DIFFERENCE

CAPITAL

Financial Statements

Unaudited (prepared in Canadian dollars)

For the quarter ended March 31, 2014

STATEMENTS OF FINANCIAL POSITION (unaudited)

As at Amounts in thousands of Canadian dollars (except per share amounts)	**March 31, 2014**	**December 31, 2013**	**January 1, 2013**
ASSETS			
Current			
Cash and cash equivalents	**$ 9,121**	$ 24,229	$ 9,396
Marketable securities *[note 2]*	**1,257**	3,900	15,723
Prepaid expenses, deposits and other receivables	**1,107**	1,339	187
Due from broker	**3,208**	—	2,280
Interest receivable	**3,170**	2,327	745
Total current assets	**17,863**	31,795	28,331
Investments *[note 3]*	**151,417**	137,019	65,011
Total assets	**$ 169,280**	$ 168,814	$ 93,342
LIABILITIES			
Current			
Marketable securities sold short *[note 2]*	**$ 247**	$ 780	$ —
Performance and management fees payable *[note 11]*	**316**	651	1,880
Accounts payable and accrued liabilities	**205**	468	578
Due to broker	**32**	140	1,029
Convertible debentures *[note 5]*	**750**	2,207	—
Total current liabilities	**1,550**	4,246	3,487
Convertible debentures *[note 5]*	**49,334**	49,030	—
Total liabilities	**50,884**	53,276	3,487
SHAREHOLDERS' EQUITY			
Share capital *[note 6]*	**180,875**	180,875	86,455
Special warrants *[note 6]*	**—**	—	53,250
Equity component of convertible debentures *[note 5]*	**4,118**	4,119	—
Contributed surplus	**41,160**	41,159	40,747
Deficit	**(107,757)**	(110,615)	(90,597)
Total shareholders' equity	**118,396**	115,538	89,855
Total liabilities and shareholders' equity	**$ 169,280**	$ 168,814	$ 93,342
Net Asset Value per share *[note 14]*			
Basic and diluted	**$ 3.03**	$ 2.95	$ 3.29

See accompanying notes, which are an integral part of these financial statements

On behalf of the Board of Directors:

"John Albright"
Director

"Michael Wekerle"
Director

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (unaudited)

For the three months ended March 31 Amounts in thousands of Canadian dollars (except for common shares and per share amounts)	**2014**	**2013**
NET REALIZED AND UNREALIZED GAIN (LOSS)		
Net realized gain on disposal of investments and marketable securities	**$ 3,053**	$ 1,460
Net change in unrealized gain (loss) on investments and marketable securities	**1,151**	(550)
	4,204	910
OTHER INCOME		
Interest, dividends and other income	**1,702**	812
Participation in advisory fees and equity capital market revenue *[note 11]*	**277**	255
	1,979	1,067
EXPENSES		
Management fees *[note 11]*	**849**	407
Performance fees *[note 11]*	**—**	146
Provision for uncollectible receivables	**248**	—
Harmonized sales tax	**150**	107
Professional fees	**382**	283
Operating, general and administrative *[note 11]*	**147**	110
Financing costs	**1,426**	—
Transaction costs	**123**	54
Total expenses	**3,325**	1,107
Net income and comprehensive income for the period	**$ 2,858**	$ 870
Weighted average number of common shares outstanding *[note 13]*		
Basic and diluted	**39,132,334**	27,311,714
Earnings per share *[note 13]*		
Basic and diluted	**$0.07**	$0.03

See accompanying notes, which are an integral part of these financial statements

STATEMENTS OF CHANGES IN EQUITY (unaudited)

For the three months ended March 31, Amounts in thousands of Canadian dollars	2014	2013
Share capital		
Balance, beginning of the period	**$ 180,875**	$ 86,455
Issuance of share capital, net of issuance costs *[note 6]*	**—**	53,295
Balance, March 31	**180,875**	139,750
Special Warrants		
Balance, beginning of the period	—	53,250
Issuance of special warrants *[note 6]*	—	45
Exercise of special warrants for common shares	—	(53,295)
Balance, March 31	—	—
Equity component of convertible debentures		
Balance, beginning of the period	**4,119**	—
Convertible debentures repurchased and cancelled *[note 5]*	**(1)**	—
Balance, March 31	**4,118**	—
Contributed surplus		
Balance, beginning of the period	**41,159**	40,747
Convertible debentures repurchased and cancelled *[note 5]*	**1**	—
Balance, March 31	**41,160**	40,747
Deficit		
Balance, beginning of the period	**(110,615)**	(90,597)
Net income and comprehensive income for the period	**2,858**	870
Balance, March 31	**(107,757)**	(89,727)
Net change in equity during the period	**2,858**	915
Equity, beginning of the year *[note 15]*	**115,538**	89,855
Equity, March 31	**$ 118,396**	$ 90,770

See accompanying notes, which are an integral part of these financial statements

STATEMENTS OF CASH FLOWS (unaudited)

For the three months ended March 31, Amounts in thousands of Canadian dollars	2014	2013
OPERATING ACTIVITIES		
Net income for the period	**$ 2,858**	$ 870
Items not affecting cash:		
Net realized gain on disposal of investments and marketable securities	**(3,053)**	(1,460)
Net change in unrealized (gain) loss on investments and marketable securities	**(1,151)**	550
Participation in advisory fees payable in shares	**(101)**	—
Amortization of financing costs on convertible debentures	**312**	—
Net change in non-cash working capital balances	**(5,881)**	1,223
Purchase of marketable securities	**(958)**	(7,651)
Proceeds from disposal of marketable securities	**9,159**	11,177
Purchase of investments	**(16,982)**	(12,900)
Proceeds from disposal and maturity of investments	**698**	1,673
Cash used in operating activities	**(15,099)**	(6,518)
FINANCING ACTIVITIES		
Proceeds from common shares and special warrants, net of issuance costs *[note 6]*	**—**	45
Convertible debentures repurchased and cancelled *[note 5]*	**(9)**	—
Cash provided by (used in) financing activities	**(9)**	45
Net decrease in cash during the period	**(15,108)**	(6,473)
Cash and cash equivalents, beginning of the period	**24,229**	9,396
Cash and cash equivalents, end of the period	**$ 9,121**	$ 2,923
Interest received	**$ 501**	$ 124
Dividends received	**35**	—
Interest paid	**2,564**	—

