DIFFERENCE CAPITAL FINANCIAL INC.
MANAGEMENT DISCUSSION AND ANALYSIS

For the quarter ended September 30, 2013

November 27, 2013

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Management's Discussion and Analysis

November 27, 2013

The following provides additional analysis of the operations and financial position of Difference Capital Financial Inc. (formerly Difference Capital Funding Inc.) ("Difference Capital" or the "Company") (TSX: DCF). It is supplementary information and should be read in conjunction with the Company's audited financial statements and accompanying notes as at December 31, 2012 and unaudited interim financial statements and accompanying notes for the period ended September 30, 2013. All dollar amounts in this MD&A are reported in Canadian dollars, unless otherwise stated.

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

All capitalized terms herein that are not defined shall have the same meaning as set forth in the Company's Annual Information Form dated June 18, 2013, which can be accessed under the Company's profile on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

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

NOTE REGARDING NON-GAAP FINANCIAL MEASURES

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

ABOUT DIFFERENCE CAPITAL

Difference Capital is a publicly-listed 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 investment strategy is currently focused on investments in debt and equity securities in both privately held and public target companies ("Target Companies").

We believe that the continued growth and success of the Company is strongly linked to our management team and human capital in addition to our strong partnerships with current and potential investee partners. The Company continues to assemble a dynamic management team, which brings together different skillsets that uniquely position it to offer a complement of services to its shareholders. The Company believes that having management aligned with shareholders will be a key driver of long-term performance. As of November 27, 2013, management and directors own approximately 30% of the Company's issued and outstanding share capital.

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

The Company is in excellent financial condition with \$50.7 million in cash as at September 30, 2013. In July 2013, the Company completed the sale of 8.0% Convertible Unsecured Subordinated Debentures (the "Debentures") for gross proceeds of \$56.0 million and a common shares offering (the "Equity Offering") for gross proceeds of \$45.0 million. With a strong cash position after these successful closings, the Company is well positioned to pursue its investment strategy.

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

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

While the Company has made investments of up to \$30 million, typical investment sizes range from \$2.0 million to \$5.0 million. When investments are made they may be accompanied by share purchase warrants to enhance the return on account of increased risk. Debt placements often include conversion rights and in some cases are accompanied by bonus shares or warrants, and may be secured by tangible assets of sufficient value to safeguard the investment.

In pursuit of returns, the Company, when appropriate, employs the following disciplines:

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

- The Company seeks investments that include as many of the following characteristics as possible: (i) a product/service with national/international market potential; (ii) gross margins that support a sustainable growth rate in excess of 25% per annum and at least 15% per annum; (iii) low asset intensity ratios (i.e. less than 50%); (iv) protected intellectual property; (v) scalability; and (vi) currently revenue generating.

- At this time, the Company seeks investments primarily, albeit not exclusively, in the technology, media and healthcare sectors and focuses on investments with clear paths to liquidity in a two to three year period. As investment issuers need to be managed for cash flow in order to reduce financing risks associated with delayed liquidity events, certain sectors will not be considered by the Company.

- The Company has a target rate of return when entering an investment in a Target Company of greater than a typical equity index return. Returns are expected to materialize partially from income on its debt and convertible debenture holdings, but primarily through capital gains based on the growth of its equity and equity-linked securities.

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

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

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

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

The Manager operates a complementary advisory and consulting services business to assist clients with capital markets, media, communications, government, regulatory and strategic advice. The Manager's advisory and consulting services are focused on delivering impartial, creative, and long-term ideas to clients by a management team with diverse and complementary skill sets. The model focuses on a relationship-driven approach that provides advice tailored to each client's specific needs and circumstances to ensure delivery of individual solutions. The Manager works with advisory clients' senior management to deliver solutions for a range of issues.

Under the management agreement between the Company and the Manager, the Company is entitled to receive 40% of any advisory or consultancy fees, net of direct expenses, earned by the Manager from the Company's investee companies. Additionally, effective July 1, 2013, the Company is entitled to receive

40% of all advisory revenue generated by the Manager, whether or not generated from investee companies. As there are no direct expenses associated with this revenue stream and the Company has significant operating tax loss carry forwards, Difference Capital's entire advisory revenue stream effectively flows straight through to net income. The response from growth companies to the Company's combined strategic advice and capital investment platform has been very positive, and this service offering is expected to be a key growth area for the Company.

