Interim Financial Statements

Difference Capital Funding Inc.

March 31, 2013
Unaudited

Difference Capital Funding Inc.

INTERIM BALANCE SHEETS
(unaudited)

As at	March 31, 2013 $	December 31, 2012 $
ASSETS		
Cash and cash equivalents	**2,923,287**	9,396,405
Prepaid expenses and other receivables *[note 7]*	**400,165**	186,544
Due from broker	**—**	2,280,000
Accrued interest	**1,254,300**	744,728
Marketable securities *[note 3]*	**22,626,669**	26,534,756
Investments *[notes 3 and 12]*	**66,717,541**	54,199,291
Total assets	**93,921,962**	93,341,724
LIABILITIES AND SHAREHOLDERS' EQUITY		
Performance and management fees payables *[note 7]*	**2,504,840**	1,880,120
Accounts payable and accrued liabilities	**647,930**	578,113
Due to broker	**—**	1,028,772
Total liabilities	**3,152,770**	3,487,005
Shareholders' equity		
Share capital *[note 4]*	**139,750,209**	86,455,084
Special Warrants *[note 4]*	**—**	53,250,319
Contributed surplus	**40,746,790**	40,746,790
Deficit	**(89,727,806)**	(90,597,474)
Total shareholders' equity	**90,769,193**	89,854,719
	93,921,963	93,341,724

See accompanying notes

On behalf of the Board:

"Wesley Hall"
Director

"Michael Wekerle"
Director

Difference Capital Funding Inc.

INTERIM STATEMENTS OF OPERATIONS AND DEFICIT (unaudited)

For the three months ended

	March 31, 2013 $	March 31, 2012 $
REVENUE		
Realized gain on disposal of investments and marketable securities	**1,460,037**	54,268
Change in unrealized (loss) gain on investments and marketable securities	**(549,822)**	2,242,027
Interest, dividends and other	**811,886**	155
Participation in Advisory fees *[note 7]*	**255,340**	—
	1,977,441	2,296,450
EXPENSES		
Management fee *[note 7]*	**407,291**	—
Performance fee *[note 7]*	**145,558**	—
Operating, general and administrative	**500,371**	87,662
Transaction costs	**54,552**	3,068
	1,107,773	90,730
Net income for the period	**869,668**	2,205,720
Deficit, beginning of the period	**(90,597,474)**	(93,381,702)
Deficit, end of the period	**(89,727,807)**	(91,175,982)
Basic and diluted income per share	**$0.003**	$0.146
Weighted average number of common shares outstanding	**273,117,138**	15,096,399

See accompanying notes

Difference Capital Funding Inc.

INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited)

For the three months ended

	March 31, 2013	March 31, 2012
	$	$
Share capital		
Balance, beginning of the period	**86,455,084**	55,525,029
Issuance of share capital *[note 4]*	**53,295,125**	—
Balance, end of the period	**139,750,209**	55,525,029
Special Warrants		
Balance, beginning of the period	**53,250,319**	—
Issuance of Special Warrants *[note 4]*	**44,806**	—
Exercise of Special Warrants for common shares	**(53,295,125)**	—
Balance, end of the period	**—**	—
Contributed surplus		
Balance, beginning of the period	**40,746,790**	40,746,790
Balance, end of the period	**40,746,790**	40,746,790
Deficit		
Balance, beginning of the period	**(90,597,474)**	(93,381,702)
Net income for the year	**869,668**	2,205,720
Balance, end of the period	**(89,727,806)**	(91,175,982)
Net change in shareholders' equity during the period	**914,474**	2,205,720
Shareholders' equity, beginning of the period	**89,854,719**	2,890,117
Shareholders' equity, end of the period	**90,769,193**	5,095,837

See accompanying notes

Difference Capital Funding Inc.

