Interim Financial Statements

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

June 30, 2013
Unaudited

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

INTERIM BALANCE SHEETS
(unaudited)

As at	June 30, 2013	December 31, 2012
	$	$
ASSETS		
Cash and cash equivalents	**90,991**	9,396,405
Prepaid expenses and other receivables *[note 7]*	**442,734**	186,544
Due from broker	**—**	2,280,000
Accrued interest *[note 3]*	**1,068,546**	744,728
Marketable securities *[note 3]*	**12,188,597**	26,534,756
Investments *[notes 3 and 12]*	**80,760,752**	54,199,291
Total assets	**94,551,620**	93,341,724
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Performance and management fees payables *[note 7]*	**2,496,634**	1,880,120
Accounts payable and accrued liabilities	**824,481**	578,113
Due to broker	**—**	1,028,772
Promissory note *[note 7]*	**2,517,466**	—
Total liabilities	**5,838,581**	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	**(91,783,960)**	(90,597,474)
Total shareholders' equity	**88,713,039**	89,854,719
	94,551,620	93,341,724

See accompanying notes

On behalf of the Board:

"Wesley Hall"
Director

"Michael Wekerle"
Director

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

INTERIM STATEMENTS OF OPERATIONS AND DEFICIT
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2013	**2012**	**2013**	**2012**
	$	**$**	**$**	**$**
REVENUE				
Realized gain on disposal of investments and marketable securities	**1,185,667**	—	**2,497,032**	54,268
Change in unrealized loss on investments and marketable securities	**(3,417,126)**	(3,023,470)	**(3,818,276)**	(781,443)
Interest, dividends and other income	**941,024**	558	**1,752,910**	713
Participation in advisory fees *[note 7]*	**180,000**	—	**435,340**	—
	(1,110,435)	(3,022,912)	**867,006**	(726,462)
EXPENSES				
Management fees *[note 7]*	**548,856**	54,288	**956,147**	54,288
Performance fees *[note 7]*	**(145,558)**	—	**—**	—
Operating, general and administrative *[note 7]*	**524,167**	417,948	**1,024,539**	505,610
Transaction costs	**18,254**	—	**72,806**	3,068
	945,719	472,236	**2,053,492**	562,966
Net loss for the period	**(2,056,154)**	(3,495,148)	**(1,186,486)**	(1,289,428)
Deficit, beginning of the period	**(89,727,806)**	(91,175,982)	**(90,597,474)**	(93,381,702)
Deficit, end of the period	**(91,783,960)**	(94,671,130)	**(91,783,960)**	(94,671,130)
Basic and diluted loss per share	**$(0.08)**	$(0.72)	**$(0.04)**	$(0.40)
Weighted average number of common shares outstanding	**27,311,714**	4,849,505	**27,311,714**	3,188,796

See accompanying notes

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

INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited)

	For the three months ended June 30		For the six months ended June 30	
	2013	**2012**	**2013**	**2012**
	$	$	$	$
Share capital				
Balance, beginning of the period	**139,750,209**	55,525,029	**86,455,084**	55,525,029
Issuance of share capital *[note 4]*	**—**	30,078,607	**53,295,125**	30,078,607
Balance, end of the period	**139,750,209**	85,603,636	**139,750,209**	85,603,636
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	**40,746,790**	40,746,790
Balance, end of the period	**40,746,790**	40,746,790	**40,746,790**	40,746,790
Deficit				
Balance, beginning of the period	**(89,727,806)**	(91,175,982)	**(90,597,474)**	(93,381,702)
Net loss for the period	**(2,056,154)**	(3,495,148)	**(1,186,486)**	(1,289,428)
Balance, end of the period	**(91,783,960)**	(94,671,130)	**(91,783,960)**	(94,671,130)
Net change in shareholders' equity during the period	**(2,056,154)**	26,583,459	**(1,141,680)**	28,789,179
Shareholders' equity, beginning of the period	**90,769,193**	5,095,837	**89,854,719**	2,890,117
Shareholders' equity, end of the period	**88,713,039**	31,679,296	**88,713,039**	31,679,296

