



**COUNSEL**  
CORPORATION

**Unaudited Condensed Consolidated Interim  
Financial Statements**

**As at and for the three and six months ended  
June 30, 2014**

**COUNSEL CORPORATION**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**  
**AS AT JUNE 30, 2014 AND DECEMBER 31, 2013**  
(In thousands of Canadian dollars)

	Notes	June 30, 2014 \$	December 31, 2013 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	11(i)	19,282	17,580
Marketable securities		427	410
Mortgages, loans, accounts and deferred interest receivable	6(a)	39,320	22,004
Prepaid expenses, deposits and deferred charges	7	6,212	4,655
Assets of discontinued operations	21	860	18,415
		<u>66,101</u>	<u>63,064</u>
<b>Non-current assets</b>			
Deferred interest and mortgages receivable	6(a)	22,358	19,403
Mortgages receivable - securitized financing	6(b)	10,961	-
Deferred charges and other assets	7	38,766	35,557
Property, plant and equipment	8	4,023	3,079
Portfolio investments	10	61,868	53,220
Intangible assets	9(a)	5,348	5,594
Goodwill	9(b)	24,919	24,919
Assets of discontinued operations	21	471	53,367
		<u>234,815</u>	<u>258,203</u>
<b>Total assets</b>			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	11	46,518	29,458
Income taxes payable		2	4
Current portion of mortgages and loans payable	12	20,476	14,025
Contingent consideration	5	2,600	4,027
Liabilities of discontinued operations	21	983	20,550
		<u>70,579</u>	<u>68,064</u>
<b>Non-current liabilities</b>			
Mortgages and loans payable	12	-	6,703
Securitization liabilities	6(b)	10,981	-
Contingent consideration	5	2,163	4,543
Deferred income tax liabilities	20	12,806	9,349
Derivative liability	12(ii)	-	9
Liabilities of discontinued operations	21	150	318
		<u>96,679</u>	<u>88,986</u>
<b>Total liabilities</b>			
<b>Equity</b>			
Share capital	15	203,719	203,333
Share based compensation		12,389	12,202
Foreign currency translation		273	2,392
Contributed surplus		50,215	50,215
Retained earnings (deficit)		(168,738)	(152,035)
Shareholders' equity		<u>97,858</u>	<u>116,107</u>
Non-controlling interest		40,278	53,110
		<u>138,136</u>	<u>169,217</u>
<b>Total equity</b>			
<b>Total liabilities and equity</b>			
		<u>234,815</u>	<u>258,203</u>
Commitments, contingencies and guarantees	14		

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**COUNSEL CORPORATION**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30**  
(In thousands of Canadian dollars, except per share data)

	Notes	Three months ended June 30,		Six months ended June 30,	
		2014	2013	2014	2013
		\$	\$	\$	\$
<b>Revenues</b>					
Operating revenue		36,062	46,440	61,773	72,132
Other		-	-	4,125	-
		<u>36,062</u>	<u>46,440</u>	<u>65,898</u>	<u>72,132</u>
<b>Expenses</b>					
Operating costs		20,748	29,464	36,402	47,101
Selling, general and administrative expense		8,782	9,463	16,893	14,953
Foreign exchange		9	-	(344)	-
Depreciation and amortization		322	330	616	663
Interest expense		344	540	709	1,111
		<u>30,205</u>	<u>39,797</u>	<u>54,276</u>	<u>63,828</u>
<b>Income before fair value adjustments</b>		<b>5,857</b>	<b>6,643</b>	<b>11,622</b>	<b>8,304</b>
Fair value adjustments		6,420	2,901	9,519	4,768
<b>Income before income taxes and discontinued operations</b>		<b>12,277</b>	<b>9,544</b>	<b>21,141</b>	<b>13,072</b>
Income tax provision	20	2,125	1,767	3,572	2,225
<b>Income from continuing operations</b>		<b>10,152</b>	<b>7,777</b>	<b>17,569</b>	<b>10,847</b>
Income (loss) from discontinued operations	21	169	(1,468)	(11,613)	(2,800)
<b>Net income</b>		<b>10,321</b>	<b>6,309</b>	<b>5,956</b>	<b>8,047</b>
Net income attributable to non-controlling interest		4,082	1,823	6,143	2,820
<b>Net income attributable to shareholders</b>		<b>6,239</b>	<b>4,486</b>	<b>(187)</b>	<b>5,227</b>
<b>Basic and diluted net income (loss) per share :</b>					
Continuing operations	16	0.06	0.06	0.13	0.08
Discontinued operations		0.00	(0.01)	(0.13)	(0.02)
<b>Basic and diluted net income (loss) per share</b>		<b>0.06</b>	<b>0.05</b>	<b>(0.00)</b>	<b>0.06</b>
<b>Weighted average number of common shares outstanding (in thousands) - basic and diluted</b>					
		<b>99,071</b>	<b>90,621</b>	<b>99,067</b>	<b>88,249</b>

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**COUNSEL CORPORATION**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30**  
(In thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	\$	\$	\$	\$
<b>Net income</b>	<b>10,321</b>	6,309	<b>5,956</b>	8,047
<b>Other comprehensive income (loss)</b>				
Reclassification of cumulative currency translation adjustment - continuing operations to income, net of tax (\$nil)	-	-	(440)	-
Reclassification of cumulative currency translation adjustment - discontinued operations to income, net of tax (\$nil)	-	1,055	(1,679)	1,621
Fair value adjustment of shares held for dividend-in-kind as of March 31, 2014, net of tax (\$nil)	-	-	(498)	-
Fair value adjustment of shares held for dividend-in-kind as of May 1, 2014, net of tax (\$nil)	768	-	768	-
Reclassification to net income	(270)	-	(270)	-
	<u>498</u>	<u>1,055</u>	<u>(2,119)</u>	<u>1,621</u>
<b>Comprehensive income</b>	<b>10,819</b>	7,364	<b>3,837</b>	9,668
<b>Comprehensive income (loss) attributable to:</b>				
Shareholders	6,737	5,611	(2,360)	6,513
Non-controlling interest	4,082	1,753	6,197	3,155
	<u>10,819</u>	<u>7,364</u>	<u>3,837</u>	<u>9,668</u>

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**COUNSEL CORPORATION**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30**  
(In thousands of Canadian dollars)