RECENT EVENTS

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 September 30, 2013.

On July 4, 2013, the Company completed its offering of Debentures at a price of $1,000 per Debenture for aggregate principal amount of $50 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. On July 19, the Company completed the sale of an additional $6,079,000 of the Debentures pursuant to the partial exercise of the over-allotment option.

On July 26, 2013, the Company completed its Equity Offering pursuant to which the Company sold 12 million common shares for aggregate gross proceeds of $45 million. The common shares under the Equity Offering were priced at $3.75 per share. The Company intends to use these net proceeds for additional strategic investments in target companies and for general corporate purposes and working capital.

On October 21, 2013, the Company received final approval from the Toronto Stock Exchange ("TSX") to graduate from the TSX Venture Exchange and list its common shares and Debentures on the TSX.

RESULTS OF OPERATIONS

The selected interim financial information set out below for the eight most recently completed quarters has been derived from the Company's unaudited interim financial statements and accompanying notes posted on www.sedar.com. Readers should read the following financial information in conjunction with those statements and notes. We generally view investments as being material for the purpose of our discussion in this MD&A if they are greater than 2% of our NAV, currently representing about $2.7 million; however, certain investments which do not exceed these thresholds may also be deemed to be material to our discussion.

SUMMARY OF QUARTERLY RESULTS

(thousands of dollars, except per share amounts)	2013			2012				2011
	Q3	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**
Revenue	1,725	1,121	1,067	533	372	1	-	0
Net investment gains (losses)	1,375	(2,231)	910	7,776	(151)	(3,023)	2,296	(1,360)
Net income (loss)	69	(2,056)	870	5,753	(188)	(3,495)	2,206	(1,483)
Earnings (loss) per share	0.00	(0.08)	0.03	0.23	(0.02)	(0.72)	1.46	(0.98)

Three Months Ended September 30, 2013:

Net income for the quarter ended September 30, 2013 was $69,537 compared to a net loss of $188,122 for the quarter ended September 30, 2012 and a net loss of $2,056,154 for the quarter ended June 30, 2013.

For the three months ended September 30, 2013, the Company had a realized loss on disposition of investments and marketable securities of $86,819. During the same period last year, the Company had a realized loss on disposition of investments and marketable securities of $1,716,484, consisting primarily of the distribution of the common shares of Feronia Inc. (a legacy investment of the former TriNorth Capital Inc.) to shareholders. During the second quarter of 2013, the Company realized a gain on disposition of investments and marketable securities of $1,185,667, primarily due to a gain on disposition of marketable securities.

For the three months ended September 30, 2013, the Company had net change in unrealized gain on investments and marketable securities of $1,461,886. The change in unrealized gain is comprised of the appreciation of investments in InfraRedX, Inc. and Enterprise Group Inc. totalling $4,465,660, offset by the depreciation of the investment in Crailar Technologies Inc. of $926,801 and unrealized foreign exchange loss on foreign investments of $591,685. During the same period last year, the Company had a net change in unrealized gain of $1,565,369. During the second quarter of 2013, unrealized loss on investments and marketable securities was $3,417,126, consisting primarily of unrealized loss on marketable securities being measured at fair value.

Interest, dividend and other revenue increased to $1,315,388 in the three months ended September 30, 2013 from $372,299 in the same period of 2012 and $941,024 in the previous quarter. The increase was primarily attributed to interest revenue from the Company's growing portfolio investments in convertible debentures and debentures.

Revenue from advisory fees was $409,394 for the quarter ended September 30, 2013, compared to $nil for the same period last year and $180,000 in the previous quarter. The higher advisory fees earned during the quarter was attributed to a combination of higher transaction fee revenue from existing advisory clients and additional revenue generated from new clients.

For the quarter ended September 30, 2013, management fee expense was $916,827 compared to $147,591 and $548,856 for the quarters ended September 30, 2012 and June 30, 2013 respectively. The increase in management fees was due to higher a Net Asset Value upon which management fees are calculated.

For the quarter ended September 30, 2013, no performance fee was accrued.

