DIFFERENCE CAPITAL FINANCIAL INC.
MANAGEMENT DISCUSSION AND ANALYSIS

for the year ended December 31, 2013

March 26, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

March 26, 2014

This Management's Discussion and Analysis ("MD&A") dated March 26, 2014 presents an analysis of the financial position of Difference Capital Financial Inc. (formerly Difference Capital Funding Inc.) ("Difference Capital" or the "Company") as at December 31, 2013, compared with December 31, 2012, and the results of operations for the year ended and quarter ended December 31, 2013, compared with the year ended and quarter ended December 31, 2012 and the quarter ended September 30, 2013. It is supplementary information and should be read in conjunction with the Company's audited financial statements and accompanying notes as at December 31, 2013 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 the Company's website at www.differencecapital.com.

FORWARD-LOOKING STATEMENTS

Certain information contained in this MD&A constitutes forward-looking information, which is information relating to possible events, conditions or results of operations of the Company, which are based on assumptions about future economic conditions and courses of action and which are inherently uncertain. All information other than statements of historical fact may be forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "target", "intend", "could", "might", "should", "believe", and similar words or phrases (including negative variations) suggesting future outcomes or statements regarding an outlook. Forward-looking information in this MD&A includes, but is not limited to, statements with respect to: the Company's investment approach, objectives and strategy, including its focus on specific sectors; the structuring of its investments and its plans to manage its investments; the Company's financial performance; and its expectations regarding the performance of certain sectors.

Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Company believes that the expectations reflected in the forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct. Some of the risks and other factors which could cause results to differ materially from those expressed in forward-looking information contained in this MD&A include, but are not limited to: the nature of the Company's investments; the available opportunities and competition for its investments; the concentration of its investments in certain industries and sectors; the Company's dependence on its manager and management team; risks affecting the Company's investments; global political and economic conditions; investments by the Company in private issuers which have illiquid securities; management of the growth of the Company; exchange rate fluctuations; and other risks and factors discussed in this MD&A under "Risk Factors".

Although the Company has attempted to identify important factors that could cause actual events or results to differ materially from those described in forward-looking information, there may be other factors that cause events or results to differ from those intended, anticipated or estimated. Readers are cautioned that the foregoing list of risks and factors is not exhaustive. The forward-looking information contained in this MD&A is provided as at the date of this MD&A, based upon the opinions and estimates of management and information available to management as at the date of this MD&A, and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law. Readers are cautioned not to place undue reliance on forward-looking information contained in this MD&A.

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-Generally Accepted Accounting Principles ("GAAP") financial measure. The Company calculates 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 accounting for any dilutive impact of outstanding securities of the Company that are convertible into or exercisable for common shares as if they had 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. Management believes that the measure can provide information useful to its shareholders in understanding the Company's performance and facilitate the comparison of the results of its ongoing operations, and may assist in the evaluation of the Company's business, relative to that of its peers.

ABOUT DIFFERENCE CAPITAL

Difference Capital is a 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 primarily focused on investments in debt and equity securities in late stage privately held target companies ("Target Companies").

The Company believes that its continued growth and success is strongly linked to its management team and human capital in addition to its strong partnerships with current and potential investee partners. The Company has assembled 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 March 26, 2014, management and directors own approximately 23% of the Company's issued and outstanding common shares.

Difference Capital Management Inc. (the "Manager"), the manager 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 located in the Province of Ontario, Canada and its principal address is 130 King St. West, Suite 2950, Toronto, Ontario, 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.

BUSINESS STRATEGY

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 later stages of a Target Company's development or in emerging 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 strategically targeted sectors, the Company is well positioned to benefit from a global economic recovery and positive trends in Canadian and international growth companies. The Company believes the Canadian capital 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. Recent sector returns in 2013 support this view. For example, the technology, media and healthcare innovation sectors outperformed the overall TSX composite index in 2013 and management believes significant demand remains for more growth focused equities. There are very few merchant banks in Canada focused on this sector, providing an opportunity for our team to capitalize on evolving growth trends. The Company's near-term vision continues to be that it will complement gains from capital appreciation in its Target Companies with a recurring and growing income stream from advisory and equity capital markets ("ECM") services provided to companies by our 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) high gross margins that support strong competitive advantages; (iii) the ability to sustain growth rate in excess of 25% per annum; (iv) protected intellectual property; (v) scalability; and (vi) currently generating revenue in excess of several million dollars.
- 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 and sector 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 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. 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. During 2013, the Company chose to deemphasize alternative asset classes in order to focus its effects on late stage, pre-IPO growth companies.

The Manager operates a complementary advisory and ECM consulting business to assist corporate 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.

The Company has executed a management agreement with the Manager, dated January 18, 2013 with effect as of May 29, 2012, as amended by an amending agreement dated March 26, 2014 with effect as of July 1, 2013 (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 net asset value of the Company, as determined by subtracting the aggregate fair value of the liabilities of the Company (excluding any convertible debentures or debentures that have a term of greater than one year, in each case, for greater certainty, debentures that have been issued by the Company which includes the Company's current unsecured subordinated debentures) from the aggregate fair value of the assets of the Corporation on the date on which the calculation is being made, calculated and payable monthly as of the last business day of each month. Under the Management Agreement, the Company is entitled to receive 40% of any advisory or consultancy fees, net of direct expenses, earned by the Manager from the Target 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 Target 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.

2013 REVIEW

2013 was a defining year for Difference Capital in which the Company executed across all areas of the business establishing the Company as the leader in its space. A selection of the Company's achievements include:

- Difference Capital, through its Manager, actively built a team of highly experienced investment professionals focused on delivering value to its shareholders. The following investment executives joined the firm during the year: Tom Astle, Jamie Brown, Tom Liston and Dushan Batrovic.

- The Company attracted top tier independent board and advisory board members with significant depth of experience in their respective sectors including technology, media, government and financial services. During 2013, the Company announced the appointment of Ivan Fecan to the Board of Directors and formed an advisory board consisting of the Hon. David Peterson, Jim Ryan, Hon. John Reynolds, Lorie Haber and Mark Opzoomer.

- In July 2013, the Company completed public offerings of securities for total gross proceeds of \$101 million, consisting of \$56 million of 8.0% convertible unsecured subordinated debentures (the “Debentures”) and \$45 million of common shares. Since June 2012, the Company has raised approximately \$185 million of capital for strategic investments in Target Companies and for general corporate purposes and working capital.

- During 2013, the Company focused on portfolio growth and continued to build its portfolio with some of the most promising later stage private companies in the technology, media and healthcare sectors in North America. For example, these new positions included investments in Vision Critical, BuildDirect, and BTI Systems. The Company’s total investment assets net of marketable securities sold short reached approximately \$139.7 million as at December 31, 2013. Further details of significant investments made during the year are outlined under the “Investments” section hereof.