		Attributable to shareholders of the Company							Non-controlling interest	Total equity
		Share capital (Note 15)	Share based compensation	Foreign currency translation*	Contributed Surplus	Accumulated other comprehensive income (loss)	Retained earnings (deficit)	Total		
Notes		\$	\$	\$	\$	\$	\$	\$	\$	
	<b>Balance - December 31, 2012</b>	<b>188,349</b>	<b>8,627</b>	<b>498</b>	<b>49,579</b>	<b>75</b>	<b>(161,576)</b>	<b>85,552</b>	<b>61,449</b>	<b>147,001</b>
	Exercise of stock options	15	1,281	-	-	-	-	1,281	-	1,281
	Net investment by non-controlling interest		-	-	335	-	-	335	(9,795)	(9,460)
	Conversion of convertible debentures		6,500	-	-	-	-	6,500	-	6,500
	Share based compensation		-	718	-	-	-	718	-	718
	Foreign currency translation adjustment		-	-	1,286	-	-	1,286	335	1,621
	Net income		-	-	-	-	5,227	5,227	2,820	8,047
	<b>Balance - June 30, 2013</b>	<b>196,130</b>	<b>9,345</b>	<b>2,119</b>	<b>49,579</b>	<b>75</b>	<b>(156,349)</b>	<b>100,899</b>	<b>54,809</b>	<b>155,708</b>
	Exercise of stock options	15	1,311	-	-	-	-	1,311	-	1,311
	Net investment by non-controlling interest		-	-	64	-	-	64	(2,742)	(2,678)
	Conversion of convertible debentures		5,500	-	-	-	-	5,500	-	5,500
	Employee share purchase loan repayment		392	-	-	636	-	1,028	-	1,028
	Share based compensation		-	2,857	-	-	-	2,857	-	2,857
	Foreign currency translation adjustment		-	-	209	-	-	209	64	273
	Net income		-	-	-	(75)	4,314	4,239	979	5,218
	<b>Balance - December 31, 2013</b>	<b>203,333</b>	<b>12,202</b>	<b>2,392</b>	<b>50,215</b>	<b>-</b>	<b>(152,035)</b>	<b>116,107</b>	<b>53,110</b>	<b>169,217</b>
	Exercise of stock options	15	5	-	-	-	-	5	-	5
	Net investment by non-controlling interest		-	-	54	-	-	54	(19,029)	(18,975)
	Employee share purchase loan		381	-	-	-	-	381	-	381
	Share based compensation		-	187	-	-	-	187	-	187
	Foreign currency translation adjustment		-	-	(2,173)	-	-	(2,173)	54	(2,119)
	Dividends declared (in-kind)		-	-	-	-	(16,516)	(16,516)	-	(16,516)
	Net income		-	-	-	-	(187)	(187)	6,143	5,956
	<b>Balance - June 30, 2014</b>	<b>203,719</b>	<b>12,389</b>	<b>273</b>	<b>50,215</b>	<b>-</b>	<b>(168,738)</b>	<b>97,858</b>	<b>40,278</b>	<b>138,136</b>

*\*All items recorded in other comprehensive income will be reclassified in subsequent periods to net income*

The accompanying notes are an integral part of these consolidated financial statements.

**COUNSEL CORPORATION**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30**  
**(In thousands of Canadian dollars)**

	Six months ended June 30,	
	2014	2013
	\$	\$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Income from continuing operations	17,569	10,847
Non-cash items		
Deferred income taxes	3,572	2,225
Depreciation and amortization	616	663
Fair value adjustments for contingent consideration	220	322
Amortization of deferred financing and other costs	157	255
(Gain) loss on sale of business unit	(4,125)	-
Fair value adjustments	(9,578)	(2,030)
Share based compensation	187	718
Deferred share unit plan expense	-	851
Changes in non-cash assets and liabilities related to operations		
(Increase) decrease in accounts receivable and mortgage assets	(28,732)	(4,924)
(Increase) decrease in deferred charges	(4,695)	(6,758)
(Increase) decrease in other assets	292	63
Increase (decrease) in accounts payable and accrued liabilities	24,641	19,840
Cash provided by continuing operations	124	22,072
Cash provided by (used in) discontinued operations	1,648	1,150
	<u>1,772</u>	<u>23,222</u>
<b>Investing activities</b>		
Distributions from portfolio investments	9,921	12,296
Investment in portfolio investments	-	(38)
Purchase of property, plant and equipment	(1,314)	(682)
Discontinued operations	-	565
	<u>8,607</u>	<u>12,141</u>
<b>Financing activities</b>		
Proceeds from mortgages and loans payable	2,341	5,597
Repayment of mortgages and loans payable	(1,750)	(1,728)
Exercise of stock options	5	1,281
Payment of contingent liability	(627)	(4,026)
Non-controlling interest	(8,596)	(8,682)
Discontinued operations	-	(8,971)
	<u>(8,627)</u>	<u>(16,529)</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>1,752</b>	<b>18,834</b>
<b>Cash and cash equivalents - beginning of period</b>	<b>17,580</b>	<b>12,198</b>
<b>Cash and cash equivalents - end of period</b>	<b>19,332</b>	<b>31,032</b>
<b>Less: Cash - discontinued operations</b>	<b>50</b>	<b>6,348</b>
<b>Cash and cash equivalents - continuing operations</b>	<b>19,282</b>	<b>24,684</b>
<b>Represented by:</b>		
Cash and cash equivalents	3,790	10,512
Restricted cash represented by funds held in trust	15,492	14,172
<b>Total - Cash and cash equivalents - continuing operations</b>	<b>19,282</b>	<b>24,684</b>
<b>Supplementary information</b>		
Cash paid (received) during the period		
Interest received	(231)	(183)
Interest paid	873	1,061
Income taxes	-	78
Effects of exchange rate changes on the balance of cash held in foreign currencies	31	47
<b>Non-cash investing and financing activities:</b>		
Dividend in kind of Heritage Global Inc.	16,516	-
Sale of real estate investment	1,000	-
Conversion of debentures	-	6,500

The accompanying notes are an integral part of these consolidated financial statements.

**COUNSEL CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**June 30, 2014**

**(In thousands of Canadian dollars, except per share data)**

**1. General information**

Counsel Corporation (“Counsel” or “the Company”), founded in 1979, is a financial services company. The address of its registered office is 1 Toronto Street, Suite 700, P.O. Box 3, Toronto, Ontario, M5C 2V6.

