Interim Financial Statements

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

September 30, 2013
Unaudited

DIFFERENCE CAPITAL FINANCIAL INC.
(formerly Difference Capital Funding Inc.)

INTERIM BALANCE SHEETS (unaudited)

As at		September 30, 2013		December 31, 2012
ASSETS				
Cash and cash equivalents	**$**	**50,720,387**	$	9,396,405
Prepaid expenses and other receivables *[note 8]*		**791,064**		186,544
Due from broker		**—**		2,280,000
Accrued interest *[note 3]*		**2,120,957**		744,728
Marketable securities *[note 3]*		**25,131,967**		26,472,256
Investments *[notes 3 and 13]*		**109,252,672**		54,261,791
Total assets	**$**	**188,017,047**	$	93,341,724
LIABILITIES				
Performance and management fees payable *[note 8]*	**$**	**690,354**	$	1,880,120
Accounts payable and accrued liabilities		**405,236**		578,113
Due to broker		**1,959,101**		1,028,772
Accrued interest on convertible debentures *[note 4]*		**1,093,958**		—
Convertible debentures *[note 4]*		**48,968,329**		—
Total liabilities		**53,116,978**		3,487,005
EQUITY				
Share capital *[note 5]*		**181,731,628**		86,455,084
Special Warrants *[note 5]*		**—**		53,250,319
Equity component of convertible debentures *[note 4]*		**4,136,074**		—
Contributed surplus		**40,746,790**		40,746,790
Deficit		**(91,714,423)**		(90,597,474)
Total equity		**134,900,069**		89,854,719
Total liabilities and equity	**$**	**188,017,047**	$	93,341,724

Net Asset Value per share *[note 11]*				
Basic and diluted	**$**	**3.43**	$	3.29

See accompanying notes

On behalf of the Board:

"John Albright"
Director

"Michael Wekerle"
Director

DIFFERENCE CAPITAL FINANCIAL INC.
(formerly Difference Capital Funding Inc.)

INTERIM STATEMENTS OF OPERATIONS (unaudited)

	Three months ended September 30 2013	Three months ended September 30 2012	Nine months ended September 30 2013	Nine months ended September 30 2012
REVENUE				
Realized gain (loss) on disposal of investments and marketable securities	**$ (86,819)**	$ (1,716,484)	**$ 2,410,213**	$ (1,662,217)
Change in unrealized gain (loss) on investments and marketable securities	**1,461,886**	1,565,369	**(2,356,390)**	783,926
Interest, dividends and other income	**1,315,388**	372,299	**3,068,298**	373,012
Participation in advisory fees *[note 8]*	**409,394**	—	**844,734**	—
Total revenue	**3,099,849**	221,184	**3,966,855**	(505,279)
EXPENSES				
Management fees *[note 8]*	**916,827**	147,591	**1,872,974**	201,879
Harmonized Sales Tax	**151,458**	37,038	**354,214**	107,866
Professional fees	**363,717**	131,740	**996,327**	446,966
Operating, general and administrative *[note 8]*	**103,095**	81,428	**267,333**	200,699
Financing costs	**1,390,135**	11,509	**1,415,070**	11,509
Transaction costs	**105,080**	—	**177,886**	3,068
Total expenses	**3,030,312**	409,306	**5,083,804**	971,987
Net income (loss) for the period	**$ 69,537**	$ (188,122)	**$ (1,116,949)**	$ (1,477,266)

Weighted average number of common shares outstanding *[note 10]*				
Basic and diluted	**36,056,764**	11,603,195	**30,262,689**	6,007,940
Earnings (loss) per share *[note 10]*				
Basic and diluted	**$0.00**	$(0.02)	**$(0.04)**	$(0.25)

See accompanying notes

DIFFERENCE CAPITAL FINANCIAL INC.
(formerly Difference Capital Funding Inc.)

