of the entire management team, the adoption of a new strategic plan and the change of the Company's name. As part of the Company's strategic realignment, the Company distributed the majority of its existing investment portfolio, consisting of 14.9 million shares of Feronia Inc., to its shareholders. All of the Company's current investments and marketable securities (and all of the Company's investments and marketable securities as of December 31, 2012, but for a small residual holding in Feronia) were acquired subsequent to the May 24, 2012 shareholders' meeting.

We believe that the continued growth and success of the Company is strongly linked to our new management team and human capital in addition to our strong partnerships with current and potential investee partners. The Company continues to assemble a dynamic management team, which brings together different skillsets that uniquely position it to offer a complement of services to its shareholders. The Company believes that having management aligned with shareholders will be a key driver of long-term performance. As of April 18, 2013, management and directors own 24.7% of the Company's outstanding issued share capital.

The management of the Company is responsible for the Company's entire portfolio and considers the business to be comprised of one operating segment. Investment decisions are based on the strategy/disciplines outlined below, and performance is evaluated on an overall basis.

The Company is in excellent financial condition with no debt and approximately $9.4 million of cash and near-cash items as well as approximately $26.5 million of marketable securities as at December 31, 2012.

The Company is domiciled in the Province of Ontario, Canada and its principal address is 130 King St. West, Suite 2950, Toronto, Ontario, Canada, M5X 1C7. The Company's registered office is located at Wildeboer Dellelce Place, Suite 800, 365 Bay Street, Toronto, Ontario, M5H 2V1. The Company is a reporting issuer in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland.

Difference Capital's Strategy:

The Company provides investors with an opportunity to gain exposure to unique investments as well as income from advisory services. Specifically, the Company seeks to invest in the mid to late stages of a Target Company's development or in technologies that are developed and validated but may be in the early stage of commercialization. This strategy allows the Company to invest in enterprises that are commercially viable and have visibility toward high growth. The Company is not bound to commit to any particular sector, thereby allowing for diversification; however, the present focus is generally on technology-related, media-related and healthcare-related, intellectual property-rich Target Companies. This approach may change over time as market conditions change and the capital markets respond. The Company evaluates each opportunity on its merit. The Company enters investments at a stage where potential exists to maximize strong returns and manages risk by applying the considerable business expertise of its management team and directors to the investments undertaken. With the continued investment of the Company's resources into strategically identified sectors, the Company is well positioned to benefit from a global economic recovery and positive trends in Canadian and international growth companies. We believe this is the bottom of the cycle for technology-focused companies and as such, Difference Capital is poised to take advantage of significant growth in this sector. Our view is that Canadian capital markets are significantly under-invested in our target sectors and that significant capital could flow into this sector in the medium term. There are very few merchant banks in Canada focused on this sector, providing us with an opportunity to find better valued investments and more easily capitalize on evolving growth trends. The Company's near-term vision continues to be that it will complement gains from capital appreciation in its investee companies with a recurring and growing income stream from services provided to companies by its highly experienced executives.

While the Company has made investments in the range of $250,000 to $20 million, typical investment sizes range from $2.0 million to $5.0 million. When investments are made they may be accompanied by share purchase warrants to enhance the return on account of increased risk. Debt placements often include conversion rights and in some cases are accompanied by bonus shares or warrants, and may be secured by tangible assets of sufficient value to safeguard the investment.

In pursuit of returns in its core investment portfolio, the Company, when appropriate, employs the following disciplines:

- The Company seeks to invest in post-early/seed stage financing rounds of Target Companies.

- The Company seeks Target Company investments that include as many of the following characteristics as possible: (i) a product/service with global market potential; (ii) strong competitive advantages and margins that support a sustainable growth rate in excess of 25% per annum; (iii) low asset intensity ratios (i.e. less than 50%); (iv) rich in protected intellectual property; (v) scalability; and (vi) currently revenue generating with credible customer references.

- At this time, the Company seeks investments primarily, albeit not exclusively, in the technology, media, and healthcare sectors and focuses on investments with clear paths to liquidity in a two to three year period.

- The Company has a target rate of return of 20% per annum on its investments in Target Companies. Returns are expected to materialize partially from income on its debt and convertible debenture holdings, but primarily through capital gains based on the growth of its equity and equity-linked securities.

- The Company acquires a detailed knowledge of the business of the Target Company.

- Where appropriate, the Company seeks board representation or board observation rights.

- The Company utilizes the services of independent advisors and consultants to acquire additional information about Target Companies where appropriate.

The Company's manager, Difference Capital Management Inc. (the "Manager"), also considers opportunistic investments that come to its attention through its proprietary deal flow. The Manager has extensive experience with a variety of asset classes and strategies including real estate, arbitrage, structured products, long/short equity, market-making, and proprietary trading. The Manager is well positioned to evaluate unique investments that offer significant potential returns on both an absolute and risk-adjusted basis. Such opportunities exist due to structural, market, legal, regulatory, tax, informational or other idiosyncratic inefficiencies. The Company may invest a portion of its capital, generally no more than 20%, in such opportunities. See Investments for a description of two such assets currently held by the Company in the real estate sector. Over time, it is the Company's plan that should it identify a strategy or asset class that it believes merits significant investment beyond its own allocation, the Company may choose to contribute such assets to a separate vehicle and offer to existing shareholders and other potential investors the ability to co-invest with the Company in this new entity.

On October 1, 2012, the Manager announced the creation of a complementary advisory and consulting services business to assist clients with capital markets, media, communications, government, regulatory and strategic advice. The Manager's advisory and consulting services are focused on delivering impartial, creative, and long-term ideas to clients by a management team with diverse and complementary skill sets.

The model focuses on a relationship-driven approach that provides advice tailored to each client's specific needs and circumstances to ensure delivery of individual solutions. The Manager works with advisory clients' senior management to deliver solutions for a range of issues.