INTERIM STATEMENTS OF CASH FLOWS
(unaudited)

For the three months ended

	March 31, 2013 $	March 31, 2012 $
OPERATING ACTIVITIES		
Net income for the period	**869,668**	2,205,720
Items not affecting cash:		
Realized (gain) on disposal of investments	**(1,460,037)**	(54,268)
Change in unrealized (gain) loss on investments	**549,822**	(2,242,027)
Net change in non-cash working capital balances	**1,222,572**	62,911
Purchase of marketable securities	**(8,022,159)**	—
Proceeds from disposal of marketable securities	**11,531,263**	—
Purchase of investments	**(12,529,052)**	—
Proceeds from disposal of investments	**1,320,000**	176,015
Cash (used in) provided by operating activities	**(6,517,923)**	148,351
FINANCING ACTIVITIES		
Proceeds from common shares and Special Warrants *[note 4]*	**44,806**	—
Cash provided by financing activities	**44,806**	—
Net increase (decrease) in cash during the period	**(6,473,117)**	148,351
Cash and cash equivalents, beginning of the period	**9,396,405**	83,383
Cash and cash equivalents, end of the period	**2,923,288**	231,734

See accompanying notes

1. DESCRIPTION OF BUSINESS

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

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are presented in Canadian dollars and have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The Company is considered an Investment Company under Accounting Guideline 18 (*"AcG-18")*. These financial statements should be read in conjunction with the audited financial statements of the Company for the year ended December 31, 2012. These financial statements follow the same accounting policies and methods as those applied to the financial statements for the year ended December 31, 2012.

Income recognition
Advisory fees are being recorded on an accrual basis.

3. INVESTMENTS, ACCRUED INTEREST and MARKETABLE SECURITIES

The Company's investments and accrued interest are as follows:

		March 31, 2013 Fair Value ($)	March 31, 2013 Accrued Interest ($)	March 31, 2013 Total ($)	December 31, 2012 Fair Value ($)	December 31, 2012 Accrued Interest ($)	December 31, 2012 Total ($)
WG Limited (Virgin Gaming)	convertible debentures	20,137,920	745,785	20,883,705	21,457,920	566,073	22,023,993
	common shares	2,408,996	-	2,408,996	-	-	-
Chieftain Residential, L.P.	partnership interest	7,620,000	-	7,620,000	4,974,500	-	4,974,500
	promissory note	2,540,000	2,227	2,542,227	-	-	-
Difference RM Holding Corporation	common shares	5,449,796	-	5,449,796	5,432,154	-	5,432,154
Thunderbird Films Inc.	common shares	4,000,000	-	4,000,000	4,000,000	-	4,000,000
Wasabi Energy Limited	Debentures	3,176,700	74,500	3,251,200	3,101,700	11,557	3,113,257
	Warrants	-	-	-	-	-	-
Fem MED Formulas Limited Partnership	secured convertible debentures	2,500,000	116,164	2,616,164	2,500,000	66,849	2,566,849
QuickPlay Media Inc.	common shares	2,364,880	-	2,364,880	2,364,880	-	2,364,880
Appinions Inc.	convertible debentures	2,286,000	93,041	2,379,041	1,989,800	60,512	2,050,312
InfraReDx, Inc.	convertible debentures	2,032,000	40,640	2,072,640	1,989,800	9,949	1,999,749
	warrants	2,163	-	2,163	2,118	-	2,118
Lignol Energy Corporation	secured grid promissory note	2,700,000	18,345	2,718,345	-	-	-
GuestLogix Inc.	Debentures	1,950,000	80,000	2,030,000	1,950,000	20,000	1,970,000
	Warrants	320,000	-	320,000	320,000	-	320,000
Crailar Technologies Inc.	convertible debentures	1,810,000	16,860	1,826,860	-	-	-
Ethoca Solutions Inc.	common shares	1,178,395	-	1,178,395	1,178,395	-	1,178,395
Brainscope Company, Inc.	convertible debentures	1,016,000	24,836	1,040,836	994,900	4,422	999,322
Epals Corporation	convertible debentures	1,000,000	3,014	1,003,014	-	-	-
Gotham Analytics LLC	membership units	762,000	-	762,000	746,175	-	746,175
SoMedia Networks Inc.	convertible debentures	600,000	17,753	617,753	600,000	2,959	602,959
iPowow! Ltd.	convertible debentures	529,450	17,929	547,379	516,950	2,209	519,159
Other debt	Loan	200,000	3,205	203,205	50,000	197	50,197
Other equity	common shares	133,241	-	133,241	30,000	-	30,000
		66,717,541	1,254,300	67,971,841	54,199,292	744,728	54,944,019

WG Limited ("Virgin Gaming")

On January 24, 2013, the Company sold $1.1 million face amount of Virgin Gaming debentures at a 20% premium to its acquisition price. 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 $2.4 million of Virgin Gaming common shares from Virgin Gaming shareholders through a number of separate transactions.