See accompanying notes, which are an integral part of these financial statements

SCHEDULE OF INVESTMENTS (unaudited)

Amounts in thousands of Canadian dollars

			MARCH 31, 2014	
	INVESTMENT TYPE	COUNTRY	AVERAGE COST	FAIR VALUE
PUBLICLY LISTED				
CLEAN TECHNOLOGIES				
Lignol Energy Corporation	common shares	Canada	5,557	2,998
Crailar Technologies, Inc.	common shares	Canada	47	29
Crailar Technologies, Inc.	convertible debentures	Canada	1,690	845
			7,294	3,872
HEALTHCARE				
Trimel Pharmaceuticals Corp.	common shares	Canada	5,657	5,233
Aurinia Pharmaceuticals Inc.	common shares	Canada	2,096	2,820
			7,753	8,053
EDUCATION TECHNOLOGIES				
ePals Corporation	convertible debentures	Canada	3,000	2,700
			3,000	2,700
MEDIA TECHNOLOGIES				
SoMedia Networks Inc.	common shares	Canada	352	142
			352	142
AD TECHNOLOGIES				
EQ Inc.	commons shares	Canada	1,010	1,047
			1,010	1,047
OTHER				
Benev Capital Inc.	common shares	Canada	20,309	18,527
Other listed securities	common shares, units	Canada	1,043	1,047
			21,352	19,574
UNLISTED				
GAMING				
WG Limited ("Virgin Gaming")	common shares	Canada	4,677	3,237
WG Limited ("Virgin Gaming")	convertible debentures	Canada	21,782	18,849
			26,459	22,086
PAYMENTS				
Carta Solutions Holding Corporation	units	Canada	2,000	2,000
Ethoca Solutions Inc.	common shares	Canada	1,508	1,508
Guestlogix Inc.	promissory notes	Canada	1,950	1,950
Guestlogix Inc.	warrants	Canada	50	440
			5,508	5,898
CLEAN TECHNOLOGIES				
Lignol Energy Corporation	promissory note	Canada	11,785	8,838
Lignol Energy Corporation	warrants	Canada	-	-
Crailar Technologies, Inc.	convertible debentures	Canada	3,310	1,686
Crailar Technologies, Inc.	warrants	Canada	-	243
Wasabi Energy Limited	debentures	Australia	3,107	-
			18,202	10,767
HEALTHCARE				
InfraReDx, Inc.	convertible promissory note and warrants	United States	5,093	8,438
Aurinia Pharmaceuticals Inc.	warrants	Canada	113	383
BrainScope Company Inc.	convertible promissory note	United States	1,305	1,437
Fem Med Formulas Limited Partnership	convertible debentures	Canada	2,500	1,900
			9,011	12,158
MEDIA				
Blue Ant Media Inc.	common shares	Canada	4,787	4,787
Thunderbird Films Inc.	common shares	Canada	4,000	4,000
			8,787	8,787
MEDIA TECHNOLOGIES				
iPowow! Inc.	common shares	Canada	1,028	1,028
iPowow! Inc.	preferred shares	Canada	3,000	3,000
iPowow! Inc.	loan	Canada	410	410
Quickplay Media Inc.	common shares	Canada	2,365	2,365
SoMedia Networks Inc.	convertible debentures	Canada	600	150
SoMedia Networks Inc.	loan	Canada	360	90
			7,763	7,043
HARDWARE				
Baanto International Ltd.	preferred shares	Canada	300	300
Baanto International Ltd.	convertible debentures	Canada	2,700	2,700
BTI Systems Inc.	preferred shares	United States	1,887	1,968
			4,887	4,968
AD TECHNOLOGIES				
Appinions Inc.	preferred shares	United States	246	272
Appinions Inc.	common shares	United States	25	25
Appinions Inc.	convertible debentures	United States	2,861	2,902
Vision Critical Communications Inc.	preferred shares	Canada	3,500	3,500
			6,632	6,699

SCHEDULE OF INVESTMENTS (continued) (unaudited)

Amounts in thousands of Canadian dollars

	INVESTMENT TYPE	COUNTRY	MARCH 31, 2014 AVERAGE COST	FAIR VALUE
E-COMMERCE				
BuildDirect.com Technologies Inc.	common shares	Canada	5,000	5,000
SHOP.CA Network Inc.	common shares	Canada	1,300	2,480
			6,300	7,480
EDUCATION TECHNOLOGIES				
ePals Corporation	convertible debentures	Canada	3,500	3,500
Bluedrop Performance Learning Inc.	convertible debentures	Canada	3,000	3,000
			6,500	6,500
ENTERPRISE SOFTWARE				
Vena Solutions	convertible debentures	Canada	3,000	3,000
Embotics Corporation	convertible debentures	Canada	1,000	1,000
			4,000	4,000
REAL ESTATE				
Chieftain Residential, LP	partnership interest	United States	7,485	8,291
Chieftain Residential, LP	promissory note	United States	2,538	2,764
Difference RM Holdings Corp.	common shares	United States	5,432	6,036
			15,455	17,091
OTHER				
Other equities	common shares, preferred shares, warrants and units		1,834	2,302
Other debt	debt		950	250
			2,784	2,552
TOTAL INVESTMENTS			**163,049**	**151,417**

PORTFOLIO INVESTMENTS AND FAIR VALUE

Significant purchases, sales and changes in valuation of investments during the quarter ended March 31, 2014 included the following:

Appinions Inc. ("Appinions")

As at December 31, 2013, the Company's investment in Appinions included 3.3 million preferred shares at an average cost of US$0.072 per share. On April 2, 2014, Appinions completed an offering of preferred shares for gross proceeds of US$1.8 million at a price of US$0.074 per share. As a result, the Appinions preferred shares held by the Company as at March 31, 2014 were based on this most recently completed transaction resulting in a net change in unrealized gain on investment of CAD$0.1 million for the quarter.

Benev Capital Inc. ("Benev")

At December 31, 2013, the Company's investment in Benev consisted of 2.5 million common shares. During the quarter ended March 31, 2014, the Company acquired 8.6 million additional common shares of Benev for total consideration of $16.1 million. As at March 31, 2014, the Company owned approximately 11.0 million common shares of Benev, representing approximately 28.4% of the total outstanding Benev shares.

