



COUNSEL
CORPORATION

PARTNERS IN SUCCESS™

Fellow Shareholders,

2014 was a very successful year for Counsel Corporation.

Through our residential mortgage lending business, Street Capital Financial Corporation, we continued to grow our presence in the Canadian financial services sector. In addition, we successfully accomplished our other strategic objectives for 2014: the exit from our non-financial business lines is substantially complete; we continued to make progress with Street Capital's application to become a Schedule I bank; and we took additional steps to put the people, processes and systems in place to operate as a larger, focused financial institution.

Street Capital sold \$7.8 billion in mortgages during the year, which is consistent with last year's level and more than double the \$3.7 billion sold in 2011 when Counsel acquired the company. Once again, Street Capital was among the top-five mortgage underwriters by funded volume operating through the mortgage broker channel in Canada. The company's share of the mortgage broker channel has increased from 4.9% in the second quarter of 2011 to 10.1% in the fourth quarter 2014. The company sources its mortgages almost exclusively from mortgage brokers, and then directly resells the mortgages to institutional investors. Street Capital's share of the entire Canadian residential mortgage market has grown from 0.7% in 2011 to 1.7% in 2014. At the end of 2014, Street Capital had \$21.6 billion in mortgages under administration. This is a large number but it represents more than that. It signifies over 70,000 customers across Canada who have chosen to partner with Street Capital on one of the most meaningful transactions of their lives.

In 2015 we are planning further actions that will consolidate the progress we have made to build Street Capital into a strong, profitable and growing financial services business. These include, all subject to shareholder approval, changing our name to Street Capital Group Inc., strategically fine-tuning the composition of our board of directors and a share exchange. As a significant shareholder myself, I believe that these steps are the right ones to strongly position the company for the future.

The proposed share exchange represents a significant personal investment by Street Capital's outstanding senior management team, strengthening their commitment to our success and their alignment with all shareholders of Counsel Corporation. The original arrangement with Street Capital's management was not designed with the current business plan in mind. By exchanging common shares now for Street Capital management's Class C shares of Street Capital, we will free-up significant capital to finance growth and execute our business plan. This will enable us to bring a broader range of products and services to market, bolster our profitability and enhance our ability to pay dividends.

Having spent a great deal of time talking to shareholders over the years, I believe that the proposed measures will provide a clearer view of the company's core operations, while solidifying the level of future management compensation and promoting retention. These measures should enable investors to assign a more appropriate valuation to the company's shares.

This is an exciting time for our company and a bittersweet moment for me, personally. I fully support the proposed changes; however, should they be approved, this will be my last letter from Counsel Corporation as Lazaro DaRocha and Ed Gettings, who have led Street Capital since its inception, take over as President and CEO, respectively. I will stay on as Executive Chairman of the Board.

Counsel Corporation has been a Canadian public company for almost 30 years and began in the financial services business over 35 years ago. In August of 1979, we started Counsel Trust Company with \$3.6 million in assets and \$2.5 million of equity. Counsel Trust was the first of many success stories for our team—we sold the business in June of 1990 after growing it to \$1.9 billion of assets and \$114 million of equity. FirstLine Trust, which pioneered the Canadian mortgage-backed securities business after we founded it in 1984, was the largest issuer under CMHC's MBS program when we sold it in 1991. In 1983 we established the Counsel Trust Real Estate Fund, which became Counsel REIT in 1994 and is now called RioCan REIT, a marquee Canadian public real estate investment trust.

2015 marks the beginning of an exciting new chapter for our organization. While our bank application is still pending, we are well-positioned to begin to operate as a bank if and when we receive approval. We already have a best-in-class management team in place with demonstrated success at large Canadian banks as well as within our current operating niche—originating and underwriting for the mortgage broker channel. The

success we have enjoyed at Street Capital is a result of the efforts of this team. I am extremely proud of the expertise and dedication of the employees at Street Capital. We now have 161 Street Capital employees in four offices in Toronto, Vancouver and Calgary, compared to 80 employees in two offices in 2011.

We are optimistic regarding the regulatory process we are currently engaged in and hopeful that we will receive approval to operate as a Schedule I bank by the end of this year. A bank structure will enable us to expand at a measured pace into higher margin consumer lending products, capitalizing on our current client relationships while allowing us to acquire additional customers and funding through deposits.

I also want to thank our over 1,000 key account mortgage brokers who have consistently trusted us to provide the best service for their clients. The individuals at these key accounts are some of the most professional people I have had the pleasure of working with in my career.

Finally, I would like to thank the members of our board of directors who will be retiring after the annual meeting. Their commitment and counsel have been invaluable in guiding the company to its current strong position and bright future.

I look forward to continuing to advise and work with the new management team to create value for our shareholders and build a robust earnings platform. I am extremely pleased with the progress we have made and excited about what we are going to accomplish in the years to come.

