COUNSEL
CORPORATION

Management's Discussion and Analysis

FOR THE THREE MONTHS ENDED MARCH 31, 2014

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(All dollar amounts are in thousands of Canadian dollars, unless otherwise indicated)

INTRODUCTION

This management's discussion and analysis ("MD&A") of the results of operations of Counsel Corporation ("Counsel" or "the Company") for the period ended March 31, 2014 and its financial condition as at March 31, 2014 is based on the Company's condensed consolidated interim financial statements prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"), which incorporate International Financial Reporting Standards ("IFRS"), and should be read in conjunction with the audited consolidated financial statements and the notes thereto. Additional information about the Company, including the Annual Information Form, can be found on www.sedar.com. The effective date of this MD&A is May 8, 2014. As of May 8, 2014 the Company had 99,071,104 common shares issued and outstanding.

Forward-looking Information

This MD&A contains certain forward-looking statements which are based on management's exercise of business judgment as well as assumptions made by, and information currently available to, management. When used in this document, the words "may", "will", "anticipate", "believe", "estimate", "expect", "intend" and words of similar import, are intended to identify any forward-looking statements. You should not place undue reliance on these forward-looking statements. These statements reflect our current view of future events and are subject to certain risks and uncertainties as outlined in the Company's Annual Information Form and other filings made with securities regulators, which are available on SEDAR (www.sedar.com). These factors include, without limitation: the timing of merger and acquisition activities, expansion opportunities, technological changes and changes to the business environment that may impact the Company, its investments, capital expenditures, and competitive factors which may impact revenue and operating costs. Any of these factors, amongst others, could cause actual results to vary materially from current results or from the Company's currently anticipated future results and financial condition. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results could differ materially from those anticipated in these forward-looking statements. We undertake no obligation, and do not intend, to update, revise or otherwise publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof, or to reflect the occurrence of any unanticipated events. Although we believe that our expectations are based on reasonable assumptions, we can give no assurance that our expectations will materialize.

Certain comparative figures have been reclassified to conform to the current period financial statement presentation.

Counsel Overview

Counsel Corporation is a financial services company operating in the residential mortgage lending business through its wholly owned subsidiary Street Capital Financial Corporation, one of the largest non-bank mortgage lenders in Canada. Founded in 1979 and a public company for more than a quarter century, Counsel's goal is to build consistently profitable, industry-leading financial services companies by investing in great leaders and providing them with the strategic guidance and financial resources they need to succeed.

Presentation

In the first quarter of 2013, Counsel's Board of Directors approved of a plan to dispose of the Company's non-core operating business segments. The decision reflects the Company's strategy, undertaken in recent years, to focus on financial services. The disposition plan involved:

- Counsel’s subsidiary Heritage Global Inc. (“HGI”) (formerly known as Counsel RB Capital Inc.) (OTCQB: HGBL; CSE:HGP), of which Counsel owned 73.3%; (“Asset Liquidation”);
- Counsel’s subsidiary Fleetwood Fine Furniture LP (“Fleetwood”), of which Counsel owned 71.2% (“Case Goods”); and,
- Counsel’s real estate business segment (“Real Estate”) including its interest in two properties that are under development and one investment property.

As a result, these entities’ assets and liabilities were classified as held for sale as at December 31, 2013 and their operating results were classified separately as discontinued operations in all periods presented. As at the end of the first quarter of 2014, the Company had disposed of its interest in HGI via a dividend-in-kind declared on March 20, 2014. The Company had also disposed of its majority ownership stake in its Case Goods business and Real Estate through sales to third parties.

Counsel is also winding down its private equity business. Counsel’s private equity business (“Private Equity”) is carried on through its wholly-owned subsidiary, Knight’s Bridge Capital Partners Inc. (“Knight’s Bridge”), which is responsible for managing Counsel’s portfolio investment opportunities. On March 7, 2008, Knight’s Bridge closed the KBCP Fund I (the “Fund”) with capital commitments in excess of $62,000, including $10,000 of capital committed by Counsel (at March 31, 2014, Counsel had invested approximately $8,300 in the Fund) and approximately $5,000 of capital committed by senior management, with the Fund having a term of 10 years. For the first five years of the Fund, Knight’s Bridge’s mandate was to source new investment opportunities for the Fund. That five-year period expired in the first quarter of 2013 and Knight’s Bridge can only invest remaining committed capital into existing investee companies of the Fund. Knight’s Bridge earns a 2% fee on the Fund’s invested capital and a 20% carried interest on an investment-by-investment basis after all investors have received their pro-rata share of contributed capital plus a preferred return of 8% per annum. Counsel controls and consolidates the Fund. As the business is winding down rather than held-for-sale, it is not classified as a discontinued operation.