See accompanying notes

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

INTERIM STATEMENTS OF CASH FLOWS
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2013	**2012**	**2013**	**2012**
	$	$	$	$
OPERATING ACTIVITIES				
Net loss for the period	**(2,056,154)**	(3,495,148)	**(1,186,486)**	(1,289,428)
Items not affecting cash:				
Realized (gain) on disposal of investments and marketable securities	**(1,185,667)**	—	**(2,497,032)**	(54,268)
Change in unrealized (gain) loss on investments and marketable securities	**3,417,126**	3,023,470	**3,818,276**	781,443
Conversion of Virgin Gaming interest payment into common shares	**(921,663)**	—	**(921,663)**	—
Net change in non-cash working capital balances	**328,993**	263,411	**1,551,567**	326,322
Purchase of marketable securities	**(126,887)**	—	**(8,149,046)**	—
Proceeds from disposal of marketable securities	**7,983,733**	—	**20,324,994**	—
Purchase of investments	**(13,300,128)**	(21,918,960)	**(26,639,180)**	(21,918,960)
Proceeds from disposal of investments	**528,350**		**1,848,350**	176,015
Cash (used in) provided by operating activities	**(5,332,297)**	(22,127,227)	**(11,850,220)**	(21,978,876)
FINANCING ACTIVITIES				
Proceeds from common shares and Special Warrants *[note 4]*	**—**	30,078,606	**44,806**	30,078,606
Proceeds from loan	**555,000**	—	**555,000**	—
Repayment of loan	**(555,000)**	—	**(555,000)**	—
Proceeds from promissory note *[note 7]*	**2,500,000**	—	**2,500,000**	—
Cash provided by financing activities	**2,500,000**	30,078,606	**2,544,806**	30,078,606
Net increase (decrease) in cash during the period	**(2,832,297)**	7,951,379	**(9,305,414)**	8,099,730
Cash and cash equivalents, beginning of the period	**2,923,288**	231,734	**9,396,405**	83,383
Cash and cash equivalents, end of the period	**90,991**	8,183,113	**90,991**	8,183,113

See accompanying notes

1. DESCRIPTION OF BUSINESS

Difference Capital Financial Inc. (formerly Difference Capital Funding Inc.) ("Difference Capital" or the "Company") is a Toronto-based specialty finance company 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 common shares are listed on the TSX Venture Exchange under the symbol "DCF". The shareholders of the Company, at a shareholders' meeting on June 13, 2013, approved a number of resolutions including but not limited to the following:

1. a consolidation of the existing common shares on the basis of one post-consolidation share for every ten existing shares;
2. a change in name to Difference Capital Financial Inc.; and
3. a reorganization whereby the Company's investment activities will be carried out through a newly-formed partnership. The reorganization has not taken place as at June 30, 2013.

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 – *Investment Companies* ("*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.

Revenue recognition
Advisory fees are recognized as revenue as services are provided under contractual arrangements.