Sincerely,

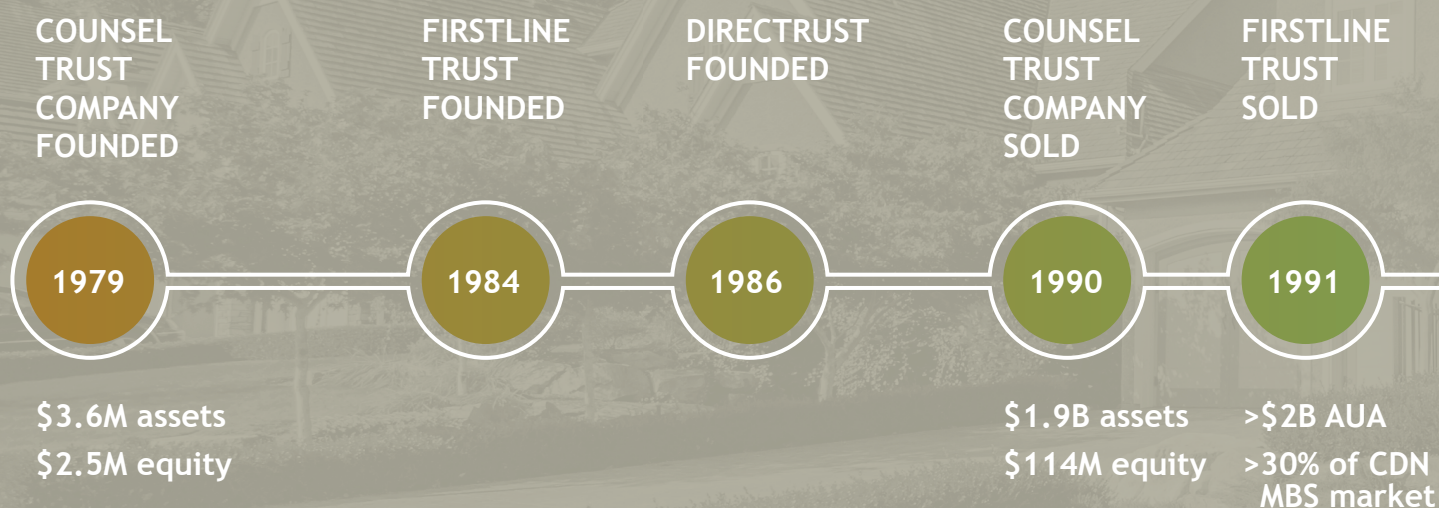


Allan Silber,
Chairman and CEO

May 14, 2015

A track record of success

Counsel Corporation has a successful track record of identifying significant financial service opportunities.



STREET
CAPITAL
FOUNDED

2007

COUNSEL
ACQUIRES
STREET
CAPITAL

2011

\$5.4B MUA

STREET
CAPITAL

2014

\$21.6B MUA

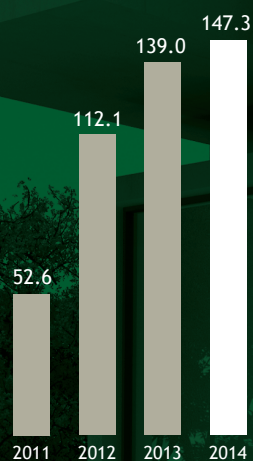


STREET CAPITAL
FINANCIAL CORPORATION™

Street Capital is well-positioned for continued profitable growth. It has a proven and experienced management team, a strong base of relationships in the key mortgage broker channel, a solid reputation and the means to continue to grow prudently.

Key Metrics

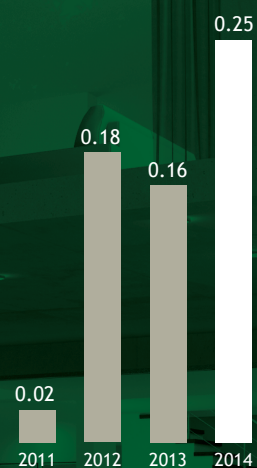
REVENUE
(\$ MILLIONS)



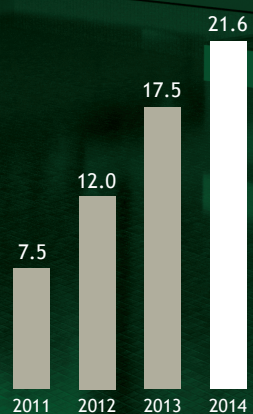
INCOME FROM
CONTINUING
OPERATIONS BEFORE
INCOME TAXES
(\$ MILLIONS)



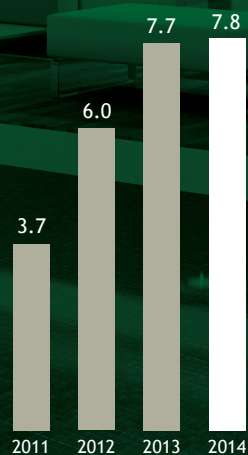
EPS FROM
CONTINUING
OPERATIONS
(DILUTED)
(\$)



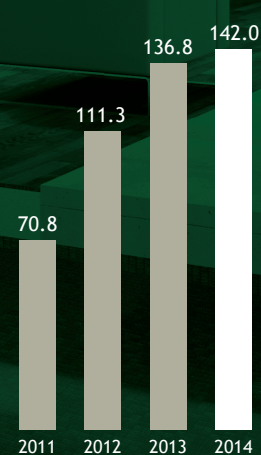
MORTGAGES UNDER
ADMINISTRATION
(\$ BILLIONS)



MORTGAGE SALES
(\$ BILLIONS)



MORTGAGE LENDING
REVENUE
(\$ MILLIONS)



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COUNSEL CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS

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 an 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.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Counsel Corporation

We have audited the accompanying consolidated financial statements of Counsel Corporation which comprise the consolidated statement of financial position as at December 31, 2014, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Counsel Corporation as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The consolidated financial statements of Counsel Corporation for the year ended December 31, 2013 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on March 31, 2014.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style script.