- In October 2013, the Company received approval from the Toronto Stock Exchange (the “TSX”) to graduate from the TSX Venture Exchange and list its common shares and Debentures on the TSX. The Company’s shares are traded under the stock symbol “DCF” and the Debentures are traded under the symbol “DCF.DB”.

- In December 2013, the Company obtained applicable regulatory approval to purchase for cancellation up to one million of its common shares and up to \$2.0 million principal amount of the Debentures, through to December 4, 2014. During the year ended December 31, 2013, the Company repurchased 185,300 common shares under the normal course issuer bid at an average cost of \$2.52 per common share for a total cost of \$466,437, and the Company repurchased an aggregate principal amount of \$232,000 of the Debentures for a total cost of \$210,849.

- Management believes that the nature of venture capital-type investing carries high risks that are matched with high potential rewards. Given the higher risk nature of the Company’s investments, the Company expects to and has had to recognize impairment to those investments that are not performing as originally expected. The Company also expects and has recognized positions that have performed well and the value of which the Company believes has increased. In 2013, the Company adjusted the fair market value of several earlier positions to reflect its current outlook and market conditions. See the “Investments” section below for more detail.

OUTLOOK

The Company enters 2014 with a stronger portfolio of investment assets. The Company believes several of its positions have the potential to have a liquidity event such as an IPO or trade sale over the next 12 to 24 months. The emphasis for 2014 and 2015 is to improve the Company’s liquidity as it looks to monetize some of the positions in its portfolio. The Company is confident in its opportunity to continue to re-position the portfolio into late-stage private growth companies and special situation opportunities throughout 2014.

The Company through its Manager will remain actively engaged with its portfolio companies and advisory clients to accelerate their commercialization plans, assist in mergers and acquisition opportunities, and help with capital market plans. The Company also plans to reduce the overall number of positions in its portfolio and concentrate new follow-on investments in the best-performing companies. During 2013 the Company's investments largely focused on larger more established, but still private companies and the Company expects this to continue in 2014 and 2015.

During 2014 the Company's advisory practice will continue to focus on adding new clients both from within its portfolio and externally. In 2013, the Company worked to expand its advisory product/service offerings and will be rolling out these services throughout 2014.

We have been evolving our service offering to best serve our clients with the financial advisory services they require. Our capital markets experience in Canada, the U.S. and Europe is valuable, and we believe it results in added value for clients – when we have an investment in the client, we believe it enhances returns.

RESULTS OF OPERATIONS

SELECTED ANNUAL INFORMATION:

	YEARS ENDED DECEMBER 31		
('000's, except per share amounts)	**2013**	**2012**	**2011**
Net realized gain on investments and marketable securities	$ 1,680	$ 872	$ 48
Net change in unrealized gain (loss) on investments and marketable securities	(19,113)	6,026	(1,687)
Other income	5,863	906	1
Total expenses	(8,888)	(3,528)	(711)
Net income (loss)	(20,458)	4,276	(2,348)
Basic and fully diluted earnings per share	$(0.63)	$0.40	$1.56
Total assets	$ 168,380	$ 93,342	3,226
Total liabilities	53,282	3,487	336
Net asset value	115,098	89,855	2,890
Shares outstanding*	39,132,334	11,882,736	1,509,635
Net asset value per share	$2.94	$3.29	$1.91
Share price*	$2.75	$3.40	$3.50

**post share consolidation*

Year Ended December 31, 2013

For the year ended December 31, 2013, the Company reported net loss of $20.5 million, or $0.63 per share, versus $4.3 million of net income, or $0.40 per share, for the year ended December 31, 2012. Net loss in 2013 was primarily attributed to unrealized depreciation on investments and marketable securities of $19.1 million compared to a net change in unrealized appreciation of $6.0 million in the prior year. For the year ended December 31, 2013, the Company recognized approximately $18.1 million of write-downs in non-publicly-held investments including investments in Virgin Gaming, Lignol Energy, Wasabi Energy, Crailar Technologies, Fem MED Formulas, and SoMedia Networks. In addition, the Company had approximately $6.6 million in unrealized losses on publicly traded marketable securities being marked-to-market (including $2.7 million from one security that has recovered most of its value as at the date of this release). The total net change in unrealized depreciation was partially offset by appreciation of investments in InfraredX and Enterprise Group totaling $4.2 million as well as unrealized foreign exchange gain on foreign investments of $1.4 million.

The Company realized gains of $1.7 million on dispositions of investments and marketable securities during the year ended December 31, 2013 compared with $0.9 million for the year ended December 31, 2012.

Other income for the year increased to $5.9 million compared to $0.9 million in the prior year. Other income included interest and dividend income from the investment portfolio totaling $4.7 million versus $0.9 million in 2012. Also included in other income was the 40% revenue participation in the Manager's advisory services business of $1.2 million, versus nil in 2012. The Company's share of the advisory revenue offset more than 40% of management fee incurred during the year.

Total expenses during the year ended December 31, 2013 were $8.9 million compared to $3.5 million during the year ended December 31, 2012. Higher expenses in 2013 can be attributed mainly to higher management fees and financing costs. For the year ended December 31, 2013, management fees were $2.8 million compared to $0.6 million for the year ended December 31, 2012. The increase was the result of a full year of management fees in 2013 compared with a partial year in 2012 as well as higher Net Asset Value upon which management fees are calculated. Finance expense of $2.8 million was recorded for the year ended December 31, 2013 compared to nil for the year ended December 31, 2012. The increase in finance expense from the prior year is the result of the interest and accretion expense on the $56.0 million aggregate principal amount of Debentures issued in July 2013.

SUMMARY OF QUARTERLY RESULTS

($000's, except per share amounts)	**2013**			
	Q4	**Q3**	**Q2**	**Q1**
Net realized gain (loss) on disposals of investments and marketable securities	(731)	(87)	1,186	1,460
Net change in unrealized gain (loss) on investments and marketable securities	(16,756)	1,462	(3,417)	(550)
Other income	1,950	1,725	1,121	1,067
Total expenses	(3,804)	(3,031)	(946)	(1,107)
Net income (loss)	(19,341)	69	(2,056)	870
Earnings (loss) per share	(0.49)	0.00	(0.08)	0.03

($000's, except per share amounts)	**2012**			
	Q4	**Q3**	**Q2**	**Q1**
Net realized gain (loss) on disposals of investments and marketable securities	2,535	(1,716)	-	54
Net change in unrealized gain (loss) on investments and marketable securities	5,242	1,565	(3,023)	2,242
Other income	533	372	1	0
Total expenses	(2,557)	(409)	(473)	(90)
Net income (loss)	5,753	(188)	(3,495)	2,206
Earnings (loss) per share	0.23	(0.02)	(0.72)	1.46

Quarter Ended December 31, 2013

Net loss for the quarter ended December 31, 2013 was $19.3 million, or $0.49 per share compared to a net income of $5.8 million, or $0.23 per share for the quarter ended December 31, 2012 and a net income of $0.1 million, or $0.00 per share for the quarter ended September 30, 2013.