Counsel currently operates principally as a mortgage lending business. Counsel carries on its mortgage lending business (“**Mortgage Lending**”) through its subsidiary, Street Capital Financial Corporation (“Street Capital”). Street Capital is a Canadian residential mortgage lender. Counsel acquired Street Capital on May 31, 2011.

Counsel also owns a private equity business (“**Private Equity**”) through a wholly-owned subsidiary, Knight’s Bridge Capital Partners Inc. (“Knight’s Bridge”). Knight’s Bridge is responsible for managing a private equity investment fund which it founded in 2008.

In the first quarter of 2013, the Company decided to discontinue its non-core operating businesses, namely, its Asset Liquidation (through Heritage Global Inc.), Case Goods (through Fleetwood Fine Furniture LP) and Real Estate businesses.

**2. 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. 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 these interim condensed and consolidated financial statements.

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

**3. Summary of accounting policies**

**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 June 30, 2014 and December 31, 2013 are as follows:

	June 30, 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
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, (see Note 21 for further details on the dispositions).

### **Securitized mortgages and securitization liabilities**

The Company securitizes insured residential mortgages through the Government of Canada's National Housing Act ("NHA") Mortgage Backed Securities ("MBS") program, which is facilitated by Canada Mortgage and Housing Corporation ("CMHC"). The Company securitizes the mortgages through the creation of MBS and the ultimate sale of MBS to third party investors or through the CMB program.

Sales of MBS that do not qualify for de-recognition result in the related mortgages being classified as mortgages receivable – securitized financing on the consolidated statements of financial position, which are accounted for at amortized cost, plus accrued interest, and are reported net of unamortized origination fees, commitment income and premiums or discounts. Net fees and any premium or discount relating to mortgage origination are amortized to income on an effective yield basis over the term of the mortgages to which they relate, and are included in interest income in the consolidated statements of operations.

In addition, these transactions are considered secured financing and result in the recognition of securitization liabilities. Securitization liabilities are recorded at amortized cost, plus accrued interest, and are reported net of any unamortized premiums or discounts and transaction costs incurred in obtaining the secured financing. Interest expense is allocated over the expected term of borrowing by applying the effective interest rate to the carrying amount of the liability.

#### **Gains on securitization**

When an asset is derecognized, the related mortgages are removed from the consolidated statement of financial position and a gain or loss is recognized in the consolidated statements of operations.

### **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". On February 25, 2014, the IASB tentatively decided to require an entity to apply IFRS 9 for annual periods beginning on or after January 1, 2018. 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.

## 4. Critical accounting estimates, assumptions and judgments

The preparation of consolidated financial statements in accordance with IFRS 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.

## 5. Contingent consideration

On May 31, 2011, Counsel completed the acquisition of Street Capital Financial Corporation ("Street Capital"). Street Capital is a Canadian prime residential mortgage lender. The purchase price was satisfied through a combination of the issuance of 6,616,664 common shares of Counsel and approximately \$28,000 in cash.

Counsel financed the purchase price through a \$17,500 acquisition debt facility provided by a Canadian chartered bank and a private placement of convertible unsecured subordinated debentures for gross proceeds of \$12,000. In support of the loan of \$17,500, the Company provided a limited recourse guarantee of amounts outstanding under the loan. The Company directly and indirectly pledged the shares it owns in Street Capital and its subsidiaries as well as provided general security over the assets of, and a guarantee from, Street Capital and one of its subsidiaries.

In addition the Company agreed to pay earn-out payments if specified future events occur (the “contingent consideration”). Under the contingent consideration arrangement, the Company expected to pay certain members of management of Street Capital a total of approximately \$10,900 in cash over the three fiscal years beginning in 2013 upon the achievement of specific earnings targets. The contingent consideration, valued at \$10,353 on acquisition, has an estimated fair value of \$4,763 at June 30, 2014 (December 31, 2013 - \$8,570). During the second quarter of 2013, the first earn out payment of \$4,026 was made. During the second quarter of 2014, a partial payment of \$627 on the first earnout was made with \$3,400 being accrued as a current payable. The remaining \$4,763 of contingent consideration is allocated between current and long term liabilities of \$2,600 and \$2,163 respectively.

The members of management who are entitled to the contingent consideration also have the right to participate in the future value creation in Street Capital so long as they remain employed by the Company until at least December 31, 2018. However, if Street Capital achieves certain cumulative earnings targets, which are significantly in excess of historic earnings at the date of acquisition, they will be entitled to earlier payouts during the three-year period 2017 to 2019. Due to risks and uncertainties arising from macro-economic changes affecting the Canadian real estate and mortgage lending sectors that could impact future earnings, qualification for and timing of regulatory approvals for Street Capital to become a Schedule I bank, fulfillment of minimum contractual terms of employment by Street Capital management, and achievement by Street Capital of earnings targets significantly in excess of historical earnings, management’s entitlement to early payment of their share of any future value creation is considered to be remote. In light of the aforementioned, the amount of such potential payment cannot be practicably estimated at this time.

## 6. Mortgages, accounts and deferred interest receivable

- a) Mortgages, accounts and deferred interest receivable consist of the following:

	June 30, 2014	December 31, 2013
	\$	\$
Accounts receivable	11,449	8,789
Loan receivable	5,385	-
Deferred interest receivable	33,776	29,000
Mortgages receivable	11,068	3,618
	<u>61,678</u>	<u>41,407</u>
Current	39,320	22,004
Long-term	22,358	19,403
	<u>61,678</u>	<u>41,407</u>

Accounts receivable include trade receivables, harmonized sales taxes and any other amounts receivable excluding mortgages and deferred interest receivable.

Deferred interest receivable is the excess interest rate spread to be received over the remaining life of mortgages that have been placed with or sold to third parties. The balance represents the present value of

this excess interest spread calculated based on the contractually agreed duration factor of the underlying mortgages sold.