Significant Developments

Significant developments in 2014:

- A special dividend-in-kind was declared on March 20, 2014, payable on April 30, 2014, to Counsel’s shareholders of record as at April 1, 2014, in the amount of approximately 0.2084 shares of HGI for each Counsel share owned on the record date. The dividend comprises all 20,644,481 shares of HGI owned by the Company.

- In the first quarter of 2014, the Company sold its Case Goods business to an investor group led by the President of Fleetwood.

CONSOLIDATED RESULTS OF OPERATIONS

The Company prepares its quarterly results of operations in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Chartered Professional Accountants ("CPA") Canada Handbook ("CPA Handbook"). Accordingly the Company is reporting on this basis in its consolidated financial statements, including comparative figures for prior year quarters.

The following table sets out the Company's consolidated quarterly results of operations for the eight quarters ended March 31, 2014. The amounts have been re-stated to reflect the re-classification of the Asset Liquidation, Case Goods and Real Estate segments as discontinued operations.

	2012 Q2 $	2012 Q3 $	2012 Q4 $	2013 Q1 $	2013 Q2 $	2013 Q3 $	2013 Q4 $	2014 Q1 $	Three months ended March 31, 2013 $	Three months ended March 31, 2014 $
Revenue	32,020	28,986	26,392	25,692	46,440	38,473	28,394	29,836	25,692	**29,836**
Expenses										
Operating expenses	18,446	15,716	18,105	17,637	29,464	24,520	15,407	15,654	17,637	**15,654**
Selling, general and administrative expense	6,094	7,319	7,653	5,490	9,463	9,049	6,900	8,111	5,490	**8,111**
Foreign exchange (gain) loss	35	(58)	49	-	-	-	105	(353)	-	**(353)**
Depreciation and amortization	332	325	334	333	330	344	327	294	333	**294**
Interest expense	560	557	562	571	540	447	384	365	571	**365**
Other	(2)	-	-	-	-	-	(214)	-	-	**-**
Income (loss) before fair value adjustments	6,555	5,127	(311)	1,661	6,643	4,113	5,485	5,765	1,661	**5,765**
Fair value (appreciation) impairment	(1,667)	(16)	(2,935)	(1,867)	(2,901)	(159)	(4,813)	(3,099)	(1,867)	**(3,099)**
Income (loss) before income tax, and discontinued operations	8,222	5,143	2,624	3,528	9,544	4,272	10,298	8,864	3,528	**8,864**
Income tax provision (recovery)	1,977	1,269	(5,032)	458	1,767	1,206	2,297	1,447	458	**1,447**
Income (loss) from continuing operations	6,245	3,874	7,656	3,070	7,777	3,066	8,001	7,417	3,070	**7,417**
Income (loss) from discontinued operations	(756)	(2,718)	(6,856)	(1,332)	(1,468)	307	(6,156)	(11,782)	(1,332)	**(11,782)**
Net income (loss) before non-controlling interest	5,489	1,156	800	1,738	6,309	3,373	1,845	(4,365)	1,738	**(4,365)**
Non-controlling interest	(1,407)	699	(128)	(997)	(1,823)	211	(1,190)	(2,061)	(997)	**(2,061)**
Net income (loss) attributable to shareholders	4,082	1,855	672	741	4,486	3,584	655	(6,426)	741	**(6,426)**
Weighted average number of common shares outstanding (in thousands) - basic									85,851	**99,063**
Basic net income (loss) per share from:										
Continuing operations	0.05	0.05	0.06	0.02	0.06	0.03	0.05	0.07	0.02	0.07
Discontinued operations	(0.00)	(0.03)	(0.05)	(0.01)	(0.01)	0.01	(0.05)	(0.13)	(0.01)	(0.13)
Basic net income (loss) per share	0.05	0.02	0.01	0.01	0.05	0.04	0.00	(0.06)	0.01	(0.06)
Weighted average number of common shares outstanding (in thousands) - diluted									85,851	**99,063**
Diluted net income(loss) per share from:										
Continuing operations	0.05	0.05	0.06	0.02	0.06	0.03	0.05	0.07	0.02	0.07
Discontinued operations	(0.01)	(0.03)	(0.05)	(0.01)	(0.01)	0.01	(0.05)	(0.13)	(0.01)	(0.13)
Diluted net income(loss) per share	0.04	0.02	0.01	0.01	0.05	0.04	0.00	(0.06)	0.01	(0.06)

