COUNSEL
CORPORATION

Management's Discussion and Analysis

FOR THE YEAR ENDED DECEMBER 31, 2014

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FOR THE YEAR ENDED DECEMBER 31, 2014
(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 year ended December 31, 2014 and its financial condition as at December 31, 2014 is based on the Company's consolidated 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 March 19, 2015. As of March 19, 2015 the Company had 99,858,448 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 since 1986, 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 December 31, 2014, Counsel had invested approximately $8,300 in the Fund of which approximately $7,600 has been returned) with the Fund having a term of ten 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.

Significant Developments

Significant developments since the beginning of 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 comprised 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.

- As of the end of the first quarter of 2015, the Company had successfully divested most of the core holdings in its Private Equity business.

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 December 31, 2014. The amounts for 2012 have been re-stated to reflect the re-classification of the Asset Liquidation, Case Goods and Real Estate segments as discontinued operations.

											Year ended December 31,
	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2012	2013	2014
	$	$	$	$	$	$	$	$	$	$	$
Revenue	25,692	46,440	38,473	28,394	29,836	36,062	42,336	39,078	112,111	138,999	**147,312**
Expenses											
Operating expenses	17,521	29,225	24,169	15,245	15,554	20,504	24,675	23,567	65,731	86,160	**84,300**
Selling, general and administrative expense	5,490	9,463	9,049	6,900	8,111	8,782	8,959	8,640	27,290	30,902	**34,492**
Foreign exchange (gain) loss	-	-	-	105	(353)	9	(45)	306	44	105	**(83)**
Depreciation and amortization	333	330	344	327	294	322	331	350	1,394	1,334	**1,297**
Interest expense	687	779	798	546	465	588	792	981	2,270	2,810	**2,826**
Other	-	-	-	(214)	-	-	-	-	(3)	(214)	**-**
Income (loss) before fair value adjustments	1,661	6,643	4,113	5,485	5,765	5,857	7,624	5,234	15,385	17,902	**24,480**
Fair value (appreciation) impairment	(1,867)	(2,901)	(159)	(4,813)	(3,099)	(6,420)	(8,028)	(9,436)	(4,122)	(9,740)	**(26,983)**
Income (loss) before income tax, and discontinued operations	3,528	9,544	4,272	10,298	8,864	12,277	15,652	14,670	19,507	27,642	**51,463**
Income tax provision (recovery)	458	1,767	1,206	2,297	1,447	2,125	2,073	1,400	(946)	5,728	**7,045**
Income (loss) from continuing operations	3,070	7,777	3,066	8,001	7,417	10,152	13,579	13,270	20,453	21,914	**44,418**
Income (loss) from discontinued operations	(1,332)	(1,468)	307	(6,156)	(11,782)	169	11	8	(9,996)	(8,649)	**(11,594)**
Net income (loss) before non-controlling interest	1,738	6,309	3,373	1,845	(4,365)	10,321	13,590	13,278	10,457	13,265	**32,824**
Non-controlling interest	(997)	(1,823)	211	(1,190)	(2,061)	(4,082)	(5,378)	(8,374)	(454)	(3,799)	**(19,895)**
Net income (loss) attributable to shareholders	741	4,486	3,584	655	(6,426)	6,239	8,212	4,904	10,003	9,466	**12,929**
Weighted average number of common shares outstanding (in thousands) - basic									85,525	92,705	**99,142**
Basic net income (loss) per share from:											
Continuing operations	0.02	0.06	0.03	0.05	0.07	0.06	0.08	0.04	0.19	0.16	0.25
Discontinued operations	(0.01)	(0.01)	0.01	(0.05)	(0.13)	0.00	0.00	0.00	(0.07)	(0.06)	(0.12)
Basic net income (loss) per share	0.01	0.05	0.04	0.00	(0.06)	0.06	0.08	0.04	0.12	0.10	**0.13**
Weighted average number of common shares outstanding (in thousands) - diluted									96,608	92,705	**99,142**
Diluted net income(loss) per share from:											
Continuing operations	0.02	0.06	0.03	0.05	0.07	0.06	0.08	0.04	0.18	0.16	0.25
Discontinued operations	(0.01)	(0.01)	0.01	(0.05)	(0.13)	0.00	0.00	0.00	(0.07)	(0.06)	(0.12)
Diluted net income(loss) per share	0.01	0.05	0.04	0.00	(0.06)	0.06	0.08	0.04	0.11	0.10	**0.13**

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

Revenues were $39,078 for the three months ended December 31, 2014 compared to $28,394 for the three months ended December 31, 2013. The revenues were composed primarily of gains on the sale of mortgages sourced and underwritten by the Company's Mortgage Lending business.