Under the management agreement between the Company and the Manager, the Company is entitled to receive, beginning January 1, 2013, 40% of any advisory or consultancy fees, net of direct expenses, earned by the Manager from the Company's investee companies. As there are no direct expenses associated with this revenue stream and the Company has significant operating tax loss carry forwards, Difference Capital's entire advisory revenue stream effectively flows straight through to net income. The response from growth companies to the Company's combined strategic advice and capital investment platform has been well received, and this service offering is expected to be a key growth area for the Company. As of April 18, 2013, the Manager has advisory agreements in place for which the Company's 40% share will generate $1.2 million in revenue and net income in 2013, and the Manager expects to generate additional advisory revenues over the course of the year.

The Company views the results of 2012 as tracking positively for continued development to enhance shareholder value. The Company is targeting the start of regular dividends to shareholders in 2013. The Company is also considering an application for listing on the Toronto Stock Exchange.

RESULTS OF OPERATIONS

Please find below selected financial data derived from the Company's last three years of operation.

	2012	**2011**	**2010**
Total revenues	$7,803,859	($1,637,515)	($538,328)
Net Income (Loss)	$4,275,528	($2,348,330)	($773,710)
Basic and diluted income (loss) per share before discontinued operations and extraordinary items	$0.04	($0.16)	($0.05)
Basic and diluted income (loss) per share	$0.04	($0.16)	($0.05)
Total assets	$93,341,724	$3,225,733	$5,327,641
Total long-term financial liabilities	-	-	-
Cash dividends declared per-share	-	-	-

The selected interim financial information set out below for the eight most recently completed quarters has been derived from the Company's unaudited interim financial statements and accompanying notes posted on www.sedar.com. Readers should read the following financial information in conjunction with those statements and notes. We generally view investments as being material for the purpose of our discussion in this MD&A if they are greater than 2% of our NAV, currently representing about $1.8 million; however, certain investments which do not exceed these thresholds may also be deemed to be material to our discussion.

($000s except per share amounts)

Quarter Ended	31-Dec-12	30-Sep-12	30-Jun-12	31-Mar-12	31-Dec-11	30-Sep-11	30-Jun-11	31-Mar-11
Net Investment gains (losses)	7,776	(151)	(3,023)	2,296	(1,360)	(3,679)	-	3,400
Net Income (loss) for the quarter	5,753	(188)	(3,495)	2,206	(1,482)	(3,956)	(164)	3,254
Earnings (loss) per share	0.02	(0.00)	(0.07)	0.15	(0.10)	(0.26)	(0.01)	0.22

Three Months Ended December 31, 2012 and 2011:

Net income for the quarter ending December 31, 2012 was $5,752,794 compared to a net loss of $1,482,598 for the corresponding quarter in the prior year. During the fourth quarter, the following significant operating events occurred:

- Realized gain on disposition of investments of $2,534,713 was primarily due to a gain of $2,134,713 in marketable securities and a $400,000 gain on the sale of Virgin Gaming debentures.

- The unrealized gain on investments and marketable securities of $5,241,615 was primarily due to the gains in the following investments: a gain of $3,576,320 related to the Virgin Gaming debentures, an increase in the valuation of $270,000 of the Guestlogix warrant investment, an increase in the value of the marketable securities portfolio of $1,219,860 as well as a foreign exchange gain of $175,435.

- Management fees increased in 2012 to $360,637 in the three months ended December 31, 2012 from nil in 2011. The increase resulted from the company's increase in NAV, upon which management fees are based.

- Performance fees were $1,253,263 in the three months ended December 31, 2012 versus nil in 2011. The fees resulted from the increase in NAV driven by the gain on investments as outlined above.

- Operating, general and administrative expenses were $691,838 during the fourth quarter of 2012, an increase from $121,491 in the fourth quarter of 2011. The reason for the increase was largely a result of additional filing/transfer fees, professional fees and HST/GST costs associated with the growth of the Company.

Year Ended December 31, 2012 and 2011:

Net income for the financial year ending December 31, 2012 was $4,275,528 compared to a net loss of $2,348,330 for the corresponding period in 2011. The following operating events explain the change year over year:

- Realized gain on disposition of investments of $872,497 was primarily due to a gain of $2,188,982 in marketable securities and a $400,000 gain on the sale of Virgin Gaming debentures, offset by a loss of $1,716,485 on Feronia shares prior to their distribution.

- Note that Feronia was an investment inherited by new Difference Capital management from past TriNorth management, and that the distribution of the Feronia shares was delayed due to the actions of such previous management. To accurately reflect the contribution of the new management team to the results of Difference Capital, one must discount the impact of the Feronia shares on revenue and income. Without the Feronia loss, revenue for 2012 was $9,519,344 and net income was $5,991,013.

- The change in unrealized gain on investments and marketable securities of $6,025,540 was primarily due to a gain of $3,576,320 related to the Virgin Gaming debentures, an increase in the valuation of $270,000 of the Guestlogix warrant investment, an increase in the value of the marketable securities portfolio of $2,085,950 as well as a foreign exchange gain of $93,270.

- Interest revenue of $865,584 in 2012 was an increase from $1,494 in 2011. The increase was a result of debt instruments invested in throughout the year, primarily Virgin Gaming, which contributed $566,073. The interest revenue is represented by accrued interest receivable on the debentures.

- Management fees increased to $562,516 in 2012 from $7,124 in 2011. The increase resulted from the company's increase in NAV, upon which management fees are based.

- Performance fees increased to $1,253,263 in 2012 from nil in 2011 due to the gain on investments as outlined above in conjunction with the new management agreement.

- Operating, general and administrative expenses increased to $1,458,878 in 2012 from $701,356 in 2011. The major reason for the increase was a result of additional legal and other costs related to the restructuring of the Company and costs related to the development of the new business.