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

Appinions Inc. ("Appinions")
On March 19, 2013, the Company made a US $250,000 investment in Appinions in the form of a new issue of convertible senior debentures and warrants. The new series of convertible debentures pay 10% interest, mature March 19, 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 and expire on March 19, 2014. Subsequent to the quarter-end, the Company invested a further US $555,000 into these new convertible debentures and share purchase warrants.

InfraReDx, Inc. ("InfraReDx")
As at March 31, 2013, the Company held US $2.0 million in InfraReDx in the form of secured convertible debentures and preferred share warrants with terms as detailed in the financial statements for the year ended December 31, 2012. Subsequent to the quarter-end, the Company invested a further US $3.0 million into the same InfraReDx convertible debentures and preferred share warrants.

Lignol Energy Corporation ("Lignol")
On February 27, 2013, the Company invested $2,700,000 in Lignol in the form of a secured grid promissory note. The note pays 8% p.a. interest with a maturity date of February 27, 2014. The maximum principal amount of the note is $5 million dollars for which Lignol can from time to time, with proper notice, make additional borrowings up to the stated maximum. Subsequent to the quarter-end, Lignol borrowed the balance of $2.3 million under the note, and the Company also agreed to increase the size of the note to $6 million, effective June 10, 2013.

Crailar Technologies Inc. ("Crailar")
On February 26, 2013, the Company made a $1.8 million investment in Crailar in the form of a non-brokered private placement of convertible secured debentures 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.

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

October 31, 2016. The conversion price is $0.40 per common share of ePals. Subsequent to the quarter-end, the Company purchased a further $1.25 million of such debentures and has agreed to make another investment of $1.25 million on May 31, 2013. The Company also owns listed convertible debentures of ePals included as part of marketable securities on the interim balance sheets.

Marketable Securities

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

Crailar Technologies Inc.
In February 2013, the Company sold $0.8 million of its listed Crailar convertible debentures and used the proceeds towards the purchase of a new issue of non-listed Crailar convertible debentures. The Company holds $1.7 million in Crailar listed convertible secured debentures, paying 10% per annum interest and convertible into common shares of Crailar at a price of $2.90 per share with a maturity date of September 30, 2017.

Amaya Gaming Group Inc. ("Amaya")
On February 7, 2013, the Company made a $1.0 million investment in Amaya in the form of a $1.0 million par value debenture and 48,000 common share purchase warrants. The debentures pay 7.5% per annum interest and mature on January 31, 2016. Each warrant entitles the holder to purchase one common share of Amaya at any time prior to January 31, 2016 at an exercise price of $6.25.

Lignol Energy Corporation
On March 7, 2013, 7,666,667 Lignol subscription receipts held by the Company converted to Lignol units. As at March 31, 2013, the Company owns 16 million common shares and 16,666,667 units of Lignol. 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. Subsequent to the quarter-end, the holding period of the units expired, and such units were automatically converted into 16,666,667 common shares and 8,333,333 purchase warrants, leaving the Company holding 32.7 million shares and 8.3 million purchase warrants of Lignol.

Neulion, Inc. ("Neulion")
In March 2013, the Company's units in Neulion converted into common shares and common share purchase warrants of Neulion. As at March 31, 2013, the Company holds 2,500,000 common shares and 1,250,000 warrants of Neulion. Each warrant entitles the holder to purchase one Neulion common share at $0.30 until February 25, 2015.

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 [December 31, 2012 – $15.0 million], at fair value, in listed equity securities in this tactical portfolio, excluding those investments referenced above and in Note 3 of the audited financial statements of the Company for the year ended December 31, 2012. 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.