Expenses, other income and losses:

Operating expenses were $23,567 for the three months ended December 31, 2014 compared to $15,245 for the three months ended December 31, 2013. These expenses represent the cost of acquiring the mortgages sold by the Mortgage Lending business and the increase reflects the increase in revenues.

Selling, general and administrative ("SG&A") expense was $8,640 in the three months ended December 31, 2014 compared to $6,900 during the same period of 2013. The SG&A expense primarily relates to SG&A expenses arising from the Mortgage Lending business and reflects the growth in quarter-over-quarter revenues.

Foreign exchange gain or loss was a loss of $306 in the fourth quarter of 2014 as compared to a loss of $105 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 $350 in the three months ended December 31, 2014 compared to $327 during the same period of 2013.

Interest expense was $981 in the fourth quarter of 2014 compared to $546 during the fourth quarter of 2013. The increase is attributable to interest arising from securitized mortgage pools issued during 2014.

The **fair value adjustments** in the three months ended December 31, 2014 resulted in an appreciation of $9,436 compared to an appreciation of $4,813 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 and the write-off of the goodwill related to the Company's Private Equity business as a result of the disposition of the majority of its investments.

Income taxes:

There was an income tax expense of $1,400 for the three months ended December 31, 2014, compared to an income tax expense of $2,297 for the same period in 2013. The expense relates primarily to deferred tax attributable to profits generated from the Company's Mortgage Lending activities net of recoveries generated at the parent company level. The income tax expenses (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. Material changes in income tax assets, liabilities, expense and recoveries may occur in the short term.

Discontinued operations:

In the fourth quarter of 2014, the Company recorded a gain of $8 from discontinued operations compared to a loss of $6,156 in the fourth 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 was distributed to Counsel shareholders via a dividend-in-kind of all of the Company's shares of Heritage Global Inc. in the second quarter of 2014.

2014 Compared to 2013

Revenues were $147,312 for the year ended December 31, 2014 compared to $138,999 for the year ended December 31, 2013. Of this amount, revenues of $138,964 were composed of gains on the sale of mortgages sourced and underwritten by the Company's Mortgage Lending business compared to $136,840 in 2013.

Expenses, other income and losses:

Operating expenses were $84,300 for the year ended December 31, 2014 compared to $86,160 for the year ended December 31, 2013. These expenses represent the cost of acquiring the mortgages sold by the Mortgage Lending business. They decreased relative to revenues in 2014 as a greater proportion of sales relate to mortgages that were renewed, which have lower acquisition costs than new mortgages.

Selling, general and administrative ("SG&A") expense was $34,492 in the year ended December 31, 2014 compared to $30,902 during the same period of 2013. The SG&A expense primarily relates to SG&A expenses arising from the Mortgage Lending business and reflects the expansion of Street Capital's personnel and systems to handle greater volumes and prepare for operation as a bank.

Foreign exchange gain or loss was a gain of $83 in the year ended 2014 as compared to a loss of $105 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 $1,297 in the year ended December 31, 2014 compared to $1,334 during the same period of 2013.

Interest expense was $2,826 in the year ended 2014 compared to $2,810 during the same period of 2013. The 2014 expense increased due to securitization liabilities that were incurred during the year net of a reduction in the amortization of the Company's deferred financing costs.

The **fair value adjustments** in the year ended December 31, 2014 resulted in an appreciation of $26,983 compared to an appreciation of $9,740 in 2013. The current year'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 and the write-off of the goodwill, in the amount of $1,454, related to the Company's Private Equity business as a result of the disposition of the majority of its investments .

Income taxes:

There was an income tax expense of $7,045 for the year ended December 31, 2014, compared to an income tax expense of $5,728 for the same period in 2013. The expense relates primarily to deferred tax attributable to profits generated from the Company's Mortgage Lending activities. The income tax expenses (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. Material changes in income tax assets, liabilities, expense and recoveries may occur in the short term.

Discontinued operations:

In the fourth quarter of 2014, the Company recorded a loss of $11,594 from discontinued operations compared to a loss of $8,649 in the fourth 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 was distributed to Counsel shareholders via a dividend-in-kind of all of the Company's shares of Heritage Global Inc. in the second quarter of 2014.