FINANCIAL POSITION AND LIQUIDITY

During the year ended December 31, 2012, the Company raised gross proceeds of $83.6 million in cash and received $1.7 million in investments, a total of $85.3 million, from the issuance of common shares and special warrants. During the year ended December 31, 2011 the company's financing activities involved the issuance of $6,500 of common shares upon the exercise of options with a strike price of $0.30 per share.

The distribution to shareholders of 14,912,986 common shares of Feronia Inc. on August 30, 2012 resulted in an increase in the deficit of $1,491,299.

In the year ended December 31, 2012, the company utilized $49.5 million towards the purchase of marketable securities and received proceeds of $27.2 million from the disposition of marketable securities. Cash used in operations was $73.5 million as compared to an outflow of $0.3 million in the prior year. During 2012, the company spent $50.6 million towards the purchase of investments in contrast with $nil in 2011 and it received $2.6 million in proceeds from the disposition of investments in contrast to $0.2 million during 2011.

Working capital at December 31, 2012 was $35.0 million including cash and cash equivalents of $9.4 million. Working capital is calculated as assets excluding investments and less liabilities.

The Company may employ leverage either with the intent to enhance returns on equity, or as a mechanism to bridge liquidity or funding gaps in its operations. During 2012, the Company had two demand promissory notes outstanding in the principal amount of $1.5 million each. The first note paid an interest rate of 1.5% per annum from May 29, 2012 to September 19, 2012 and 5% thereafter. The second note, due to a related party, was outstanding from September 19 to October 3, 2012 and paid an interest rate of 5% per annum. The Company repaid both promissory notes in full with interest on October 3, 2012. The Company has a margin facility for its marketable securities with its prime broker that it intends to make use of in 2013.

Current liabilities were $3.5 million as at December 31, 2012. The table below represents the Company's outstanding liabilities by due date. Liabilities and obligations with an undetermined due date are outlined below.

Liabilities and obligations	Total $000	Less than 1 year $000	1 - 3 years $000	4 - 5 years $000	After 5 years $000
	Payments due by period				
Performance and management fees payable	1,838	1,838	—	—	—
Due to brokers	1,029	1,029	—	—	—
Accounts payable and accrued liabilities	578	578	—	—	—
Sub-totals	3,445	3,445	—	—	—
Commited investments at December 31, 2012	3,485	3,485	—	—	—
Additional commitments subsequent to year end	2,500	2,500	—	—	—
Totals	**9,430**	**9,430**	—	—	—

As at December 31, 2012, the Company was obligated to invest an additional $500,000 of equity in relation to iPowow, Ltd., subject to certain requirements being met by iPowow. Currently, the Company has invested $100,000 of that additional $500,000, and additional monies will be forwarded when all conditions necessary for the remainder of the follow-on investment are met by iPowow.

The Company has an obligation to invest US $3 million into convertible debentures and preferred share warrants of InfraReDx, Inc. As of the current date, the Company has been called upon to make such follow-on investment, but the investment has not yet been completed.

Subsequent to the year end, the Company entered into an obligation to invest up to an additional $2.5 million into senior secured convertible debentures of ePals Corporation upon final closing of its most recent offering, expected in late April 2013.

Subsequent to December 31, 2012, the company has spent an incremental $9.6 million on investments.

We believe that our NAV is an important long-term tool to evaluate our performance as it is a meaningful indicator of overall growth and asset performance. As of December 31, 2012, our NAV per share was $0.329 (2011 - $0.192).

In a desire to be conservative, we have reflected no value for our tax-loss carry forwards in the financial statements. However, we do believe that a value can be attributed to these tax losses in terms of how they are perceived in the marketplace. As a benchmark, we assess the value to be 5.5% of the aggregate amount of tax-loss carry forwards, or approximately $9.1 million on aggregate losses of $166 million. This amount equates to approximately 3.3 cents per share.

Subject to the solvency restrictions in the *Canada Business Corporations Act*, there are no other restrictions in the Company's articles or elsewhere that would prevent it from paying dividends or distributions on its common shares. The Company currently intends to pay a dividend in 2013, subject to approval of the board of directors of the Company (the "Board"). The declaration of any future dividends by the Company is within the discretion of the Board and will depend upon the Company's earnings, financial condition and capital requirements, as well as any other factors deemed relevant by the Board.

INVESTMENTS

The table on the following page provides an overview of the Company's private and non-listed investments. Further details regarding these investments are described below.