4. SHARE CAPITAL

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

On February 6, 2013, the Company announced that the Special Warrants issued on October 3 and 4, 2012 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 on November 19, 2012. Upon exercise, each Special Warrant entitled the holder thereof to receive, for no additional consideration, one Unit. Each Unit was comprised of one Common Share and one-half of one Common Share Purchase Warrant. Each whole Purchase Warrant entitles the holder to purchase one Common Share at an exercise price of $0.60 until October 3, 2014.

As at March 31, 2013 there were 273,177,138 [December 31, 2012 – 118,827,358] outstanding common shares with a stated capital of $139,750,209 [December 31, 2012 - $86,455,084]. Total Purchase Warrants outstanding as at March 31, 2013 are 77,174,890 [December 31, 2012 - nil].

5. INCOME TAXES

As at March 31, 2013 the Company has capital losses of approximately $151,738,558 [December 31, 2012 – $151,738,558] and non-capital losses of approximately $14,100,825 [December 31, 2012 – $14,100,825] that may be carried forward to reduce income taxes in future years. If not utilized, the non-capital losses will expire as follows:

2014	$442,399
2015	367,041
2026	801,603
2027	1,673,226
2028	2,982,447
2029	3,447,337
2030	1,120,101
2031	978,440
2032	2,888,231
	$14,100,825

The Company has recorded a valuation allowance for the full amount of its future income tax assets related to capital and non-capital losses carried forward because it is uncertain that these tax losses will be utilized in the foreseeable future, and accordingly, the Company has not recognized any tax recoveries in its financial statements. The value of unused tax losses and deductible temporary differences for which no future income tax assets have been recognized, is approximately $23.3 million [December 31, 2012 – $23.3 million].

6. FINANCIAL INSTRUMENTS

Financial instruments – fair value estimation

Financial instruments carried at fair value include investments and marketable securities. The fair value measurements underlying the carrying value of investments and marketable securities are classified within a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The level in the hierarchy within which the fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy has the following levels:

(i) Level 1 Quoted prices (unadjusted) in active markets for identical assets;
(ii) Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly; and
(iii) Level 3 Inputs for the asset or liability that are not based on observable market data.

The following tables present the level within the fair value hierarchy for the Company's investments and marketable securities:

As at March 31 ,2013

($000)	**Level 1**	**Level 2**	**Level 3**	**Total**
Equities	16,809	—	16,297	34,106
Convertible Debentures	—	5,756	33,191	38,947
Debentures	—	—	5,281	5,281
Partnership Interests	—	—	7,620	7,620
Promissory Notes	—	—	5,261	5,261
Warrants	—	383	2	385
Total	16,809	6,139	67,652	90,600

As at December 31 ,2012

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

During the period ended March 31, 2013, there were $3,803,000 of equities transferred from Level 2 to Level 1 [December 31, 2012 - $1,591,300] and there were no transfers from Level 1 to Level 2 [December 31, 2012 - $nil].

The following tables present the changes in fair value measurements of investments classified as Level 3.

For the quarter ended March 31, 2013

	($000)
Opening balance, January 1, 2013	54,625
Purchases	13,535
Sales	(1,100)
Net transfers	—
Realized gains	220
Accrued interest	510
Change in unrealized appreciation	(138)
Balance, end of period	67,652
Total change in unrealized appreciation for assets held at March 31, 2013	(138)

For the quarter ended December 31, 2012

	($000)
Opening balance, October 1, 2012	27,845
Purchases	24,360
Sales	(2,400)
Net transfers	—
Realized gains	400
Accrued interest	744
Change in unrealized appreciation	3,674
Balance, end of period	54,625
Total change in unrealized appreciation for assets held at December 31, 2012	3,675

The use of alternative reasonable assumptions is not expected to impact the fair value of investments significantly as at March 31, 2013 and December 31, 2012.