Toronto Canada
March 19, 2015

Chartered Professional Accountants
Licensed Public Accountants

COUNSEL CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
as at December 31, 2014 and 2013
(In thousands of Canadian dollars)

	Notes	December 31, 2014 \$	December 31, 2013 \$
Assets			
Current assets			
Cash and cash equivalents	11(i)	36,152	17,580
Marketable securities		419	410
Mortgages, loans, accounts and deferred fees receivable	6(a)	29,366	22,004
Securitized mortgage loans	6(b)	4,731	—
Portfolio investments	10	30,910	—
Prepaid expenses	7	7,058	4,655
Assets of discontinued operations	23	854	18,415
		109,490	63,064
Non-current assets			
Deferred fees and mortgages receivable	6(a)	26,594	19,403
Securitized mortgage loans	6(b)	45,587	—
Prepaid expenses	7	44,796	35,557
Property, plant and equipment	8	4,706	3,079
Portfolio investments	10	9,100	53,220
Intangible assets	9(a)	5,101	5,594
Goodwill	9(b)	23,465	24,919
Deferred income tax assets	22	9,939	10,224
Assets of discontinued operations	23	486	53,367
		279,264	268,427
Total assets			
		279,264	268,427
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	11	45,961	29,458
Income taxes payable		3	4
Loans payable	12	11,973	14,025
Securitization liabilities	6(b)	4,576	—
Contingent consideration	5	2,600	4,027
Liabilities of discontinued operations	23	1,017	20,550
		66,130	68,064
Non-current liabilities			
Loans payable	12	6,934	6,703
Securitization liabilities	6(b)	45,970	—
Contingent consideration	5	2,308	4,543
Deferred income tax liabilities	22	26,219	19,573
Derivative liability		—	9
Liabilities of discontinued operations	23	150	318
		147,711	99,210
Total liabilities			
		147,711	99,210
Equity			
Share capital	15	204,263	203,333
Share based compensation		12,096	12,202
Foreign currency translation		—	2,392
Contributed surplus		50,215	50,215
Retained earnings (deficit)		(155,698)	(152,035)
Shareholders' equity		110,876	116,107
Non-controlling interest		20,677	53,110
		131,553	169,217
Total equity			
		131,553	169,217
Total liabilities and equity			
		279,264	268,427
Commitments, contingencies and guarantees	14		

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

COUNSEL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
for the Years Ended December 31, 2014 and 2013

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

		Year ended December 31,	
	Notes	2014 \$	2013 \$
Revenues			
Gain on sale of mortgages	6(a)	138,964	136,008
Interest and fee income		4,223	2,991
Other		4,125	—
		147,312	138,999
Expenses			
Operating costs		84,300	86,160
Selling, general and administrative expense		34,492	30,902
Foreign exchange		(83)	105
Depreciation and amortization		1,297	1,334
Interest expense		2,826	2,810
Other		—	(214)
		122,832	121,097
Income before fair value adjustments		24,480	17,902
Fair value adjustments		26,983	9,740
Income before income taxes and discontinued operations		51,463	27,642
Income tax provision	22	7,045	5,728
Income from continuing operations		44,418	21,914
Income (loss) from discontinued operations	23	(11,594)	(8,649)
Net income		32,824	13,265
Net income attributable to non-controlling interest		19,895	3,799
Net income attributable to shareholders		12,929	9,466
Basic and diluted net income (loss) per share:	16		
Continuing operations		0.25	0.16
Discontinued operations		(0.12)	(0.06)
Basic and diluted net income per share		0.13	0.10
Weighted average number of common shares outstanding (in thousands)—basic and diluted		99,142	92,705

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

COUNSEL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
for the Years Ended December 31, 2014 and 2013

(In thousands of Canadian dollars)

	Year ended December 31,	
	2014 \$	2013 \$
Net income	32,824	13,265
Other comprehensive income (loss)		
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 (loss), net of tax (\$nil)	(2,028)	1,894
	(2,468)	1,894
Comprehensive income	30,356	15,159
Comprehensive income (loss) attributable to:		
Shareholders	10,407	10,961
Non-controlling interest	19,949	4,198
	30,356	15,159

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

COUNSEL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
for the Years Ended December 31, 2014 and 2013

(In thousands of Canadian dollars)

		Attributable to shareholders of the Company								
	Notes	Share capital (Note 15) \$	Share based compensation \$	Foreign currency translation \$	Contributed Surplus \$	Accumulated other comprehensive income (loss) \$	Retained earnings (deficit) \$	Total \$	Non- controlling Interest \$	Total equity \$
Balance—December 31, 2012		188,349	8,627	498	49,579	75	(161,576)	85,552	61,449	147,001
Exercise of stock options	15	2,592	—	—	—	—	—	2,592	—	2,592
Net investment by non-controlling interest		—	—	399	—	—	—	399	(12,537)	(12,138)
Conversion of convertible debentures		12,000	—	—	—	—	—	12,000	—	12,000
Employee share purchase loan repayment		392	—	—	636	—	—	1,028	—	1,028
Share based compensation		—	3,575	—	—	—	—	3,575	—	3,575
Foreign currency translation adjustment		—	—	1,495	—	—	—	1,495	399	1,894
Net income		—	—	—	—	(75)	9,541	9,466	3,799	13,265
Balance—December 31, 2013		203,333	12,202	2,392	50,215	—	(152,035)	116,107	53,110	169,217
Exercise of stock options	15	25	—	—	—	—	—	25	—	25
Net investment by non-controlling interest		—	—	54	—	—	—	54	(52,382)	(52,328)
Employee share purchase loan		381	—	—	—	—	—	381	—	381
Share based compensation		524	(106)	—	—	—	—	418	—	418
Foreign currency translation adjustment		—	—	(2,446)	—	—	(76)	(2,522)	54	(2,468)
Dividends declared (in-kind)		—	—	—	—	—	(16,516)	(16,516)	—	(16,516)
Net income		—	—	—	—	—	12,929	12,929	19,895	32,824
Balance—December 31, 2014		204,263	12,096	—	50,215	—	(155,698)	110,876	20,677	131,553