INTERIM STATEMENTS OF CHANGES IN EQUITY (unaudited)

	For the three months ended September 30		For the nine months ended September 30	
	2013	**2012**	**2013**	**2012**
Share capital				
Balance, beginning of the period	**$ 139,750,209**	$ 85,603,637	**$ 86,455,084**	$ 55,525,029
Issuance of share capital, net of issuance costs *[note 5]*	**41,981,419**	(1,945)	**95,276,544**	30,076,663
Balance, end of the period	**181,731,628**	85,601,692	**181,731,628**	85,601,692
Special Warrants				
Balance, beginning of the period	**—**	—	**53,250,319**	—
Issuance of Special Warrants *[note 5]*	**—**	—	**44,806**	—
Exercise of Special Warrants for common shares	**—**	—	**(53,295,125)**	—
Balance, end of the period	**—**	—	**—**	—
Equity component of convertible debentures				
Balance, beginning of the period	**—**	—	**—**	—
Issuance of convertible debentures, net of issuance costs *[note 4]*	**4,136,074**	—	**4,136,074**	—
Balance, end of the period	**4,136,074**	**—**	**4,136,074**	**—**
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	**(91,783,960)**	(94,670,846)	**(90,597,474)**	(93,381,702)
Net income (loss) for the period	**69,537**	(188,122)	**(1,116,949)**	(1,477,266)
Distribution of Feronia shares	**—**	(1,491,299)	**—**	(1,491,299)
Balance, end of the period	**(91,714,423)**	(96,350,267)	**(91,714,423)**	(96,350,267)
Net change in equity during the period	**46,187,030**	(1,681,366)	**45,045,350**	27,108,098
Equity, beginning of the period	**88,713,039**	31,679,581	**89,854,719**	2,890,117
Equity, end of the period	**$ 134,900,069**	$ 29,998,215	**$ 134,900,069**	$ 29,998,215

See accompanying notes

DIFFERENCE CAPITAL FINANCIAL INC.
(formerly Difference Capital Funding Inc.)

INTERIM STATEMENTS OF CASH FLOWS (unaudited)

	Three months ended September 30		Nine months ended September 30	
	2013	**2012**	**2013**	**2012**
OPERATING ACTIVITIES				
Net income (loss) for the period	**$ 69,537**	$ (188,122)	**$ (1,116,949)**	$ (1,477,266)
Items not affecting cash:				
Realized (gain) loss on disposal of investments and marketable securities	**86,819**	1,716,484	**(2,410,213)**	1,662,217
Change in unrealized (gain) loss on investments and marketable securities	**(1,461,886)**	(1,565,369)	**2,356,390**	(783,926)
Amortization of financing costs on convertible debentures	**292,864**	—	**292,864**	—
Net change in non-cash working capital balances	**(573,207)**	(164,948)	**960,895**	161,373
Purchase of marketable securities	**(16,257,115)**	(3,277,238)	**(24,654,914)**	(3,277,239)
Proceeds from disposal of marketable securities	**1,315,867**	—	**21,880,251**	—
Purchase of investments	**(26,095,046)**	(7,011,113)	**(53,629,060)**	(28,930,356)
Proceeds from disposal of investments	**977,481**	—	**2,825,831**	176,015
Cash used in operating activities	**(41,644,686)**	(10,490,306)	**(53,494,905)**	(32,469,182)
FINANCING ACTIVITIES				
Proceeds from common shares and special warrants, net of issuance costs *[note 5]*	**41,981,419**	(1,945)	**42,026,224**	30,076,661
Proceeds from convertible debentures, net of issuance costs *[note 4]*	**52,811,539**	—	**52,811,539**	—
Proceeds from loan	**—**	—	**555,000**	—
Repayment of loan	**—**	—	**(555,000)**	—
Proceeds from promissory note *[note 8]*	**—**	3,011,509	**2,500,000**	3,011,509
Repayment of promissory note *[note 8]*	**(2,518,876)**	—	**(2,518,876)**	—
Cash provided by financing activities	**92,274,082**	3,009,564	**94,818,887**	33,088,170
Net increase (decrease) in cash during the period	**50,629,396**	(7,480,742)	**41,323,982**	618,988
Cash and cash equivalents, beginning of the period	**90,991**	8,183,113	**9,396,405**	83,383
Cash and cash equivalents, end of the period	**$ 50,720,387**	$ 702,371	**$ 50,720,387**	$ 702,371

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. As of October 21, 2013, the Company's common shares are listed on the Toronto Stock Exchange under the symbol "DCF". Prior thereto, the common shares were listed on the TSX Venture Exchange.