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

Common shares and membership units are valued using quoted market rates if they are traded on a recognized stock exchange or over the counter and are generally valued using the quoted bid price on the balance sheet date. The fair value of securities which are subject to trading restrictions are recorded at a value which takes into account the length and nature of the restrictions and the liquidity of the security. Private investments for which no quoted market value exists, or investments in restricted or thinly traded securities, are recorded at estimated fair value. Convertible debentures and convertible debts are carried as though converted to common shares. When these investments are initially recognized, fair value is generally the value of consideration paid. Subsequent to initial recognition, the fair value of these investments is determined by the Company using an appropriate valuation methodology after considering: the history and nature of the business; operating results and financial conditions; the general economic, industry and market conditions; capital market and transaction market conditions; independent valuations of the business; contractual rights relating to the investment; comparable company trading and transaction multiples, where applicable, and other pertinent considerations.

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.

Financial instrument – risk management

The Company is exposed to the following risks as a result of holding financial instruments: market risk (which includes fair value risk, interest rate risk and currency risk); credit risk; and liquidity risk. The following is a description of these risks and how they are managed:

a) Market risk

Market risk is defined for these purposes as the risk that the fair value or future cash flows of a financial instrument held by the Company will fluctuate because of changes in market prices. Market risk includes the risk of changes in interest rates, currency exchange rates and changes in market prices due to factors other than interest rates or currency exchange rates, such as changes in equity prices, commodity prices or credit spreads.

Interest rate risk

The observable impacts on the fair values and future cash flows of financial instruments that can be directly attributable to interest rate risk include changes in net income from financial instruments whose cash flows are determined with reference to floating interest rates and changes in value of financial instruments whose cash flows are fixed in nature.

At March 31, 2013, the Company holds the following fixed-rate debt instruments: (a) $38.9 million [December 31, 2012 – $36.4 million] in convertible debentures with a weighted average interest rate of 6.37% [December 31, 2012 – 6.07%] and a weighted average term to maturity of approximately 1.8 years [December 31, 2012 – 1.9 years]; and (b) $10.5 million [December 31, 2012 – $5.0 million] in non-convertible debentures with a weighted average interest rate of 8.78% [December 31, 2012 – 9.60%] and a weighted average term to maturity of approximately 1.9 years [December 31, 2012 – 1.1 years]. Should market interest rates rise, then the fair value of these convertible and non-convertible debentures will decrease. Inversely, should market interest rates fall, the fair value of these assets will increase. The effect of changes in interest rates on the fair value of these debt instruments is partially muted by the nature of the investments. Convertible debentures placed in early stage investees are typically less sensitive to changes in market interest rates than non-convertible debt instruments placed in more mature investees. Additionally, the economic exposure to interest rate risk is mitigated by the Company's intention to either convert the debentures into the related underlying equities or, in the case of non-convertible debentures, to hold the instrument until maturity.

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

If interest rates were higher by 1% per annum, the potential effect would be a decrease in net income of approximately $750,000 [December 31, 2012 – $700,000]. If interest rates were lower by 0.5% per annum, the potential effect would be an increase in net income of approximately $380,000 [December 31, 2012 – $350,000].

Currency risk

Changes in currency rates will impact the carrying value of financial instruments denominated in currencies other than the Canadian dollar. As at March 31, 2013, the Company is exposed to foreign exchange risk through its US dollar-denominated investments of $21 million [December 31, 2012 – $16 million] and its Australian dollar-denominated investments of $3.5 million [December 31, 2012 – $3.5 million], which together represents approximately 26.16% of total assets. The Company does not currently hedge its foreign currency exposure. If the Canadian dollar strengthened or weakened by 1% in relation to the foreign currencies, the investments would have decreased or increased by approximately $250,000 [December 31, 2012 – $200,000].

Other price risk

Other price risk is the risk of variability in fair value due to movements in equity prices or other market prices such as commodity prices and credit spreads. The Company incurs other price risk through its portfolio of investments and marketable securities. If the fair value of these financial assets were to increase or decrease by 10%, the Company would incur an associated increase or decrease in net income of approximately $8.9 million [December 31, 2012 – $8.1 million]. Refer to Note 3 for additional detail regarding the fair value of investments and marketable securities, respectively.

b) Credit risk

Credit risk is the risk of loss due to the failure of a borrower or counterparty to fulfill its contractual obligations. The Company is exposed to credit risk through certain debt instruments held in the investments and marketable securities portfolios. Refer to Note 3 for additional detail regarding the nature of these financial assets. The Company seeks to mitigate credit risk where possible by obtaining security over the assets of the issuer and by limiting the investment sizes to an amount such that the Company's debentures could be repaid through the liquidation of a defaulting issuer.