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 extensive 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 all provinces of Canada, with the current exception of Quebec, and sells the mortgages that it underwrites to top-tier financial institutions. Over Street Capital's approximately seven years of operations, it has successfully built a broad network of brokers and established stringent underwriting and due diligence processes, while maintaining a focus on customer service.

Street Capital sources its mortgages solely through its network of independent, high quality mortgage brokers, which it continues to develop and expand. Mortgage brokers are an important distribution channel in Canada, capturing almost half of first time homebuyers and 40% of repeat buyers, according to the 2014 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, unlike many of its competitors, does not compete with brokers by having its own branch network. By avoiding branch network costs, Street Capital is able to pass the associated savings on to the borrower. Since launching operations in 2008, Street Capital has grown rapidly to become a leader in the mortgage broker market 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. Its 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, which is comprised of borrowers who are unable to find financing through traditional sources. Management believes this market segment is underserved and offers potentially higher profit margins. Street Capital's strategy is to prudently expand this business over time, but its prime business is expected to 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, a servicing fee over the life of the mortgage and, in some cases, an excess interest rate spread over the 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 to the investor and/or party insuring the mortgage. However, Street Capital has established stringent underwriting and robust quality assurance processes in order to minimize 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, it administers and remains the face of all direct communication with borrowers throughout the mortgage term. This relationship promotes renewals, and is a key part of the long term growth, profitability and recognition of the Street Capital brand. Renewals are of particular importance, since the acquisition cost of renewed mortgages is significantly reduced due to minimal broker, marketing, underwriting and other related expenses. Street Capital's targeted renewal rate for mortgages it has originated is approximately 80%, in line with the industry norm. Street Capital's 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 both increasing the volume of mortgages it originates and its assets under management, and improving its profit margins. To increase volume, the company intends to expand into new regions in order to expand its network of high quality, high volume brokers, and to increase the number of mortgages originated through its existing broker network. To improve profit margins, the company initially 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 intention 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 on other consumer lending and related services. The application was filed in December 2012. Street Capital remains committed to the mortgage broker channel and intends to continue to operate through this channel, but 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. As anticipated the application process has taken an extended period of time, and the company currently expects it will be completed sometime in 2015. 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, in the absence of receiving such approval, the company is confident it can continue to grow its mortgage business under its current business model.

Results of Operations

Over the past six years, Street Capital has experienced a steady growth in mortgages originated and sold. The total mortgages sold in the fourth quarter and calendar year ending December 31, 2014 were $2.191 billion and $7.753 billion, respectively, while for the quarter and calendar year ending December 31, 2013, mortgage sales were $1.382 and $7,698 billion, respectively, 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 $21.6 billion under administration at December 31, 2014 compared to $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 December 31, 2014

	At Mar 31, 2013 $	At Jun 30, 2013 $	At Sep 30, 2013 $	At Dec 31, 2013 $	At Mar 31, 2014 $	At Jun 30, 2014 $	At Sep 30, 2014 $	At Dec 31, 2014 $
Mortgages under administration ($billions)	13.3	15.0	16.7	17.5	18.2	19.3	20.4	21.6

	2013 Q1 $	2013 Q2 $	2013 Q3 $	2013 Q4 $	2014 Q1 $	2014 Q2 $	2014 Q3 $	2014 Q4 $
Mortgages sold ($billions)	1.6	2.5	2.3	1.4	1.4	1.9	2.3	2.2

Mortgage Lending revenue was $141,959 for 2014 compared to $136,840 for 2013, and is comprised primarily of the gain on sales of mortgages underwritten by Street Capital. The gain on sale increased on a year-over-year basis reflecting higher mortgage sales compared to the prior year.

Mortgage Lending operating expense was $84,300 for 2014 compared to $86,160 for the same period ended December 31, 2013. Mortgage lending operating expense consists of the cost to source mortgages sold by Street Capital, and reflects the sales volume. They decreased relative to revenues in 2014 as a greater proportion of sales relate to mortgages that were renewed, which have lower acquisition costs than new mortgages.

CAPITAL RESOURCES AND LIQUIDITY

Summary of Consolidated Statement of Financial Position Data

	December 31, 2012 $	December 31, 2013 $	December 31, 2014 $
Total assets	247,616	324,178	279,264
Working capital	(6,815)	(15,279)	43,360
Non-current financial liabilities	38,015	11,573	55,362
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 $58,639 in 2014. The main contributors to the increase were the disposition of the Company's discontinued operations during the first quarter of 2014, disposition of portfolio investments and increased current receivables arising from the growth in the business.