Mortgages receivable are carried at cost. Provisions are made for probable losses on mortgages based upon a number of factors, including previous loss experience, time value of money, current economic conditions and other related factors.

b) Securitized financing – mortgage receivables are accounted for at amortized cost, plus accrued interest and are reported net of unamortized origination fees, commitment income and premiums or discounts. The Company securitizes insured single-family residential mortgage loans by participating in the National Housing Authority mortgage-backed securities (NHA MBS) program. Through the program, the Company issues securities backed by residential mortgage loans that are insured against borrowers’ default. Once the mortgage loans are securitized, the Company assigns underlying mortgages and/or related securities to CMHC. As an issuer of the mortgage-backed security (“MBS”), the Company is responsible for advancing all scheduled principal and MBS interest payments to CMHC, whether or not the amounts have been collected on the underlying transferred mortgages. Amounts advanced but not recovered will ultimately be recovered from the insurer.

The Company retains certain prepayment and/or interest rate risks and rewards related to the transferred mortgages. Due to retention of these risks and rewards, transferred mortgages are not derecognized and the securitization proceeds are accounted for as secured borrowing transactions. There are no expected credit losses on the securitized mortgage assets as the mortgages are insured against default. Further, the investors and CMHC have no recourse to other assets of the Company in the event of failure of debtors to pay when due.

Securitization liabilities are repaid on a monthly basis as the principal payments are collected from securitized loans. Interest accrued on securitization liabilities is recorded in liabilities on the consolidated statements of financial position and is based on the underlying MBS coupon.

	June 30, 2014	December 31, 2013
	\$	\$
Mortgages receivable - securitized financing	10,961	-
	<u>10,961</u>	<u>-</u>

  

	June 30, 2014	December 31, 2013
	\$	\$
Securitization liabilities	10,981	-
	<u>10,981</u>	<u>-</u>

The interest revenue, net of interest expenses and amortized costs from securitization recorded in the income statement was \$18 at June 30, 2014 (2013 - \$nil).

## 7. Prepaid expenses, deposits and deferred charges

Deferred charges of \$44,584 represent prepaid mortgage portfolio insurance premiums on mortgage pools, which are amortized over the average term of the underlying mortgages. The other prepaid expenses of \$345 are comprised of prepaid operating expenses which will be expensed within the next twelve months.

	June 30, 2014	December 2013
	\$	\$
Deferred charges	44,584	39,889
Other prepaid expenses	345	274
Other assets	49	49
	<u>44,978</u>	<u>40,212</u>
Current	6,212	4,655
Long-term	38,766	35,557
	<u>44,978</u>	<u>40,212</u>

## 8. Property, plant and equipment

Property, plant and equipment consist of the following:

	June 30, 2014	December 2013
	\$	\$
Artwork	2,148	2,148
Furniture, fixtures and office equipment	1,063	450
Information systems	651	328
Leasehold improvements	161	153
	<u>4,023</u>	<u>3,079</u>

A reconciliation of the carrying amount of property, plant and equipment from the end of 2012 to the end of the current fiscal period is set out below:

	Artwork	Furniture, fixtures & office equipment	Information systems	Leasehold improvements	Vehicles	Total
	\$	\$	\$	\$	\$	\$
<b>Balance at December 31, 2012</b>	<b>2,148</b>	<b>516</b>	<b>312</b>	<b>225</b>	<b>15</b>	<b>3,216</b>
Additions	-	144	716	-	-	860
Depreciation	-	(126)	(662)	(53)	-	(841)
Transferred to discontinued operations	-	(84)	(38)	(19)	(15)	(156)
<b>Balance at December 31, 2013</b>	<b>2,148</b>	<b>450</b>	<b>328</b>	<b>153</b>	<b>-</b>	<b>3,079</b>
Additions	-	767	524	23	-	1,314
Depreciation	-	(154)	(201)	(15)	-	(370)
<b>Balance at June 30, 2014</b>	<b>2,148</b>	<b>1,063</b>	<b>651</b>	<b>161</b>	<b>-</b>	<b>4,023</b>

## 9. Goodwill and intangible assets

### (a) Intangible assets

Details of the Company's intangible assets are as follows:

	June 30, 2014	December 2013
	\$	\$
Mortgage renewal stream (i)	6,869	6,869
Accumulated amortization	<u>(1,521)</u>	<u>(1,275)</u>
	<u>5,348</u>	<u>5,594</u>

- (i) Amortization expense for the mortgage renewal stream related to the acquisition of Street Capital for the six months ended June 30, 2014 was \$246 (2013 – \$494). The amortization period of 15 years is based on historical renewal rates and industry benchmarks.

(b) Goodwill

Goodwill, arising from business acquisition transactions, is detailed as follows:

	June 30, 2014	December 2013
	\$	\$
Street Capital	23,465	23,465
Knight's Bridge	<u>1,454</u>	<u>1,454</u>
	<u>24,919</u>	<u>24,919</u>

No impairment to goodwill from continuing operations was determined for the first six months of 2014 (2013 - \$nil).

## 10. Portfolio investments

The Company's portfolio investments consist of:

	June 30, 2014	December 2013
	\$	\$
The H Company Holdings, LLC	100	100
Fleetwood Fine Furniture International LP	9,000	-
Knight's Bridge Capital Partners Fund I investments	<u>52,768</u>	<u>53,120</u>
	<u>61,868</u>	<u>53,220</u>

**Fleetwood Fine Furniture International LP ("Fleetwood")** is a private equity investment that was established to acquire the business of Fleetwood Fine Furniture LP in the first quarter of 2014. Fleetwood provides high quality customized case goods to large, upscale hotel chains. Established in 1972, Fleetwood serves a focused niche, being the upscale and upper upscale strata of the hospitality industry.

**Knight's Bridge Capital Partners Fund I ("KBCP Fund I")** is a private equity investment fund sponsored by Knight's Bridge, which seeks to invest in small to mid-market companies, primarily throughout North America and in a variety of industries, which require between \$1,000 and \$10,000 in equity financing. KBCP Fund I closed on March 7, 2008 with capital commitments in excess of \$62,000, including \$10,000 of capital

committed by Counsel and approximately \$5,000 of capital committed by senior management. At June 30, 2014, Counsel has invested approximately \$8,300 in KBCP Fund I.

Counsel has determined that it controls KBCP Fund I and therefore consolidates the fund. The factors that the Company considered in making this determination include that its wholly owned subsidiary is the General Partner of the Fund and it can appoint the persons who sit on the investment committee. The non-controlling interest in KBCP Fund I held by the other limited partners amounts to \$42,993 at the end of Q2 2014 (2013 - \$44,473). Counsel has the right to a 2% per annum management fee based on aggregate capital commitments for the first 5 years following the closing of KBCP Fund I, and thereafter, a 2% per annum management fee calculated based on capital invested by KBCP Fund I.