Enterprise Group Inc. ("Enterprise")

As at December 31, 2013, the Company held $2.2 million of convertible unsecured subordinated debentures of Enterprise with a par value of $2.2 million. During the quarter ended March 31, 2014, the Company converted the entire $2.2 million of the debentures into Enterprise common shares and sold all shares in the market. The Company recorded a realized gain of $2.7 million on the conversion and sale of the Enterprise common shares during the quarter.

Lignol Energy Corporation ("Lignol")

As at December 31, 2013, the Company's investment in Lignol consisted of $11.8 million in a secured promissory note that pays 9% interest per annum and matures on December 31, 2014 and 46.1 million of Lignol publicly listed common shares at an average cost of $0.12 per share. The Company also holds 41.1 million warrants that are exercisable into common shares of Lignol at $0.15 per share at any time prior to December 31, 2014 and 8.3 million warrants that are exercisable into common shares of Lignol at $0.20 per share at any time prior to December 12, 2014. During 2013, the Company recorded an aggregate unrealized depreciation of $2.4 million relating to a decline in the estimated fair value of the promissory note. During the quarter ended March 31, 2014, the Company recorded a further $0.6 million in aggregate unrealized depreciation of the promissory note.

SHOP.CA Networks Inc. ("SHOP.CA")

As at December 31, 2013, the Company's investment in SHOP.CA consisted of 3.1 million common shares at an average cost of $0.42 per share. During the quarter ended March 31, 2014, SHOP.CA completed an offering of common shares of $31 million at a price of $0.80 per share. As a result, the SHOP.CA common shares held by the Company as at March 31, 2014 were based on this most recently completed transaction resulting in a net change in unrealized gain on investment of $1.2 million during the quarter.

Difference Capital Financial Inc. ("Difference Capital" or the "Company") is a publicly listed company (TSX: DCF), incorporated and domiciled in Canada. The registered address of the Company is Wildeboer Dellelce Place, Suite 800, 365 Bay Street, Toronto, Ontario, M5H 2V1.

Difference Capital is a specialty finance company focused on creating shareholder value through strategic investments in growth companies, particularly in the technology, media and healthcare sectors, as well as opportunistic investments in undervalued financial assets and real property.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements of Difference Capital are the first financial statements prepared using International Financial Reporting Standards ("IFRS"). The Company's financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and consistent with IFRS accounting policies Difference Capital expects to adopt in its financial statements as at and for the year ending December 31, 2014.

The Company's financial statements were previously prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Canadian GAAP differs in some areas from IFRS. In preparing these financial statements, the Company has amended certain accounting policies applied in the Canadian GAAP financial statements to comply with IFRS. The comparative figures for 2013 were restated to reflect these differences. These financial statements should be read in conjunction with Difference Capital's 2013 annual financial statements and in consideration of the IFRS transition disclosures included in Note 15 to these financial statements and the additional annual disclosures included herein.

These financial statements were authorized for issuance by the Board of Directors of Difference Capital on May 13, 2014. The following are the significant accounting policies used in the preparation of these financial statements:

Basis of presentation

The consolidated financial statements of Difference Capital have been prepared on a going concern basis and on the historical cost basis, except for marketable securities and investments that have been measured at fair value to the extent required or permitted under the applicable accounting standards. The financial statements are presented in Canadian dollars.

Critical accounting estimates and judgments

The preparation of the Company's financial statements in accordance with IFRS requires management to make estimates and exercise judgments 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 revenue 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 privately held investments which include debt and equity securities. Estimating fair value requires that judgment be applied to the specific facts and circumstances of each investment. Actual results could differ from these estimates. Refer to the fair value measurement note below for further details on fair value measurement of investments.

Financial instruments

The Company recognizes financial instruments at fair value upon initial recognition. Regular way purchases and sale of financial assets are recognized at their trade date. The Company classifies its investments, marketable securities and marketable securities sold short at fair value through profit and loss ("FVTPL"). These financial assets and financial liabilities are classified as held for trading ("HFT") or designated by management at FVTPL at inception. The classification depends on the purpose for which the financial assets were acquired. Marketable securities and marketable securities sold short are designated as held for trading since they are acquired with the intent to sell or repurchase in the short term. Investments are designated as FVTPL. These financial assets are designated upon initial recognition on the basis that they are part of a group of financial assets which are managed and have their performance evaluated on a fair value basis, in accordance with risk management and investment strategies of the Company. After recognition, the Company's investments, marketable securities and marketable securities sold short are measured at fair value with unrealized gains or losses recognized in profit and loss. For investments and marketable securities where there is an active market, the fair value is determined using quoted market prices within a bid-ask spread. For investments and marketable securities where there is no active market, the fair value is determined using appropriate valuation techniques. All other financial assets, including cash, receivables, and due from broker, are measured at amortized cost. All other financial liabilities, including accrued liabilities, due to broker and convertible debentures, are measured at amortized cost using the effective interest rate method and transaction costs are amortized through income over the life of the instrument.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of the Company's financial assets and liabilities are discussed below:

Marketable securities and marketable securities sold short

Marketable securities and marketable securities sold short are acquired principally for the purpose of selling or repurchasing in the near term. Marketable securities include equity securities, debt securities and warrants of public company issuers that are publicly traded on recognized stock exchanges. Marketable securities are carried at their fair value and any changes in fair value are recognized in income as a change in unrealized gain (loss) on marketable securities. The fair value of marketable securities traded in active markets are based on quoted market prices at the close of trading on the reporting date. The Company uses the last traded market price where the last traded price falls within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Company determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. 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.

Investments

Investments consist of common shares, preferred shares, convertible debentures, loans, debentures, promissory notes, warrants of public and private companies and limited partnerships that are acquired and held for long-term investment. Investments are carried at fair value and any changes in the fair value are recognized in income as a change in unrealized gain (loss) on investments. When investments are initially recognized, the fair value is generally the value of consideration paid. For investments that are publicly traded, the Company uses the same fair valuation methodologies as the marketable securities which are discussed above. For investments that are not publicly traded, 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. The Company considers the most appropriate market valuation techniques, which maximizes the use of relevant observable inputs. Such valuation techniques include but are not limited to comparable recent arm's length transactions, discounted cash flow analysis, option pricing models, multiples of earnings or production, the liquidation approach, the movement in economic and sector indicators such as market indices and comparison with other securities of similar companies. Specific techniques listed above or a combination of these techniques may be employed by the Company based on its best estimate and judgment under the applicable circumstance. Convertible debentures and convertible debts are valued at par, if the price of the underlying common shares is less than the conversion price; valued as though converted to common shares if the price of the underlying common shares exceeds the conversion price; valued based on quoted market prices of similar convertible debt investments of the same issuer; or valued at estimated fair value if there is concern of impairment.