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

COUNSEL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the Years Ended December 31, 2014 and 2013
(In thousands of Canadian dollars)

	2014 \$	2013 \$
Cash provided by (used in)		
Operating activities		
Income from continuing operations	44,418	21,914
Non-cash items		
Deferred income taxes	7,045	5,728
Depreciation and amortization	1,297	1,334
Fair value adjustments for contingent consideration	365	575
Amortization of deferred financing and other costs	199	491
(Gain) loss on sale of business unit	(4,125)	—
Fair value adjustments	(27,344)	(6,598)
Share based compensation	418	3,575
Deferred share unit plan expense	—	1,311
Changes in non-cash assets and liabilities related to operations		
(Increase) decrease in accounts receivable and mortgage assets	(62,201)	(1,746)
(Increase) decrease in deferred charges	(11,642)	(12,950)
(Increase) decrease in other assets	362	(734)
Increase in accounts payable and accrued liabilities	67,049	6,931
Cash provided by (used in) continuing operations	15,841	19,831
Cash provided by (used in) discontinued operations	1,686	(6,085)
	17,527	13,746
Investing activities		
Purchase of short-term investments	—	(290)
Distributions from portfolio investments	50,488	14,124
Investment in portfolio investments	—	(4,594)
Purchase of property, plant and equipment	(2,429)	—
Non-controlling interest	(41,947)	(7,618)
Discontinued operations	—	1,541
	6,112	3,163
Financing activities		
Proceeds from mortgages and loans payable	2,509	6,476
Repayment of mortgages and loans payable	(3,529)	(2,693)
Repayment of share purchase loan	—	1,257
Exercise of stock options	25	2,592
Payment of contingent liability	(4,027)	(4,026)
Discontinued operations	—	(11,659)
	(5,022)	(8,053)
Increase (decrease) in cash and cash equivalents	18,617	8,856
Cash and cash equivalents—beginning of period	17,580	12,196
Cash and cash equivalents—end of period	36,197	21,052
Less: Cash—discontinued operations	45	3,472
Cash and cash equivalents—continuing operations	36,152	17,580
Represented by:		
Cash and cash equivalents	23,022	4,866
Restricted cash represented by funds held in trust	13,130	12,714
Total—Cash and cash equivalents—continuing operations	36,152	17,580
Supplementary information		
Cash paid (received) during the period		
Interest received	(1,014)	(432)
Interest paid	2,370	2,060
Income taxes	—	159
Effects of exchange rate changes on the balance of cash held in foreign currencies	842	56
Non-cash investing and financing activities:		
Dividend in kind of Heritage Global Inc.	16,516	—
Dividend in kind of Terra Firma Capital Corporation	—	1,851
Sale of real estate investment	1,000	1,336
Conversion of debentures	—	12,000

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

COUNSEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014

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

1. General information

Counsel Corporation ("Counsel" or "the Company"), incorporated in the province of Ontario 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

These annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with all IFRS issued and in effect as at December 31, 2014.

The comparative audited consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2014 audited consolidated financial statements.

The consolidated financial statements were approved by the Board of Directors and authorized for issue on March 19, 2015.

3. Significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

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 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 consolidated 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 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 an 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.

5. Contingent consideration

On May 31, 2011, Counsel completed the acquisition of 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 \$13,870 in cash beginning in 2013 upon the achievement of specific earnings targets. The contingent consideration, valued at \$10,353 on acquisition, was recorded as part of the purchase price. The contingent consideration has an estimated fair value of \$4,908 at December 31, 2014 (December 31, 2013—\$8,570). During 2013, the first payment of contingent consideration in the amount of \$4,026 was made. During 2014, contingent consideration payments totalling \$4,027 were made. The remaining \$4,908 of contingent consideration is allocated between current and long term liabilities of \$2,600 and \$2,308 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 have not met the more likely than not criteria under IFRS. In light of the aforementioned, the amount of such potential payment cannot be practicably estimated at this time.

6. Mortgages, loans, accounts and deferred fees receivable

a) Mortgages, loans, accounts and deferred fees receivable consist of the following:

	December 31, 2014 %	December 31, 2013 %
Accounts receivable	6,881	8,789
Loans receivable	6,045	—
Deferred fees receivable	38,749	29,000
Mortgages receivable	4,285	3,618
	55,960	41,407
Current	29,366	22,004
Long-term	26,594	19,403
	55,960	41,407

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

Deferred fees receivable—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 fee receivable is recognized in the consolidated statement of financial position.

As well, 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 fee receivable is recognized in the consolidated statement of financial position.

The present value of this excess spread is calculated based on a duration factor of the underlying mortgage sold and recorded as deferred fees receivable.

	December 31, 2014			December 31, 2013		
	Capitalized at sale \$	Amortization \$	Net book value \$	Capitalized at sale \$	Amortization \$	Net book value \$
Deferred fees receivable	80,106	41,357	38,749	58,336	29,336	29,000

Mortgages receivable—The Company originates mortgages and holds the mortgages for a short period of time and then sells them to various purchasers.

	Cost \$	December 31, 2014 FMV \$	Cost \$	December 31, 2013 FMV \$
Mortgage loans	4,285	4,348	3,618	3,618

Mortgage loans carry interest rates ranging from 2.60% to 8.0% with maturities up to 10 years (2013—3.19% to 8.00% with maturities up to 10 years).