Counsel also is entitled to a carried interest of 20% of the total profits realized by KBCP Fund I so long as investors have received the return of their contributed capital and a minimum 8% per annum preferred return on their invested capital. As of March 7, 2013, KBCP Fund I may no longer make capital calls for new acquisitions. It may however continue to call for funds from existing investors for further investments in existing portfolio companies and for management fees.

All investments made through the fund are measured and reported at fair value. The fair value of portfolio investments is determined by using valuation techniques where third party valuations are not available. The Company uses a variety of methods and makes assumptions that are based on the portfolio investments' performance, and market conditions existing at each reporting date.

Valuation techniques used include the use of comparable recent arm's length transactions, earnings multiple based valuation, discounted cash flow analysis, and other valuation techniques commonly used by market participants making the maximum use of available market inputs and relying as little as possible on entity-specific inputs. Changes in the methodologies, assumptions and judgment used to value portfolio investments could have a material impact on the reported fair value and consequently on the Company's results of operations. The net income attributable to non-controlling interest for the period ended June 30, 2014 was \$4,121 (2013 - \$6,901).

A reconciliation of the carrying amount of portfolio investments from the end of 2012 through to June 30, 2014 is set out below:

	<u>\$</u>
<b>Balance at December 31, 2012</b>	<b>53,454</b>
Acquisitions and investments	4,594
Fair value adjustments	6,583
Foreign exchange adjustments	3,213
Distributions	(14,124)
Reclassified as discontinued operations	(500)
<b>Balance at December 31, 2013</b>	<b>53,220</b>
Acquisitions and investments	9,000
Fair value adjustments	9,236
Foreign exchange adjustments	333
Distributions	(9,921)
<b>Balance at June 30, 2014</b>	<b>61,868</b>

## 11. Accounts payable and accrued liabilities

Details of accounts payable and accrued liabilities from continuing operations are as follows:

	June 30, 2014	December 2013
	\$	\$
Accounts payable (i)	44,271	27,086
Accrued compensation	1,394	1,372
Accrued interest	240	276
Tenant allowances/reserves	366	409
Professional fees	121	203
Other	126	112
	<u>46,518</u>	<u>29,458</u>
Classified as follows:		
Current	46,518	29,458
Long-term	-	-
	<u>46,518</u>	<u>29,458</u>

- (i) Included in cash and cash equivalents is approximately \$15,492 (2013 - \$12,714) of restricted cash representing funds held in trust by the Mortgage Lending business. Of these, \$4,157 (2013 - \$5,443) are held for purposes of funding third party mortgage loans and \$11,335 (2013 - \$7,271) represents mortgage loan repayments collected on behalf of a third party servicer.

## 12. Mortgages and loans payable

Details of mortgages and loans payable are as follows:

	Maturity date	Interest rate	June 30, 2014 (i)			December 31, 2013 (i)		
			Total	Current portion	Long-term portion	Total	Current portion	Long-term portion
			\$	\$	\$	\$	\$	\$
Street Capital - term debt (ii)	May 29/15	BA+4%	9,078	9,078	-	10,671	10,671	-
Street Capital - credit facility (ii)		prime +2.0%	2,487	2,487	-	1,154	1,154	-
Corporate debt (iii)	Various	5%, 6%	8,911	8,911	-	8,903	2,200	6,703
Total debt			<u>20,476</u>	<u>20,476</u>	-	20,728	14,025	6,703

- (i) The total financing costs netted in the mortgages and loans payable was \$22 at June 30, 2014 (\$178 at December 31, 2013).
- (ii) In March 2014, the Company extended this term debt and credit facility for an additional year, with a maturity date deemed to be the earlier of May 29, 2015 or when the Company or its subsidiaries obtain a license to carry on business as a bank. The payment terms will continue to require principal repayments of \$875 per quarter for the remainder of the term, with a balance payable on maturity of \$6,475.

In addition Street Capital has a revolving credit facility of \$2,500, which bears interest at prime plus 2%. The term debt and the revolving credit facility are subject to general security and covenant provisions.

(iii) Counsel currently has term loan facilities of \$4,150 and US\$2,400 bearing 6% interest per annum maturing on January 15, 2015. In the second quarter of 2013, an on demand loan facility of \$2,100 was arranged bearing interest at 6%. In the third quarter of 2013, an on demand loan facility of \$250 was arranged bearing interest at 5%. Counsel repaid \$150 of the \$250 facility in the fourth quarter of 2013. The debt is not subject to security or covenant provisions.

### 13. Convertible debentures

Counsel partially financed the acquisition of Street Capital by a non-brokered private placement of 8%, convertible unsecured subordinated debentures (the "Debentures") for gross proceeds of \$12,000 on May 31, 2011. The Debentures were due on May 31, 2014 and 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. As at the end of the third quarter of 2013, the entire \$12,000 of the debentures had been converted to 9,784,735 common shares.

### 14. Contingencies

#### Litigation

The Company, from time to time, is involved in various claims, legal 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.

### 15. Share capital

	Number of Shares		Share Capital	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
	Issued and outstanding ('000s)		\$	\$
Common shares, without par value	99,071	99,063	\$ 206,136	\$ 206,131
Share purchase loans	-	-	(2,417)	(2,798)
<b>Total share capital</b>	<b>99,071</b>	<b>99,063</b>	<b>\$ 203,719</b>	<b>\$ 203,333</b>

The authorized capital stock consists of an unlimited number of common and preferred shares.

In the second quarter of 2014, stock options to purchase 8,000 common shares were exercised.

At June 30, 2014 the Company had share purchase loans receivable of \$2,417 (December 31, 2013 - \$2,798). The share purchase loans were granted to certain key employees and former employees. The loans are collateralized by the shares purchased and personal guarantees. At June 30, 2014, the share purchase loans outstanding were for the purchase of 780,000 (December 31, 2013 – 937,500) common shares of the Company. These loans have various maturity dates through to January 19, 2016. All the loans are non-interest bearing. A loan which was written down to approximately \$392 was repaid in full during the third quarter of 2013, resulting in a recovery of approximately \$870 which has been included in contributed surplus. In the first quarter of 2014, a loan was written off resulting in a loss of \$381.