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*. 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.

Convertible debentures

Convertible debentures are separated into their liability and equity components on the balance sheet. The liability component is initially recognized at fair value, determined as the net present value of future payments of interest and principal, discounted at the market rate for similar non-convertible liabilities at the time of issue. The liability component is recognized at amortized cost, using the effective interest method. The fair value of the equity component of the convertible debentures is estimated using the residual method in which the difference between the face value of the instrument and the fair value of the debt component is allocated as the fair value of the equity component. The issuance costs have been allocated on a pro-rata basis between the debt and equity components. Refer to note 4 for further details.

3. INVESTMENTS, ACCRUED INTEREST AND MARKETABLE SECURITIES

The Company's investments (excluding marketable securities) and accrued interest are as follows:

		September 30, 2013			December 31, 2012		
		Fair Value (excluding accrued interest) $	Accrued Interest $	Total $	Fair Value (excluding accrued interest) $	Accrued Interest $	Total $
WG Limited ("Virgin Gaming")	convertible debentures – 5%	**20,137,920**	**244,732**	**20,382,652**	21,457,920	566,073	22,023,993
	convertible debentures – 10%	**5,000,000**	**18,056**	**5,018,056**	-	-	-
	common shares	**4,760,584**	**-**	**4,760,584**	-	-	-
Chieftain Residential, L.P.	partnership interest	**7,713,750**	**-**	**7,713,750**	4,974,500	-	4,974,500
	promissory note	**2,571,250**	**105,386**	**2,676,636**	-	-	-
Lignol Energy Corporation	secured grid promissory note	**9,750,000**	**108,764**	**9,858,764**	-	-	-
InfraReDx, Inc.	convertible debentures	**5,142,500**	**165,589**	**5,308,089**	1,989,800	9,949	1,999,749
	preferred shares warrants	**3,175,079**	**-**	**3,175,079**	2,117	-	2,117
Difference RM Holding Corporation	common shares	**5,615,610**	**-**	**5,615,610**	5,432,154	-	5,432,154
Blue Ant Media Inc.	common shares	**4,787,244**	**-**	**4,787,244**	-	-	-
iPowow! Inc.	preferred shares	**3,000,000**	**-**	**3,000,000**	-	-	-
	common shares	**1,028,350**	**-**	**1,028,350**	-	-	-
iPowow! Ltd.	convertible debentures	**-**	**-**	**-**	516,950	2,209	519,159
Thunderbird Films Inc.	common shares	**4,000,000**	**-**	**4,000,000**	4,000,000	-	4,000,000
ePals Corporation	convertible debentures	**3,500,000**	**144,247**	**3,644,247**	-	-	-
Crailar Technologies Inc.	convertible debentures	**2,383,200**	**134,731**	**2,517,931**	-	-	-
Appinions Inc.	convertible debentures – 6%	**2,057,000**	**156,738**	**2,213,738**	1,989,800	60,512	2,050,312
	convertible debentures – 10%	**827,943**	**39,697**	**867,640**	-	-	-
	preferred shares	**246,592**	**-**	**246,592**	-	-	-
Wasabi Energy Limited	debentures	**2,883,300**	**183,267**	**3,066,567**	3,101,700	11,557	3,113,257
	warrants	**-**	**-**	**-**	-	-	-
Enterprise Group, Inc.	convertible debentures	**3,996,000**	**40,833**	**4,036,833**	-	-	-
Fem MED Formulas Limited Partnership	secured convertible debentures	**2,500,000**	**225,549**	**2,725,549**	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
GuestLogix Inc.	debentures	**1,950,000**	**200,000**	**2,150,000**	1,950,000	20,000	1,970,000
	warrants	**180,000**	**-**	**180,000**	320,000	-	320,000
Carta Solutions Holding Corporation	units	**2,000,000**	**-**	**2,000,000**	-	-	-
Wheels Group Inc.	preferred shares	**950,000**	**-**	**950,000**	-	-	-
Other debt	debt	**2,881,350**	**353,368**	**3,234,718**	1,644,900	7,579	1,652,479
Other equity	common shares, warrants and units	**3,850,120**	**-**	**3,850,120**	2,017,070	-	2,017,070
		109,252,672	**2,120,957**	**111,373,629**	54,261,791	744,728	55,006,519