Upon sale of mortgage loans, the Company receives four forms of compensation: a cash premium; a servicing fee over the remaining life of the mortgage; in some cases, an excess spread over the remaining life of the mortgage; and accrued interest. The present value of (i) the difference between the servicing fee and cost of servicing and (ii) the excess spread is recorded as gain on sale on the consolidated statement of comprehensive income and deferred fees receivable on the consolidated statement of financial position.

	2014 \$	2013 \$
Cash premium at sale	117,540	119,806
Deferred gain on sale	21,424	16,202
Total gain on sale	138,964	136,008

In accordance with respective agreements, the Company indirectly administers mortgages purchased by third parties. Total mortgages under administration, including mortgages sold to third parties, as at December 31, 2014 amounted to \$21,575,334 (2013—\$17,518,956).

Mortgage commitments—In the normal course of business, the Company issues commitments for future advances on mortgages with terms of one to five years. The total amount of commitments outstanding as at December 31, 2014 was \$1,540,036 (2013—\$922,435). These commitments remain open for a period of up to 120 days beyond their commitment date. Prior to funding these commitments, the borrowers are required to meet the Company's underwriting requirements. Certain of these commitments will expire before being drawn down. Therefore, these amounts do not represent the Company's future funding requirements.

b) Securitized assets and liabilities—The Company securitizes insured single-family residential mortgage loans by participating in the 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 the underlying mortgages to CMHC and assigns the related securities to the investors. As an issuer of the 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.

The following table presents the gross carrying amounts of mortgages and other assets assigned during the year, which are recorded on the consolidated statement of financial position as securitized mortgages.

	December 31, 2014 \$	December 31, 2013 \$
Mortgages receivable—securitized financing	48,159	—
Deferred securitized mortgage acquisition costs	2,159	—
	50,318	—
Current	4,731	—
Long-term	45,587	—
	50,318	—

Deferred securitized mortgage acquisition costs (2014—\$2,159; 2013—\$nil) directly attributed to the acquisition of securitized mortgage loans are amortized into income using the effective interest method.

MBS securitization liabilities are repaid on a monthly basis as the principal and interest payments are collected from securitized loans. Accrued interest on securitization liabilities is recorded in securitization liabilities on the consolidated statement of financial position and is based on the underlying MBS coupon. Premiums from the sale of securitized mortgages are amortized into income using the effective interest method.

	December 31, 2014 \$	December 31, 2013 \$
Securitization liabilities	50,546	—
	50,546	—
Current	4,576	—
Long-term	45,970	—
	50,546	—

The estimated principal amount of MBS securitization liabilities will be paid as follows:

	\$
2015	4,113
2016	4,124
2017	4,699
2018	24,564
2019	11,624
Thereafter	—
	49,124

The interest revenue, net of interest expenses and amortized costs from securitization recorded in the consolidated statement of operations was \$10 at December 31, 2014 (2013—\$nil).

7. Prepaid expenses

Prepaid expenses of \$51,854 (2013—\$40,212) principally represent prepaid mortgage portfolio insurance premiums on mortgage pools. The Company purchases portfolio mortgage insurance coverage on some of its low ratio mortgages. Portfolio mortgage insurance provides insurance coverage over a pool of mortgages and is not mortgage specific. The length of the insurance coverage is for the amortization period of the original underlying mortgages. If any part of a mortgage is prepaid in advance of the contractual amortization period, the Company is entitled to substitute that prepaid amount with another mortgage of equal value at no additional cost. The substitution period varies by insurer and is as short as 5 years and as long as the amortization period for which current pools is up to 25 years.

The prepaid portfolio insurance is amortized on a straight line basis over a period between 5 and 15 years depending upon which insurer binds coverage as this determines the term of eligibility for substitution pools. The expense recognized in 2014 was \$4,984 (2013—\$3,039). During the year, the Company purchased \$16,415 (2013—\$15,811) of portfolio insurance.

Other prepaid expenses of \$914 (2013—\$706) are comprised of prepaid operating expenses which will be expensed within the next twelve months.

	December 31, 2014 \$	December 31, 2013 \$
Prepaid portfolio insurance	50,888	39,457
Other prepaid expenses	917	706
Other assets	49	49
	51,854	40,212
Current	7,058	4,655
Long-term	44,796	35,557
	51,854	40,212

8. Property, plant and equipment

Property, plant and equipment consist of the following:

	December 31, 2014 \$	December 31, 2013 \$
Artwork	2,148	2,148
Furniture, fixtures and office equipment	1,134	450
Information systems	1,145	328
Leasehold improvements	279	153
	4,706	3,079

A reconciliation of the carrying amount of property, plant and equipment from the end of 2013 to the end of the current fiscal period is set out below:

	Artwork \$	Furniture, fixtures & office equipment \$	Information systems \$	Leasehold improvements \$	Vehicles \$	Total \$
Balance at December 31, 2012	2,148	516	312	225	15	3,216
Additions	—	144	716	—	—	860
Depreciation	—	(126)	(662)	(53)	—	(841)
Transferred to discontinued operations	—	(84)	(38)	(19)	(15)	(156)
Balance at December 31, 2013	2,148	450	328	153	—	3,079
Additions	—	1,033	1,230	166	—	2,429
Depreciation	—	(349)	(413)	(40)	—	(802)
Balance at December 31, 2014	2,148	1,134	1,145	279	—	4,706

9. Goodwill and intangible assets

(a) Intangible assets

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

	December 31, 2014 \$	December 31, 2013 \$
Mortgage renewal stream ⁽ⁱ⁾	6,869	6,869
Accumulated amortization	(1,768)	(1,275)
	5,101	5,594

(i) Amortization expense for the mortgage renewal stream related to the acquisition of Street Capital for the twelve months ended December 31, 2014 was \$493 (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:

	December 31, 2014 \$	December 31, 2013 \$
Street Capital	23,465	23,465
Knight's Bridge	—	1,454
	23,465	24,919

No impairment to goodwill from continuing operations was determined for fiscal 2014 (2013 – \$nil). As a result of the Company's decision to wind down its Private Equity business and the subsequent divestment of a significant portion of the holdings of the fund that it manages. Consequently, the Company wrote off the goodwill related to Knight's Bridge in the fourth quarter of 2014.