For the three months ended December 31, 2013, the Company had a net realized loss on disposition of investments and marketable securities of $0.7 million, primarily due to disposition of its publicly traded securities portfolio. During the same period last year, the Company had a realized gain on disposition of investments and marketable securities of $2.5 million, primarily due to a gain of $2.1 million in marketable securities and a $0.4 million gain on the sale of Virgin Gaming debentures. During the third quarter of 2013, the Company realized a loss on disposition of investments and marketable securities of $0.1 million.

For the three months ended December 31, 2013, the Company had net change in unrealized loss on investments and marketable securities of $16.8 million. The Company recognized a total of $16.2 million change in unrealized depreciation in private investments including investments in Virgin Gaming, Lignol Energy, Wasabi Energy, Crailar Technologies, Fem MED Formulas and SoMedia Networks. Also included in the net change in unrealized loss during the period was $0.6 million in depreciation in the value of the Company's publicly-traded marketable securities. During the same period last year, the Company had a net change in unrealized gains of $5.2 million, primarily due to a gain of $3.6 million related to the Virgin Gaming debentures and an increase in the value of the marketable securities portfolio of $1.2 million. During the third quarter of 2013, the Company had a net change in unrealized gains of $1.5 million.

Other income for the period increased to $2.0 million compared to $1.7 million in the previous quarter. Other income included interest and dividend income of $1.6 million in the three months ended December 31, 2013, up from $0.5 million in the same period of 2012 and $1.3 million in the previous quarter. The increase was primarily attributed to interest revenue from the Company's growing portfolio investments in convertible debentures and debentures. As at December 31, 2013, $68.5 million or approximately 49% of the investment portfolio is invested in convertible debentures and debentures. Also included in other income was advisory and equity capital market revenues of $0.3 million for the quarter ended December 31, 2013, compared to $nil for the same period last year and $0.4 million in the previous quarter.

For the quarter ended December 31, 2013, management fee expense was $0.9 million compared to $0.4 million and $0.9 million for the quarters ended December 31, 2012 and September 30, 2013, respectively. The year over year increase in management fees was due to a higher Net Asset Value upon which management fees are calculated.

For the three months ended December 31, 2013, no performance fee was accrued, compared to $1.3 million for the three months ended December 31, 2012.

The Company recorded $0.7 million in provision for uncollectible receivables during the quarter ended December 31, 2013 compared to nil for the quarters ended December 31, 2012 and September 30, 2013.

For the three months ended December 31, 2013, operating, general and administrative expenses were $0.3 million, compared to $0.7 million for the quarter ended December 31, 2012 and $0.1 million in the third quarter of 2013.

For the quarter ended December 31, 2013, professional fees were $0.4 million, compared to $0.3 million for the quarter ended December 31, 2012 and $0.4 million in the third quarter of 2013. Professional fees include legal, audit, board of director and advisory fees.

During the quarter ended December 31, 2013, the Company incurred financing costs of $1.4 million as compared to $nil in the three months ended December 31, 2012 and $1.4 million for the three months ended September 30, 2013. The increase in finance expense from the prior year is the result of the interest and accretion expense on the Debentures issued in July 2013.

LIQUIDITY AND CAPITAL RESOURCES

In July 2013, the Company completed the sale of the Debentures for gross proceeds of $56.0 million and a common share offering (the "Equity Offering") for gross proceeds of $45.0 million. The Company has primarily used the net proceeds from the Debentures and Equity Offering to pursue its investment strategy and for general corporate purposes and working capital.

During the year ended December 31, 2013, cash used in operating activities was $79.3 million, up from $73.2 million in the same period of 2012. The Company spent $74.1 million in net purchases of investments and $2.2 million in net purchases of marketable securities in 2013 compared to $48.1 million in net purchases of investments and $22.3 million in net purchases of marketable securities in the prior year.

The Company had $24.2 million of cash and cash equivalents as at December 31, 2013, compared to $9.4 million at the end of 2012. Total investable assets, determined by the Net Asset Value excluding Debentures, as of December 31, 2013 were $164.1 million, up from $89.9 million at December 31, 2012.

As at December 31, 2013, the Company's investment and marketable securities portfolios increased to $139.7 million from $80.7 million at December 31, 2012.

Accrued interest, prepaid expenses and other receivables increased by $2.8 million to $3.7 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 year ended December 31, 2013, primarily due to the absence of a performance fee payable for 2013.

As at December 31, 2013, the Company accrued $2.2 million of interest payable on the Debentures.

As at December 31, 2013, the Company had $55.8 million in outstanding principal on its Debentures with a total carrying value of $49.0 million in long-term debt and $4.1 million in equity.

Shareholders' equity increased by $25.2 million to $115.1 million at December 31, 2013. The increase consists of the net proceeds from the Equity Offering and the increase in the equity component associated with the Debentures, offset by the net loss for the year and common share and Debenture repurchases referred to below.

In December 2013, the Company obtained applicable regulatory approval to purchase for cancellation up to 1,000,000 of its common shares and up to $2.0 million principal amount of its convertible debentures, through to December 4, 2014. During the year ended December 31, 2013, the Company repurchased 185,300 common shares under the normal course issuer bids at an average cost of $2.52 per common share for a total cost of $466,437, and repurchased an aggregate principal amount of $232,000 of Debentures, for a total cost of $210,849.

Net Asset Value as at December 31, 2013 was $115.1 million, or $2.94 per share compared to $89.9 million, or $3.29 per share as at December 31, 2012, and $134.9 million, or $3.43 per share as of September 30, 2013.

The Company has a commitment to purchase an additional investment in Embotics, totaling $1 million in convertible debentures, subject to Embotics meeting certain performance targets.

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.

The remainder of this page is intentionally blank. Investments follows.