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 valuation, 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 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.

The process of valuing investments for which no active market exists is inevitably based on inherent uncertainties and the resulting values may differ significantly from values that would have been used had a ready market existed for the investments. These differences could be material to the fair value of investments in the portfolio.

Investments in associates and subsidiaries

The Company has determined that it meets the definition of an "investment entity" and as a result, it measures subsidiaries and associates at FVTPL. An investment entity is an entity that obtain funds from one or more investors for the purpose of providing them with investment management services, commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both, and measures and evaluates the performance of substantially all of its investments on a fair value basis. The Company believes it meets all of the requirements listed above. Refer to Note 4 for specific disclosures related to investments in associates and subsidiaries.

Cash and cash equivalents

Cash is comprised of deposits held with financial institutions and cash equivalents consist of bank term deposits with original maturities of three months or less.

Transaction costs

Acquisition and transaction costs relating to marketable securities and investments are recognized as expenses based on the trade date.

Foreign currency translation

The value of assets and liabilities quoted in foreign currencies are translated into Canadian dollars at the exchange rate in effect on the relevant balance sheet date. Purchases and sales of investments, income and expenses are translated into Canadian dollars at the foreign exchange rates prevailing on the dates of such transactions. Foreign exchange gains and losses are included in income in the period in which they occur.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to Difference Capital and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The Company applies the following specific revenue recognition policies:

Realized gain or loss on sale of investments and unrealized gain or loss on investments are determined based on the weighted average cost. Interest income is recorded on an accrual basis. Dividend income is recognized on the ex-dividend date.

Under the terms of the Management Agreement with Difference Capital Management Inc. ("DCM"), the Company is entitled to a 40% share of all advisory and equity capital market revenue generated by DCM. The Company recognizes revenue as services are provided under contractual arrangements between DCM and its advisory clients.

Impairment

Accrued interest and other receivables are considered impaired when there is objective evidence that the full carrying amount of the accrued interest or account receivable is not collectible. When an impaired receivable is identified, the carrying amount of the loan or receivable is reduced to its estimated realizable amount, which is measured by discounting the expected future cash flows at the original effective interest rate of the loan or receivable. The excess of the carrying amount over the estimated realizable value of the loan or receivable represents an impairment loss which is recognized in the statements of income and comprehensive income. If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognized, any reversal of impairment is recognized in the current period statements of income and comprehensive income by adjusting the carrying amount of the receivable accordingly.

Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated using the weighted average number of shares that would have been outstanding during the period had all potential common shares been issued at the beginning of the period, or when other potential dilutive instruments were granted or issued, if later. Refer to Note 13 for further details.

Income tax

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences, and the carry forward of non-capital losses, can be utilized. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the tax laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future profit will allow the deferred tax asset to be recovered and/or the carrying value of temporary differences exceed their tax basis.

Convertible debentures

Convertible debentures are separated into their liability and equity components on the statements of financial position. The liability component is initially recognized at fair value, determined as the net present value of future payments of interest and principal, discounted at the market rate for similar non-convertible liabilities at the time of issue. The liability component is recognized at amortized cost, using the effective interest method, until extinguished upon conversion, maturity or a normal course issuer bid. The fair value of the equity component of the convertible debentures is estimated using the residual method in which the difference between the face value of the instrument and the fair value of the debt component is allocated as the fair value of the equity component. The issuance costs have been allocated on a pro-rata basis between the debt and equity components. Refer to Note 5 for further details.

Future accounting changes

The Company continues to monitor the potential changes proposed by the IASB and considers the impact changes in the standards would have on the Company's operations.

IFRS 9 *Financial Instruments* ("IFRS 9")

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The effective date for IFRS 9 has been postponed and has not yet been determined. The Company is currently evaluating the impact this standard will have on its financial statements.

2. MARKETABLE SECURITIES AND MARKETABLE SECURITIES SOLD SHORT

Marketable securities and marketable securities sold short consist of the following:

As at	March 31, 2014		December 31, 2013		January 1, 2013	
	Marketable securities $000	Marketable Securities sold short $000	Marketable securities $000	Marketable Securities sold short $000	Marketable securities $000	Marketable Securities sold short $000
Equity securities	1,142	247	3,785	780	15,723	-
Warrants	115	-	115	-	-	-
	1,257	247	3,900	780	15,723	-

3. INVESTMENTS

Investments consist of the following by investment type:

As at	March 31, 2014 $000	December 31, 2013 $000	January 1, 2013 $000
Equity securities	74,715	58,070	18,903
Convertible debentures	48,944	52,026	35,694
Debentures, loans and promissory notes	14,052	14,327	5,054
Partnership interests	8,291	7,977	4,975
Warrants	5,415	4,619	385
	151,417	137,019	65,011

See Schedule of Investments on pages 6 and 7 for further details.

4. INVESTMENTS IN ASSOCIATES AND SUBSIDIARIES

As an investment entity (see Note 1), the Company accounts for all investments at fair value, rather than consolidating them. Information about the Company's interests in unconsolidated associates and subsidiaries are as follows:

Name	Relationship	Principal Place of Business	Ownership interest %	Voting Rights %
Difference RM Holding Corp.	Subsidiary	United States	100%	100%
Livereel Media Corporation	Subsidiary	Canada	88%	88%
Gotham Analytics, LLC	Associate	United States	48%	48%
Chieftain Residential LP	Associate	United States	50%	50%
iPowow Inc.	Associate	Canada	32%	32%
Lignol Energy Corporation	Associate	Canada	28%	28%
Appinions Inc.	Associate	United States	23%	23%

Difference RM owns 100% of Difference RM Holding USA Inc., which in turn owns 52% of Difference RM Properties LLC ("DRM Properties"). DRM Properties owns a 40% tenants-in-common interest in a 635 acre parcel of undeveloped land in the City of Rancho Mirage, California, immediately to the southeast of Palm Springs.

Other than the current investments in associates and subsidiaries listed above, the Company has no further financial commitments.

5. CONVERTIBLE DEBENTURES

In July 2013, the Company issued senior unsecured convertible debentures (the "Debentures") in an aggregate principal amount of $56.1 million.