Three-Month Period ended March 31, 2014 Compared to Three-Month Period Ended March 31, 2013

Revenues were $29,836 for the three months ended March 31, 2014 compared to $25,692 for the three months ended March 31, 2013. The revenues were composed primarily of gains on the sale of mortgages sourced and underwritten by the Company's Mortgage Lending business. The revenue for the first quarter of 2014 included a gain of approximately $4,000 from the extinguishment of a debt below its face value.

Expenses, other income and losses:

Operating expenses were $15,654 for the three months ended March 31, 2014 compared to $17,637 for the three months ended March 31, 2013. These expenses represent the cost of acquiring the mortgages sold by the Mortgage Lending business.

Selling, general and administrative ("SG&A") expense was $8,111 in the three months ended March 31, 2014 compared to $5,490 during the same period of 2013. The increase in SG&A expense primarily relates to SG&A expenses arising from the Mortgage Lending business. In the first quarters of 2014 and 2013, SG&A expense was partially offset by allocations to discontinued operations to reflect management's involvement with the disposition process.

Foreign exchange gain or loss was a gain of $353 in the first quarter of 2014 as compared to $nil in the same period of 2013. The foreign exchange gain or loss relates mainly to the conversion of U.S. dollar assets and liabilities and reflects the movement in the value of the Canadian dollar against the U.S. dollar.

Depreciation and amortization expense was $294 in the three months ended March 31, 2014 compared to $333 during the same period of 2013.

Interest expense was $365 in the first quarter of 2014 compared to $571 during the first quarter of 2013. The reduction in expenses between periods reflects the Company's reduced debt obligations.

The **fair value adjustments** in the first quarter of 2014 resulted in an appreciation of $3,099 compared to an appreciation of $1,867 in the same period of 2013. The current period's adjustment relates primarily to the recognition of an increase in the fair value of the Company's Private Equity portfolio inclusive of foreign exchange fluctuations, partially offset by the accretion of interest on the contingent liability arising from the acquisition of the Mortgage Lending business.

Income taxes:

There was an income tax expense of $1,447 for the three months ended March 31, 2014, compared to an income tax expense of $458 for the same period in 2013. The expense relates primarily to deferred tax attributable to profits generated from the Company's Mortgage Lending activities as well as, in the first quarter of 2014, gains realized on the disposition of the Company's Case Goods business.

Counsel operates, and is therefore subject to income taxes in, multiple jurisdictions. The income tax expense (recovery) reported in the statement of operations and statement of comprehensive income (loss) is based on a number of different estimates made by management. The effective tax rate can change from year to year based on the mix of income or loss among the different jurisdictions in which the Company operates, changes in tax laws in these jurisdictions, and changes in the estimated values of deferred tax assets and liabilities recorded on the statement of financial position. The income tax expense (recovery) reflects an estimate of cash taxes expected to be paid (refunds to be received) in the current year, as well as a provision for changes arising during the year in the value of deferred tax assets and liabilities. The likelihood of recovering value from deferred tax assets such as loss carry-forwards, future tax depreciation of capital assets and other assets is assessed and recognized at each quarter-end. Significant judgment is applied to determine whether deferred tax assets will be realized. Material changes in income tax assets, liabilities, expense and recoveries may occur in the short term.

Discontinued operations:

In the first quarter of 2014, the Company recorded a loss of $11,782 from discontinued operations compared to a loss of $1,332 in the first quarter of 2013. The Company discontinued its Asset Liquidation, Case Goods and Real Estate segments in the first quarter of 2013. Earnings from each of the segments are reflected in discontinued operations. The Case Goods business and the last Real Estate property were sold to third parties in the first quarter of 2014 while the Asset Liquidation business is being distributed to Counsel shareholders via a dividend-in-kind of all of the Company's shares of Heritage Global Inc. In the first quarter of 2014, a fair value impairment of approximately $13,000 was recorded with respect to the Company's investment in Heritage Global Inc.