3. INVESTMENTS, ACCRUED INTEREST AND MARKETABLE SECURITIES

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

		June 30, 2013 Fair Value ($)	June 30, 2013 Accrued Interest ($)	June 30, 2013 Total ($)	December 31, 2012 Fair Value ($)	December 31, 2012 Accrued Interest ($)	December 31, 2012 Total ($)
WG Limited)	convertible debentures	20,137,920	34,962	20,172,882	21,457,920	566,073	22,023,993
	common shares	3,330,659	-	3,330,659	-	-	-
Chieftain Residential, L.P.	partnership interest	7,888,500	-	7,888,500	4,974,500	-	4,974,500
	promissory note	2,629,500	54,751	2,684,251	-	-	-
Difference RM Holding Corporation	common shares	5,742,828	-	5,742,828	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	2,890,800	125,453	3,016,253	3,101,700	11,557	3,113,257
	warrants	-	-	-	-	-	-
Fem MED Formulas Limited Partnership	secured convertible debentures	2,500,000	166,027	2,666,027	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	2,950,299	146,657	3,096,956	1,989,800	60,512	2,050,312
InfraReDx, Inc.	convertible debentures	5,259,000	91,331	5,350,331	1,989,800	9,949	1,999,749
	preferred share warrants	5,598	-	5,598	2,117	-	2,117
Lignol Energy Corporation	secured grid promissory note	5,000,000	66,849	5,066,849	-	-	-
GuestLogix Inc.	debentures	1,950,000	140,000	2,090,000	1,950,000	20,000	1,970,000
	warrants	190,000	-	190,000	320,000	-	320,000
Crailar Technologies Inc.	convertible debentures	1,810,000	61,986	1,871,986	-	-	-
Ethoca Solutions Inc.	common shares	1,178,395	-	1,178,395	1,178,395	-	1,178,395
Brainscope Company, Inc.	secured convertible promissory note	1,051,800	46,747	1,098,547	994,900	4,422	999,322
ePals Corporation	convertible debentures	3,500,000	56,027	3,556,027	-	-	-
Enterprise Group, Inc.	convertible debentures	2,700,000	19,529	2,719,529	-	-	-
iPowow! Ltd.	convertible debentures	-	-	-	516,950	2,209	519,159
iPowow! Inc.	common shares	1,028,350	-	1,028,350	-	-	-
Other debt	loan	1,730,132	58,227	1,788,359	650,000	3,157	653,157
Other equity	common shares	922,091	-	922,091	776,175	-	776,175
		80,760,752	1,068,546	81,829,298	54,199,291	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. In June 2013, the Company converted an approximate $0.9 million interest payment on the debentures into 921,663 Virgin Gaming common shares.

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 per annum, mature on 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. On April 14, 2013, the Company invested a further US $555,000 into the new issue of convertible debentures and share purchase warrants.

InfraReDx, Inc. ("InfraReDx")
During the quarter ended June 30, 2013, the Company made a further US $3.0 million investment in InfraReDx in the form of convertible debentures and preferred share warrants. The new convertible debentures have the same terms and conditions as the US $2.0 million investment made in November 2012. As at June 30, 2013, the Company held US $5.0 million of the convertible debentures and preferred share warrants.

Lignol Energy Corporation ("Lignol")
On February 27, 2013, the Company invested $2.7 million in Lignol in the form of a secured grid promissory note (the "Note"). The Note pays 8% interest per annum with an original maturity date of February 27, 2014. The maximum principal amount of the Note is $5.0 million for which Lignol can, from time to time, with proper notice, make additional borrowings up to the stated maximum. In April 2013, Lignol borrowed a further $2.3 million under the Note. In July 2013, the Company agreed to increase the principal amount of the Note to $6.25 million and extended the maturity date of the note to August 30, 2014. Lignol borrowed a further $1.0 million under the Note on July 10, 2013. On August 14, 2013, the Company entered into a new secured grid promissory note (the "New Note") with Lignol. The New Note replaces the Note, pays 9% interest per annum with a maturity date of December 31, 2014 (the "Maturity Date"). The maximum principal amount of the New Note is $12.5 million for which Lignol can from time to time, with proper notice, make additional borrowings up to the stated maximum, with any amounts in excess of $9.75 million provided at the sole discretion of the Company. Lignol is required to pay the Company fifty percent of the principal and accrued interest prior to the Maturity Date, on the later of: (i) the completion of a qualified financing; and (ii) the exercise of all outstanding and issued Lignol warrants issued to the Company. For each $1,000 drawn down under the

New Note, the Company will be issued 3,555 Lignol warrants. The warrants are exercisable into common shares of Lignol at $0.15 per share at any time prior to December 31, 2014. Lignol borrowed a further $2.5 million on August, 14, 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 interest at 10% per annum 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. Subsequent to quarter end, the Company invested a further $1.5 million in Crailar in the form of secured convertible debentures and warrants. The new series of convertible debentures pay 10% interest per annum, mature July 26, 2016 and are convertible into common shares at $2.00 per share. The warrants are exercisable into common shares at a price of $1.25 per share and expire on July 26, 2016.

ePals Corporation ("ePals")
On March 20, 2013, the Company invested $1.0 million into a new issue of senior secured convertible debentures of ePals. The debentures pay 10% interest per annum 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. In May 2013, the Company made additional investments of $2.5 million in ePals in the form of senior secured convertible debentures. The new senior secured convertible debentures have the same terms and conditions as the $1.0 million investment made in March 2013. The Company also owns listed convertible debentures of ePals included as part of marketable securities on the interim balance sheets.