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. In August 2013, the Company purchased an aggregate of approximately $1.4 million of Virgin Gaming common shares in the secondary market. In September 2013, the Company made an additional $5.0 million investment in Virgin Gaming in the form of a new issue of convertible unsecured debentures. The new series of convertible debentures bear interest at a rate of 10% per annum, mature on September 30, 2016 and are convertible into common shares at $1.10 per share. As at September 30, 2013, the Company owned approximately 18% of Virgin Gaming, on a fully diluted basis.

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.

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 at the time was $5.0 million for which Lignol could, 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 in July 2013. In August 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 that may be drawn down under 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 $3.7 million in August 2013, bringing the total to $9.75 million. As at September 30, 2013, the Company held 34.7 million warrants, and the fair value of these warrants was nil. In November 2013, Lignol borrowed an additional $2.0 million, bringing the Company's total holding of December 31, 2014 warrants to 41.9 million.

InfraReDx, Inc. ("InfraReDx")

During May 2013, the Company invested a further US$3.0 million in InfraReDx in the form of secured 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 September 30, 2013, the Company held US $5.0 million of the convertible debentures and preferred share warrants. The warrants are exercisable into Series E Preferred Stock of InfraReDx at US$0.04 per share at any time prior to November 30, 2017. In August 2013, InfraReDx announced that it had received a US$25 million equity investment from a third party. The investment was made in Series E Preferred Stock at a price of US$0.62 per share. As at September 30, 2013, the fair value of the Company's warrants was based on this transacted price.

Blue Ant Media Inc. ("Blue Ant")

In July 2013, the Company acquired 3,829,795 common shares of Blue Ant for total consideration of $4.8 million. Blue Ant is an independent media company that creates content in lifestyle, travel, documentary, music and entertainment categories.

iPowow! Inc. ("iPowow")

During the quarter ended June 30, 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. In July and August 2013, the Company advanced a total of $0.7 million to iPowow in the form of bridge loans, paying 10% interest per annum. In August 2013, the Company invested $3.0 million in iPowow in the form of preferred shares. The bridge loans and any accrued interest thereon were exchanged for preferred shares and included as part of the $3.0 million investment. The preferred shares carry a right to an 8% cumulative annual dividend and are convertible into common shares at par, or $2.00 per common share.

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.

Crailar Technologies Inc. ("Crailar")

During February 2013, the Company 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. In July 2013, the Company invested a further $1.5 million in Crailar in the form of secured convertible debentures and warrants, to hold a total of $3.3 million par value convertible debentures. This 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. Each $1,000 of principal amount is entitled to 800 purchase warrants. The warrants are exercisable into common shares of Crailar at a price of $1.25 per share and expire on July 26, 2016. As at September 30, 2013, the fair value of these debentures was based on the last bid price of Crailar's publicly listed convertible debentures, and the fair value of the warrants was nil.

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. During the quarter ended September 30, 2013, the Company purchased an aggregate of approximately $250,000 of Appinions preferred shares and warrants in the secondary market.