Investment	Industry	Geography	Investment	Cost of Investment Dec. 2012	Cost of Investment Dec. 2011	Fair Value Dec. 2012	Description of Business
WG Limited	Technology	Canada	Convertible Debentures	$17,881,600	–	$22,023,993	World's largest destination for competitive console gamers to meet, challenge and play in tournament challenges for cash, points and prizes
Difference RM Holding Corporation	Real Estate	United States	Common Shares	$5,335,543	–	$5,432,154	Holds undeveloped land in the United States
Chieftain Resdential, LP	Real Estate	United States	Partnership Interest	$4,971,750	–	$4,974,500	Residential investment platform that focuses on purchasing distressed single family homes
Thunderbird Films Inc.	Media	Canada	Common Shares	$4,000,000	–	$4,000,000	Multiplatform media production, distribution and rights management company
Wasabi Energy Limited	Clean Technology	Australia	Debentures	$3,106,800	–	$3,113,257	Power producer that is at the forefront of the global energy efficiency boom and the drive for renewable power
Wasabi Energy Limited	Clean Technology	Australia	Warrants	–	–	–	As stated above
FemMED Formulas LLP	Healthcare	Canada	Secured Convertible Debentures	$2,500,000	–	$2,566,849	Mass channel retail brand of doctor-formulated, condition-specific supplements designed specifically to address women's most common health concerns
QuickPlay Media Inc.	Technology	Canada	Common Shares	$2,364,880	–	$2,364,880	Provider of cloud-based infrastructure for premium media services that is used by the world's largest communication companies
Appinions Inc.	Technology	United States	Convertible Debentures	$2,048,000	–	$2,050,312	Innovative provider of influencer information for brands, agencies and online publishers
InfraReDx, Inc.	Healthcare	United States	Convertible Debentures	$1,987,200	–	$1,999,749	Medical device company dedicated to helping provide practitioners with the information needed for enhanced clinical decision making in treating coronary artery disease
InfraReDx, Inc.	Healthcare	United States	Warrants	$2,118	–	$2,118	As stated above
Guestlogix Inc.	Technology	Canada	Debentures	$1,950,000	–	$1,970,000	Global provider of onboard airline store technology and payment solutions
Guestlogix Inc.	Technology	Canada	Warrants	$50,000	–	$320,000	As stated above
Ethoca Solutions Inc.	Technology	Canada	Common Shares	$1,178,395	–	$1,178,395	Global collaboration-based services company within the CNP payments industry
Brainscope Company, Inc.	Healthcare	United States	Convertible Debentures	$986,200	–	$999,322	Developing a new generation of portable and simple-to-use tools to rapidly and objectively assess brain function at the initial point of care
Gotham Analytics LLC	Technology	United States	Common Membership Units	$751,425	–	$746,175	Specializes in the delivery of systems and solutions that leverages satellite communications for mission-critical remote monitoring applications
SoMedia Networks Inc.	Technology	Canada	Convertible Debentures	$600,000	–	$602,959	Provider of cloud-based video content production platforms and massive scale video production services
iPowow! Ltd.	Media	Canada / Australia	Convertible Debentures	$517,850	–	$519,159	A leader in 'Participation TV', which is an integral piece of the emerging 'Second Screen' market
Feronia Inc.(1)	Agriculture / Agribusiness	Africa	Common Shares	$190,000	$3,131,010	$110,000	Commercial farmland and plantation operator
Other Debt	Holding Company	Canada	Loan	$50,000	–	$50,197	Holding Company
Other Equity	Holding Company	Canada	Common Shares	$30,000	–	$30,000	Holding Company
				$50,501,761	$3,131,010	$55,054,019	

(1) Feronia Inc. shares were reclassified as marketable securities during 2012.

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 to Virgin).

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

During January and February 2013, the Company also purchased an aggregate of approximately $2.3 million of Virgin common shares from existing Virgin shareholders through a number of separate transactions. During that same time period the Company also sold an additional $1.1 million face amount of Virgin debentures.

Virgin Gaming is the world's largest destination for competitive console gamers to meet, challenge and play in tournament challenges for cash, points and prizes.

Difference RM Holding Corporation ("Difference RM")

Difference RM is a wholly-owned subsidiary of the Company that indirectly owns a 52% stake in a 40% tenants-in-common interest in a 635 acre parcel of undeveloped land in the City of Rancho Mirage, California. Rancho Mirage is located immediately to the southeast of Palm Springs. The site is locally known as the "Eagle" property. The property was purchased in late November 2012 from a highly motivated U.S. bank with a low cost base at a very attractive price relative to comparable land in the area. The Eagle property is widely considered the most valuable undeveloped parcel in the Coachella Valley due to its size and location in the prestigious City of Rancho Mirage directly across the street from the well known Annenberg Estate and visitor centre.

Chieftain Residential, LP ("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 and is designed to take advantage of the recovering U.S. residential real estate market. Due to current market inefficiencies, Chieftain is able to purchase properties at significant discounts to both replacement cost and current market value, with an interim strategy of renovating and leasing the properties to qualified tenants.

Thunderbird Films, Inc. ("Thunderbird")

On December 4, 2012, the Company invested $4.0 million in Thunderbird Films Inc. ("Thunderbird") in the form of shares, representing 15.2% of the Thunderbird's issued and outstanding common shares on a fully diluted basis. Thunderbird is an expanded multiplatform media production, distribution and rights management company that is recognized for its collaboration with talented producers, maximizing the financial and creative benefits of Canadian co-production to assist in the financing, production and distribution of all genres of programming for the world market.

Wasabi Energy Limited ("Wasabi")

On December 19, 2012, the Company invested AUD $3.0 million in Wasabi in the form of a debenture 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 indirect investment in QuickPlay through a new parent holding company in two purchases of common shares, representing an aggregate 2.25% stake in QuickPlay. In July 2012, a private equity investment firm purchased the majority of the equity in QuickPlay and also agreed to fund QuickPlay’s continued expansion. The investment firm’s total investment in QuickPlay will be approximately $100 million. The Company received permission from the investment firm and QuickPlay to acquire its ownership interests, as very few non-management shareholders were permitted to retain or transfer their shares. QuickPlay is a provider of cloud-based infrastructure for premium media services used by the world’s largest 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 of 6% per annum, convertible into common shares of Appinions at the option of the Company at US $0.06103 per share. On an as-converted, fully-diluted basis, the debentures held by the Company represent a 15.4% ownership stake in the equity of Appinions. Subsequent to December 31, 2012, the Company invested a further US $805,000 in Appinions convertible senior debentures. 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% 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. InfraReDx is committed to improving the safety and efficacy of coronary stenting and ultimately serving as part of a strategy to prevent initial coronary events. The Company has an obligation to invest a further US $3 million into notes and warrants of InfraReDx, Inc.