10. Portfolio investments

The Company's portfolio investments consist of:

	December 31, 2014 \$	December 31, 2013 \$
The H Company Holdings, LLC	100	100
Fleetwood Fine Furniture International LP	9,000	—
Knight's Bridge Capital Partners Fund I investments	30,910	53,120
	40,010	53,220
Current	30,910	—
Long term	9,100	53,220
	40,010	53,220

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. The Company's investment in Fleetwood represents all of the non-voting class A partnership units of Fleetwood, which were received as partial consideration for the sale of the Company's Case Goods business.

Knight's Bridge Capital Partners Fund I ("KBCP Fund I") is a private equity investment fund sponsored by Knight's Bridge, which is invested in small to mid-market companies throughout North America, and in a variety of industries, which required 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. Counsel had invested approximately \$8,300 in KBCP Fund I with over 90% of initial capital invested having been returned as at December 31, 2014.

Counsel has determined that it controls, and therefore consolidates, KBCP Fund I. 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 \$23,845 at the end of 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 KBCP Fund I are measured and reported at fair value. The fair value of the 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 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 that make the maximum use of available market inputs and rely as little as possible on entity-specific inputs. Changes in the methodologies, assumptions and judgments 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 year ended December 31, 2014 was \$19,335 (2013—\$6,901).

A reconciliation of the carrying amount of portfolio investments from the end of 2012 through to December 31, 2014 is set out below:

	\$
Balance at December 31, 2012	53,454
Acquisitions and investments	4,594
Fair value adjustments	6,583
Foreign exchange adjustments	3,213
Distributions	(14,124)
Reclassified as discontinued operations	(500)
Balance at December 31, 2013	53,220
Acquisitions and investments	9,000
Fair value adjustments	24,882
Foreign exchange adjustments	3,916
Distributions	(50,488)
Other	(520)
Balance at December 31, 2014	40,010

11. Accounts payable and accrued liabilities

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

	December 31, 2014	December 31, 2013
	\$	\$
Accounts payable ⁽ⁱ⁾⁽ⁱⁱ⁾	31,240	14,372
Payment due to mortgage servicers ⁽ⁱ⁾	11,976	12,714
Accrued compensation	1,975	1,372
Accrued interest	226	276
Tenant allowances/reserves	323	409
Professional fees	126	203
Other	95	112
	45,961	29,458
Classified as follows:		
Current	45,961	29,458
Long-term	—	—
	45,961	29,458

(i) Included in cash and cash equivalents is approximately \$11,976 (2013—\$12,714) of restricted cash-servicing which represents mortgage loan repayments collected on behalf of a third party servicer. Also included is approximately \$1,154 (2013—nil) of restricted cash-securitization which represents undistributed securitization liabilities and accrued interest from mortgage loan repayments collected in connection with Street Capital's securitization activities.

(ii) Included in accounts payable is \$17,076 of distributions payable to investors in KBCP Fund I related to the proceeds of the sale of an investment immediately prior to the end of 2014.

12. Loans payable

Details of loans payable are as follows:

	Maturity date	Interest rate	December 31, 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%	7,341	7,341	—	10,671	10,671	—
Street Capital—credit facility ⁽ⁱⁱ⁾		prime +2.0%	2,432	2,432	—	1,154	1,154	—
Corporate debt ⁽ⁱⁱⁱ⁾	Various	5%, 6%	9,134	2,200	6,934	8,903	2,200	6,703
Total debt			18,907	11,973	6,934	20,728	14,025	6,703

(i) The total financing costs netted in the mortgages and loans payable was nil at December 31, 2014 (\$178 at December 31, 2013).

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 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.

(ii) Counsel currently has term loan facilities of \$4,150 and US\$2,400 bearing 6% interest per annum maturing on January 15, 2016. 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.

(a) Principal repayments

Principal repayments of debt, all of which are presented in Canadian dollars, are due as follows:

	\$
2015	11,973
2016	6,934
2017	—
2018	—
Thereafter	—
	18,907

(b) Interest expense

Interest expense, by debt source, is as follows:

	2014 \$	2013 \$
Term debt on mortgage lending business	502	643
Convertible debenture	—	430
Amortization of deferred financing costs	199	492
Other	536	377
	1,237	1,942

13. Convertible debentures

Counsel partially financed the May 31, 2011 acquisition of Street Capital 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, all 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	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
	Issued and outstanding ('000s)		\$	\$
Common shares, without par value	99,358	99,063	\$ 206,680	\$ 206,131
Share purchase loans	—	—	(2,417)	(2,798)
Total share capital	99,358	99,063	\$ 204,263	\$ 203,333

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

On April 1, 2014, stock options to purchase 8,000 common shares were exercised.

On August 26, 2014, stock options to purchase 30,000 common shares were exercised.

In the fourth quarter of 2014, a DSU holder who ceased to be a director was issued 257,344 common shares.

