DIFFERENCE CAPITAL FUNDING INC.
MANAGEMENT DISCUSSION AND ANALYSIS

For the quarter ended March 31, 2013

May 30, 2013

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Management's Discussion and Analysis

May 30, 2013

The following provides additional analysis of the operations and financial position of Difference Capital Funding Inc. ("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 and unaudited interim financial statements and accompanying notes for the three-month period ended March 31, 2013. 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").

We believe that the continued growth and success of the Company is strongly linked to our 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 May 30th, 2013, management and directors own approximately 28% of the Company's issued and outstanding 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 $2.9 million of cash and near-cash items as well as approximately $22.6 million of marketable securities as at March 31, 2013.

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.

<u>Difference Capital's Strategy:</u>
The Company provides investors with an opportunity to gain exposure to unique investments and 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 merits. 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 directors and officers to the investments undertaken. With the continued investment of the Company's resources into strategic sectors, the Company is well positioned to benefit from a global economic recovery and positive trends in Canadian and international growth companies. We believe the market is near the bottom of the cycle for technology-focused companies and as such, the Company is poised to take advantage of significant growth in this sector. There are very few merchant banks in Canada focused on this sector, providing us with an opportunity to 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 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, 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 investments that include as many of the following characteristics as possible: (i) a product/service with national/international market potential; (ii) gross margins that support a sustainable growth rate in excess of 25% per annum and at least 15% per annum; (iii) low asset intensity ratios (i.e. less than 50%); (iv) protected intellectual property; (v) scalability; and (vi) currently revenue generating.

- 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. As investment issuers need to be managed for cash flow in order to reduce financing risks associated with delayed liquidity events, certain sectors will not be considered by the Company.

- 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. 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.

The Manager operates 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 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 very positive, and this service offering is expected to be a key growth area for the Company.

The Company views the results of this quarter as tracking positively for continued development to enhance shareholder value. The Company is targeting the start of regular dividends to shareholders later in 2013.

RESULTS OF OPERATIONS

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-Mar-13	31-Dec-12	30-Sep-12	30-Jun-12	31-Mar-12	31-Dec-11	30-Sep-11	30-Jun-11
Net Investment gains (losses)	910	7,776	(151)	(3,023)	2,296	(1,360)	(3,679)	-
Net Income (loss) for the quarter	870	5,753	(188)	(3,495)	2,206	(1,482)	(3,956)	(164)
Earnings (loss) per share	0.00	0.02	(0.00)	(0.07)	0.15	(0.10)	(0.26)	(0.01)

Three Months Ended March 31, 2013 and 2012:

Net income for the quarter ending March 31, 2013 was $869,667 compared to $2,205,720 for the corresponding quarter in the prior year. During the quarter, the following significant operating events occurred:

- Realized gain on disposition of investments of $1,460,037 was primarily due to a gain of $1,240,037 in marketable securities and a $220,000 gain on the sale of Virgin Gaming debentures. This compares to a realized gain of $54,268 on the Feronia disposal in the corresponding quarter of the prior year.

- The unrealized loss on investments and marketable securities of $549,822 was primarily due to the reversal of the valuations on those securities sold in the first quarter of $965,834, offset by a foreign exchange gain of $416,012. In the corresponding quarter in the prior year, there was an unrealized gain of $2,242,027 related to the Feronia shares.

- Interest, dividend and other revenue increased to $811,886 in the three months ended March 31, 2013 from $155 in the same period of 2012. The increase resulted from the Company's portfolio investments in convertible debentures and debentures.

- Management fees increased in the quarter to $407,291 from nil in 2012. Performance fees increased in the quarter to $145,558 from nil in 2012. The increase resulted from the Company's signing of its current management agreement and from the increase in NAV, upon which management and performance fees are based.

- Operating, general and administrative expenses were $500,371 during the first quarter of 2013, an increase from $87,662 in the first quarter of 2012. The reason for the increase was largely a result of additional professional fees, filing/transfer fees, and HST/GST costs associated with the growth of the Company.

FINANCIAL POSITION AND LIQUIDITY

In the quarter ended March 31, 2013, the Company utilized $8.0 million towards the purchase of marketable securities and received proceeds of $11.5 million from the disposition of marketable securities. Cash provided by operations was $6.5 million as compared to an inflow of $148,351 in the first quarter of 2012. During the quarter ended March 31, 2013, the Company spent $12.5 million towards the purchase of investments in contrast with $nil in the same period of 2012 and it received $1.3 million in proceeds from the disposition of investments in contrast to $0.2 million during the same period of 2012.

Working capital at March 31, 2013 was $22.8 million including cash and cash equivalents of $2.9 million. Working capital is calculated as assets excluding investments and accrued interest less liabilities.

The Company has a margin facility for its marketable securities with its prime broker. The facility was only briefly used in the quarter ended March 31, 2013, and for amounts less than $100,000. No such facility existed in the period ended March 31, 2012.

Current liabilities were $3.2 million as at March 31, 2013. The table below represents the Company's outstanding liabilities by due date. Liabilities and obligations with an undetermined due date are outlined below.