For the three months ended September 30, 2013, operating, general and administrative expenses were $618,270, compared to $250,206 for the quarter ended September 30, 2012 and $524,167 in the second quarter of 2013. Operating, general and administrative expenses consist of legal, filing, audit, advisory and directors' fees, professional fees and HST on management fees. Higher operating, general and administrative expenses during the quarter are consistent with the higher volume of investing and administrative activities during the quarter as the Company's Net Asset Value increased significantly following the completion of the Debenture and Equity Offerings in July 2013.

During the quarter ended September 30, 2013, the Company incurred financing costs of $1,390,135 as compared to $11,509 in the three months ended September 30, 2012 and $24,026 for the three months ended June 30, 2013. Financing costs consisted primarily of interest expense and amortization of finance costs on the Debentures.

Transaction costs increased to $105,080 during the quarter ended September 30, 2013 compared to $nil and $18,254 for the quarters ended September 30, 2012 and June 30, 2013 respectively. Higher transaction costs during the quarter can be attributable to higher trading activities in the Company's marketable securities portfolio.

Nine Months Ended September 30, 2013:

Net loss for the nine months ended September 30, 2013 was $1,116,949 versus net loss of $1,477,266 for the same period last year.

Realized gain on disposal of investments and marketable securities during the period was $2,410,213 compared to realized loss of $1,662,217 in the prior year. Included in the realized gain during the period was $2,185,873 from disposition of marketable securities and a $220,000 gain on the sale of Virgin Gaming debentures. Realized loss in the prior year was primarily due to the distribution of the common shares of Feronia Inc. (a legacy investment of the former TriNorth Capital Inc.) to shareholders.

For the nine months ended September 30, 2013, the Company had a net change in unrealized loss on investments and marketable securities of $2,356,390 compared to a net change in unrealized gain of $783,926 for the nine months ended September 30, 2012. Included in the net change in unrealized loss during the period was $4,521,599 in unrealized loss on marketable securities being measured at fair value, $1,777,181 of reclassification from unrealized gain to realized gain on investments and marketable securities sold during the period and depreciation of investment in Crailar Technologies Inc. of $926,801. The unrealized loss was offset by appreciation of investments in InfraRedX, Inc. and Enterprise Group Inc. totalling $4,465,660 and unrealized foreign exchange gain of $319,358.

Interest, dividend and other revenue were $3,068,298 for the nine months ended September 30, 2013 compared to $373,012 for the same period in the prior year. The increase was primarily attributable to interest earned from the Company's growing portfolio investments in convertible debentures and debentures.

Revenue from advisory fees for the nine months ended September 30, 2013 was $844,734 versus $nil for the same period in the prior year. Advisory fee revenue accounts for approximately 45% of management fee expense incurred during the same period.

Management fees for the nine months ended September 30, 2013 were $1,872,974 compared to $201,879 for the nine months ended September 30, 2012. The increase in management fees was attributed to an increase in Net Asset Value upon which management fees are calculated.

Operating, general and administrative expenses were $1,617,874 during the nine months ended September 30, 2013, compared to $755,532 during the nine months ended September 30, 2012. Operating, general and administrative expenses consist of legal, filing, audit, advisor and directors' fees, professional fees and HST on management fees. The year over year increase in operating, general and administrative expenses is consistent with the higher volume of investing and administrative activities as the Company's capital increased significantly over this period.

During the nine months ended September 30, 2013, the Company incurred financing costs of $1,415,070 as compared to $11,509 in the same period last year. Financing costs consist of interest expense and amortization of finance costs on the Debentures.

FINANCIAL POSITION AND LIQUIDITY

During the nine months ended September 30, 2013, cash used in operating activities was $53.5 million, up from $32.5 million in the same period of 2012. The Company spent $52.7 million towards the purchase of investments and $24.8 million towards the purchase of marketable securities compared to $28.9 million towards the purchase of investments and $3.3 million towards the purchase of marketable securities during the same period of 2012. The Company received $21.9 million in proceeds from the disposition of marketable securities and $2.8 million in proceeds from the disposition of investments, versus $0.2 million in proceeds from the disposition of investments in the same period of 2012.

As at September 30, 2013, the Company had investments with fair values totalling $109.3 million, marketable securities totalling $25.1 million, and cash and cash equivalents in the amount of $50.7 million.