The Debentures mature on July 31, 2018 and bear interest at a rate of 8% per annum payable January 31, 2014 and semi-annually thereafter. Each $1,000 principal amount of the Debentures is convertible into 173.91 common shares of the Company, at the option of the holder, representing a conversion price of $5.75 per share. The Debentures are not redeemable prior to July 31, 2016. On and after July 31, 2016 and prior to July 31, 2017, the Debentures may be redeemed from holders selected by the Company, in whole or in part, from time to time at the option of the Company on not more than 60 days and not less than 30 days prior notice at a price equal to their principal amount plus accrued and unpaid interest, provided that the current market price on the date on which the notice of redemption is given is not less than 125% of the conversion price. After the Company has sent a notice of redemption, any subsequent conversion of such Debentures that were the subject of the notice, prior to the date of redemption, shall be at the discretion of the Company. On or after July 31, 2017 and prior to the maturity date, the Debentures may be redeemed in whole or in part at the option of the Company on not more than 60 days and not less than 30 days prior notice at a price equal to their principal amount plus accrued and unpaid interest.

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

On December 3, 2013, the Company announced a normal course issuer bid (“NCIB”) to repurchase its Debentures. The Company is authorized to repurchase for cancellation up to $2.0 million principal amount of its Debentures, representing 3.5% of the issued and outstanding Debentures. The NCIB expires on December 4, 2014. During the quarter ended March 31, 2014, the Company had repurchased $10,000 principal amount of the Debentures, for an aggregate consideration of $8,800. Out of the amount paid, $8,761 was recorded as a reduction to the liability component of the Debentures, $738 was recorded as a reduction to the equity component of the Debentures, $528 was charged to net income, and $1,227 was recorded as an increase in contributed surplus.

The balance of the Debentures outstanding and changes in the liability component during the period ended March 31, 2014 was as follows:

	$000
Liability component, January 1, 2013	-
Issuance of convertible debentures	51,687
Issuance costs	(3,012)
Accretion of discount	559
Normal course issuer bid repurchases	(204)
Liability component, December 31, 2013	49,030
Accretion of discount	313
Normal course issuer bid repurchases	(9)
Liability component, March 31, 2014	**49,334**

6. SHARE CAPITAL

The Company has two authorized classes of shares: an unlimited number of Common Shares and an unlimited number of Preference Shares, issuable in series. The Common Shares are listed for trading on the Toronto Stock Exchange (the “TSX”).

A summary of the changes to the Company's share capital is as follows:

	Number of Shares [1]	Stated Value $000
Common shares, balance, January 1, 2013	11,882,736	86,455
Issuance of share capital on exercise of Special Warrants [2]	15,434,898	53,295
Issuance of share capital on equity offering [3]	12,000,000	41,981
Share repurchase [4]	(185,300)	(856)
Common shares, December 31, 2013 and March 31, 2014	**39,132,334**	**180,875**

Notes:

(1) After giving effect to the consolidation of one new Common Share for every 10 old Common Shares on June 13, 2013.

(2) On February 6, 2013, the Company announced that the Special Warrants issued on October 3, and 4, 2012 were exercised into 11,453,908 Common Shares and 57,269,530 Purchase Warrants. On March 11, 2013, the Company filed a final short form prospectus (the "Prospectus") qualifying the distribution of 3,981,070 units of the Company issuable upon the exercise of 3,981,070 Special Warrants issued by the Company on November 19, 2012. Upon exercise, each Special Warrant entitled the holder thereof to receive, for no additional consideration, one unit. Each unit consisted of one Common Share and five Common Share Purchase Warrants. Each ten Purchase Warrants entitle the holder to purchase one Common Share at an exercise price of $6.00 per share until October 3, 2014.

(3) On July 26, 2013, the Company completed its public offering of Common Shares (the "Equity Offering") pursuant to which the Company sold 12 million Common Shares for aggregate gross proceeds of $45.0 million. The Common Shares sold pursuant to the Equity Offering were priced at $3.75 per share.

(4) The Company has obtained applicable regulatory approval to purchase for cancellation, from time to time, its issued and outstanding Common Shares, through the facilities of the TSX. The Company also received approval from the TSX for an automatic purchase plan, which allows for purchases by the Company of its Common Shares during Company-imposed black-out periods, and, subject to pre-determined pricing and volume restrictions imposed by the Company, to the rules and policies of the TSX and to specific terms of the NCIB, all trades and entirely at the broker's discretion. Outside of these pre-determined black-out periods, shares will be purchased in accordance with management's discretion. Under its NCIB, the Company may purchase up to 1,000,000 Common Shares, representing 2.5% of the issued and outstanding Common Shares on the date of the receipt of regulatory approval through to December 4, 2014. Pursuant to the policies of the TSX, daily purchases made by the Company will not exceed 17,049 Common Shares other than block purchase exceptions. During the period ended March 31, 2014, there were no repurchase of Common Shares under the NCIB.

MARCH 31, 2014 (unaudited – in Canadian dollars)

7. INCOME TAXES

As at March 31, 2014, the Company has capital losses of approximately $149.8 million [December 31, 2013 – $149.8 million] and non-capital losses of approximately $18.8 million [December 31, 2013 – $18.8 million] that may be carried forward to reduce income taxes in future years. If not utilized, the non-capital losses will expire as follows:

2014	$442,399
2015	367,041
2026	801,603
2027	1,673,226
2028	2,982,447
2029	3,447,337
2030	1,120,101
2031	978,440
2032	2,309,061
2033	4,650,327
	$18,771,982

The Company has recorded a valuation allowance for the full amount of its future income tax assets related to capital and non-capital losses carried forward because it is uncertain that these tax losses will be utilized in the foreseeable future, and accordingly, the Company has not recognized any tax recoveries in its financial statements. The value of unused tax losses and deductible temporary differences for which no future income tax assets have been recognized, is approximately $28.0 million [December 31, 2013 – $28.2 million].

The remainder of this page is intentionally blank. Financial Instruments follows.