Enterprise Group, Inc. ("Enterprise")
On May 17, 2013, the Company made a $2.7 million investment in Enterprise in the form of convertible debentures paying 6% interest per annum and convertible into common shares of Enterprise at a price of $0.50 per common share with a maturity date of May 17, 2015.

iPowow! Inc. ("iPowow")
During the quarter ended June 2013, the Company converted AUD $0.5 million of iPowow Ltd. convertible debentures into common shares of iPowow, the parent company of iPowow Ltd., at a conversion price of AUD $0.50 per common share. The Company also purchased an additional $0.5 million of iPowow common shares at a price of $1.00 per common share. As at June 30, 2013, the Company held 1.5 million shares of iPowow. Subsequent to quarter end, the Company invested a total of $665,000 in iPowow in the form of loans, paying 10% interest per annum and mature July and August 2016.

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 secured 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% interest per annum 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% interest per annum 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 per share.

Lignol Energy Corporation

On March 7, 2013, 7,666,667 Lignol subscription receipts held by the Company converted to Lignol units. During the quarter, 16,666,667 units of Lignol held by the Company 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 as at June 30, 2013. In July 2013, the Company purchased, through the TSX Venture Exchange, 13.4 million common shares through two separate transactions, 7.9 million common shares at a price of $0.12 per Lignol share and 5.5 million common shares at a price of $0.13 per Lignol share, respectively.

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 June 30, 2013, the Company held approximately $6.8 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.

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 Commons 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 per share until October 3, 2014.

At the shareholders' meeting on June 13, 2013, the existing common shares were consolidated on the basis of one post-consolidation share for every ten existing common shares. After giving effect to the consolidation, there were 27,317,634 Common Shares outstanding as at June 30, 2013 [December 31, 2012 – 11,882,736] with a stated capital of $139,750,209 [December 31, 2012 - $86,455,084]. Total Purchase Warrants outstanding as at June 30, 2013 were 77,174,864 [December 31, 2012 - nil]. Every ten Purchase Warrants are exercisable into one post-consolidation share.

All prior periods' income (loss) per share have been adjusted to reflect the consolidation of shares.

5. INCOME TAXES

As at June 30, 2013, the Company has capital losses of approximately $151,738,558 [December 31, 2012 – $151,738,558] and non-capital losses of approximately $14,121,655 [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	2,309,061
	$14,121,655

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 $23.8 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 June 30, 2013

($000)	**Level 1**	**Level 2**	**Level 3**	**Total**
Equities	6,263	—	18,566	**24,829**
Convertible Debentures	—	5,542	40,509	**46,051**
Debentures and Loans	—	—	5,770	**5,770**
Partnership Interests	—	—	7,889	**7,889**
Promissory Notes	—	—	7,830	**7,830**
Warrants	—	574	6	**580**
Total	**6,263**	**6,116**	**80,570**	**92,949**

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	30,096	**35,694**
Debentures	—	—	5,054	**5,054**
Partnership Interests	—	—	4,975	**4,975**
Warrants	—	383	2	**385**
Total	**17,062**	**9,792**	**53,880**	**80,734**

During the period ended June 30, 2013, there were no transfers of equities 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 three months ended June 30, 2013

	($000)
Opening balance, April 1, 2013	66,397
Purchases	14,195
Sales	(528)
Net transfers	—
Realized gains	10
Change in unrealized appreciation	496
Balance, end of period	80,570
Total change in unrealized appreciation of assets held as at June 30, 2013	508

For the six months ended June 30, 2013

	($000)
Opening balance, January 1, 2013	53,880
Purchases	27,534
Sales	(1,848)
Net transfers	—
Realized gains	230
Change in unrealized appreciation	774
Balance, end of period	80,570
Total change in unrealized appreciation of assets held as at June 30, 2013	994