Sources of funding

The Company had $36,152 in cash and cash equivalents at December 31, 2014 (December 31, 2013 - $17,580). This includes approximately $13,130 (2013 - $12,714) of restricted cash representing funds held in trust by our Mortgage Lending business for the purposes of funding third party mortgage loans and repayments collected on behalf of third party investors via a third party service provider.

The primary sources of funds in fiscal 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 fiscal 2014 $3,529 was used to make mortgage and loan payments and $4,027 was paid to reduce the contingent liability. In addition, $41,947 was distributed to third party investors in KBCP Fund I.

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 2013 or 2014.

Obligations

The following table summarizes all the outstanding obligations of the Company's continuing operations by the year in which they become due. The Company expects to fund these obligations from operating income, cash on hand, and the renewal of mortgages and loans.

	2015	**2016**	**2017**	**2018**	**2019**	**Thereafter**	**Total**
	$	$	$	$	$	$	$
Accounts payable and accrued liabilities	45,961	-	-	-	-	-	45,961
Mortgages and loans payable	11,973	6,934	-	-	-	-	18,907
Contingent consideration	4,908	-	-	-	-	-	4,908
Operating leases	1,171	1,045	998	637	31	-	3,882
Total	**64,013**	**7,979**	**998**	**637**	**31**	**-**	**73,658**

Convertible debentures

Counsel partially financed the acquisition of Street Capital on May 31, 2011 by a non-brokered private placement of 8%, convertible unsecured subordinated debentures (the "Debentures") for gross proceeds of $12,000. 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.

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 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 fees receivable), 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 consolidated 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.

Derecognition of financial assets - The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability to the extent of its continuing involvement. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of consideration received and receivable is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Company retains on option to repurchase part of a transferred asset), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized is recognized in profit or loss.

The classification, presentation and measurement of discontinued operations also involves 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 companies that are comparable 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 premiums for liquidity and credit risk that are incorporated into the discount rate.

Critical judgments include the determination of cash generating units ("CGUs"), 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

Consolidation

The 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 December 31, 2014 and December 31, 2013 are as follows:

	December 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
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 interests in controlled assets owned by outside investors in the Company's private equity fund. The share of net assets 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.

Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each consolidated entity of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is Counsel's functional currency.

The financial statements of entities that have a functional currency different from that of Counsel ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities – at the closing rate at the date of the statements of financial position; and income and expenses – at the average rate of the period (as this is considered a reasonable approximation to actual rates). All resulting changes are recognized in other comprehensive income as cumulative translation adjustments.

When an entity disposes of its entire interest in a foreign operation, or loses control, joint control or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income related to the foreign operation are recognized in the statements of operations. If an entity disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income related to the subsidiary are reallocated between controlling and non-controlling interests.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the statement of operations.

Cash and cash equivalents
Cash and cash equivalents include cash in bank accounts, restricted cash representing funds held in trust and other short-term highly liquid investments with original maturities of three months or less.

Restricted cash
Cash collected from principal and interest payments on mortgages pledged under securitization are held in trust until repayment of the liability related to these mortgages can be made in a subsequent period. Cash collected from principal and interest payments made payable to the Company on mortgages previously sold to investors are deposited into a segregated account and subsequently repaid to the mortgage servicer.

Financial instruments
Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. The financial instruments held by the Company that are classified at fair value through profit or loss are cash and cash equivalents, marketable securities, investment held for sale and portfolio investments. Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants, at the measurement date.

Financial instruments in this category are recognized initially and subsequently at fair value. The fair value of financial assets that are not traded in an active market (for example, portfolio investments) is determined by using valuation techniques. 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. Transaction costs are expensed in the statement of operations. Gains and losses arising from changes in fair value are presented in the statement of operations in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the statement of financial position date, which is classified as non-current.

(ii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, mortgages, loans, accounts and deferred interest receivable are measured at amortized costs using the effective interest method less a provision for impairment, if deemed necessary.

(iii) Available-for-sale assets: Available-for-sale assets are non-derivatives that are either designated in this category or not classified in any other categories. The Company has no assets classified as available-for-sale assets.

(iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities, mortgages and loans payable, securitization liabilities and contingent consideration. Accounts payable and accrued liabilities are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently accounts payable and accrued liabilities are measured at amortized cost using the effective interest method. Mortgages and loans payable as well as securitization liabilities are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Impairment of financial assets
At each reporting date, the Company assesses whether there is objective evidence that a financial asset carried at amortized cost is impaired. If such evidence exists, the impairment loss is the difference between the amortized costs of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Property, plant and equipment
Property, plant and equipment other than artwork, are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statement of operations during the period in which they are incurred.

The major categories of property, plant and equipment are depreciated as follows:

Furniture, fixtures and office equipment	straight-line or declining balance over periods from 3 to 10 years
Leasehold improvements	straight-line or declining balance over the shorter of the term of the lease or estimated useful life of the asset
Machinery and equipment	20% declining balance
Software and information systems	straight-line over 1 to 3 years

Artwork was revalued at fair value as of January 1, 2010, when IFRS was adopted, based on third party appraisals, which is being used as deemed cost.

Residual values, methods of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and included as part of other gains and losses in the statement of operations.

Borrowing costs
Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the statement of operations in the period in which they are incurred.

Impairment of non-financial assets
Property, plant and equipment are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or “CGUs”). The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount.

Goodwill and intangible assets
Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable tangible and intangible assets acquired, less liabilities assumed, based on their fair values. Goodwill acquired through a business combination is allocated to each CGU, or group of CGUs, that are expected to benefit from the related business combination. A group of CGUs represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, which is not higher than an operating segment.

Goodwill is not amortized but instead tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. If the recoverable amount is less than the carrying amount, an impairment loss is recognized and the goodwill adjusted accordingly.

Intangible assets and liabilities are recorded at fair value upon acquisition and are amortized over the estimated life of the underlying intangible asset. The Company monitors events and changes in circumstances which require an assessment of recoverability. If the carrying amount of the intangible assets is not recoverable, an impairment loss is recognized in the statement of operations, determined by comparing the carrying amount of the asset to its recoverable amount.

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants, at the measurement date.

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.

Sales of MBS that do not qualify for de-recognition result in the related mortgages being classified as securitized mortgage loans 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 sale

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 statement of operations.

Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale when they are available for immediate sale, management is committed to a plan to sell, it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn, an active program to locate a buyer has been initiated, the asset or disposal group is being marketed at a reasonable price in relation to its fair value and a sale is expected to be completed within twelve months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount immediately prior to being classified as held for sale in accordance with the Company's accounting policy and fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated. The results of operations disposed of during the year are included in the consolidated statement of comprehensive income up to the date of disposal.

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale.

Discontinued operations are presented in the consolidated statements of comprehensive income (including the comparative period) as a single line which comprises the post tax profit or loss of the discontinued operation and the post-tax gain or loss recognized on the re-measurement to fair value less costs to sell or on disposal of the assets/disposal groups constituting discontinued operations.

The notes to the consolidated financial statements in the period in which a non-current asset (or disposal group) has either been classified as held for sale or sold shall include a description of the facts and circumstances of the sale or leading to the expected disposal and the expected manner and timing of that disposal.

Revenue

The Company's Mortgage Lending business earns revenue from the placement and servicing activities related to mortgages. The majority of originated mortgages are sold to institutional investors. When mortgages are placed with institutional investors, the Company transfers the contractual right to receive mortgage cash flows to the investor. Since the Company has transferred substantially all the risks and rewards of ownership of these mortgages, it has derecognized these financial assets. Upon the placement of the mortgage, the Company recognizes income from multiple sources:

- Cash premium – The cash premium received for the mortgages sold is recognized as gain on sale of mortgages on the consolidated statement of operations.
- Servicing fees – Mortgages are sold on a fully serviced basis. The Company charges the institutional investor a servicing fee which is received over the life of the underlying mortgage. The present value of the servicing fee less the Company's cost of servicing is recognized as gain on sale of mortgages in the consolidated statement of comprehensive income and a resulting deferred placement fees receivable is recognized in the consolidated statement of financial position.
- Excess interest rate spread – In some cases, an excess interest rate spread is received over the remaining term of the mortgage. The present value of the excess interest rate spread is recognized as gain on sale in the consolidated statement of comprehensive income and a resulting deferred placement fees receivable is recognized in the consolidated statement of financial position.
- Mortgage prepayment penalty fees and mortgage life insurance referral fees are recorded as revenue when received. Fee income is accrued and recognized as income as the associated services are rendered.