On November 7, 2013, the Company's board of directors amended its Deferred Share Unit Plan ("DSU Plan") for all directors who were not employees of the Company. The DSU Plan was instituted in March 2006 and provided that eligible directors were granted annually that number of deferred share units equal to \$20 divided by the closing price of the Company's common stock on the Toronto Stock Exchange on the trading day immediately preceding the grant. When a DSU holder ceases to be a director, he/she is entitled to be paid for their units based on the closing price of the Company's common stock on the Toronto Stock Exchange on the trading day immediately following the day they cease to be a director. In June 2011, the Company ceased granting DSUs pursuant to the DSU Plan, with all previously granted DSUs remaining outstanding and to be paid in accordance with the terms of the DSU Plan. The Company and the existing DSU holders have agreed to amend the DSU Plan to provide for payment in shares rather than cash. Consequently the existing DSUs totaling approximately 980,000 units will result in the issuance of the like amount of shares as and when directors retire or cease to be members of the board of directors. Counsel has accounted for the DSU Plan as a liability, marking it to market quarterly and including it in accounts payable and accrued liabilities. Any quarterly change in fair market value was reflected within selling, general and administration expense in the statement of operations. As a result of the amendment on November 7, 2013 there will be no further impact on the statements of operations or statements of financial position and the amount of the liability at that date has been transferred to share capital.

## 16. Net income per share

The following is a reconciliation of the numerators and denominators used in computing net income (loss) per share for the period ended June 30:

	Three months ended June 31,		Six months ended June 30,	
	2014	2013	2014	2013
	\$	\$	\$	\$
<b>Basic and diluted net income (loss) per share:</b>				
Numerator:				
Income from continuing operations	10,152	7,777	17,569	10,847
Income attributable to non-controlling interest	4,121	2,390	5,129	3,924
Income attributable to shareholders - continuing operations	6,031	5,387	12,440	6,923
Income (loss) from discontinued operations	169	(1,468)	(11,613)	(2,800)
Income (loss) attributable to non-controlling interest	(39)	(567)	1,014	(1,104)
Income (loss) attributable to shareholders - discontinued operations	208	(901)	(12,627)	(1,696)
Net income (loss) attributable to shareholders	6,239	4,486	(187)	5,227
Denominator:				
Weighted average common shares outstanding (000's) - basic and diluted	99,071	90,621	99,067	88,249
Basic and diluted net income per share from continuing operations	0.06	0.06	0.13	0.08
Basic and diluted net income (loss) per share from discontinued operations	0.00	(0.01)	(0.13)	(0.02)
Basic and diluted net income (loss) per share	0.06	0.05	(0.00)	0.06

In computing the diluted net income per share for the three and six months ended June 30, 2014 and 2013, the Company included potential common share equivalents, which are comprised of incremental shares from stock options and shares issuable upon conversion of the convertible debt, in the calculation. The inclusion of such common share equivalents was not sufficiently dilutive to change the earnings per share amounts for either three and six months ended June 30, 2014 or June 30, 2013.

## 17. Capital risk management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of mortgages and loans payable, convertible debentures and shareholders' equity comprised of common stock, contributed surplus, accumulated other comprehensive income and retained earnings (deficit).

The Company makes adjustments to its capital structure in light of economic conditions. The Company will balance its overall capital structure through new share issues, share repurchases, the payment of dividends,

the issue of debt or by undertaking other activities as deemed appropriate under specific circumstances.

The Company's overall strategy with respect to capital risk management remained unchanged during the current reporting period. The Company is compliant with all covenants related to its outstanding debt.

## 18. Financial instruments

The Company utilizes financial instruments to finance its operations in the normal course of business. The Company has classified its financial instruments as follows:

	June 30, 2014		December 31, 2013	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
<b>Financial assets</b>				
Cash and cash equivalents (ii)	19,282	19,282	17,580	17,580
Marketable securities (i)	427	427	410	410
Mortgages, accounts and deferred interest receivable (ii)	61,678	61,678	41,407	41,407
Portfolio investments (i)	61,868	61,868	53,220	53,220
Mortgages receivable - securitized financing (ii)	10,961	10,961	-	-
	<b>154,216</b>	<b>154,216</b>	<b>112,617</b>	<b>112,617</b>
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities (iii)	46,518	46,518	29,458	29,458
Mortgages and loans payable (iii)	20,476	20,476	20,728	20,728
Contingent consideration (iii)	4,763	4,763	8,570	8,570
Securitization Liabilities (ii)	10,981	10,981	-	-
	<b>82,738</b>	<b>82,738</b>	<b>58,756</b>	<b>58,756</b>

(i) Fair value through profit or loss

(ii) Loans and receivables at amortized cost

(iii) Financial liabilities at amortized cost

For mortgages, accounts and interest receivable (net of allowance for doubtful accounts) and accounts payable and accrued liabilities, the carrying amounts approximate fair value because of the short maturity of these instruments. Convertible debentures, contingent consideration, securitization liabilities and mortgages and loans payable are carried at amortized cost.

The carrying values of financial liabilities equal or approximate their fair values.

Short-term investments, marketable securities and portfolio investments are carried at fair value through profit and loss. The Company uses the following hierarchy for determining the fair value of financial instruments:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments.
- Level 3 – valuation methodology in which one or more significant inputs are unobservable.

The following tables present the financial instruments measured at fair value at June 30, 2014 and December 31, 2013 as classified by the fair value hierarchy set out above:

		June 30, 2014			
		Level 1	Level 2	Level 3	Total
		\$	\$	\$	\$
<b>Financial assets</b>					
	Marketable securities	305	122	-	427
		305	122	-	427

  

		December 31, 2013			
		Level 1	Level 2	Level 3	Total
		\$	\$	\$	\$
<b>Financial assets</b>					
	Marketable securities	303	107	-	410
		303	107	-	410

The continuity table for level 3 assets, comprised of portfolio investments, is presented in Note 10. Financial instruments disclosures regarding discontinued operations are presented in Note 21.

## 19. Financial risk management

The Company has exposure to credit risk, foreign exchange risk, interest rate risk, liquidity risk and market value risk.

The Company has established policies and procedures to manage these risks, with the objective of minimizing any adverse effects that changes in these variables could have on the Company.