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 prices 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), the 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 security. 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 June 30, 2013, the Company holds the following fixed-rate debt instruments: (a) $46.7 million [December 31, 2012 – $36.4 million] in convertible debentures with a weighted average interest rate of 6.51% [December 31, 2012 – 6.07%] and a weighted average term to maturity of approximately 1.6 years [December 31, 2012 – 1.9 years]; and (b) $14.0 million [December 31, 2012 – $5.0 million] in non-convertible debentures with a weighted average interest rate of 8.62% [December 31, 2012 – 9.60%] and a weighted average term to maturity of approximately 1.4 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 $865,000 [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 $433,000 [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 June 30, 2013, the Company is exposed to foreign exchange risk through its US dollar-denominated investments of $26.7 million [December 31, 2012 – $16 million] and its Australian dollar-denominated investments of $3.0 million [December 31, 2012 – $3.5 million], which together represents approximately 31.4% 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 $300,000 [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 $9.3 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 size of its investments 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 June 30, 2013 is $60.7 million [December 31, 2012 – $41.5 million].

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 June 30, 2013, the Company's liquidity risk is limited to exposure to accounts payable and accrued liabilities, which are due within 12 months of June 30, 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 rate 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 six months ended June 30, 2013, management fees of $956,147 [2012 – $54,288] and performance fees of $nil [2012 – $nil] were accrued. During the three months ended June 30, 2013, performance fees of $145,558 accrued in the previous quarter were reversed. As at June 30, 2013, performance and management fees payable to the manager were $2,496,634 [December 31, 2012 - $1,880,120]. The outstanding payables were paid subsequent to June 30.

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 six months ended June 30, 2013, the Company accrued revenue of $435,340 from such advisory fees (2012 - $nil). Also under the terms of the Management Agreement, the Company is required to reimburse Difference Capital Management Inc. for certain operating expenses beginning January 1, 2013. For the six months ended June 30, 2013, the Company accrued operating expenses of $54,864 (2012 - $nil). As at June 30, 2013, advisory fee receivable from Difference Captial Management Inc. was $100,308.

Other Related Party Transactions

During the quarter ended June 30, 2013, the Company issued a promissory note (the “Note”) bearing interest at 5% per annum to Michael Wekerle, the Executive Chairman and a director of the Company. The amounts funded under the Note were used primarily to satisfy certain contractual obligations as well as for general corporate purposes. As at June 30, 2013, $2,517,466 of principal and interest of was outstanding. The Note and accrued interest were repaid on July 5, 2013.

Subsequent to June 30, the Company entered into a share purchase agreement with a private company 50% controlled by Michael Wekerle, the Executive Chairman and a director of the Company, pursuant to which the Company agreed to purchase 3,829,795 common shares of Blue Ant Media Inc. for total consideration of $4,787,244, a price substantiated by other arm’s length institutional transactions.

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 six-month periods ended June 30, 2013 and June 30, 2012. As at June 30, 2013, there were no options outstanding. As at December 31, 2012, the number of options outstanding and exercisable was 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 June 30, 2013, the Company had commitments to purchase investments totaling $1.2 million if called upon to do so by the issuers.

11. COMPARATIVE FIGURES

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

12. SUBSEQUENT EVENTS

Senior Unsecured Convertible Debentures Offering

On July 4, 2013, the Company issued senior unsecured convertible debentures (the "Debentures") in an aggregate principal amount of $50.0 million. The Company intends to use these net proceeds for additional strategic investments in target companies and for general corporate purposes and working capital. Each $1,000 principal amount of the Debentures is convertible into 173.91 common shares of the Company, at the option of the holder, representing a conversion price of $5.75 per share.

The Debentures will rank subordinate in right of payment of principal and interest to all present and future senior obligations of the Company and will rank ahead of all present and future junior unsecured indebtedness. The Debentures bear interest at a rate of 8.0% per annum, payable semi-annually in arrears on July 31 and January 31 each year, with the initial interest payment date on January 31, 2014. The Debentures have a maturity date of July 31, 2018 (the "Maturity Date").