The Company earns management fees for the management of Private Equity funds. The Company recognizes management fees as earned.

Share-based payments

The Company and its subsidiaries issue share-based awards to certain employees and non-employee directors. The cost of equity-settled share-based transactions is determined as the fair value of the options on the grant date using a fair value model. The cost of the stock options is recognized on a proportionate basis consistent with the vesting features of each tranche of the grant.

Carried interest

Counsel, through its 100% owned subsidiary, Knight's Bridge Capital Partners GP, L.P., which is the General Partner of KBCP Fund I, is entitled to a carried interest of 20% of the total profits realized by KBCP Fund I after the investors in the fund have received the return of their contributed capital and a minimum 8% per annum preferred return on their invested capital.

The unrealized carried interest is calculated based on the fair values of the underlying investments of KBCP Fund I and in accordance with the limited partnership agreements. The unrealized carried interest reduces the amount due to the Limited Partners (non-controlling interest) and will eventually be paid after the realization of the underlying KBCP Fund I investments. The change in net carried interest attributable to Counsel is recognized through the charge for the Limited Partners' Interests (net income attributable to non-controlling interest).

Income tax

Income tax is comprised of current and deferred tax. Income tax is recognized in the consolidated statement of operations except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the reporting period, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustments to tax payable in respect of previous years.

The Company uses the liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on the difference between the carrying value and the tax basis of the assets and liabilities. Any change in the net amount of deferred income tax assets and liabilities is included in income. Deferred income tax assets and liabilities are determined based on enacted or substantively enacted tax rates and laws which are expected to apply to the Company's taxable income for the periods in which the assets and liabilities will be recovered or settled. Deferred income tax assets are recognized when it is probable that they would be recovered.

Earnings per share
Basic earnings per share ("EPS") is calculated by dividing the net income (loss) for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, convertible preferred shares and similar instruments is computed using the treasury stock method. The Company's potentially dilutive common shares are comprised of stock options granted to employees and non-employee directors.

Segment reporting
The accounting policies of the reporting segments are the same as the Company's accounting policies described above. An elimination of any intercompany balances is done as part of the consolidation process. As a result of the Company's decision to discontinue its Asset Liquidation, Case Goods and Real Estate segments combined with the expiry of the period during which it could make capital calls for new acquisitions in its Private Equity fund, and to focus on its Mortgage Lending business, management has determined that segmented information for continuing operations is no longer required.

Future accounting changes
Financial Instruments – In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The Company has yet to assess the impact of the new standard on its results of operations, financial position and disclosures.

Revenue from contracts with customers – IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. 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 December 31, 2014 that have materially affected, or are expected to have a material effect on, the Company's financial reporting.

RISKS AND UNCERTAINTIES

This section outlines risks and uncertainties that can have an impact on the Company's operating results and financial position over the course of the year. For a more complete discussion of the risks affecting the Company, reference should be made to the Company's Annual Information Form.

Current economic environment
As widely reported, worldwide financial markets have experienced extreme and unprecedented disruptions beginning in the second half of 2008 including, among other things, extreme volatility in securities prices, severely diminished liquidity and limited credit availability. An extended period of limited economic growth or recession could adversely and materially affect the Company's revenues and financial performance.

Mortgage Lending industry
The Mortgage Lending industry is subject to market, interest rate, credit and liquidity risk. These risks are influenced largely by changes in general economic conditions (such as the volatility and the available liquidity in the global financial markets which could affect interest rates and resulting spreads) as well as changes in local market conditions (such as a reduction in demand for real estate in the Canadian marketplace). There could also be significant exposure to counterparty credit risk whereby we could incur a loss if a counterparty fails to perform its obligations under the contractual terms and the collateral held, if any, is insufficient to cover the underlying loan balance. We believe this is mitigated as our counterparties are top-tier financial institutions with sound credit ratings.

Capital risk
The objective of the Company when managing capital is to preserve as well as maximize shareholder value in the short and long term. An area of focus has been the protection of the Company's ongoing liquidity, including the preservation of its cash flows from the sale of previously originated mortgages as well as the deferred interest receivable.

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 shareholders' equity comprised of common shares and retained earnings.

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.