8. FINANCIAL INSTRUMENTS

The following tables present the carrying amounts of the Company's financial instruments by category:

As at March 31, 2014	Held for Trading $000	FVTPL Designated at inception $000	Total $000	Amortized Cost $000	Total $000
Assets					
Marketable securities	1,257	-	1,257	-	1,257
Investments	-	151,417	151,417	-	151,417
Cash	-	-	-	9,121	9,121
Prepaid expenses, deposits and other receivables	-	-	-	1,107	1,107
Due from broker	-	-	-	3,208	3,208
Interest receivable	-	-	-	3,170	3,170
Total Financial Assets	**1,257**	**151,417**	**152,674**	**16,606**	**169,280**
Liabilities					
Marketable securities sold short	247	-	247	-	247
Accrued liabilities	-	-	-	521	521
Due to broker	-	-	-	32	32
Convertible debentures	-	-	-	50,084	50,084
Total Financial Liabilities	**247**	**-**	**247**	**50,637**	**50,884**

As at December 31, 2013	Held for Trading $000	FVTPL Designated at inception $000	Total $000	Amortized Cost $000	Total $000
Assets					
Marketable securities	3,900	-	3,900	-	3,900
Investments	-	137,019	137,019	-	137,019
Cash	-	-	-	24,229	24,229
Prepaid expenses, deposits and other receivables	-	-	-	1,339	1,339
Interest receivable	-	-	-	2,327	2,327
Total Financial Assets	3,900	137,019	140,919	27,895	168,814
Liabilities					
Marketable securities sold short	780	-	780	-	780
Accrued liabilities	-	-	-	1,119	1,119
Due to broker	-	-	-	140	140
Convertible debentures	-	-	-	51,237	51,237
Total Financial Liabilities	780	-	780	52,496	53,276

As at January 1, 2013	Held for Trading $000	FVTPL Designated at inception $000	Total $000	Amortized Cost $000	Total $000
Assets					
Marketable securities	15,723	-	15,723	-	15,723
Investments	-	65,011	65,011	-	65,011
Cash	-	-	-	9,396	9,396
Prepaid expenses, deposits and other receivables	-	-	-	187	187
Due from broker	-	-	-	2,280	2,280
Interest receivable	-	-	-	745	745
Total Financial Assets	15,723	65,011	80,734	12,608	93,342
Liabilities					
Accrued liabilities	-	-	-	2,458	2,458
Due to broker	-	-	-	1,029	1,029
Total Financial Liabilities	**-**	**-**	**-**	3,487	3,487

For the quarter ended March 31, 2014, the total of the change in unrealized gain (loss) and realized gain from disposal on financial assets designated as HFT were $0.4 million, the total of the change in unrealized gain (loss) and realized gain from disposal financial assets designated at FVTPL were $3.5 million and the total of the change in unrealized gain (loss) and realized gain on financial liabilities designated as HFT were $0.2 million.

9. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

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

a) Market risk

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

Interest rate risk

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

As at March 31, 2014, the Company holds the following fixed-rate debt instruments: (a) $51.2 million [December 31, 2013 - $53.6 million, January 1, 2013 – $36.4 million] in convertible debentures with a weighted average interest rate of 7.93% [December 31, 2013 – 7.80%, January 1, 2013 – 6.07%] and a weighted average term to maturity of approximately 1.4 years [December 31, 2013 – 1.6 years, January 1, 2013 – 1.9 years]; and (b) $15.0 million [December 31, 2013 - $14.9 million, January 1, 2013 – $5.0 million] in non-convertible debentures with a weighted average interest rate of 9.32% [December 31, 2013 – 8.68%, January 1, 2013 – 9.60%] and a weighted average term to maturity of approximately 1.5 years [December 31, 2013 – 1.7 years, January 1, 2013 – 1.1 years]. Should market interest rates rise, then the fair value of these convertible and non-convertible debentures will decrease. Conversely, should market interest rates fall, the fair value of these assets will increase. The effect of changes in interest rates on the fair value of these debt instruments is partially muted by the nature of the investments. Convertible debentures placed in early stage investees are typically less sensitive to changes in market interest rates than non-convertible debt instruments placed in more mature investees. Additionally, the economic exposure to interest rate risk is mitigated by the Company's intention to either convert the debentures into the related underlying equities or, in the case of non-convertible debentures, to hold the instrument until maturity.

The Company is also exposed to interest rate risk through its debt investments. If interest rates were higher by 1% per annum, the potential effect would be a decrease in net income of approximately $0.8 million [December 31, 2013 - $ 1.0 million, January 1, 2013 – $0.7 million]. If interest rates were lower by 0.5% per annum, the potential effect would be an increase in net income of approximately $0.4 million [December 31, 2013 - $0.5 million, January 1, 2013 – $0.4 million].

Currency risk

Changes in currency rates will impact the carrying value of financial instruments denominated in currencies other than the Canadian dollar. As at March 31, 2014, the Company is exposed to foreign exchange risk through its US dollar denominated investments of $32.5 million [December 31, 2013 - $31.1 million, January 1, 2013 – $16.0 million] and its Australian dollar denominated investments of nil [December 31, 2013 - nil, January 1, 2013 – $3.5 million], which together represents approximately 19.2% of total assets. The Company does not currently hedge its foreign currency exposure. If the Canadian dollar strengthened or weakened by 1% in relation to the foreign currencies, the investments would have decreased or increased by approximately $0.3 million [December 31, 2013 - $0.3 million, January 1, 2013 – $0.2 million].

Other price risk

Other price risk is the risk of variability in fair value due to movements in equity prices or other market prices such as commodity prices and credit spreads. The Company incurs other price risk through its portfolio of investments and marketable securities. If the fair value of these financial assets were to increase or decrease by 10%, the Company would incur an associated increase or decrease in net income of approximately $15.2 million [December 31, 2013 - $14.0 million, January 1, 2013 – $8.1 million]. Refer to the Schedule of Investments and notes 2 and 3 for additional details regarding the fair value of investments and marketable securities, respectively.

b) Credit risk

Credit risk is the risk of loss due to the failure of a borrower or counterparty to fulfill its contractual obligations. The Company is exposed to credit risk through certain debt instruments held in the investments and marketable securities portfolios. Refer to the Schedule of Investments and notes 2 and 3 for additional details regarding the nature of these financial assets. The Company seeks to mitigate credit risk where possible by obtaining security over the assets of the issuer and by limiting the size of its investments to an amount such that the Company's debentures could be repaid through the liquidation of a defaulting issuer.