RESIDENTIAL MORTGAGE LENDING

Overview

Counsel carries on its residential mortgage lending business ("Mortgage Lending") through its subsidiary Street Capital Financial Corporation ("Street Capital"), which was acquired on May 31, 2011. Street Capital was founded by its current senior management team, all of whom have deep experience in the mortgage and consumer lending industry and previously occupied senior management positions at large Canadian financial institutions.

Street Capital is a Canadian residential mortgage lender that provides residential mortgage financing in multiple sales regions in all provinces of Canada, with the current exception of Quebec. The company sells the mortgages that it underwrites to top-tier financial institutions. Having been in the business for approximately five years, the company has successfully built a broad network of brokers and established stringent underwriting and due diligence processes, while maintaining a focus on customer service.

The company sources its mortgages solely through a network of independent, high quality mortgage brokers with whom it has built relationships. Mortgage brokers are an important distribution channel in Canada, capturing almost half of first time homebuyers and a third of repeat buyers, according to the 2012 Mortgage Consumer Survey by the Canada Mortgage and Housing Corporation ("CMHC"), the Government of Canada's national housing agency. Street Capital targets selective high opportunity broker teams based on a variety of factors, including the volume and quality of mortgages they source. Street Capital incentivizes these brokers to direct business to the company by providing fast and efficient service and support, a broad suite of products, competitive pricing, tiered loyalty programs and discounts. Street Capital does not compete with brokers by having its own branch network. By avoiding the expensive branch network typical of many of its competitors, Street Capital is able to pass these savings on to the borrower. Since launching its current operations in 2008, Street Capital has grown rapidly to become a leader in mortgage broker market share based on funded volume, according to reported industry statistics.

Street Capital offers a broad lineup of high ratio and conventional mortgages at competitive interest rates. The company's primary business is originating prime insurable mortgages. In April 2012, Street Capital entered the near prime segment of the mortgage market, with the introduction of its Street Options Program. Near prime is a segment of the mortgage credit market just below prime and comprised of borrowers who are unable to find financing through traditional sources. The company believes this market segment is underserved and offers potentially higher profit margins. The company's strategy is to prudently expand this business over time, but expects its prime business will account for the vast majority of mortgages originated for the foreseeable future.

Street Capital sells the mortgages it originates to financial institutions at the time of placement for a cash premium, and in some cases, an excess interest rate spread over the remaining life of the mortgage. By not accumulating, or warehousing, mortgages for a period of time prior to sale, Street Capital mitigates interest rate risk. Selling the mortgages also transfers substantially all the risks of ownership of these mortgages to the investor and/or party insuring the mortgage. However, Street Capital has established stringent underwriting and robust quality assurance processes to mitigate credit risk and thereby ensure the maintenance of a strong wholesale demand for its mortgages from institutional clients. This has resulted in a high quality portfolio of mortgages under administration.

Though the company outsources servicing of the related mortgages to a third party, the company administers and remains the face of all direct communication with borrowers throughout the term of the mortgages. This relationship allows renewals to occur and is a key part of the long term growth, profitability and recognition of the Street Capital brand. Renewals are of particular importance given the cost of acquisition of renewed mortgages is significantly reduced with minimal broker, marketing, underwriting and other related costs. Street Capital's targeted renewal rate for mortgages it has originated is approximately 80 per cent, in line with the industry norm. Street Capital's current operations began in early 2008 and the bulk of mortgages originated have a five-year term. Therefore, the company expects renewals to grow as the company's portfolio of mortgages under administration matures.

Growth Strategy

Street Capital's growth strategy is focused on increasing the volume of mortgages it originates and its assets under management as well as improving profit margins. To increase volume, the company intends to expand into new regions and increase its network of high quality, high volume brokers, while increasing the amount of mortgages originated through its existing mortgage broker network. To improve profit margins, the company broadened its product line in 2012 into higher margin near prime mortgages. In addition, it expects to achieve higher margins as mortgage renewals become a greater part of its mix of business.