Concentration risk
Approximately 80% of the Company's revenue from its mortgage lending business was derived from two Canadian financial institution funding sources. If these financial institutions were to terminate their relationships with the Company or reduce their acquisitions of mortgages from the Company and the Company was unable to replace them with other institutional investors or funding sources at similar pricing for mortgages acquired, this could have a material adverse effect on the Company's business, financial condition and results of operations.

Government regulation
The Company's Canadian mortgage lending business is regulated under lending and other legislation in certain of the jurisdictions in which it conducts business. Changes in regulatory legislation or the interpretation thereof, or in the introduction of any new regulatory requirements, could have a negative effect on the Company and its operating results. In addition, failure to be appropriately registered in the various Canadian jurisdictions in which it operates could result in enforcement action and potential interruption of certain of the Company's activities, which could have a material adverse effect on the Company's business, financial condition and results of operations. Finally, as an approved lender under the National Housing Act, the Company's mortgage lending subsidiary is able to originate CMHC, Genworth and Canada Guaranty insured mortgages. Any change in the subsidiary's status as an approved lender under the National Housing Act could have a material adverse effect on the Company's business, financial condition and results of operations.

Reliance on mortgage insurance
The Company relies to a great extent on mortgage insurance to carry on its business. Should such insurance not be available in the future, this would have an adverse effect on the Company's ability to place or sell mortgages it originates, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Credit risk
The Company extends credit to customers in the Mortgage Lending 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. All the mortgage receivables except for a few 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 in continuing operations at December 31, 2014. The Company historically has not experienced any major collection issues.

The maximum credit exposure of the financial assets is their carrying value as reflected on the consolidated statement of financial position. As of December 31, 2014, the Company's most significant concentration of credit risk is with the counter parties of cash and the mortgage loans.

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.

Market value risk
The business model for the Private Equity segment involves investing in companies that are not easily marketable and are valued based on subjective assessments.

Foreign exchange risk
Foreign exchange risk arises to the extent of 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.

Acquisitions and integration
Counsel pursues a strategy of acquiring businesses in order to achieve growth, scale and ultimately, profitability. If Counsel is unable to find suitable acquisitions or the funding to complete them, the Company may not realize its strategic goals. Likewise, the speed and effectiveness with which the Company is able to integrate acquired companies into existing businesses and realize anticipated synergies could have a significant impact on profitability.

Capital commitment risk
The limited partners in KBCP Fund I comprise a small group of high-quality investors. While Counsel's experience with its limited partners suggest that commitments will be honoured, there is always a risk that a limited partner may not be able to meet its entire commitment over the life of the Fund.

Dispositions of investments
An integral part of Counsel's strategy is the ability to sell acquired businesses once a targeted level of growth has been achieved. There can be no guarantee that Counsel will be able to find a buyer once a decision to sell has been made. Changes in capital markets, economic environments and other factors could delay a sale or substantially reduce the planned selling price, thereby reducing the profitability and planned sources of future funding.

Key employees
The Company has certain employees that it considers to be key. Many of these employees are involved in executing the strategy that is expected to lead to the planned results. If these key employees cease to be employed with the Company, planned results could be delayed or might not materialize. The Company mitigates this risk through the use of employment contracts, the formalization of the Company's strategy and business plans and by ensuring the existence of timely knowledge exchange and collaboration.

Insurance
Counsel maintains insurance coverage that includes liability coverage to protect the Company from claims made against it. The Company's ability to maintain adequate insurance coverage at a reasonable cost may be impacted by market conditions beyond the control of the Company.

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.

Environmental
Under various environmental laws and regulations, the Company, as either owner or manager, could become liable for the costs of removal or remediation of certain hazardous, toxic or regulated substances released on or in its properties or disposed of at other locations regardless of whether or not the Company knew of or was responsible for their presence. The failure to remove, remediate or otherwise address such substances, if any, may adversely affect an owner's ability to sell such properties or use them as collateral and could potentially result in claims against the owner by private plaintiffs. In addition, environmental laws and regulations may change as environmental concerns become a greater societal priority and the Company may become subject to more stringent environmental laws and regulations in the future. The Company is not aware of any material non-compliance, liability or other claims in connection with any of its properties. Nor is the Company aware of any environmental condition with respect to any properties that it believes would involve material expenditure by the Company.

Income tax loss carry-forwards
Income tax loss carry forwards may expire before we have the ability to utilize such losses and there is no certainty that current income tax rates will remain in effect at the time when we have the opportunity to utilize reported tax loss carry forwards.