GuestLogix Inc. (“GuestLogix”)
On November 30, 2012, the Company invested $2.0 million in GuestLogix in the form of a note and warrants to purchase common shares. The GuestLogix notes bear interest at a rate of 12% p.a. 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. The Company also acquired 5,000 shares of Ethoca in exchange for 571,428 special warrants of the Company ("Special Warrants") at a price of $0.35 per Special Warrant for a value of $200,000. Ethoca is a global collaboration-based anti-fraud 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% per annum interest and converts into Series C preferred shares of Brainscope 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% per annum interest and converts into common shares at any time prior to the maturity date at a price per share that is the lessor 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 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% per annum interest and converts into common shares of the company based on a fixed percentage at the option of the Company at any time prior to the maturity date.

As at December 31, 2012, the Company was obligated to invest an additional AUD $500,000 of equity in relation to iPowow, Ltd., subject to certain requirements being met. The Company has subsequently invested AUD $100,000 of that additional AUD $500,000. Further monies will be forwarded when all conditions necessary for the remainder of the follow-on investment are met.

Ipowow is an interactive media company on the leading edge of the global shift towards participation television and second screen content. Ipowow gives broadcasters, TV producers and advertisers the power to create a new breed of participation television with compelling engagement for the viewer.

Investments Purchased Subsequent to December 31, 2012

Amaya Gaming Group Inc. ("Amaya")
Subsequent to December 31, 2012, the Company acquired 1,000 units (the "Amaya Units") of Amaya on February 7, 2013. Each Amaya Unit consists of a $1,000 principal amount unsecured subordinated debenture paying interest at a rate of 7.5% per annum and 48,000 non-transferable common share purchase warrants. Each Amaya warrant entitles the holder to purchase one common share in the capital of Amaya at any time prior to January 31, 2016 at an exercise price of $6.25 per Amaya share.

Amaya provides a full suite of gaming products and services including casino, poker, sports book, platform, lotteries and slot machines. Some of the world's largest gaming operators and casinos are powered by Amaya's online, mobile, and land-based products.

Marketable Securities

Marketable securities include, but are not limited to, the following strategic investments in publicly listed companies:

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% per annum interest and convertible into common shares of Crailar at a price of $2.90 per common share with a maturity date of September 30, 2017. On February 26, 2013, Difference Capital purchased an additional $1.0 million of Crailar Debentures on essentially the same terms as its previous investment.

Crailar has developed proprietary technologies for the production of flax fibres used in linen production, which can be woven into fabrics that are indistinguishable from cotton, but in a process that drastically reduces chemical and water usage.

Cyberplex Inc.
On November 26, 2012, the Company announced that it had acquired an aggregate of 12,620,000 common shares ("Cyberplex Shares") of Cyberplex Inc. ("Cyberplex"), representing approximately 9.90% of the total issued and outstanding Cyberplex Shares, between October 30, 2012 and November 21, 2012. On December 10, 2012, the Company announced that it had acquired an additional 2,611,000 Cyberplex Shares, resulting in an aggregate ownership of 15,231,000 Cyberplex Shares and representing 12.01% of the outstanding Cyberplex Shares. Cyberplex is a leader in mobile, social and online audience targeting and customer acquisition. It provides internet solutions that combine business strategy, software development and integration, and user-interface design.

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

The Company invested a further $1.0 million into a new issue of senior secured convertible debentures of ePals (the "2013 Debentures"), in March 2013 and has an obligation to invest up to an additional $2.5 million into the 2013 Debentures upon final closing of such offering, which is expected to occur in late April 2013. The 2013 Debentures pay 10% per annum interest and have a maturity date of October 31, 2014, with an option for the issuer to extend to October 31, 2016. The conversion price is $0.40 per common share of ePals. The 2013 Debentures rank ahead of all other secured or unsecured indebtedness of ePals, subject to certain permitted encumbrances.

ePals is an education media and safe social learning company connecting millions of users in over 330,000 schools for collaboration around high quality content and educational projects. ePals also publishes industry-leading children's literature in physical and digital formats. These magazines, books and mobile apps are subscribed to by hundreds of thousands of families and approximately one-third of all middle schools in the United States. ePals reaches approximately 850,000 classrooms and millions of teachers, students and parents in approximately 200 countries and territories.

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 automatically converted, without further payment, into a Lignol Unit in March 2013, when approval was obtained 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. As at April 18, 2013, the Company held 32,715,667 common shares and 8,333,333 purchase warrants of Lignol.

In February 2013, Lignol entered into a secured credit facility for up to $5 million with Difference Capital. Amounts drawn down in respect of the facility bear interest at 8% per annum and the facility will mature on the earlier of February 27, 2014, or upon the completion of an equity financing raising gross proceeds of at least $5 million. The credit facility is secured initially by a general security agreement covering all of Lignol's present and future personal property until such time as Difference Capital has a perfected security interest in all of the shares of Australian Renewable Fuels Limited and the convertible notes of Territory Biofuels Limited held by Lignol. Lignol has currently borrowed $3.9 million from the Company under this facility.

Lignol is a technology company in the advanced biofuels and renewable chemicals sector, undertaking the development of bio-refining technologies for the production of advanced biofuels, including fuel-grade ethanol and other renewable chemicals from non-food cellulosic biomass feedstocks.

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. Neulion offers an end-to-end solution for delivering live and on-demand content to any internet-connected device.

Other Investments

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 of 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 portion of the portfolio consists of three Canadian companies with capitalizations ranging from $100 million to $600 million. The largest such holding is a technology company operating in the 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.

RELATED PARTY TRANSACTIONS

Management Agreement

The Company has executed a management agreement with its Manager, Difference Capital Management Inc., dated January 18, 2013 with effect as of May 29, 2012 (the "Management Agreement"). As compensation for its management services, the Company will pay the Manager an annual management fee (the "Management Fee") in the amount equal to 2% of the NAV calculated and payable monthly as of the last business day of each month. In addition to the Management Fee, the Manager is entitled to receive, for each fiscal year of the Company, a performance fee (the "Performance Fee") equal to 20% of any increase in the NAV from the start of the fiscal year in question to the end of that fiscal year (the "Performance Year") less the two-year Government of Canada bond rate (the "Hurdle Rate"), with the Hurdle Rate subject to a maximum of 5%. The Performance Fees are calculated and accrued monthly but are paid to the Manager only after the year end.