In May 2013, Street Capital received approvals from CMHC to be an approved issuer of National Housing Act mortgage backed securities ("NHA MBS") and an approved seller under the Canada Mortgage Bonds (CMB) program. This will enable the company's mortgages to be pooled into securities designated for sale to Canada Housing Trust under the CMB program. This ability to securitize mortgages, on a limited scale, provides Street Capital with a secondary source of funding and one that can be more profitable than selling mortgages to investors.

In September 2012, Street Capital announced its intentions to apply to Canada's Minister of Finance for approval to operate as a federally regulated Schedule I bank, with its banking business primarily focused on residential mortgage lending as well as other consumer lending and related services. The application was filed in December 2012. While Street Capital will continue with its current business of sourcing and funding insured and uninsured mortgages, a bank license would enable Street Capital to broaden its product line into other forms of consumer lending and related services, thereby increasing the company's value proposition to brokers and retail customers. Street Capital remains committed to the mortgage broker channel and intends to continue to operate through this channel. The company anticipates the application process will take an extended period of time, likely at least two years. While Street Capital believes it has the appropriate structure, leadership, maturity and scale to undertake this application process, there is no assurance the application will receive approval. However, the company is confident it can continue to grow its mortgage business under its current business model.

Results of Operations

Over the past five years, Street Capital has experienced a steady growth in mortgages originated and sold. The total mortgages sold in the first quarter were $ $1.4 billion, while for the quarter ending March 31, 2013 they were $1.6 billion, placing the company among the top mortgage underwriters within the broker channel in Canada.

A key measure of success is the growth in Street Capital's portfolio of mortgages under administration. The company had $18.2 billion in mortgages under administration at March 31, 2014 compared to $13.3 billion at March 31, 2013 and $17.5 billion at December 31, 2013.

The following schedule sets out the growth in mortgages under administration and the quarterly mortgage sales in billions over the eight quarters ended March 31, 2014

	At Jun 30, 2012	At Sep 30, 2012	At Dec 31, 2012	At Mar 31, 2013	At Jun 30, 2013	At Sep 30, 2013	At Dec 31, 2013	At Mar 31, 2014
	$	$	$	$	$	$	$	$
Mortgages under administration ($billions)	9.5	10.7	12.0	13.3	15.0	16.7	17.5	18.2

	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1
	$	$	$	$	$	$	$	$
Mortgages sold ($billions)	1.3	1.7	1.6	1.6	2.5	2.3	1.4	1.4

Mortgage Lending revenue was $25,539 for the first three months of 2014 compared to $25,456 for the same period of 2013 and is comprised of the gain on sales of mortgages underwritten by Street Capital. The gain on sale increased slightly in the current quarter despite lower sales as a result of higher spreads in the credit market compared to the same period in the prior year.

Mortgage Lending operating expense was $15,654 for the three months ended March 31, 2014 compared to $17,637 for the same period in 2013. Mortgage lending operating expense consists of the cost to source and underwrite mortgages sold by Street Capital, and reflects the sales volume. The expenses were relatively higher in 2013 due to costs incurred as a result of Street Capital's expansion of its share of the mortgage broker channel.

CAPITAL RESOURCES AND LIQUIDITY

Summary of Consolidated Statement of Financial Position Data

	December 31, 2012 $	December 31, 2013 $	March 31, 2014 $
Total assets	247,616	258,203	224,139
Working capital	(6,815)	(5,000)	8,708
Long-term financial liabilities	41,623	20,604	26,490
Dividends declared	0.022 / share (i)	-	0.167 / share (ii)

(i) Approximate value of dividend- in- kind of approximately 0.0719 shares of Terra Firma.
(ii) Approximate value of dividend-in-kind of approximately 0.2084 shares of HGI.

Working capital

The Company's working capital increased by $13,708 in the first quarter of 2014. It should be noted that the working capital surplus is principally related to the disposition of the Company's discontinued operations during the first quarter of 2014.

Sources of funding

The Company had $11,880 in cash and cash equivalents at March 31, 2014 (December 31, 2013 - $17,580). This includes approximately $10,081 of restricted cash representing funds held in trust by our Mortgage Lending business for the purposes of funding third party mortgage loans.

The primary sources of funds in the first quarter of 2014 were distributions from portfolio investments and new bank and other financings, as well as income from our Mortgage Lending business.