INVESTMENTS

The table below provides a summary of the Company's private and non-listed investments as at December 31, 2013:

Investment	Investment Type	Industry Sector	Geographic Sector	Cost of Investment	Fair Value of Investment
				$000	$000
Appinions Inc.	convertible debentures – 6%	Ad-tech	United States	2,048	1,936
	convertible debentures – 10%			813	856
	preferred shares			246	214
Baanto International Ltd.	convertible debentures	Hardware	Canada	2,700	2,700
	common shares			300	300
Blue Ant Media Inc.	common shares	Media	Canada	4,787	4,787
Bluedrop Performance Learning Inc.	convertible debentures	Edu-tech	Canada	3,000	3,000
BTI Systems Inc.	preferred shares	Hardware	Canada	1,887	1,893
BuildDirect.com Technologies Inc.	common shares	e-Commerce	Canada	5,000	5,000
Carta Solutions Holding Corporation	units	Payments	Canada	2,000	2,000
Chieftain Residential Limited Partnership	partnership interest	Real Estate	United States	7,485	7,977
	promissory note			2,538	2,659
Crailar Technologies Inc.	convertible debentures	Clean-tech	Europe	3,310	1,686
Difference RM Holding Corporation	common shares	Real Estate	United States	5,432	5,807
Enterprise Group, Inc.	convertible debentures	Construction	Canada	2,200	3,432
ePals Corporation	convertible debentures	Edu-tech	Global	3,500	3,500
Fem MED Formulas Limited Partnership	secured convertible debentures	Healthcare	Canada	2,500	1,900
GuestLogix Inc.	debentures	Payments	Canada	1,950	1,950
	Warrants			50	320
InfraReDx, Inc.	convertible debentures and preferred shares warrants	Healthcare	United States	5,093	8,061
iPowow! Inc.	preferred shares	Media-tech	Canada	3,000	3,000
	common shares			1,028	1,028
Lignol Energy Corporation	secured grid promissory note	Clean-tech	Australia	11,785	9,428
QuickPlay Media Inc.	common shares	Media-tech	Canada	2,365	2,365
Thunderbird Films Inc.	common shares	Media	Canada	4,000	4,000
Vena Solutions Canada Inc.	convertible debentures	Enterprise Software	Canada	3,000	3,000
Vision Critical Communications Inc.	preferred shares	Ad-tech	Canada	3,500	3,500
Wasabi Energy Limited	debentures	Clean-tech	Australia/Asia	3,107	-
	warrants			-	-
WG Limited ("Virgin Gaming")	convertible debentures – 5%	Gaming	Canada	16,782	14,399
	convertible debentures – 10%			5,000	4,450
	common shares			4,677	3,238
Wheels Group Inc.	preferred shares	Logistics	Canada	950	950
Other debt	debt			4,306	2,966
Other equity	common shares, warrants and units			3,693	4,277
				124,032	**116,579**

During the year ended December 31, 2013, the Company made the following significant investments:

Appinions Inc. ("Appinions")

Appinions' Influencer Exchange service allows public relations agencies and brand owners to identify the influencers for any topic, brand, issue or person.

On March 19, 2013, the Company made a US$0.25 million 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$0.56 million into the new issue of convertible debentures and warrants. During the quarter ended September 30, 2013, the Company purchased an aggregate of approximately US$0.25 million of Appinions preferred shares and warrants in the secondary market. In February 2014, Appinions exercised the option to extend the maturity date of the March 2014 debentures by six months.

Baanto International Ltd. ("Baanto")

Baanto is a developer of touch sensing solutions. Baanto is developing products incorporating both active and passive implementations of its technologies for touchscreens and interactive white boards in sizes ranging from 8" to over 250".

In December 2013, the Company invested $2.7 million in Baanto in the form of Series U convertible debentures paying 10% interest per annum payable annually and convertible into common shares of Baanto at a rate of 122 Baanto common shares per $1,000 principal amount of Baanto debentures, representing a conversion price of approximately $8.20 per share. The Baanto debentures have a maturity date of December 19, 2016. In addition, the Company purchased from Baanto 44,776 common shares at a price of $6.70 per share.

Blue Ant Media Inc. ("Blue Ant")

Blue Ant is an independent media company that creates content in lifestyle, travel, documentary, music and entertainment categories.

In July 2013, the Company acquired 3,829,795 common shares of Blue Ant for total consideration of $4.8 million in a related party transaction.

Bluedrop Performance Learning Inc. ("Bluedrop")

Bluedrop provides a cloud-based e-Learning platform focusing on defense and aerospace, healthcare, energy and public sector clients.

In December 2013, the Company invested $3.0 million in Bluedrop in the form of unsecured convertible debentures paying 14% interest per annum payable quarterly and convertible into common shares of Bluedrop at a price of $0.15 per common share with a maturity of December 30, 2016.

BTI Systems Inc. ("BTI Systems")

BTI Systems is the leading provider of intelligent networking software and systems that empower content and service providers to capitalize on the demand for bandwidth driven by long-term trends in cloud services, mobility, and internet video.

In December 2013, the Company invested $1.9 million through the purchase of preferred shares of BTI Systems at $0.37 per share.

BuildDirect.com Technologies Inc. ("BuildDirect")
BuildDirect is an online supplier of home improvement products and other heavy goods.

In October 2013, 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.

Carta Solutions Holding Corporation ("Carta")
Carta is an international transaction processing and payments technology company, specializing in prepaid and mobile payments.

In August 2013, the Company purchased from Carta 2.5 million units (the "Carta Units") at $0.80 per Carta Unit for a total consideration of $2.0 million. Each Carta Unit consists of one common share of Carta and ¼ of one common share purchase warrant, with each whole warrant exercisable for an additional common share at an exercise price of $1.25 until June 30, 2016. In the event any common shares of Carta are issued by Carta for less than $0.80 per 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.

Chieftain Residential, L.P. ("Chieftain")
Chieftain is a residential real estate investment platform that focuses on purchasing distressed single family homes.

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.

Crailar Technologies Inc. ("Crailar")
Crailar has developed proprietary technologies for the production of flax fibers, typically used in linen production, that can be woven into fabrics indistinguishable from cotton.

During February 2013, the Company purchased $1.8 million of 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 (the "New Crailar Debentures") and warrants, the Company holds a total of $3.3 million in par value of convertible debentures. The New Crailar Debentures pay 10% interest per annum, mature July 26, 2016 and were initially convertible into common shares at $2.00 per share. In exchange for the release of a portion of the secured assets used to secure the New Crailar Debentures, the terms of the New Crailar Debentures were amended such that the New Crailar Debentures may now be converted into common shares at $1.25 instead of $2.00 per common share. Each $1,000 of principal amount is entitled to 800 common share purchase warrants of Crailar. 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 December 31, 2013, the last bid price of Crailar's publicly-listed convertible debentures provided a benchmark for the fair value of these debentures, and the fair value of the warrants was nil. During the year ended December 31, 2013, approximately $1.6 million change in unrealized depreciation was recorded for the Crailar Debentures. We also hold the publicly-listed convertible debentures in our Marketable Securities.

Enterprise Group, Inc. ("Enterprise")
Enterprise is a consolidator of engineering and construction services companies operating in the energy, utility and transportation infrastructure industries.