Under the Management Agreement, any fees earned by an employee of the Manager from acting as a director of an investee company shall be remitted to the Company. Beginning January 1, 2013, 40% of any advisory or consultancy fees, net of direct expenses, earned by the Manager from investee companies shall be remitted to the Company.

For the year ended December 31, 2012, Management Fees of $151,955 were paid to the Manager and $410,560 were accrued. The starting date for the performance evaluation for the 2012 fiscal year was May 29, 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.

In 2011, 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 paid to the previous manager.

Other Related Party Transactions

The Company had one demand promissory note outstanding from September 19, 2012 to October 3, 2012 bearing interest at 5% per annum, 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 also a shareholder of Crailar. An officer of the Company that was a shareholder of Ethoca took part in the Ethoca share exchange. $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 the 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 Outstanding Share Data below as well as Note 5 of the audited annual financial statements for a description of the Common Share and Special Warrant financings.

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

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.

CRITICAL ACCOUNTING ESTIMATES

Key valuation estimates on non-public investments

Included in the Company's investment portfolio 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. The fair value of the Virgin Gaming debentures has been determined based on the price of two recent transactions where the Company sold debentures to other institutional investors. (See also Investments.)

For public company warrants (i.e. the underlying security of which is traded on a recognized stock exchange), a Black-Scholes valuation model is used when there are sufficient and reliable observable market inputs. These market inputs include risk-free interest rate, exercise price, market price at date of 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

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 between 2014 and 2032.

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 $23.2 million (2011 – $22.1 million).

IFRS ACCOUNTING

In December 2011, the Accounting Standards Board (AcSB) amended the Introduction to Part 1 of the CICA Handbook – Accounting to allow investment companies to adopt International Financial Reporting Standards (IFRS) for the first time no later than interim and annual financial statements relating to annual periods beginning on or after January 1, 2014.

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 changeover 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.

RISK FACTORS AND RISK MANAGEMENT

The Company's investment strategy requires assuming risk in exchange for an above average return on investment. Each of Difference Capital's investee companies are subject to the risks inherent in the industry and markets in which they operate. Such risks include market, liquidity and currency risk. Many investee companies are at a mid-stage of development and may continue to require additional capital to develop their business plans and realize their objectives.

Investment Risk

There is no assurance that the Company will achieve its investment objective. An investment may not earn any positive return and result in the loss of some or all of the capital invested.

Reliance on Management and the Manager

The Company is dependent upon the efforts, skill and business contacts of key members of management and the Manager for, among other things, the information and deal flow they generate during the normal course of their activities and the synergies that exist amongst their various fields of expertise and knowledge. Accordingly, the continued success of the Company will depend upon the continued service of these individuals, who are not obligated to remain employed with the Company or the Manager, as applicable. The loss of the services of any of these individuals could have a material adverse effect on the revenues, net income and cash flows of the Company, and could harm its ability to maintain or grow its existing assets and raise additional funds in the future.

General Economic and Market Conditions

The success of the Company's activities may be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, and national and international political circumstances. These factors may affect the level and volatility of securities prices and the liquidity of the Company's investments. Unexpected volatility or illiquidity could impair the Company's profitability or result in losses.

Borrowing and Other Leverage

The Company may use financial leverage by borrowing funds against its assets. The use of leverage may result in capital losses or a decrease in dividends by the Company which would have an adverse effect on shareholders. There can be no assurance that the borrowing strategy employed by the Company will enhance returns or help the Company achieve its investment objective, and to the extent that the interest payable on, and other expenses of, the borrowings exceed the incremental returns to the Company on the additional securities purchased for the Company's portfolio thereby, the strategy may reduce returns on the common shares, as compared to a situation where no financial leverage was used by the Company.

In addition, a reduction in the assets of the Company does not change the amount that must be paid on account of amounts drawn pursuant to the borrowings. Since any required payment of such amounts decreases dollar for dollar the NAV and the NAV per common share will decrease to a proportionately greater extent, as compared to a situation where the Company did not utilize the borrowings. In addition, the borrowings may impose additional restrictions on the Company including, without limitation, limits on hedging and restrictions on certain types of investments. For these reasons, there can be no assurance that the borrowing strategy employed by the Company will enhance returns, and it may, in fact, reduce returns.

Cash Flow/Revenue

The Company generates its revenue and cash flow primarily from its financing activities and proceeds from the disposition of its investments, in addition to interest and dividend income earned on its investments. The availability of these sources of income and the amounts generated from these sources are dependent upon various factors, many of which are outside of the Company's control. The Company's liquidity and operating results may be adversely affected if its access to the capital markets is hindered, whether as a result of a downturn in the market conditions generally or to matters specific to it, or if the value of its investments decline, resulting in capital losses upon disposition.

Private Issuers and Illiquid Securities

The Company may invest in securities of private issuers. Investments in private issuers cannot be resold without a prospectus, an available exemption or an appropriate ruling under relevant securities legislation and there may not be any market for such securities. These limitations may impair the Company's ability to react quickly to market conditions or negotiate the most favourable terms for exiting such investments. Investments in private issuers may offer relatively high potential returns, but will also be subject to a relatively high degree of risk. There can be no assurance that a public market will develop for any of the Company's private company investments or that the Company will otherwise be able to realize a return on such investments.
The value attributed to securities of private issuers will initially be the cost thereof, and thereafter subject to fair value adjustment, and therefore may not reflect the amount for which they can actually be sold. Because valuations, and in particular valuations of investments for which market quotations are not readily available, are inherently uncertain, may fluctuate within a short period of time and may be based on estimates, determinations of fair value may differ materially from the values that would have resulted if a ready market had existed for the investments.