Enterprise Group, Inc. ("Enterprise")
In May 2013, the Company purchased $2.7 million of convertible unsecured subordinated debentures of Enterprise. The debentures bear interest at the rate of 6% per annum payable quarterly and are convertible into 2,000 common shares of Enterprise for each $1,000 of principal of debenture, representing a conversion price of $0.50 per common share, and having a maturity date of May 17, 2015. As at September 30, 2013, the fair value of the debentures was based on the conversion value of the debentures at Enterprise's last traded share price of $0.74 per common share.

Carta Solutions Holding Corporation ("Carta")
In August 2013, the Company purchased from Carta 2.5 million units ("Units") at $0.80 per Unit for a total consideration of $2.0 million. Each Unit consists of one common share of Carta and ¼ of one common share purchase warrant, 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 share issued by Carta is below $0.80. Carta is an international transaction processing and payments technology company, specializing in prepaid, mobile and emerging payments.

Wheels Group Inc. ("Wheels")
In September 2013, the Company purchased 1 million Series 1A preference shares of Wheels at $0.95 per share for a total consideration of $0.95 million. Wheels Group is a Canadian third-party logistics provider.

Marketable Securities

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

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. During the quarter ended September 30, 2013, the Company purchased 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. As at September 30, 2013, the Company held 46.1 million common shares of Lignol and 8.3 million purchase warrants.

Aurinia Pharmaceuticals Inc. ("Aurinia")
In September 2013, the Company invested $2 million for an aggregate of 44,444,444 units of Aurinia. Each unit consists of one common share of Aurinia and one-half of one common share purchase warrant. Each warrant is exercisable into one common share of Aurinia at a price of $0.05 per share and expires on September 20, 2016. As at September 30, 2013, each Aurinia warrant was valued at $0.005. Aurinia is a Canadian company in the life sciences industry focused on the development of voclosporin, a candidate medicine for the treatment of lupus nephritis and other autoimmune diseases.

Wheels Group Inc.
In September 2013, the Company purchased 1 million common shares of Wheels at $0.85 per share for a total consideration of $0.85 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 September 30, 2013, the Company held approximately $12.8 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. The majority of this portion of the portfolio consists of two Canadian companies with capitalizations ranging from $50 million to $100 million. The largest such holding is a pharmaceutical company, while the second investment is a company seeking a transformational transaction.

4. CONVERTIBLE DEBENTURES

On July 4, 2013, the Company issued senior unsecured convertible debentures (the "Debentures") in an aggregate principal amount of $50.0 million. 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.

The Debentures mature on July 31, 2018 and bear interest at a rate of 8% per annum payable January 31, 2014 and semi-annually thereafter. 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 are not redeemable prior to July 31, 2016. On and after July 31, 2016 and prior to July 31, 2017, the Debentures may be redeemed from holders selected by the Company, in whole or in part, from time to time at the option of the Company on not more than 60 days and not less than 30 days prior notice at a price equal to their principal amount plus accrued and unpaid interest, provided that the current market price on the date on which the notice of redemption is given is not less than 125% of the conversion price. After the Company has sent a notice of redemption, any subsequent conversion of such Debentures that were the subject of the notice, prior to the date of redemption, shall be at the discretion of the Company. On or after July 31, 2017 and prior to the maturity date, the Debentures may be redeemed in whole or in part at the option of the Company on not more than 60 days and not less than 30 days prior notice at a price equal to their principal amount plus accrued and unpaid interest.

At initial recognition, the Company allocated the proceeds between liabilities and equity. The allocation was performed by first estimating the fair value of the Debentures which is the liability in absence of the conversion feature using a market rate of interest of 10%. The Company then used the residual method to determine the value of the equity component represented by the conversion feature. The amounts allocated between liabilities and equity, net of transaction costs were $48.7 million and $4.1 million, respectively.

5. SHARE CAPITAL

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

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 consisted 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 10 existing Common Shares.

On July 26, 2013, 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.