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 amount, representing a conversion price of $0.50 per common share, and have a maturity date of May 17, 2015. As at December 31, 2013, the fair value of the debentures was based on the conversion value of the debentures at Enterprise's last traded common share price of $0.78 per share. In December, the Company converted $0.5 million of the debentures into Enterprise common shares. Subsequent to year end, the Company converted the remaining $2.2 million of the debentures into Enterprise common shares.

ePals Corporation ("ePals")
ePals is an education media company offering elementary and secondary school administrators, teachers, students and parents a safe and secure platform for building educational communities.

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 a second tranche of these same convertible debentures. The Company also owns listed convertible debentures of ePals included as part of marketable securities on the balance sheets.

GuestLogix Inc. ("GuestLogix")
GuestLogix is a global provider of onboard store technology and payment solutions designed and developed to help airlines and other travel operators create, manage, and control onboard retail environments that are tailored to their needs and the needs of their passengers.

On November 30, 2012, the Company invested $2.0 million in GuestLogix in the form of a promissory note (the "GuestLogix Notes") and 1,000,000 warrants (the "GuestLogix Warrants") to purchase common shares in the capital of GuestLogix (the "GuestLogix Common Shares"). The GuestLogix Notes bear interest at a rate of 12% payable on the earlier of: (i) March 31, 2014; and (ii) the completion of a corporate transaction. The GuestLogix Warrants are exercisable into GuestLogix Common Shares at $0.80 per GuestLogix Common Share at any time prior to the earlier of: (a) November 30, 2014; and (b) the completion of a corporate transaction.

On August 1, 2013, the GuestLogix Notes were amended to bear interest at a rate of 9% from June 1, 2014 (with interest accrued to that point to be payable on May 31 2014), with the principal repayable on the earlier of: (i) July 1, 2015; and (ii) the completion of a corporate transaction. The GuestLogix Warrants were amended to be exercisable into GuestLogix Common Shares at any time prior to the earlier of: (a) November 30, 2015; and (b) the completion of a corporate transaction. The exercise price of the GuestLogix Warrants was adjusted to $0.80 per GuestLogix Common Share prior to December 1, 2014 and $0.81 per GuestLogix Common Share thereafter.

InfraReDx, Inc. ("InfraReDx")
InfraReDx is a private medical device company dedicated to helping provide practitioners with the information needed for enhanced clinical decision making in treating coronary artery disease.

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 of InfraReDx. The new convertible debentures have the same terms and conditions as the US$2.0 million investment made in November 2012. 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 December

31, 2013, the fair value of the debentures was $4.8 million and the fair value for the warrants was $3.3 million.

iPowow! Inc. ("iPowow")

iPowow is an interactive media company on the leading edge of the global shift towards participation television and second screen content. iPowow gives broadcasters, TV producers and advertisers the power to create a new breed of participation television with compelling engagement for the viewer.

During the quarter ended June 30, 2013, the Company converted the debenture 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 10.0% 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 8.0% cumulative annual dividend and are convertible into common shares at par, or $2.00 per common share.

Lignol Energy Corporation ("Lignol")

Lignol is a producer of biofuels and other valuable biochemicals from waste biomass. The Company has a biodiesel refinery in Australia, and also owns cellulosic ethanol technology with a pilot bio refinery in Burnaby, Canada.

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 paid 8.0% 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 replaced the Note, pays 9.0% 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 has been 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, and $2.0 million in November 2013, bringing the total principal to $11.8 million, as at December 31, 2013. During the year ended, December 31, 2013, approximately $2.4 million change in unrealized depreciation was recorded for the New Note. The Company held 41.9 million warrants, and the fair value of these warrants was $nil.

Vena Solutions Canada Inc. ("Vena")

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.

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 share with a maturity date of November 4, 2016.

Vision Critical Communications Inc. (“Vision”)
Vision is a customer engagement, market research and data analytics company.

In December 2013, the Company acquired 1 million Series 2 preferred shares of Vision for total consideration of $3.5 million.

WG Limited (“Virgin Gaming”)
Virgin Gaming is a destination for competitive console gamers to meet, challenge each-other and play in tournament challenges for cash, points and prizes.

On January 24, 2013, the Company sold $1.1 million face amount of Virgin Gaming debentures at a 20.0% premium to its acquisition price for a realized gain of $0.2 million. During January and February 2013, the Company purchased $2.4 million of Virgin Gaming common shares from Virgin Gaming shareholders through a number of separate transactions. In June 2013, the Company received 921,663 Virgin Gaming common shares as a $0.9 million interest payment on the debentures as per the terms of the debentures. 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 10.0% per annum, mature on September 30, 2016 and are convertible into common shares at $1.10 per share. As at December 31, 2013, the Company owned approximately 18.2% of Virgin Gaming, on a fully diluted basis. For the year ended December 31, 2013, approximately $7.9 million change in unrealized depreciation was recorded for the Virgin Gaming investments.

Wheels Group Inc. (“Wheels”)
Wheels is a logistics provider for third party logistics (3PL) supply chains. It provides supply chain solutions for domestic and international transportation and distribution services through truck, rail, air and ocean carriers.

In September 2013, the Company purchased in a secondary market transaction 1 million Series 1A preferred shares of Wheels at $0.95 per share for a total consideration of $0.95 million.

Marketable Securities

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

Aurinia Pharmaceuticals Inc. (“Aurinia”)
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.

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. Aurinia’s common shares were consolidated on a 50:1 basis on the TSX Venture Exchange on October 23, 2013. As at December 31, 2013, the Company held 888,888 Aurinia common shares with a fair value of $3.90 and 465,778 Aurinia warrants with a fair value of $1.40.

Benev Capital Inc. ("Benev")
As at December 31, 2013, the Company held 2.5 million shares of Benev with a fair value of $4.0 million, representing approximate 6.3% of the total outstanding shares of Benev. Benev is a merchant bank with approximately $70 million cash on hand.

Between January 1 and March 26, 2014, the date of this report, the Company acquired 8.4 million addition shares of Benev. As at March 26, 2014, the Company owned and controlled 11.0 million Benev shares, representing approximately 28.4% of the total outstanding shares of Benev. DCF acquired the Benev shares for investment and potentially strategic purposes.

Crailar Technologies Inc. ("Crailar")
On September 20, 2012, the Company made a $2.5 million investment in Crailar (formerly Naturally Advanced Technologies Inc.) in the form of listed convertible secured debentures, with a five-year term, paying 10% per annum interest and convertible into common shares of Crailar at a price of $2.90 per common share with a maturity date of September 30, 2017. As at December 31, 2013, the Company had a principal amount of $1.7 million with a fair value of $0.8 million.

ePals Corporation ("ePals")
In October 2012, the Company invested $3.0 million in ePals in the form of listed convertible debentures with a maturity date of October 31, 2014, and an option for the issuer to extend to October 31, 2016. The ePals debentures have a two-year term, pay interest semi-annually at a rate of 6.5% and are convertible into common shares in the capital of ePals at a price of $0.60 per ePals share at the option of the Company. As at December 31, 2013, the convertible debentures had a fair value of $2.7 million.