The Company may also invest in illiquid securities of public issuers. A considerable period of time may elapse between the time a decision is made to sell such securities and the time the Company is able to do so, and the value of such securities could decline during such period. Illiquid investments are subject to various risks, particularly the risk that the Company will be unable to realize its investment objectives by sale or other disposition at attractive prices or otherwise be unable to complete any exit strategy. In some cases, the Company may be prohibited by contract or by law from selling such securities for a period of time or otherwise be restricted from disposing of such securities. Furthermore, the types of investments made may require a substantial length of time to liquidate.

The Company may also make direct investments in publicly-traded securities that have low trading volumes. Accordingly, it may be difficult for the Company to make trades in these securities without adversely affecting the price of such securities.

Possible Volatility of Stock Price

The market price of the Company's common shares has been and may continue to be subject to wide fluctuations in response to factors such as actual or anticipated variations in its results of operations, changes in financial estimates by securities analysts, general market conditions and other factors. Market fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations may adversely affect the market price of the Company's common shares.

Foreign Currency Exposure

Certain of the investments in the Company's portfolio, at any time, may consist of securities denominated in U.S. dollars, Australian dollars or other foreign currencies and, accordingly, the NAV will, when measured in Canadian dollars, be affected by fluctuations in the value of such currencies, as applicable, relative to the Canadian dollar. The Company does not currently take any steps to hedge against currency fluctuations, although it may elect to hedge against the risk of currency fluctuations in the future. There can be no assurance that steps taken by the Company to address such currency fluctuations will eliminate all adverse effects and, accordingly, the Company may suffer losses due to adverse foreign currency fluctuations.

Concentration of Investments

Other than as disclosed above and in our Annual Information Form, there are no restrictions on the proportion of the Company's funds and no limit on the amount of funds that may be allocated to any particular investment, industry or sector. The Company may participate in a limited number of investments and, as a consequence, its financial results may be substantially adversely affected by the unfavourable performance of a single investment or sector. Completion of one or more investments may result in a highly concentrated investment by the Company in a particular company, business, industry or sector.

Additional Financing Requirements

The Company anticipates ongoing requirements for funds to support its investment strategy and may seek to obtain additional funds for these purposes through public or private equity or debt financing. There are no assurances that additional funding will be available to the Company, if at all, on acceptable terms or at an acceptable level. Any additional equity financing may cause shareholders to experience dilution, and any additional debt financing may result in increased interest expense or restrictions on the Company's operations or ability to incur additional debt. Any limitations on the Company's ability to access the capital markets for additional funds could have a material adverse effect on its ability to grow its investment portfolio.

No Guaranteed Return

There is no guarantee that an investment in the securities of the Company will earn any positive return in the short term or long term. The task of identifying investment opportunities, monitoring such investments and realizing a significant return is difficult. Many organizations operated by persons of competence and integrity have been unable to make, manage and realize a return on such investments successfully.

Management of the Growth of the Company

Significant growth in the business of the Company, as a result of acquisitions or otherwise, could place a strain on its managerial, operational and financial resources and information systems. Future operating results will depend on the ability of senior management to manage rapidly-changing business conditions and to implement and improve the Company's technical, administrative and financial controls and reporting systems. No assurance can be given that the Company will succeed in these efforts. The failure to effectively manage and improve these systems could increase its costs, which could have a material adverse effect on the Company.

Dependence on New Products

The Company may make investments in issuers that conduct significant research and development to develop new products and technologies, enhance existing products and technologies and achieve market acceptance for such products and technologies. However, there can be no assurance that development-stage products and technologies will be successfully completed or, if developed, will achieve significant customer and/or market acceptance. If an issuer in which the Company invests is unable to successfully define, develop and introduce competitive new products and technologies, and enhance existing products and technologies, future results of that issuer would be adversely affected and the value of the Company's investment in that issuer could decline.

Intellectual Property

The industry in which the Company currently primarily invests has many participants that own, or claim to own, proprietary intellectual property. Some of the issuers that the Company invests in may become subject to claims from third parties claiming that the issuers have infringed on intellectual property rights. Determination of the rights to intellectual property is very complex, and costly litigation may be required to establish if an issuer has violated the intellectual property rights of others. As a result of such claims, some of the Company's investments could be subject to losses arising from issuers being subject to product injunctions, awards for damages and third party litigation costs, requirements to license intellectual property, legal expenses, diversion of managements' time and attention, and other costs.

Foreign Market Exposure

The Company's portfolio may, at any time, include securities of issuers established in jurisdictions outside Canada and the U.S. Although most of such issuers will be subject to uniform accounting, auditing and financial reporting standards comparable to those applicable to Canadian and U.S. companies, some issuers may not be subject to such standards and, as a result, there may be less publicly available information about such issuers than a Canadian or U.S. company. Volume and liquidity in some foreign markets may be less than in Canada and the U.S. and, at times, volatility of price may be greater than in Canada or the U.S. As a result, the price of such securities may be affected by conditions in the market of the jurisdiction in which the issuer is located or its securities are traded. Investments in foreign markets carry the potential exposure to the risk of political upheaval, acts of terrorism and war, any of which could have an adverse impact on the value of such securities.

New and Emerging Markets

Some of the markets in which the Company may invest are new and emerging. The Company's success may be significantly affected by the outcome of the development of these new markets.

Changes in Legislation

There can be no assurance that certain laws applicable to the Company, including income tax laws and government incentive programs, will not be changed in a manner which adversely affects the distributions received or to be made by the Company.