The Company's cash and cash equivalents increased by $41.3 million to $50.7 million in the first nine months of 2013, in large part from the proceeds of the Debentures and Equity Offering, offset by investments and operating expenses incurred during the year. Marketable securities decreased by $1.4 million to $25.1 million over the same period due to the disposition of publicly listed securities. Accrued interest, prepaid expenses and other receivables increased by $2.0 million, primarily due to higher interest earned from the Company's portfolio investments in convertible debentures and debentures as well as from higher advisory fee revenue.

The Company's accounts payable and accrued liabilities, including management fees and performance fees payables, decreased by $1.4 million to $1.1 million during the nine months ended September 30, 2013, primarily due to the payment of the 2012 performance fee payable.

As at September 30, 2013, the Company accrued $1.1 million of interest payable on the Debentures.

The Company believes it has adequate working capital to support its operations. The Company's primary use of cash is to make investments and to pay for operating expenses.

We believe that the Company's NAV is an important long-term tool to evaluate our performance as it is a meaningful indicator of overall growth and asset performance. As of September 30, 2013, our NAV per share was $3.43 (December 31, 2012 - $3.29).

We have reflected no value for our tax-loss carry forwards in the financial statements. However, we do believe that a value can be attributed to these tax losses in terms of how they are perceived in the marketplace. As a benchmark, we assess the value to be 5.5% of the aggregate amount of tax-loss carry forwards, or approximately $9.1 million on aggregate losses of $166 million. This amount equates to approximately $0.23 per share.

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

UPDATE ON INVESTMENTS

During the nine month period ended September 30, 2013, the Company made investments that included, but not limited to, the following companies:

WG Limited ("Virgin Gaming" or "Virgin")
During January and February 2013, the Company purchased an aggregate of approximately $2.4 million of Virgin common shares from existing Virgin shareholders through a number of separate transactions. On January 31, 2013 the Company sold $1.1 million face amount of Virgin convertible debentures at a 20% premium to its acquisition price. 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.

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 investment 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. As at September 30, 2013, the fair value of these debentures is based on the last bid price of Crailar's publicly listed convertible debentures.

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

Appinions Inc. (“Appinions”)
In March 2013, the Company invested US $250,000 in Appinions in the form of convertible senior debentures and warrants. The 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 under the same terms.

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. 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 a total of $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 were 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 the par of $2.00 per share.

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 $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.

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 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 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 debt held by the Company to $9.75 million as at September 30, 2013. Subsequent to the quarter-end, the Company loaned to Lignol another $2.0 million, bringing the Company’s total holding of December 31, 2014 warrants to 41.9 million.

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 common shares of Enterprise at a price of $0.50 per share with a maturity date of May 17, 2015. Enterprise is a consolidator of construction services companies operating in the energy, utility and transportation infrastructure industries. Enterprise's focus is primarily utility and infrastructure construction and specialized equipment rental. Enterprise is a leader in flameless heat technology and is poised to become a technological leader in underground infrastructure construction upon closing of its pending infrastructure construction acquisition. As at September 30, 2013, the fair value of the debentures is based on the conversion value of the debentures at Enterprise's last traded price of $0.74 per common share

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.

Carta Solutions Holding Corporation ("Carta")
In August 2013, the Company purchased from Carta 2.5 million units ("Unit" or "Units") at $0.80 per Unit for a total consideration of $2 million. Each Unit will be comprised of one common share of Carta (the "Carta Shares") and ¼ of one common share purchase warrant (the "Carta Warrants"), with each whole Carta Warrant exercisable for a further Carta 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 Carta Warrants are exercisable, the exercise price of the Carta 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.

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.

Subsequent to quarter end, the Company made the following investments:

Lignol
The Company advanced a further $2.0 million to Lignol under the existing secured grid promissory note.

BuildDirect.com Technologies Inc. ("BuildDirect")
The Company made a $5.0 million investment in 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.

Vena Solutions Canada Inc. ("Vena")
In November 2013, the Company invested $3.0 million in 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 the most 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. Vena's unified web-based software platform embraces all the power and flexibility of Microsoft Excel® yet provides powerful workflow management, control and reporting capabilities.

Marketable Securities – Core Investments

During the nine months ended September 30, 2013, the Company made investments in marketable securities including, but not limited to, the following investments in publicly listed companies:

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

Amaya Gaming Group Inc. (“Amaya”)
On February 7, 2013, the Company made a $1.0 million investment in Amaya in the form of a $1.0 million par value debenture and 48,000 common share purchase warrants. The debentures pay 7.5% 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.