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 common share purchase warrants, leaving the Company holding 32.7 million shares and 8.3 million common share 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. As at December 31, 2013, the Company held 46.1 million common shares of Lignol representing 30.3% of total basic shares and 8.3 million common share purchase warrants. The fair value of these warrants was $nil. The fair value of the common shares was $0.07 per share and the fair value of the warrants was $nil.

Trimel Pharmaceutical Inc. ("Trimel")
Trimel is a specialty pharmaceutical company actively developing medications for male hypogonadism, female sexual dysfunction, and various respiratory disorders. As at December 31, 2013, the Company held 7.7 million shares of Trimel with a fair value of $0.40 per share.

Wheels Group Inc.
In September 2013, the Company purchased in a secondary market transaction 1 million common shares of Wheels at $0.85 per share for a total consideration of $0.85 million. As at December 31, 2013, the fair value of the common shares was $0.80 per share.

Other marketable securities
During periods where capital is not committed to long-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 at December 31, 2013,

the Company held approximately $4.8 million [December 31, 2012 - $15.0 million], at fair value, in listed equity securities in this tactical portfolio, excluding those investments referenced above.

RELATED PARTY TRANSACTIONS

Management Agreement

Pursuant to the Management Agreement, as compensation for the management services provided to the Company by the Manager, the Company pays the Manager the Management Fee in the amount equal to 2% plus HST of the Company's monthly management fee net asset value (the "Management Fee NAV"), calculated and payable monthly as of the last business day of each month. The Management Fee NAV is determined by subtracting the aggregate fair value of the liabilities (excluding any convertible debentures or debentures that have a term of greater than one year that have been issued by the Company) from the aggregate fair value of the assets of the Company on the date on which the calculation is being made. 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 performance fee net asset value (the "Performance Fee 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%. The Performance Fee NAV is determined by subtracting the aggregate fair value of the liabilities (excluding any convertible debentures or debentures that have a term of greater than one year that have been issued by the Company) from the aggregate fair value of the assets of the Company on the date on which the calculation is being made.

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 year ended December 31, 2013, management fees of $2.8 million were accrued to the Manager. For the same period, its share of advisory fees of $1.2 million was recorded by the Company. The net management fees, taking into account the cash advisory fee, would be approximately 1.1% of the Management Fee NAV.

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 Chief Executive Officer 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 whereby the Company agreed to purchase 3,829,795 common shares of Blue Ant, a private company 50% controlled by Michael Wekerle, the Chief Executive Officer and a director of the Company, from a private company controlled by Mr. Wekerle for total consideration of $4.8 million, a price substantiated by other arm's length institutional transactions in 2013.

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.

CONTRACTUAL OBLIGATIONS

The table below is a summary of the Company's contractual obligations at December 31, 2013:

(millions of dollars)	**Total**	**1 year or less**	**2**	**3**	**4**	**5**	**More than 5**
Interest on Convertible Debentures	22.8	4.8	4.5	4.5	4.5	4.5	-
Debentures	55.8	-	-	-	-	55.8	-
Total	78.6	4.8	4.5	4.5	4.5	60.3	-

In addition to the contractual obligations detailed above, the following obligations exist that vary depending upon Net Asset Value and other factors:

- The Company pays management fees to the Manager in the amount equal to 2% plus HST of the management fee NAV, calculated and payable monthly as of the last business day of each month.

- The Company pays a performance fee equal to 20% of any increase in the performance fee NAV from the start of the fiscal year in question to the end of that fiscal year less the Hurdle Rate, with the Hurdle Rate subject to a maximum of 5%.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Company's financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Key areas of estimation where management has made difficult, complex or subjective judgments include the determination of the fair value of certain investments, as further explained below. Actual results could differ from these estimates.

Included in the Company's investment portfolio 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 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.

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 December 31, 2013, the expected impact to the financial statements based on the Company's assessment of the differences between current Canadian GAAP and IFRS are as follows:

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

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

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

RISK FACTORS AND RISK MANAGEMENT

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

Investment Risk
There is no assurance that the Company will achieve its investment objective. An investment may not earn any positive return and result in the loss of some or all of the capital invested.

Reliance on Management and the Manager
The Company is dependent upon the efforts, skill and business contacts of key members of management and the Manager for, among other things, the information and deal flow they generate during the normal course of their activities and the synergies that exist amongst their various fields of expertise and knowledge. Accordingly, the continued success of the Company will depend upon the continued service of these individuals, who are not obligated to remain employed with the Company or the Manager, as applicable. The loss of the services of any of these individuals could have a material adverse effect on the revenues, net income and cash flows of the Company, and could harm its ability to maintain or grow its existing assets and raise additional funds in the future.

General Economic and Market Conditions
The success of the Company's activities may be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, and national and international political circumstances. These factors may affect the level and volatility of securities prices and the liquidity of the Company's investments. Unexpected volatility or illiquidity could impair the Company's profitability or result in losses.

Borrowing and Other Leverage
The Company may use financial leverage by borrowing funds against its assets. The use of leverage may result in capital losses or a decrease in dividends by the Company which would have an adverse effect on shareholders. There can be no assurance that the borrowing strategy employed by the Company will enhance returns or help the Company achieve its investment objective, and to the extent that the interest payable on, and other expenses of, the borrowings exceed the incremental returns to the Company on the additional securities purchased for the Company's portfolio thereby, the strategy may reduce returns on the common shares, as compared to a situation where no financial leverage was used by the Company.

In addition, a reduction in the assets of the Company does not change the amount that must be paid on account of amounts drawn pursuant to the borrowings. Since any required payment of such amounts decreases dollar for dollar the NAV and the NAV per common share will decrease to a proportionately greater extent, as compared to a situation where the Company did not utilize the borrowings. In addition, the borrowings may impose additional restrictions on the Company including, without limitation, limits on hedging and restrictions on certain types of investments. For these reasons, there can be no assurance that the borrowing strategy employed by the Company will enhance returns, and it may, in fact, reduce returns.

Cash Flow/Revenue
The Company generates its revenue and cash flow primarily from its financing activities and proceeds from the disposition of its investments, in addition to interest and dividend income earned on its investments. The availability of these sources of income and the amounts generated from these sources are dependent upon various factors, many of which are outside of the Company's control. The Company's liquidity and operating results may be adversely affected if its access to the capital markets is hindered, whether as a result of a downturn in the market conditions generally or to matters specific to it, or if the value of its investments decline, resulting in capital losses upon disposition.