Tax Matters

The Company has accrued capital and non-capital losses that may be carried forward to reduce income taxes in future years. If not used, the Company's non-capital losses expire between 2014 and 2032. The availability of these income tax loss carry forwards as deductions against taxable income of the Company is dependent upon a number of factors including, but not limited to, Canadian federal income tax rules and regulations governing the application of income tax losses and the availability of the income tax loss carry forwards at the time such taxable income arises. There can be no assurance that Canadian federal income tax laws regarding the treatment of income tax loss carry forwards, or the administrative and/or assessment practices of the Canada Revenue Agency in respect thereof, will not be changed in a manner that has a material adverse effect on the Company's shareholders.

Trading Price of Common Shares Relative to Net Asset Value

The Company is neither a mutual fund nor an investment fund, and due to the nature of its business and investment strategy and the composition of its investment portfolio, the market price of its common shares, at any time, may vary significantly from its Net Asset Value per common share. This risk is separate and distinct from the risk that the market price of the common shares may decrease.

Fluctuations in NAV and Valuation of the Company's Portfolio

The NAV will vary according to, among other things, interest rates and the value of the securities in the Company's portfolio and dividends paid on the common shares. Fluctuations in the market values of the securities in the Company's portfolio may occur for a number of reasons beyond the control of the Manager, and may be both volatile and rapid with potentially large variations over a short period of time. Independent pricing information regarding certain of the Company's securities and other investments may not be readily available at all times. Valuation determinations will be made in good faith by the Company. The Company may have some of its assets in investments which by their very nature may be extremely difficult to value accurately. To the extent that the value assigned by the Company to any such investment differs from the actual value, the NAV per Common Share may be understated or overstated, as the case may be. The Company does not intend to adjust the NAV of the common shares retroactively except in extraordinary circumstances and where the difference is deemed by the Manager to be material.

Available Opportunities and Competition for Investments

The success of the Company's operations will depend upon, among other things: (i) the availability of appropriate investment opportunities; (ii) its ability to identify, select, acquire, grow and exit those investments; and (iii) its ability to generate funds for future investments. The Company can expect to encounter competition from other entities having investment objectives similar to its own, including institutional investors and strategic investors. These groups may compete for the same investments as the Company, may be better capitalized, have more personnel, have a longer operating history and have different return targets than the Company. As a result, the Company may not be able to compete successfully for investments. In addition, competition for investments may lead to the price of such investments increasing which may further limit the Company's ability to generate desired returns. There can be no assurance that there will be a sufficient number of suitable investment opportunities available to the Company or that such investments can be made within a reasonable period of time. There can be no assurance that the Company will be able to identify suitable investment opportunities, acquire them at a reasonable cost or achieve an appropriate rate of return. Identifying attractive opportunities is difficult, highly competitive and involves a high degree of uncertainty. Potential returns from investments will be diminished to the extent that the Company is unable to find and make a sufficient number of investments.

Conflicts of Interest

Some of the Company's existing directors or officers are also directors and officers of other companies and have other business interests which may prove to be of interest to the Company. It is possible, therefore, that a conflict may arise between their duties as directors or officers of the Company and their duties as directors or officers of such other companies.

The Company's directors and officers are aware of the existence of laws governing accountability of directors and officers for corporate opportunities and requiring disclosures by directors and officers of conflicts of interest and, in the case of directors, requiring them to abstain from voting on matters in respect of which they have a conflict of interest. The Company relies upon each director and officer to comply with such laws in respect of conflicts of interest and fiduciary duties.

Due Diligence

The due diligence process that the Company undertakes in connection with investments may not reveal all facts that may be relevant in connection with an investment. Before making investments, the Company conducts due diligence that it deems reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, the Company may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and investment banks may be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, the Company relies on the resources available to it, including information provided by the target of the investment and, in some circumstances, third-party investigations. The due diligence investigation that the Company will carry out with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in the investment being successful.

Expenses Ultimately Borne by the Shareholders

Fees and expenses borne by the Company will directly or indirectly impact the NAV of the common shares.

Non-controlling Interests

The Company's investments include, in many instances, debt instruments and equity securities of companies that it does not control. These instruments and securities may be acquired in the secondary market or through purchases of securities from the issuer. Any such investment is subject to the risk that the company in which the investment is made may make business, financial or management decisions with which the Company does not agree, or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve the Company's interests. If any of the foregoing were to occur, the values of the Company's respective investments could decrease and its financial condition, results of operations and cash flow could suffer as a result.

Trading Costs

The Company may engage in a high rate of trading activity in its liquid securities portfolio resulting in correspondingly high costs being borne by the Company. This may adversely affect the price of the common shares.

Interest Rate Hedging

Interest rate hedges will be used by the Company only to the extent that the Manager considers appropriate. The use of interest rate hedges involves special risks, including the possible default by the other party to the transaction, illiquidity and, to the extent the Manager's assessment of certain market movements is incorrect, the risk that the use of interest rate hedges could result in losses greater than if the hedging had not been used.

Hedge Risks

Although hedging reduces risk, it does not eliminate it entirely. Losses can still result in the case of an extraordinary event. There are several such possible cases including, but not limited to: (i) anticipated transactions which are altered or aborted; (ii) the inability to hedge off risk, due to difficulty of borrowing the offsetting security; (iii) a cease trade order being issued in respect of the underlying security; and (iv) lack of liquidity during market panics. To protect the Company's capital against the occurrence of such events, the Manager will attempt to maintain a diversified portfolio.

OUTSTANDING SHARE DATA

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

	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 ten 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 Solutions Inc.
(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.

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.

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 Investments).

As at December 31, 2012, there were 118,827,358 outstanding common shares with a stated capital of $86,455,086 (15,096,393 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 in 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 in 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 Tranche 2 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.

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

On March 11, 2013, the Company filed a final short form prospectus (the "Prospectus") qualifying the distribution of 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 obtaining a receipt for the Prospectus later that day, the Company announced that the Special Warrants issued in 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.