The Company considers its maximum exposure to credit risk as at December 31, 2013 is $66.2 million [December 31, 2013 - $68.5 million, January 1, 2013 – $41.5 million].

c) Liquidity risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund an obligation as it comes due. The Company's management is responsible for reviewing liquidity resources to ensure funds are readily available to meet its financial obligations as they come due, as well as ensuring adequate funds exist to support business strategies and operations growth. As at March 31, 2014, the Company's liquidity risk is limited to exposure to accounts payable and accrued liabilities and accrued interest on convertible debentures, which are due within 12 months of March 31, 2014.

The following are the contractual maturities of financial liabilities including estimated interest payment:

As at March 31, 2014	Less than one year $000	One to three years $000	Over three years $000	Total $000
Financial Liabilities				
Performance and management fees payable	316	-	-	**316**
Accounts payable and accrued liabilities	205	-	-	**205**
Due to broker	32	-	-	**32**
Accrued interest on convertible debentures	4,495	8,934	6,700	**20,129**
Convertible debentures	-	-	55,837	**55,837**
Total Financial Liabilities	**5,048**	**8,934**	**62,537**	**76,519**

As at December 31, 2013	Less than one year $000	One to three years $000	Over three years $000	Total $000
Financial Liabilities				
Performance and management fees payable	651	-	-	651
Accounts payable and accrued liabilities	468	-	-	468
Due to broker	140	-	-	140
Accrued interest on convertible debentures	4,825	8,936	8,936	22,697
Convertible debentures	-	-	55,847	55,847
Total Financial Liabilities	6,084	8,936	64,783	79,803

As at January 1, 2013	Less than one year $000	One to three years $000	Over three years $000	Total $000
Financial Liabilities				
Performance and management fees payable	1,880	-	-	1,880
Accounts payable and accrued liabilities	578	-	-	578
Due to broker	1,029	-	-	1,029
Total Financial Liabilities	3,487	-	-	3,487

Risk Management

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

10. FAIR VALUE MEASUREMENT

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

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

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

As at March 31, 2014	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Equities	32,658	327	42,872	75,857
Convertible debentures	-	3,545	45,399	48,944
Debentures, loans and promissory notes	-	-	14,052	14,052
Partnership interest	-	-	8,291	8,291
Warrants	-	2,117	3,413	5,530
Total Financial Assets	**32,658**	**5,989**	**114,027**	**152,674**
Equities sold short	247	-	-	247
Total Financial Liabilities	**247**	**-**	**-**	**247**

As at December 31, 2013	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Equities	20,522	103	41,230	61,855
Convertible debentures	-	3,714	48,312	52,026
Debentures, loans and promissory notes	-	-	14,327	14,327
Partnership interest	-	-	7,977	7,977
Warrants	-	1,451	3,283	4,734
Total Financial Assets	20,522	5,268	115,129	140,919
Equities sold short	780	-	-	780
Total Financial Liabilities	780	-	-	780

As at January 1, 2013	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Equities	17,062	3,811	13,753	34,626
Convertible debentures	-	5,598	30,096	35,694
Debentures, loans and promissory notes	-	-	5,054	5,054
Partnership interest	-	-	4,975	4,975
Warrants	-	383	2	385
Total Financial Assets	17,062	9,792	53,880	80,734

Transfers between levels of the fair value hierarchy, are deemed to have occurred at the date of the event or change in circumstance that caused the transfer. During the period ended March 31, 2014, there were $0.2 million of equities transferred from Level 2 to Level 1 [March 31, 2013 - $3.8 million] and there were no transfers from Level 1 to Level 2 [March 31, 2013 – nil]. The transfer out of Level 2 to Level 1 consists of restricted securities where the restriction was lifted during the period.

The table below presents the valuation techniques and the nature of significant inputs used to determine the fair values of the Level 3 investments as at March 31, 2014:

Investment Type	Fair Value $000	Valuation techniques and unobservable inputs applied
Equity securities	22,644	Transaction price
	10,540	Third party transaction/pricing
	6,036	Appraised value
	3,237	Discounted cash flows Discount rate (12%) Revenue CAGR (10%) Exit multiples – EBITDA (4x)
	415	Other Discount (50%)
Convertible debentures	11,387	Transaction price
	34,012	Market comparable companies Implied market yield (3% - 12%) Revenue multiple (0.4x – 0.8x) Discount (22% - 75%)
Debentures, loans and promissory notes	5,124	Transaction price
	8,928	Liquidation value/other
Partnership Interest	8,291	Transaction price
Warrants	3,413	Third party transaction/pricing
	114,027	

The following table presents the changes in fair value measurements of investments classified as Level 3.

	Three months ended March 31, 2014 $000	Year ended December 31, 2013 $000	Year ended December, 31, 2012 $000
Opening balance, beginning of period	115,129	53,880	-
Purchases	544	76,817	52,260
Sales	(5,008)	(3,326)	(2,400)
Realized gains	2,608	230	400
Change in unrealized appreciation (depreciation)	754	(12,472)	3,620
Balance, end of period	**114,027**	115,129	53,880
Total change in unrealized appreciation of assets held as at end of period	1,987	(12,242)	3,620

11. RELATED PARTY TRANSACTIONS

Management Agreement

The Company has a management agreement with Difference Capital Management Inc. (the “Management Agreement”). The Company accrues and pays management fees on the basis of 2% per annum of the Company’s monthly management fee net asset value (the “Management Fee NAV”). The Management Fee NAV is determined by subtracting the aggregate fair value of the liabilities (excluding any convertible debentures or debentures having 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. The Company accrues a 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.

For the quarter ended March 31, 2014, management fees of $0.8 million [March 31, 2013 **–** $0.4 million] and performance fees of nil [March 31, 2013 - $0.1 million] were accrued. As at March 31, 2014, performance and management fees payable to the manager were $0.3 million [December 31, 2013 **–** $0.7 million, January 1, 2013 - $1.9 million]. The outstanding payables were paid subsequent to March 31, 2014.

Under the terms of the Management Agreement, the Company is entitled to a 40% share of DCM revenue earned after direct costs on advisory and equity capital market revenues from investee companies beginning January 1, 2013. Additionally, as of July 1, 2013, the Company is entitled to receive 40% of all advisory and equity capital market revenues generated by DCM. Also under the terms of the Management Agreement, the Company is required to reimburse DCM for certain operating expenses beginning January 1, 2013. For the quarter ended March 31, 2014, the Company accrued revenue of $0.3 million from such advisory fees [March 31, 2013 **–** $0.3 million]. As at March 31, 2014, advisory fees receivable from DCM was $0.4 million [December 31, 2013 – $0.5 million, January 1, 2013 - nil].