Private Issuers and Illiquid Securities
The Company may invest in securities of private issuers. Investments in private issuers cannot be resold without a prospectus, an available exemption or an appropriate ruling under relevant securities legislation

and there may not be any market for such securities. These limitations may impair the Company's ability to react quickly to market conditions or negotiate the most favourable terms for exiting such investments. Investments in private issuers may offer relatively high potential returns, but will also be subject to a relatively high degree of risk. There can be no assurance that a public market will develop for any of the Company's private company investments or that the Company will otherwise be able to realize a return on such investments.

The value attributed to securities of private issuers will initially be the cost thereof, and thereafter subject to fair value adjustment, and therefore may not reflect the amount for which they can actually be sold. Because valuations, and in particular valuations of investments for which market quotations are not readily available, are inherently uncertain, may fluctuate within a short period of time and may be based on estimates, determinations of fair value may differ materially from the values that would have resulted if a ready market had existed for the investments.

The Company may also invest in illiquid securities of public issuers. A considerable period of time may elapse between the time a decision is made to sell such securities and the time the Company is able to do so, and the value of such securities could decline during such period. Illiquid investments are subject to various risks, particularly the risk that the Company will be unable to realize its investment objectives by sale or other disposition at attractive prices or otherwise be unable to complete any exit strategy. In some cases, the Company may be prohibited by contract or by law from selling such securities for a period of time or otherwise be restricted from disposing of such securities. Furthermore, the types of investments made may require a substantial length of time to liquidate.

The Company may also make direct investments in publicly-traded securities that have low trading volumes. Accordingly, it may be difficult for the Company to make trades in these securities without adversely affecting the price of such securities.

Possible Volatility of Stock Price

The market price of the Company's common shares has been and may continue to be subject to wide fluctuations in response to factors such as actual or anticipated variations in its results of operations, changes in financial estimates by securities analysts, general market conditions and other factors. Market fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations may adversely affect the market price of the Company's common shares.

Foreign Currency Exposure

Certain of the investments in the Company's portfolio, at any time, may consist of securities denominated in U.S. dollars, Australian dollars or other foreign currencies and, accordingly, the NAV will, when measured in Canadian dollars, be affected by fluctuations in the value of such currencies, as applicable, relative to the Canadian dollar. The Company does not currently take any steps to hedge against currency fluctuations, although it may elect to hedge against the risk of currency fluctuations in the future. There can be no assurance that steps taken by the Company to address such currency fluctuations will eliminate all adverse effects and, accordingly, the Company may suffer losses due to adverse foreign currency fluctuations.

Concentration of Investments

Other than as disclosed above and in the Annual Information Form of the Company dated March 26, 2014, there are no restrictions on the proportion of the Company's funds and no limit on the amount of funds that may be allocated to any particular investment, industry or sector. The Company may participate in a limited number of investments and, as a consequence, its financial results may be substantially adversely affected by the unfavourable performance of a single investment or sector.

Completion of one or more investments may result in a highly concentrated investment by the Company in a particular company, business, industry or sector.

Additional Financing Requirements
The Company anticipates ongoing requirements for funds to support its investment strategy and may seek to obtain additional funds for these purposes through public or private equity or debt financing. There are no assurances that additional funding will be available to the Company, if at all, on acceptable terms or at an acceptable level. Any additional equity financing may cause shareholders to experience dilution, and any additional debt financing may result in increased interest expense or restrictions on the Company's operations or ability to incur additional debt. Any limitations on the Company's ability to access the capital markets for additional funds could have a material adverse effect on its ability to grow its investment portfolio.

No Guaranteed Return
There is no guarantee that an investment in the securities of the Company will earn any positive return in the short term or long term. The task of identifying investment opportunities, monitoring such investments and realizing a significant return is difficult. Many organizations operated by persons of competence and integrity have been unable to make, manage and realize a return on such investments successfully.

Management of the Growth of the Company
Significant growth in the business of the Company, as a result of acquisitions or otherwise, could place a strain on its managerial, operational and financial resources and information systems. Future operating results will depend on the ability of senior management to manage rapidly-changing business conditions and to implement and improve the Company's technical, administrative and financial controls and reporting systems. No assurance can be given that the Company will succeed in these efforts. The failure to effectively manage and improve these systems could increase its costs, which could have a material adverse effect on the Company.

Dependence on New Products
The Company may make investments in issuers that conduct significant research and development to develop new products and technologies, enhance existing products and technologies and achieve market acceptance for such products and technologies. However, there can be no assurance that development-stage products and technologies will be successfully completed or, if developed, will achieve significant customer and/or market acceptance. If an issuer in which the Company invests is unable to successfully define, develop and introduce competitive new products and technologies, and enhance existing products and technologies, future results of that issuer would be adversely affected and the value of the Company's investment in that issuer could decline.

Intellectual Property
The industry in which the Company currently primarily invests has many participants that own, or claim to own, proprietary intellectual property. Some of the issuers that the Company invests in may become subject to claims from third parties claiming that the issuers have infringed on intellectual property rights. Determination of the rights to intellectual property is very complex, and costly litigation may be required to establish if an issuer has violated the intellectual property rights of others. As a result of such claims, some of the Company's investments could be subject to losses arising from issuers being subject to product injunctions, awards for damages and third party litigation costs, requirements to license intellectual property, legal expenses, diversion of managements' time and attention, and other costs.

Foreign Market Exposure

The Company's portfolio may, at any time, include securities of issuers established in jurisdictions outside Canada and the U.S. Although most of such issuers will be subject to uniform accounting, auditing and financial reporting standards comparable to those applicable to Canadian and U.S. companies, some issuers may not be subject to such standards and, as a result, there may be less publicly available information about such issuers than a Canadian or U.S. company. Volume and liquidity in some foreign markets may be less than in Canada and the U.S. and, at times, volatility of price may be greater than in Canada or the U.S. As a result, the price of such securities may be affected by conditions in the market of the jurisdiction in which the issuer is located or its securities are traded. Investments in foreign markets carry the potential exposure to the risk of political upheaval, acts of terrorism and war, any of which could have an adverse impact on the value of such securities.

New and Emerging Markets

Some of the markets in which the Company may invest are new and emerging. The Company's success may be significantly affected by the outcome of the development of these new markets.

Changes in Legislation

There can be no assurance that certain laws applicable to the Company, including income tax laws and government incentive programs, will not be changed in a manner which adversely affects the distributions received or to be made by the Company.