After giving effect to the consolidation, there were 39,317,634 Common Shares outstanding as at September 30, 2013 [December 31, 2012 – 11,882,736] with a stated capital of $181,731,628 [December 31, 2012 – $86,455,084]. Total Purchase Warrants outstanding as at September 30, 2013 were 77,174,864 [December 31, 2012 – nil]. Every 10 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.

6. INCOME TAXES

As at September 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 $25.3 million [December 31, 2012 – $23.3 million].

7. FINANCIAL INSTRUMENTS

Financial instruments – fair value estimation

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

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

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

As at September 30, 2013

($000)	**Level 1**	**Level 2**	**Level 3**	**Total**
Equities	**20,216**	**—**	**32,166**	**52,382**
Convertible Debentures	**—**	**4,917**	**47,526**	**52,443**
Debentures and Loans	**—**	**—**	**5,733**	**5,733**
Partnership Interests	**—**	**—**	**7,714**	**7,714**
Promissory Notes	**—**	**—**	**12,321**	**12,321**
Warrants	**—**	**617**	**3,175**	**3,792**
Total	**20,216**	**5,534**	**108,635**	**134,385**

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 September 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 September 30, 2013:

	($000)
Opening balance, July 1, 2013	**80,570**
Purchases	**26,095**
Sales	**(977)**
Net transfers	**—**
Realized gains	**—**
Change in unrealized appreciation	**2,947**
Balance, end of period	**108,635**
Total change in unrealized appreciation of assets held as at September 30, 2013	**2,947**

For the nine months ended September 30, 2013:

	($000)
Opening balance, January 1, 2013	**53,880**
Purchases	**53,629**
Sales	**(2,826)**
Net transfers	**—**
Realized gains	**230**
Change in unrealized appreciation	**3,722**
Balance, end of period	**108,635**
Total change in unrealized appreciation of assets held as at September 30, 2013	**3,941**

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 dates. The fair value of securities that 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 valued at par, if the price of the underlying common shares is less than the conversion price or if the underlying common shares are not publicly traded; valued as though converted to common shares if the price of the underlying common shares exceeds the conversion price; or valued based on quoted market prices of similar convertible debt investments of the same issuer. 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 that 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.

As at September 30, 2013, the Company holds the following fixed-rate debt instruments: (a) $53.9 million [December 31, 2012 – $36.4 million] in convertible debentures with a weighted average interest rate of 6.89% [December 31, 2012 – 6.07%] and a weighted average term to maturity of approximately 1.5 years [December 31, 2012 – 1.9 years]; and (b) $18.7 million [December 31, 2012 – $5.0 million] in non-convertible debentures with a weighted average interest rate of 8.49% [December 31, 2012 – 9.60%] and a weighted average term to maturity of approximately 1.1 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 $900,000 [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 $450,000 [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 September 30, 2013, the Company is exposed to foreign exchange risk through its US dollar-denominated investments of $29.2 million [December 31, 2012 – $16.0 million] and its Australian dollar-denominated investments of $2.9 million [December 31, 2012 – $3.5 million], which together represents approximately 17% 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 $13.4 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 as at September 30, 2013 is $72.6 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 September 30, 2013, the Company's liquidity risk is limited to exposure to accounts payable and accrued liabilities and accrued interest on convertible debentures, which are due within 12 months of September 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.

8. RELATED PARTY TRANSACTIONS

Management Agreement

The Company has a management agreement with Difference Capital Management Inc. ("DCM") (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 nine months ended September 30, 2013, management fees of $1.9 million [2012 – $0.2 million] and performance fees of nil [2012 – nil] were accrued. As at September 30, 2013, performance and management fees payable to the manager were $690,354 [December 31, 2012 – $1,880,120]. The outstanding payables were paid subsequent to September 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. Additionally, as of July 1, 2013, the Company is entitled to receive 40% of all advisory revenue generated by DCM. For the nine months ended September 30, 2013, the Company accrued revenue of $844,734 from such advisory fees [2012 – nil]. Also under the terms of the Management Agreement, the Company is required to reimburse DCM for certain operating expenses beginning January 1, 2013. For the nine months ended

September 30, 2013, the Company accrued operating expenses of $81,980 [2012 – nil]. As at September 30, 2013, advisory fee receivable from DCM was $272,699.