### *Credit risk*

The Company extends credit to customers in the Mortgage Lending, Asset Liquidation, Real Estate and Case Goods businesses. The Company's credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. The Company manages credit risk on accounts receivable by requiring customer deposits and/or credit checks for new customers, and by issuing notices and evictions. All the mortgage receivables except for a few, which are recorded at a fair value of \$680, are insured or insurable with the Canada Mortgage and Housing Corporation or other private insurers. The Company does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

The Company has no allowance for doubtful accounts on continuing operations at June, 2014 (December 31, 2013 - \$Nil) on outstanding accounts receivable. The Company historically has not experienced any major collection issues.

### *Foreign exchange risk*

Foreign exchange risk arises from assets and liabilities invested in U.S. dollars, operations derived from those U.S. dollar investments, and transactions in the U.S. with U.S. customers and foreign suppliers.

The Company had the following U.S. dollar denominated monetary assets and liabilities at June 30, 2014 and December 31, 2013, respectively: Cash US\$459 and US\$1,366; Accounts receivable US\$26 and US\$127; Loans receivable US\$2,655 and US\$ nil; Portfolio investments US\$48,211 and US\$48,625; Accounts payable US\$76 and US\$956; and Mortgages and loans payable of US\$2,400 and US\$2,400. A one cent increase in the value of the U.S. dollar relative to the Canadian dollar would result in a \$489 net increase in net income

related to U.S. dollar denominated monetary assets and liabilities (2013 - \$477).

#### *Interest rate risk*

Interest rate risk arises due to exposure to the effects of future changes in the level of interest rates. The Company is exposed to interest rate risk arising from fluctuations in interest rates primarily on its mortgages and loans payable, depending on prevailing rates at renewal. With respect to the mortgage receivables, the Company is not exposed to a significant amount of interest rate risk as the purchase price for mortgages placed with financial institutions is based on the customer commitment rate and not the ultimate funded rate.

In order to manage funding needs or capital structure goals, the Company enters into debt agreements that are subject to fixed market interest rates set at the time of issue or floating rates determined by on-going market conditions. Debt subject to variable interest rates exposes the Company to variability in interest expense, while debt subject to fixed interest rates exposes the Company to variability in the fair value of the debt.

To manage interest rate exposure, the Company accesses diverse sources of financing and manages borrowings in line with a targeted range of capital structure, liquidity needs, maturity schedule, and currency and interest rate profiles. At June 30, 2014, a 100 basis point change in interest rates would result in a \$204 change in annual interest expense (December 31, 2013 - \$207).

#### *Liquidity risk*

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

#### *Market value risk*

The Company has investments in marketable securities. At June 30, 2014, a 10% change in the S&P/TSX composite index would result in a \$42 change in net income (December 31, 2013 - \$40).

The Company has portfolio investments which are subject to market value risk. The Company records its portfolio investments at fair value through profit or loss.

## **20. Income taxes**

In the first six months of 2014, the Company recognized a deferred income tax expense from continuing operations of \$3,572 (2013: \$2,225). The deferred income tax expense in 2014 and 2013 is primarily due to profits generated from the company's residential mortgage lending business which will be taxable in the future, and which will reduce available tax loss carry forwards. The \$12,806 deferred income tax liability balance as at June 30, 2014 reflects primarily the estimated tax liability from prior and current period profits that are expected to be taxable in the future, net of available tax loss carry forwards the utilization of which is considered probable.

As at June 30, 2014 the Company had approximately \$252,023 in non-capital loss carry-forwards in Canada and approximately US\$5,800 in non-capital loss carry-forwards in the United States which may be used to reduce future years' taxable income until 2024.

In addition, the Company and its subsidiaries have approximately \$75,055 of capital loss carry-forwards in Canada, and nil capital loss carry-forwards in the United States. Canadian capital losses may be carried forward indefinitely. Substantially all of the Company's capital losses are unlikely to be utilized and accordingly these capital losses have not been recognized at the end of the period.

## 21. Discontinued operations

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 Company's discontinued operations are in the Asset Liquidation, Case Goods and Real Estate segments. Discontinued operations have been presented on a segmented basis to enhance the reader's understanding of the financial information presented.

A summary of the carrying value of the assets and liabilities for discontinued operations is as follows:

	<u>June 30, 2014</u>	<u>December 31, 2013</u>
	Total \$	Total \$
<b>Assets:</b>		
<b>Current</b>		
Cash and cash equivalents	50	3,472
Amounts receivable	809	3,327
Inventory	-	7,080
Properties under development	-	3,429
Prepaid expenses and deposits	1	1,107
<b>Total current assets</b>	<b>860</b>	<b>18,415</b>
<b>Non-current</b>		
Deferred charges	13	14
Promissory note	458	597
Property plant and equipment	-	166
Intangible assets	-	5,584
Goodwill	-	19,282
Interest in joint ventures	-	1,468
Equity accounted investments	-	20
Future income tax	-	26,236
<b>Total Assets</b>	<b>1,331</b>	<b>71,782</b>
<b>Liabilities:</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	983	9,560
Customer deposits	-	1,544
Mortgages and loans payable	-	9,446
<b>Total current liabilities</b>	<b>983</b>	<b>20,550</b>
<b>Non-current</b>		
Long term liabilities on closing	150	318
<b>Total Liabilities</b>	<b>1,133</b>	<b>20,868</b>

All of the assets and liabilities in discontinued operations at June 30, 2014 related to the Real Estate segment.

The composition of earnings (loss) from discontinued operations for the three and six months period ended June 30 is as follows:

<b>Three months ended June 30, 2014</b>				
	<b>Asset</b>	<b>Case</b>	<b>Real</b>	
	<b>Liquidation</b>	<b>Goods</b>	<b>Estate</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Revenues</b>	-	-	9	9
<b>Expenses and other (income) losses</b>				
Selling, general and administrative expense	247	-	56	303
Interest expense	-	-	1	1
Other	-	-	(129)	(129)
<b>Income (loss) before fair value adjustments and income taxes</b>	(247)	-	81	(166)
Fair value adjustments	270	-	-	270
<b>Income (loss) before income taxes</b>	23	-	81	104
Income tax provision (recovery)	(65)	-	-	(65)
<b>Income (loss) before non-controlling interest</b>	88	-	81	169
Net income (loss) attributable to non-controlling interest	-	(39)	-	(39)
<b>Net income (loss)</b>	88	39	81	208