Uses of funding

During the first quarter of 2014, funds were principally used to make mortgage and loan payments and for regular operations of the business.

Dividends

In March 2014 Counsel declared a special dividend-in-kind of the Company's entire holding of 20.6 million shares of HGI. The special dividend was paid on April 30, 2014 to shareholders of record as at April 1, 2014. Holders of the Company's common shares received approximately 0.2084 HGI shares for each Counsel share owned on the record date.

Acquisition of securities

There were no securities acquisitions in 2011, 2012, 2013 or in the first quarter of 2014.

Convertible debentures

Counsel partially financed the acquisition of Street Capital by a non-brokered private placement of convertible unsecured subordinated debentures (the "Debentures") for gross proceeds of $12,000. The Debentures were originally convertible at $1.25 per common share; however as a result of the payment of a special dividend in kind on January 1, 2013, the conversion rate was reduced to $1.2264 per common share. The Debentures bear interest at 8% per annum, payable quarterly, in cash on the last day of March, June, September and December of each year, commencing September 30, 2011, and were to mature on May 31, 2014. The Company had the right to require conversion of the Debentures when the market price per common share was equal to or greater than $1.75 for 20 consecutive trading days. As at the end of the fourth quarter of 2013, all $12,000 of the debentures had been converted to 9,784,735 common shares.

Guarantees

The Company had guaranteed a mortgage payable on a long-term care facility sold by the Company to a limited partnership in 1985. The mortgage on the facility was assumed by the limited partnership and was guaranteed by the Company. The Company received a fee for this guarantee. The Company has no equity interest in the limited partnership; however, it did receive an annual incentive fee from the partnership based on the limited partnership's financial performance, and was entitled to an incentive fee based on the proceeds of a sale or refinancing of the facility. The facility was sold in the fourth quarter of 2013 resulting in the elimination of the Company's guarantee obligation. The Company earned an incentive fee of approximately $1,282 as a result of the sale in 2013.

Contingencies

The Company, from time to time, is involved in various claims, legal and tax proceedings and complaints arising in the ordinary course of business. The Company is not aware of any pending or threatened proceedings that would have a material adverse effect on the consolidated financial condition or future results of the Company.

CRITICAL ACCOUNTING ESTIMATES

This MD&A discusses the Company's consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The preparation of these financial statements requires the use of estimates, assumptions and judgments that in some cases relate to matters that are inherently uncertain, and which affect the amounts reported as assets, liabilities, revenue and expense in the consolidated financial statements and accompanying notes. Key areas of such estimation are: re-measurement at fair value of financial instruments, valuations of receivables (i.e. duration factors on deferred interest receivable) and inventories, impairment of property, plant and equipment, portfolio investments, intangibles and goodwill, provisions, accounting accruals, the useful life and residual value of certain assets, accounting for deferred income taxes, and allowance for credit losses. Allowance for credit losses represent management's best estimate of losses incurred in our loan portfolio at the date of the statement of financial position and requires management's judgment in making assumptions and estimations. The determination of the Company's deferred tax asset or liability requires significant management judgment as the recognition is dependent on management's projection of future taxable profits and tax rates expected to be in effect in the period in which the asset is realized or the liability settled.

The classification, presentation and measurement of discontinued operations also involved significant estimates, assumptions and judgments. Changes to estimates and assumptions may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could also differ from those estimates under different assumptions and conditions.

Fair value of portfolio investments not quoted in an active market - The fair values of portfolio investments that are not quoted in an active market are determined by using valuation techniques, primarily earnings multiples, discounted cash flows and recent comparable transactions. The inputs in the earnings multiples models include observable data, such as earnings multiples of comparable companies to the relevant portfolio company, and unobservable data, such as forecast earnings for the portfolio company. In discounted cash flow models, unobservable inputs are the projected cash flows of the relevant portfolio company and the risk premium for liquidity and credit risk that are incorporated into the discount rate.

Critical judgments include the determination of CGUs and the allocation of certain costs among the CGUs, and the determination of depreciation and amortization periods for property, plant and equipment and intangible assets.

SUMMARY OF ACCOUNTING POLICIES

This MD&A should be read in conjunction with the Company's consolidated financial statements and notes. To aid in the understanding of the Company's financial reporting, some of its accounting policies are described below. These policies have the potential to significantly impact the Company's financial statements, either because of the significance of the financial statement item to which they relate, or because they require judgment and estimation due to the uncertainty involved in measuring, at a specific point in time, events which are continuous in nature.