At December 31, 2014 the Company had share purchase loans receivable of \$2,417 (December 31, 2013—\$2,798), which had been granted to certain key employees and former employees. The loans are collateralized by the shares purchased and personal guarantees. At December 31, 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, and all of them are non-interest bearing. In the third quarter of 2013, a loan that had previously been written down to approximately \$392 was repaid in full, resulting in a recovery of approximately \$870 that 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 ("DSUs") 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. Initially, when a DSU holder ceased to be a director, he/she was entitled to be paid for outstanding DSUs based on the closing price of the Company's common stock on the Toronto Stock Exchange on the trading day immediately following the day he/she ceased 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 initial terms of the DSU Plan. The Company and the existing DSU holders have since agreed to amend the DSU Plan to provide for payment in shares rather than cash. Consequently, the existing DSUs totaling approximately 813,000 units (2013—978,000 units) will result in the issuance of the like amount of shares as and when directors retire or otherwise cease to be members of the board of directors. Counsel previously 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 consolidated statement of operations. As a result of the amendment on November 7, 2013 the amount of the liability was transferred to equity and the DSU's ceased to have any further impact on the consolidated statement of operations or statement of financial position.

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 years ended December 31:

	Year ended December 31,	
	2014 \$	2013 \$
Basic and diluted net income (loss) per share:		
Numerator:		
Income from continuing operations	44,418	21,914
Income attributable to non-controlling interest	19,335	6,901
Income attributable to shareholders—continuing operations	25,083	15,013
Income (loss) from discontinued operations	(11,594)	(8,649)
Income (loss) attributable to non-controlling interest	560	(3,102)
Income (loss) attributable to shareholders—discontinued operations	(12,154)	(5,547)
Net income (loss) attributable to shareholders	12,929	9,466
Denominator:		
Weighted average common shares outstanding (000's)—basic and diluted	99,142	92,705
Basic and diluted net income per share from continuing operations	0.25	0.16
Basic and diluted net income (loss) per share from discontinued operations	(0.12)	(0.06)
Basic and diluted net income (loss) per share	0.13	0.10

In computing the diluted net income per share for the years ended December 31, 2014 and 2013, the Company included in the calculation potential common share equivalents, which are comprised of incremental shares from stock options. The inclusion of such common share equivalents was not sufficiently dilutive for the year ended December 31, 2014 to affect the earnings per share calculation and was not dilutive for the year ended December 31, 2013.

17. Compensation of key management personnel

The remuneration of directors and key management personnel in continuing operations during the year was as follows:

	Year ended December 31, 2014 \$	Year ended December 31, 2013 \$
Short-term benefits	4,998	4,056
Share-based compensation	321	604
	5,319	4,660

The total compensation benefits for 2014 for the Company within continuing operations were \$24,348 (2013 – \$20,358).

18. 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 loans payable 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 as required by changes in 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.

19. 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:

	December 31, 2014		December 31, 2013	
	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
Financial assets				
Cash and cash equivalents ⁽ⁱ⁾	36,152	36,152	17,580	17,580
Marketable securities ⁽ⁱ⁾	419	419	410	410
Mortgages, loans, accounts and deferred fees receivable ⁽ⁱⁱ⁾	55,960	56,023	41,407	41,407
Portfolio investments ⁽ⁱ⁾	9,100	9,100	53,220	53,220
Securitized mortgage loans ⁽ⁱⁱⁱ⁾	50,318	51,643	—	—
	151,949	153,337	112,617	112,617
Financial liabilities				
Accounts payable and accrued liabilities ⁽ⁱⁱⁱ⁾	45,961	45,961	29,458	29,458
Loans payable ⁽ⁱⁱⁱ⁾	18,907	18,907	20,728	20,728
Contingent consideration ⁽ⁱⁱⁱ⁾	4,908	4,908	8,570	8,570
Securitization liabilities ⁽ⁱⁱⁱ⁾	50,546	52,031	—	—
	120,322	121,807	58,756	58,756

(i) Fair value through profit or loss

(ii) Loans and receivables at amortized cost

(iii) Financial liabilities at amortized cost

For loans and accounts receivable (net of allowance for doubtful accounts), accounts payable and accrued liabilities, loans payable and contingent consideration, the carrying amounts approximate fair value because of the short maturity of these instruments. For mortgages, securitized mortgage loans, deferred fees receivable and securitization liabilities, which are also carried at amortized cost, the carrying values equal or approximate their fair values.

Cash and cash equivalents, 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—one or more significant inputs to the valuation methodology are unobservable.

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

		December 31, 2014			
		Level 1	Level 2	Level 3	Total
		\$	\$	\$	\$
Financial assets					
Cash and cash equivalents		36,152	—	—	36,152
Marketable securities		296	123	—	419
Portfolio investments		—	18,519	21,491	40,010
		36,448	18,642	21,491	76,581

		December 31, 2013			
		Level 1	Level 2	Level 3	Total
		\$	\$	\$	\$
Financial assets					
Cash and cash equivalents		17,580	—	—	17,580
Marketable securities		303	107	—	410
Portfolio investments		—	—	53,220	53,220
		17,883	107	53,220	71,210

The continuity table for portfolio investments is presented in Note 10. During 2014, an investment totaling \$18,519 was transferred from Level 3 to Level 2.

20. 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 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, which are recorded at a fair value of \$301 (2013—\$688), 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 (December 31, 2013—\$Nil). 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 (Note 6(a)).