	Payments due by period				
Liabilities and obligations	**Total $000**	**Less than 1 year $000**	**1 - 3 years $000**	**4 - 5 years $000**	**After 5 years $000**
Performance and management fees payable	2,505	2,505	—	—	—
Due to brokers	0	0	—	—	—
Accounts payable and accrued liabilities	648	648	—	—	—
Sub-totals	3,153	3,153	—	—	—
Commited investments at March 31, 2013	6,048	6,048	—	—	—
Additional commitments subsequent to year end	1,000	1,000	—	—	—
Totals	**10,201**	**10,201**	—	—	—

The Company has an obligation to invest up to an additional $1.25 million into senior secured convertible debentures of ePals Corporation upon the closing of ePals' current financing. The Company expects to make such follow-on investment on May 31, 2013.

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 March 31, 2013, our NAV per share was $0.333 (December 31, 2012 - $0.329).

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.

UPDATE ON INVESTMENTS

WG Limited ("Virgin Gaming" or "Virgin")
During January and February 2013, the Company purchased an aggregate of approximately $2.3 million of Virgin common shares from existing Virgin shareholders through a number of separate transactions. On January 31, 2013 the Company also sold $1.1 million face amount of Virgin convertible debentures.

Crailar Technologies Inc. ("Crailar")
During February 2013, Difference Capital sold $0.8 million of an existing Crailar debenture and purchased $1.8 million of newly issued Crailar Debentures, which pay 10% per annum interest and are convertible into common shares of Crailar at a price of $2.90 per common share with a maturity date of September 30, 2017.

Chieftain Residential, LP ("Chieftain")
In January 2013, the Company purchased another US $2.5 million of limited partnership units in Chieftain, and in March 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.

Appinions Inc. ("Appinions")
During March 2013, the Company invested US$250,000 in Appinions convertible senior debentures and warrants. In April 2013, the Company invested a further $555,000 under the same terms. The convertible debentures pay 10% interest, mature in March 2014 and are convertible into common shares at US$0.0858 per share. The warrants are exercisable into common shares at a price of US$0.1107 per share.

iPowow! Inc. ("iPowow")
As at December 31, 2012, the Company was obligated to invest an additional $500,000 of equity in relation to iPowow, subject to certain requirements being met. The Company subsequently invested this amount during April 2013.

InfraReDx, Inc. ("InfraReDx")
During May 2013, the Company invested US $3.0 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 the fifth anniversary of the date of issuance.

Enterprise Group, Inc. ("Enterprise")
Subsequent to March 31, 2013, the Company purchased $2.7 million of convertible unsecured subordinated debentures of Enterprise. The Debentures have a two-year term, bear interest at the rate of 6% per annum payable quarterly and are convertible into common shares of Enterprise at a price of $0.50 per share.

Enterprise is a consolidator of construction services companies operating in the energy, utility and transportation infrastructure industries. The Company's focus is primarily utility and infrastructure construction and specialized equipment rental. Enterprise is a leader in flameless heat technology and is poised to become a technological leader in underground infrastructure construction upon closing of its pending infrastructure construction acquisition.

Marketable Securities – Core Investments

Core investments are those longer term investments, whether in private or listed securities, where exposure to each issuer generally represents between 3-5% of the Company's NAV.

During the quarter ending March 31, 2013, the Company made investments in marketable securities including, but not limited to, the following core investments in publicly listed companies:

ePals Corporation ("ePals")
The Company invested $1.0 million into a new issue of senior secured convertible debentures of ePals in March 2013 and a further $1.25 million in May 2013. The Company has an obligation to invest up to an additional $1.25 million. The convertible 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 convertible debentures rank ahead of all other secured or unsecured indebtedness of ePals, subject to certain permitted encumbrances.

Lignol Energy Corporation ("Lignol")
In February 2013, Lignol entered into a secured credit facility for up to $5 million with the Company. 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 the Company 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. As at March 31, 2013, Lignol had borrowed $4.0 million from the Company under this facility. Subsequent to the quarter end, Lignol borrowed the remaining $1.0 million from the Company, and the Company committed to increase the facility by $1 million.

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 of March 31, 2013, the Company held approximately $10.5 million, at 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 two Canadian companies with capitalizations ranging from $100 million to $250 million. The largest such holding is a media and entertainment company, while the second investment is a company that manufactures proprietary products for the transportation and defence markets. Both of these holdings were sold subsequent to March 31, 2013.

RELATED PARTY TRANSACTIONS

Management Agreement

The Company 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 pays 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%.

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 and 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 quarter ended March 31, 2013, management fees of $407,291 were accrued to the Manager. For this period, a receivable for its share of advisory fees of $255,340 was recorded by the Company.

Other Related Party Transactions

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.

The Company has a receivable outstanding of $136,700 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 March 31, 2013, 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 several months of the quarter-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.

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

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 March 31, 2013, 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.

As at March 31, 2013, there were 273,177,138 outstanding common shares with a stated capital of $139,750,210 (150,963,985 outstanding Common Shares with a stated capital of $55,525,029 as at March 31, 2012). There are no outstanding preference shares.

During February 2013, the Company announced that special warrants issued during October 2012 were exercised into 114,539,084 common shares and 57,269,530 Purchase Warrants. Each whole purchase warrant ("Purchase Warrant") entitles the holder to purchase one common share of the Company at an exercise price of $0.60 per share on or prior to October 3, 2014.

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 November 2012. Upon obtaining a receipt for the Prospectus later that day, the Company announced that those Special Warrants were exercised into 39,810,696 Common Shares and 19,905,334 Purchase Warrants. Total Purchase Warrants outstanding are 77,174,864.