12. CAPITAL MANAGEMENT

The Company's objectives in managing capital are to maintain a capital structure that allows the Company to meet its growth strategies and build long-term shareholder value, while satisfying its financial obligations and meeting its working capital needs.

The Company's capital is comprised of shareholders' equity and long-term debt. The Company's management is responsible for the management of capital. The Company's Board of Directors is responsible for reviewing and approving the Company's capital policy and management.

The Company does not have any externally imposed capital requirements and management believes that it has sufficient working capital for ongoing operations.

The Company's capital consists of the following:

As at	March 31, 2014 $000	December 31, 2013 $000	January 1, 2013 $000
Shareholders' equity	118,396	115,538	89,855
Convertible debentures – long term portion	49,334	49,030	-
Total capital	**167,730**	164,568	89,855

13. BASIC AND DILUTED EARNINGS PER SHARE

The following table presents the calculation of basic and fully diluted earnings per common share for the three months ended March 31:

Three months ended March 31,	2014 $000	2013 $000
Basic earnings per share		
Net income	**2,858**	870
Weighted average common shares	**39,132,334**	27,311,714
Basic earnings per share	**$0.07**	$0.03
Fully diluted earnings per share		
Net income	**2,858**	870
Weighted average common shares after taking into effect dilutive convertible debentures	**39,132,334**	27,311,714
Fully diluted earnings per share	**$0.07**	$0.03

In calculating diluted earnings per common share for the three months ended March 31, 2014 and 2013, the Company excluded 7,717,486 (2013 – 7,717,486) purchase warrants and 9,710,782 (2013 – nil) common shares from the conversion of the convertible debentures as their impact was anti-dilutive.

14. NET ASSET VALUE

The financial statements contain references to "Net Asset Value" (basic and fully diluted) ("NAV"), which is a non-IFRS financial measure. The basic NAV is calculated by subtracting the aggregate fair value of the liabilities of the Company from the aggregate fair value of the assets of the Company on the date on which the calculation is being made and NAV per share as NAV divided by the total number of common shares of the Company outstanding as at a specific date. Fully diluted NAV is calculated by taking basic NAV and account for any dilutive impact of outstanding securities of the

Company that are convertible into or exercisable for Common Shares that have been converted or exercised. The term net asset value per share does not have any standardized meaning according to IFRS and therefore may not be comparable to similar measures presented by other companies.

15. TRANSITION TO IFRS

The Company's financial statements for the year ending December 31, 2014 will be the first annual financial statements that comply with IFRS. Accordingly, the Company will make an unreserved statement of compliance with IFRS beginning with its 2014 annual financial statements. The Company's transition date is January 1, 2013 ("Transition Date") and the Company has prepared its IFRS opening balance sheet at that date. These financial statements have been prepared in accordance with the accounting policies described in note 1.

a) Initial elections on first-time adoption of IFRS

IFRS 1*, First-time Adoption of International Financial Reporting Standards* ("IFRS 1"), requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be December 31, 2014. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

b) The only voluntary exemption adopted by the Company upon transition was the ability to designate financial assets or financial liabilities at fair value through profit and loss upon transition to IFRS. All financial assets designated at FVTPL upon transition (see note 8) were previously carried at their fair value under Canadian GAAP as required by Accounting Guideline 18, *Investment Companies*.

c) In accordance with the mandatory exceptions to retroactive restatement under IFRS 1, hindsight was not used to create or revise estimates at the Transition Date, and accordingly the estimates previously made by the Company under Canadian GAAP are consistent with the application under IFRS, except where necessary to reflect any difference in accounting policies.Reconciliation of equity and comprehensive income (loss) as previously reported under Canadian GAAP to IFRS

Equity	December 31, 2013 $000	March 31, 2013 $000	January 1, 2013 $000
Equity, as reported under Canadian GAAP	115,098	90,769	89,855
Revaluation of investments at FVTPL	440	-	-
Equity, as reported under IFRS	115,538	90,769	89,855

Comprehensive income (loss)	Year Ended December 31, 2013 $000	Quarter Ended March 31, 2013 $000
Comprehensive income (loss), as reported under Canadian GAAP	(20,458)	870
Revaluation of investments at FVTPL	440	-
Comprehensive income (loss), as reported under IFRS	(20,018)	870

Revaluation of investments at FVTPL

Under Canadian GAAP, the Company measured the fair values of its publicly traded marketable securities and investments in accordance with Section 3855, *Financial Instruments – Recognition and Measurement*, which required the use of bid prices for long positions and ask prices for short positions, to the extent such prices are available. Under IFRS, the Company measures the fair values of its publicly traded marketable securities and investments using the guidance in IFRS 13, *Fair Value Measurement* ("IFRS 13"), which requires that if an asset or liability has a bid price and an ask price, then its fair value is to be based on a price within the bid-ask spread that is most representative of fair value. It also allows the use of mid-market pricing 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, upon adoption of IFRS, an adjustment was recognized to increase the earnings amount of the Company's investments by $0.4 million for the year ended December 31, 2013 with a corresponding adjustment to equity.

d) Presentation reclassifications

The Company has elected to reclassify certain amounts, including marketable securities, concurrent with its adoption of IFRS. Previously, all equity securities, debt securities and warrants of public company issuers that are publicly traded on recognized stock exchanges were classified under marketable securities, regardless of whether these securities were acquired principally for the purpose of selling or repurchasing in the near term. The Company has elected to classify as marketable securities only equity securities, debt securities and warrants of public company issuers that are publicly traded on recognized stock exchanges and are acquired principally for the purpose of selling or repurchasing in the near term. Those securities acquired and held for long term investment, regardless of public or private, are classified as investments. The Company has reclassified from marketable securities to investments in the amount of $20.4 million as at December 31, 2013 and $10.7 million as at January 1, 2013.

16. SUBSEQUENT EVENTS

In April 2014, the Company invested US$1.0 million in Series A Preferred Shares in Cardiac Dimension Pty. Ltd. ("Cardiac Dimension"). Cardiac Dimension is a private life sciences company focused on the development and commercialization of Carillon, a medical device for the treatment of heart disease. The Company also committed to purchase an additional US$1.0 million of the same security in Cardiac Dimension at a later date.