The Debentures will not be redeemable prior to July 31, 2016. On and after July 31, 2016 and prior to July 31, 2017, the Company may, at its option, redeem the Debentures at par plus accrued and unpaid interest provided that the volume weighted average trading price of the Common Shares on the TSX Venture Exchange during the 20 consecutive trading days ending five trading days preceding the date on which the notice of redemption is given is not less than 125% of the Conversion Price.

On July 19, 2013, the Company completed the sale of an additional $6,079,000 of the Debentures pursuant to the partial exercise of the over-allotment option.

Equity Offering

On July 26, 2014, the Company completed its public offering of Common Shares (the "Equity Offering") pursuant to which the Company sold 12 million Common Shares for aggregate gross proceeds of $45.0 million. The Common Shares sold pursuant to the Equity Offering were priced at $3.75 per share. The Company intends to use the net proceeds for additional strategic investments in target companies and for general corporate purposes and working capital.

Investments

In July 2013, the Company agreed to increase the size of the Lignol secured grid promissory note (the "Note") to $6.25 million and extended the maturity date of the Note to August 30, 2014. Lignol borrowed a further $1.0 million under the Note on July 10, 2014. On August 14, 2013, the Company entered into a new secured grid promissory note (the "New Note") with Lignol. The New Note replaces the Note, pays 9% interest per annum with a maturity date of December 31, 2014 (the "Maturity Date"). The maximum principal amount of the New Note is $12.5 million for which Lignol can from time to time, with proper notice, make additional borrowings up to the stated maximum, with any amounts in excess of $9.75 million provided at the sole discretion of the Company. Lignol is required to pay the Company fifty percent of the principal and accrued interest prior to the Maturity Date, on the later of: (i) the completion of a qualified financing; and (ii) the exercise of all outstanding and issued Lignol warrants issued to the Company. For each $1,000 drawn down under the New Note, the Company will be issued 3,555 Lignol warrants. The warrants are exercisable into common shares of Lignol at $0.15 per share at any time prior to December 31, 2014. Lignol borrowed a further $2.5 million on August, 14, 2013.

Subsequent to quarter end, the Company invested a total of $665,000 in Ipowow in the form of loans, paying 10% interest per annum and mature July and August 2016.

In July 2013, the Company invested a further $1.5 million in Crailar in the form of secured convertible debentures and warrants. The new series of convertible debentures pay 10% interest per annum, mature July 26, 2016 and are convertible into common shares at $2.00 per share. The warrants are exercisable into common shares at a price of $1.25 per share and expire on July 26, 2016.

In July 2013, the Company entered into a share purchase agreement with a private company controlled by by Michael Wekerle, the Executive Chairman and a director of the Company, pursuant to which the Company agreed to purchase 3,829,795 common shares of Blue Ant Media Inc. ("Blue Ant") for total consideration of $4,787,244, a price substantiated by other arm's length institutional transactions. Blue Ant is an independent media company, that creates content in lifestyle, travel, documentary, music and entertainment categories.

In July 2013, the Company purchased an aggregate of US $319,678 of Appinions preferred shares from Appinions shareholders through two separate transactions.

In July 2013, the Company purchased, through the TSX Venture Exchange, 13.4 million common shares through two separate transactions, 7.9 million common shares at a price of $0.12 per Lignol share and 5.5 million common shares at a price of $0.13 per Lignol share, respectively.

Subsequent to June 30, the Company purchased from Carta Solutions Holding Corporation ("Carta") 2.5 million units ("Unit" or "Units") at $0.80 per Unit for a total consideration of $2.0 million. Each Unit will be comprised of one common share of the Company (the "Common Shares") and ¼ of one common share purchase warrant (the "Warrants"), with each whole Warrant exercisable for a further Common Share at an exercise price of $1.25 until June 30, 2016. In the event any common shares are issued by Carta for less than $0.80 per common share while the Warrants are exercisable, the exercise price of the Warrants shall be reduced by the same percentage that the price per common shares issued by Carta is below $0.80. Carta is an international transaction processing and payments technology company, specializing in prepaid, mobile and emerging payments.

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