Lignol Energy Corporation (“Lignol”)
On March 7, 2013, 7,666,667 Lignol subscription receipts held by the Company converted to Lignol units. During the second quarter of 2013, 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. Each warrant is exercisable for one common share of Lignol at a price of $0.20 per share until December 17, 2014. 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. As at September 30, 2103, the Company held 46.1 million shares of Lignol, representing approximately 30% of Lignol’s basic shares outstanding.

Aurinia Pharmaceuticals Inc. (“Aurinia”)
In September 2013 the Company invested $2 million in Aurinia for an aggregate of 44,444,444 units of Aurinia. Each unit is comprised of one common share of Aurinia and one-half of one common share purchase warrant. Each warrant is exercisable into a share of Aurinia at a price of $0.05 per share until September 30, 2016. 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. (“Wheels”)
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 $13.3 million, at fair value, in listed equity securities in this tactical portfolio, excluding the investments referenced above. The majority of this portion of the portfolio consisted 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.

RELATED PARTY TRANSACTIONS

Management Agreement

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

Under the Management Agreement, 40% of any advisory or consultancy fees, net of direct expenses, earned by the Manager from investee companies shall be remitted to the Company. Additionally, as of July 1, 2013, the Company is entitled to receive 40% of all advisory revenue generated by the Manager.

For the quarter ended September 30, 2013, management fees of $916,827 were accrued to the Manager. For this period, a receivable for its share of advisory fees of $409,394 was recorded by the Company.

Other Related Party Transactions

As part of its investment process and where the Company is making a significant investment relative to the total outstanding equity of an investee, the Company may seek representation on the board of directors of such investee companies, or the rights to attend and observe board meetings.

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.

CRITICAL ACCOUNTING ESTIMATES

Key valuation estimates on non-public investments

Included in the Company's investment portfolio are the following types of investments:

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

For public company warrants (i.e. the underlying security of which is traded on a recognized stock exchange), a Black-Scholes valuation model is used when there are sufficient and reliable observable market inputs. These market inputs include risk-free interest rate, exercise price, market price at date of issue, expected dividend yield, expected life of the instrument and expected volatility of the underlying securities. To the extent that the market inputs are insufficient or unreliable, the warrants are valued at their intrinsic value, which is equal to the higher of the closing bid price of the underlying security, less the exercise price of the warrant, or nil. For private company warrants, the underlying security of which is not traded on a recognized stock exchange, fair value is determined consistently with other investments which do not have an active market as described above

INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

The Company has developed a transition plan to changeover to IFRS and meet the required timetable. As at September 30, 2013, the expected impact to the financial statements based on the Company's assessment of the differences between current Canadian GAAP and IFRS are as follows:

- IFRS 13 Fair Value Measurement permits the use of mid-market prices or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. As a result, the valuation of the investments may be impacted.

- IFRS 10 Consolidated Financial Statements provides an exception to the consolidation requirements and requires investment entities to account for subsidiaries at fair value through profit or loss. Although not impacting current presentation, additional disclosure would be required relating to how the investment entity definition was met, information about each unconsolidated subsidiary, and details of financial and contractual arrangements.

Other reclassifications, presentation differences, and additional disclosures will also be required in the financial statements to comply with the new requirements under IFRS.

RISK FACTORS AND RISK MANAGEMENT

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

There were no significant or material changes to the Company's risk factors and risk management during the nine months ended September 30, 2013. The Company's risks are described in its annual MD&A for the year ended December 31, 2012 which can be found on SEDAR (www.sedar.com). Additional risks not currently known to the Company or that are currently believe to be immaterial, may also affect and negatively impact the Company's business.

OUTSTANDING SHARE DATA

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

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.

On July 26, 2013, the Company completed its 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.

As at September 30, 2013, there were 39,317,634 outstanding common shares with a stated capital of $181,731,628 (11,603,196 outstanding common shares with a stated capital of $85,601,692 as at September 30, 2012). There are no outstanding preference shares.

As at September 30, 2013, there were warrants outstanding to acquire 7,717,486 common shares at an exercise price of $6.00 per common share at any time prior to October 3, 2014.

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