<b>Six months ended June 30, 2014</b>				
	<b>Asset</b>	<b>Case</b>	<b>Real</b>	
	<b>Liquidation</b>	<b>Goods</b>	<b>Estate</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Revenues</b>	1,591	3,026	135	4,752
<b>Expenses and other (income) losses</b>				
Operating costs	231	1,417	-	1,648
Selling, general and administrative expense	2,388	576	307	3,271
Foreign exchange (gain) loss	(1,147)	(521)	-	(1,668)
Interest expense	70	-	1	71
Other	114	30	252	396
<b>Income (loss) before fair value adjustments and income taxes</b>	(65)	1,524	(425)	1,034
Fair value adjustments	(12,762)	-	-	(12,762)
<b>Income (loss) before income taxes</b>	(12,827)	1,524	(425)	(11,728)
Income tax provision (recovery)	(115)	-	-	(115)
<b>Income (loss) before non-controlling interest</b>	(12,712)	1,524	(425)	(11,613)
Net income (loss) attributable to non-controlling interest	(273)	1,287	-	1,014
<b>Net income (loss)</b>	(12,439)	237	(425)	(12,627)

	Three months ended June 30, 2013			
	Asset Liquidation	Case Goods	Real Estate	Total
	\$	\$	\$	\$
<b>Revenues</b>	2,000	1,429	142	3,571
<b>Expenses and other (income) losses</b>				
Operating costs	357	1,282	37	1,676
Selling, general and administrative expense	2,764	712	129	3,605
Interest expense	181	157	55	393
Other	(29)	-	(25)	(54)
<b>Income (loss) before income taxes</b>	(1,273)	(722)	(54)	(2,049)
Income tax provision (recovery)	(567)	-	(14)	(581)
<b>Income (loss) before non-controlling interest</b>	(706)	(722)	(40)	(1,468)
Net income (loss) attributable to non-controlling interest	(215)	(368)	16	(567)
<b>Net income (loss)</b>	(491)	(354)	(56)	(901)

	Six months ended June 30, 2013			
	Asset Liquidation	Case Goods	Real Estate	Total
	\$	\$	\$	\$
<b>Revenues</b>	4,432	2,751	253	7,436
<b>Expenses and other (income) losses</b>				
Operating costs	947	2,458	84	3,489
Selling, general and administrative expense	5,599	1,340	181	7,120
Interest expense	276	329	115	720
Other	(30)	-	(52)	(82)
<b>Income (loss) before fair value adjustments and income taxes</b>	(2,360)	(1,376)	(75)	(3,811)
Fair value adjustments	-	-	-	-
<b>Income (loss) before income taxes</b>	(2,360)	(1,376)	(75)	(3,811)
Income tax provision (recovery)	(992)	-	(19)	(1,011)
<b>Income (loss) before non-controlling interest</b>	(1,368)	(1,376)	(56)	(2,800)
Net income (loss) attributable to non-controlling interest	(403)	(720)	19	(1,104)
<b>Net income (loss)</b>	(965)	(656)	(75)	(1,696)

The **Asset Liquidation** business is carried on through HGP Global LLC (“HG LLC”) (formerly known as CRB LLC) and HGP Global Partners Inc. (“HGP”). These entities are wholly owned by Heritage Global Inc. (“HGI”) and, collectively, are referred to as “HGI”. HG LLC specializes primarily in the acquisition and disposition of distressed and surplus assets throughout the United States and Canada, including industrial machinery and equipment, real estate, inventories, accounts receivables and distressed debt. It also includes the corporate overheads of HGI and the costs associated with maintaining the intellectual property of HGI.

The **Case Goods** business is carried on through Fleetwood. Fleetwood provides high quality customized case goods for large, upscale hotel chains, primarily in North America. Fleetwood serves a focused niche, being the “upscale” and “upper upscale” strata of the hospitality industry.

**Real Estate** encompasses the ownership and development of properties as well as the provision of real estate property and asset management services to third parties.

All three segments have been discontinued as at March 31, 2013. In the first quarter of 2014, the Case Goods business was sold to third parties, resulting in a gain of approximately \$1,500. In addition, the Company extinguished a debt related to the Case Goods business, resulting in a gain of \$4,125. The Asset Liquidation business was distributed to Counsel shareholders as a dividend-in-kind, which was declared on March 20, 2014 with a payment date of April 30, 2014. Upon the declaration of the dividend-in-kind, the Company’s investment in HGI was reclassified from discontinued operations to shares “available for sale”. This required the shares to be recorded at fair value, resulting in a fair value adjustment of (\$13,032) at the declaration date. At April 30, 2014, the dividend in kind was paid to Counsel shareholders after being fair valued. This resulted in a gain, net of any foreign exchange effects of \$270. The disposal of all three segments was part of a plan of disposal approved by the board of directors.

## **22. Related party transactions**

The Company’s Asset Liquidation subsidiary, beginning in 2009, leased office space in White Plains, NY and Los Angeles, CA as part of the operations of HG LLC. Both premises were owned by entities that are controlled by former Co-CEOs of HG LLC (see below). In connection with the departure of the Co-CEOs, these lease agreements were terminated, without penalty, effective June 30, 2013. Additionally, office space in Foster City, CA is also under lease. The premises are owned by an entity that is jointly controlled by the former owners of HGP. During the first quarter of 2014 and the six months ended 2013, total rent of US\$57 and US\$192 respectively, was paid to the entities for the lease of the three premises.

On July 26, 2013, HGI and its Co-CEOs entered into agreements by which the Co-CEOs terminated their employment with HGI. Under the agreements, effective July 1, 2013, the Co-CEOs of HGI have departed the company along with the personnel in the New York and Los Angeles offices of HGI. Both Co-CEOs retained their initial equity position of 1,621,000 common shares of HGI. However, they have each returned the 400,000 common shares of HGI that they acquired in August 2012 in return for intellectual property licensing agreements. The licensing agreements have been cancelled. Upon the return and cancellation of the 800,000 shares in the third quarter of 2013, Counsel’s ownership increased to 73.3%. The return of the shares in exchange for the cancellation of the licensing agreement resulted in a gain on disposition of HGI’s intellectual property of approximately US\$624 in 2013.

## **23. Subsequent Events**

The Company has evaluated events subsequent to June 30, 2014 through to the date of approval of the financial statements by the board of directors for disclosure. There were no material subsequent events requiring disclosure.

## **24. Approval of financial statements**

The financial statements were approved by the board of directors and authorized for issue on August 6, 2014.