Basis of preparation

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Chartered Professional Accountants ("CPA") Canada Handbook ("CPA Handbook"). The interim condensed consolidated financial statements have been prepared in accordance with IAS 34 – interim financial Reporting under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company applied in its consolidated financial statements as of and for the year ended December 31, 2013 except for the adoption of new standards and amendments effective January 1, 2014 described in Note 3 of the condensed consolidated interim financial statements. The accounting policies the Company applied in its annual consolidated financial statements as of and for the year ended December 31, 2013, are disclosed in Note 3 of such financial statements with which reference should be made in reading the interim condensed and consolidated financial statements.

The condensed consolidated interim financial statements are presented in Canadian dollars, except when otherwise indicated.

Consolidation

These consolidated financial statements include the accounts of the Company and its consolidated subsidiaries, which are entities over which the Company has control. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. Furthermore, effective January 1, 2013, IFRS 10 requires the consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its investment with the investee and has the ability to use its power over the investee to affect its returns. Non-controlling interests in the equity and results of the Company's subsidiaries are shown separately in the consolidated statement of changes in equity. Intercompany balances and transactions among the Company and its subsidiaries are eliminated on consolidation.

The Company's principal subsidiaries comprising continuing and discontinued operations and its respective ownership interest in each subsidiary as at March 31, 2014 and December 31, 2013 are as follows:

	March 31, 2014 %	December 31, 2013 %
Street Capital Financial Corporation	**100.0**	**100.0**
Knight's Bridge Capital Partners Inc.	**100.0**	**100.0**
Heritage Global Inc. ("HGI")* (i)	-	**73.3**
Heritage Global LLC ("HG LLC")*	-	**100.0**
Heritage Global Partners, Inc. ("HGP")*	-	**100.0**
Fleetwood Fine Furniture LP ("Fleetwood")* (i)	-	**71.2**

**Business units reclassified as discontinued operations in the first quarter of 2013*

(i) As of March 31, 2014, the Company disposed of its interests in both HGI and Fleetwood via a dividend-in-kind and sale of majority interest, respectively.

Non-controlling interest

Non-controlling interest represents equity interests in subsidiaries and controlled assets owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interest is presented as a separate component within equity. Their share of net income (loss) and comprehensive income (loss) is recognized directly in equity. Changes in the Company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Future accounting changes

Financial Instruments – The IASB has issued a new standard, IFRS 9 "Financial Instruments", which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement". The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments and the issuance of IFRS 9 is part of the first phase. In November 2013, the IASB removed the mandatory effective date of January 1, 2015 and has not proposed a future effective date. The Company has yet to assess the impact of the new standard on its results of operations, financial position and disclosures.

Recently adopted accounting standards and amendments

Financial instruments: Presentation -Amendment to IAS 32, Financial Instruments: Presentation on asset and liability offsetting clarifies some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The amendment to this standard is effective for annual periods beginning on or after January 1, 2014. The adoption of this amendment did not have a significant impact on the Company's results of operations, financial position and disclosures.

Impairment of assets - Amendment to IAS 36, Impairment of Assets establishes the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less cost of disposal. The amendment to this standard is effective for annual periods beginning on or after January 1, 2014. The adoption of this amendment did not have a significant impact on the Company's results of operations, financial position and disclosures.

DISCLOSURE CONTROLS AND PROCEDURES

Counsel's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures. The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified under Canadian 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 and Chief Financial Officer, to allow timely decisions regarding required disclosure. As of the end of the period covered by this MD&A, the Company's Chief Executive Officer and the Chief Financial Officer evaluated the Company's disclosure controls and procedures and, based upon that review and evaluation, concluded that those disclosure controls and procedures are effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Counsel's management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework used to design Counsel's ICFR is based on *"Internal Control over Financial Reporting – Guidance for Smaller Public Companies*" published by COSO.

Based on the results of testing and evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's ICFR was effective to provide reasonable assurance that the information required to be disclosed in the Company's reports and regulatory filings does not contain any material misstatements.

There were no changes to ICFR during the period ended March 31, 2014 that have materially affected, or are expected to have a material effect on the Company's financial reporting.