Other Related Party Transactions

In May 2013, the Company issued a $2.5 million 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. The Note and accrued interest of $18,836 were repaid on July 5, 2013.

In July 2013, 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 for total consideration of $4.8 million, 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.

9. CAPITAL MANAGEMENT

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

10. BASIC AND DILUTED EARNINGS PER SHARE

The following table presents the calculation of basic and fully diluted earnings per common share for the three and nine months ended September 30, 2013

	3 months ended September 30, 2013	**3 months ended September 30, 2012**	**9 months ended September 30, 2013**	**9 months ended September 30, 2012**
Basic earnings per share				
Net income	**$69,537**	$(188,122)	**$(1,116,949)**	$(1,477,266)
Weighted average common shares	**36,056,764**	11,603,195	**30,262,689**	6,007,940
Basic earnings per share	**$0.00**	$(0.02)	**$(0.04)**	$(0.25)
Fully diluted earnings per share				
Net income	**$69,537**	$(188,122)	**$(1,116,949)**	$(1,477,266)
Weighted average common shares after taking into effect dilutive convertible debentures	**36,056,764**	11,603,195	**30,262,689**	6,007,940
Fully diluted earnings per share	**$0.00**	$(0.02)	**$(0.04)**	$(0.25)

In calculating diluted earnings per common share for the three months and nine months ended September 30, 2013, the Company excluded 9,752,699 common shares from the conversion of the convertible debentures, as their impact was anti-dilutive.

11. NET ASSET VALUE

The Interim Financial Statements contain references to “Net Asset Value” (basic and fully diluted) (“NAV”), which is a non-GAAP financial measure. The basic NAV is calculated 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. Fully diluted NAV is calculated by taking basic NAV and account for any dilutive impact of outstanding securities of the Company that are convertible into or exercisable for commons shares have been converted or exercised. The term net asset value per share does not have any standardized meaning according to GAAP and therefore may not be comparable to similar measures presented by other companies.

12. COMPARATIVE FIGURES

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

13. SUBSEQUENT EVENTS

Graduation to Toronto Stock Exchange

On October 21, 2013, the Company's common shares became listed on the Toronto Stock Exchange under the symbol "DCF" and the convertible debentures were listed on the TSX under the symbol "DCF.DB". At the same time, the Company's securities were delisted from the TSX Venture Exchange.

Investments

Subsequent to quarter-end, the Company advanced a further $2.0 million to Lignol under the existing secured grid promissory note.

In October 2013, the Company made a $5.0 million investment in BuildDirect.com Technologies Inc. ("BuildDirect"), through the purchase of 1,428,571 common shares of BuildDirect at $3.50 per share. BuildDirect is an online supplier of home improvement products and other heavy goods.

In November 2013, the Company invested $3.0 million in Vena Solutions Canada Inc. ("Vena") in the form of unsecured convertible debentures paying 10% interest per annum and convertible into common shares of Vena at a price of $1.85 per common share with a maturity date of November 4, 2016. Vena Solutions delivers a flexible performance management solution available for budgeting, forecasting, planning, reporting, analytics, and other mission-critical finance and accounting processes to large and mid-market companies around the world.

Subsequent to quarter-end, the Company committed to purchase unsecured convertible debentures issued by Bluedrop Performance Learning Inc. ("Bluedrop") in the principal amount of $3,000,000. Under the terms of the financing commitment, the debentures will bear interest at a rate of 14% per annum payable quarterly and will mature three years from the date of issuance. The debentures will be convertible into common shares of Bluedrop at the option of the Company at any time prior to the maturity date at a conversion price of $0.15 per common share. The anticipated date of the Bluedrop financing is late December 2013.