Tax Matters

The Company has accrued capital and non-capital losses that may be carried forward to reduce income taxes in future years. If not used, the Company's non-capital losses expire between 2014 and 2032. The availability of these income tax loss carry forwards as deductions against taxable income of the Company is dependent upon a number of factors including, but not limited to, Canadian federal income tax rules and regulations governing the application of income tax losses and the availability of the income tax loss carry forwards at the time such taxable income arises. There can be no assurance that Canadian federal income tax laws regarding the treatment of income tax loss carry forwards, or the administrative and/or assessment practices of the Canada Revenue Agency in respect thereof, will not be changed in a manner that has a material adverse effect on the Company's shareholders.

Trading Price of Common Shares Relative to Net Asset Value

The Company is neither a mutual fund nor an investment fund, and due to the nature of its business and investment strategy and the composition of its investment portfolio, the market price of its common shares, at any time, may vary significantly from its Net Asset Value per common share. This risk is separate and distinct from the risk that the market price of the common shares may decrease.

Fluctuations in NAV and Valuation of the Company's Portfolio

The NAV will vary according to, among other things, interest rates and the value of the securities in the Company's portfolio and dividends paid on the common shares. Fluctuations in the respective market values of the securities in the Company's portfolio may occur for a number of reasons beyond the control of the Manager, and may be both volatile and rapid with potentially large variations over a short period of time. Independent pricing information regarding certain of the Company's securities and other investments may not be readily available at all times. Valuation determinations will be made in good faith by the Company. The Company may have some of its assets in investments which by their very nature may be extremely difficult to value accurately. To the extent that the value assigned by the Company to any such investment differs from the actual value, the NAV per Common Share may be understated or overstated, as the case may be. The Company does not intend to adjust the NAV of the common shares retroactively except in extraordinary circumstances and where the difference is deemed by the Manager to be material.

Available Opportunities and Competition for Investments

The success of the Company's operations will depend upon, among other things: (i) the availability of appropriate investment opportunities; (ii) its ability to identify, select, acquire, grow and exit those investments; and (iii) its ability to generate funds for future investments. The Company can expect to encounter competition from other entities having investment objectives similar to its own, including institutional investors and strategic investors. These groups may compete for the same investments as the Company, may be better capitalized, have more personnel, have a longer operating history and have different return targets than the Company. As a result, the Company may not be able to compete successfully for investments. In addition, competition for investments may lead to the price of such investments increasing which may further limit the Company's ability to generate desired returns. There can be no assurance that there will be a sufficient number of suitable investment opportunities available to the Company or that such investments can be made within a reasonable period of time. There can be no assurance that the Company will be able to identify suitable investment opportunities, acquire them at a reasonable cost or achieve an appropriate rate of return. Identifying attractive opportunities is difficult, highly competitive and involves a high degree of uncertainty. Potential returns from investments will be diminished to the extent that the Company is unable to find and make a sufficient number of investments.

Conflicts of Interest

Some of the Company's existing directors or officers are also directors and officers of other companies and have other business interests which may prove to be of interest to the Company. It is possible, therefore, that a conflict may arise between their duties as directors or officers of the Company and their duties as directors or officers of such other companies.

The Company's directors and officers are aware of the existence of laws governing accountability of directors and officers for corporate opportunities and requiring disclosures by directors and officers of conflicts of interest and, in the case of directors, requiring them to abstain from voting on matters in respect of which they have a conflict of interest. The Company relies upon each director and officer to comply with such laws in respect of conflicts of interest and fiduciary duties.

Due Diligence

The due diligence process that the Company undertakes in connection with investments may not reveal all facts that may be relevant in connection with an investment. Before making investments, the Company conducts due diligence that it deems reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, the Company may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and investment banks may be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, the Company relies on the resources available to it, including information provided by the target of the investment and, in some circumstances, third-party investigations. The due diligence investigation that the Company will carry out with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in the investment being successful.

Expenses Ultimately Borne by the Shareholders

Fees and expenses borne by the Company will directly or indirectly impact the NAV of the common shares.

Non-controlling Interests
The Company's investments include, in many instances, debt instruments and equity securities of companies that it does not control. These instruments and securities may be acquired in the secondary market or through purchases of securities from the issuer. Any such investment is subject to the risk that the company in which the investment is made may make business, financial or management decisions with which the Company does not agree, or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve the Company's interests. If any of the foregoing were to occur, the values of the Company's respective investments could decrease and its financial condition, results of operations and cash flow could suffer as a result.

Trading Costs
The Company may engage in a high rate of trading activity in its liquid securities portfolio resulting in correspondingly high costs being borne by the Company. This may adversely affect the price of the common shares.

Interest Rate Hedging
Interest rate hedges will be used by the Company only to the extent that the Manager considers appropriate. The use of interest rate hedges involves special risks, including the possible default by the other party to the transaction, illiquidity and, to the extent the Manager's assessment of certain market movements is incorrect, the risk that the use of interest rate hedges could result in losses greater than if the hedging had not been used.

Hedge Risks
Although hedging reduces risk, it does not eliminate it entirely. Losses can still result in the case of an extraordinary event. There are several such possible cases including, but not limited to: (i) anticipated transactions which are altered or aborted; (ii) the inability to hedge off risk, due to difficulty of borrowing the offsetting security; (iii) a cease trade order being issued in respect of the underlying security; and (iv) lack of liquidity during market panics. To protect the Company's capital against the occurrence of such events, the Manager will attempt to maintain a diversified portfolio.

OUTSTANDING SHARE DATA

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

As at March 26, 2014, there are 39,132,334 common shares outstanding. There are no outstanding preference shares.

As at March 26, 2014, there are 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.

As at March 26, 2014, there is an aggregate principal amount of $55.8 million of Debentures outstanding, convertible into 9,710,782 common shares at a conversion price of $5.75 per common share.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's disclosure controls and procedures are designed to provide reasonable assurance the information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified under securities laws and include controls and procedures that are designed to ensure that information is accumulated and communicated to management including the

Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) to allow timely decisions regarding disclosure. The CEO and CFO, together with management, are responsible for the design of the Company's disclosure control and procedures (as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*). Management, under the direction of the CEO and CFO, has evaluated the effectiveness of the disclosure controls and procedures as at December 31, 2013, and has concluded that they are reasonably assured that such controls and procedures were effective.

Management, under the supervision of the CEO and CFO, is responsible for the design and maintenance of adequate internal controls over financial reporting for the purposes of providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. However, due to its inherent limitations, internal controls over financial reporting can only provide reasonable, not absolute, assurance that the financial statements are free of misstatements. Management, under the direction of the CEO and CFO, evaluated the effectiveness of the Company's internal controls over financial reporting as at December 31, 2013 and has concluded that internal control over financial reporting was appropriately designed and operating effectively. There have been no changes during the year ended December 31, 2013 in the Company's internal controls over financial reporting that have materially affected, or are reasonable likely to materially affect, the Company's internal controls over financial reporting.