The Company considers its maximum exposure to credit risk at March 31, 2013 is $49,487,940 [December 31, 2012 – $41,494,014].

c) Liquidity risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund an obligation as it comes due. As at March 31, 2013, the Company's liquidity risk is limited to exposure to accounts payable and accrued liabilities, which are due within 12 months of March 31, 2013.

The Company manages risks on corporate investments through its approach to planning, setting of investment criteria, performance of due diligence on investment opportunities and oversight responsibilities with existing investee companies and by conducting activities in accordance with investment policies that are approved by the Board of Directors. The Company seeks to mitigate company specific business risk by investing, where possible, in convertible debentures, so as to rank higher than the common shares in the capital structure of the issuer. The Company seeks to mitigate credit risk by investing, where possible: in senior debt securities, requiring security – either specific collateral or a general pledge of assets, requiring that pre-paid interest be held in escrow, and/or by limiting the amount of debt that may rank ahead of, or pari passu to, the securities being purchased. The Company seeks to mitigate interest risk by investing in relatively short duration convertible debentures and debentures – typically no longer than three years in term. The Company considers exposure to foreign currency assets as a hedge against the possible decrease in the value of the Canadian dollar.

7. RELATED PARTY TRANSACTIONS

Management Agreement

The Company has a management agreement with Difference Capital Management Inc. (the "Management Agreement"). The Company accrues and pays management fees on the basis of 2% per annum of the Company's monthly net asset value. The net asset value of the Company is determined by subtracting the aggregate fair value of the liabilities of the Company from the aggregate fair value of the assets of the Company on the date on which the calculation is being made. For the quarter ended March 31, 2013, management fees of $407,291 [December 31, 2012 – $410,560] and performance fees of $145,558 [December 31, 2012 – $1,880,120] were accrued.

Also under the terms of the Management Agreement, the Company is entitled to a 40% share of revenue earned after direct costs on advisory fees from investee companies beginning January 1, 2013. For the quarter ended March 31, 2013, the Company accrued revenue of $255,340 from such advisory fees.

Other Related Party Transactions

As at March 31, 2013, the Company has a receivable outstanding of $136,700 from Difference RM for legal expenses paid by the Company and to be reimbursed by Difference RM.

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

8. CAPITAL MANAGEMENT

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

9. STOCK OPTION PLAN

There were no options issued for the three-month periods ended March 31, 2013 and March 31, 2012. At March 31, 2013, the number of options outstanding and exercisable is as follows:

Exercise Price	Quantity	Expiry Date
$1.90	3,470	May 30, 2013
$3.00	2,880	May 30, 2013
$1.10	5,870	May 30, 2013

10. COMMITMENTS

As at March 31, 2013, the Company had commitments to purchase investments totaling $3 million and US $3.0 million if called upon to do so by the issuers. Subsequent to the quarter-end, all such investments except $1.25 million had been made.

11. COMPARATIVE FIGURES

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

12. SUBSEQUENT EVENTS

In April 2013, the Company invested a further CAD $500,000 in the common shares of Ipowow.

On April 12, 2013, the Company invested US $555,000 into new senior convertible debentures and share purchase warrants of Appinions.

On April 18, 2013, 16,666,667 Lignol units were converted into 16,666,667 common shares and 8,333,333 purchase warrants of Lignol.

On May 10, 2013, the Company invested $1.25 million into a new issue of senior secured convertible debentures of ePals and has an obligation to invest up to an additional $1.25 million into such debentures.

On May 16, 2013, the Company purchased $2.7 million of convertible unsecured subordinated debentures of Enterprise Group, Inc. 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.

On May 24, 2013, the Company purchased an additional US $3 million of secured convertible debentures and preferred share warrants in InfraRedX, Inc., bringing its total investment in InfraRedX to US $5 million.

See Note 3 for further details on the above-noted investments.

13. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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

The Company has developed a transition plan to 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 IFRS.