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 December 31, 2014 and December 31, 2013, respectively: cash US\$15,362 and US\$1,366; accounts receivable US\$351 and US\$127; loans receivable US\$2,979 and US\$ nil; portfolio investments US\$26,323 and US\$48,625; accounts payable US\$14,789 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 \$278 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 December 31, 2014, a 100 basis point change in interest rates would result in a \$189 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.

The Company manages liquidity risk by forecasting cash flow from operations and anticipated investing and financing activities.

The financial liabilities, including interest payments and the year they come due, are as follows:

	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

Market value risk

The Company has investments in marketable securities. At December 31, 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.

21. Stock-based compensation plans

The Company has two separate stock option plans pursuant to which it may grant options to its directors, officers, employees and any other person or company engaged to provide ongoing management or consulting services for the Company: the Director, Officer and Employee Stock Option Plan (the "1992 Plan") and the 1997 Stock Option Plan (the "1997 Plan"). Under the 1992 Plan, no options were outstanding at December 31, 2014 (December 31, 2013—nil options) and 53,000 options remained available for grant at December 31, 2014 (2013—53,000 options). Under the 1997 Plan, 5,025,131 options were outstanding at December 31, 2014 (December 31, 2013—4,667,106 options) and 4,044,745 options were available for grant as of December 31, 2014 (December 31, 2013—5,186,204 options). Under both plans, the exercise price of each option equals the market price of the Company's common shares on the date of grant. Unless otherwise provided, the maximum term of the grant is six years from the date of the grant and options vest 20% on the date of grant and 20% on each of the first through fourth anniversaries of the grant date. All unvested options vest upon a change of control of the Company.

In 2011, the 1997 Plan was amended such that the maximum number of common shares subject to options under the 1997 Plan and all other share compensation arrangements is 10% of the total issued and outstanding common shares.

On November 20, 2007 options to purchase 929,845 common shares of the Company were granted to an individual to induce him to enter into full time employment as an officer of the Company. The options have an exercise price of \$0.73 per share, the market price at the date of grant, have a term of six years and were fully vested on the date of grant. These options are in addition to the options that may be granted pursuant to the 1992 and 1997 Plans. All of these options were exercised during 2013.

Stock-based compensation is estimated on the date of the grant using the Black-Scholes option pricing model, with expected volatilities based on the Company's historic pricing data. The following weighted average assumptions were used for Counsel's

option grants in 2014: risk-free interest rates of 1.80% (2013—2.27%); expected dividend yield of nil% (2013—nil %); expected life of five years (2013—5 years); and expected volatility of 66% (2013—86%).

A summary of the status of the Company's stock option plans and changes during the years ended December 31 is as follows:

	2014		2013	
	Number of options ('000)	Weighted average exercise price \$	Number of options ('000)	Weighted average exercise price \$
Outstanding—beginning of year	4,667	0.79	7,973	0.75
Granted	396	1.78	146	1.80
Exercised	(38)	0.65	(3,446)	0.75
Forfeited	—	—	(6)	0.65
Expired	—	—	—	—
Outstanding—end of year	5,025	0.87	4,667	0.79
Options—exercisable—end of year	3,654	0.79	2,689	0.74

The weighted average fair value of the options granted during the year was \$1.00 (2013—\$1.23).

The following table summarizes the stock options outstanding and exercisable as at December 31, 2014:

Range of exercise prices \$	Options outstanding			Options exercisable	
	Number outstanding ('000)	Weighted average remaining contractual life (yrs)	Weighted average exercise price \$	Number exercisable ('000)	Weighted average exercise price \$
0.25 to 0.50	195	1.10	0.47	195	0.47
0.51 to 1.00	4,288	2.79	0.77	3,288	0.75
1.01 to 2.00	542	5.40	1.79	171	1.80
	5,025	3.01	0.87	3,654	0.79

22. Income taxes

The Company recognized the following tax expense in its income from continuing operations:

	2014 \$	2013 \$
Current tax expense (recovery)—current year	—	(16)
Deferred tax expense—current year	7,178	5,786
Deferred tax attributable to changes in tax rates and laws	(133)	(42)
Total income tax expense recognized in the current year in income	7,045	5,728

The Company's income tax provision differs from the provision computed at statutory rates as follows for the years ended December 31:

	2014 \$	2013 \$
Income before income taxes, non-controlling interest and discontinued operations	51,463	27,642
Income tax expense based on a statutory income tax rate of 26.50% (2013: 26.50%)	13,638	7,325
Increase (decrease) in income taxes resulting from:		
Deferred tax assets no longer recognizeable	—	578
Benefit arising from use of previously unrecognized tax losses	(7,020)	(2,285)
Other non-deductible items	665	236
Higher (lower) future tax rate of domestic subsidiaries	(238)	(94)
Other	—	(32)
Income tax expense recognized in income from continuing operations	7,045	5,728

The combined Canadian federal and provincial statutory income tax rate used for 2014 is 26.50% (2013—26.50%).

The composition of the Company's recognized deferred income tax assets and liabilities as at December 31 is as follows:

	2014			
	Opening balance \$	Recognized in income (loss) \$	Other \$	Reclassified to discontinued operations \$
Property, plant & equipment	256	(163)	—	93
Intangible assets	(3,543)	—	—	(3,543)
Incorporation costs	300	(2)	—	298
Deferred financing and other costs	194	(18)	—	176
Accrued liabilities	80	108	328	516
Other financial liabilities	(62,766)	(15,152)	—	(77,918)
Deferred portfolio insurance	(10,369)	(2,912)	—	(13,281)
Other	459	(2)	310	1,433
	(75,389)	(18,141)	638	1,433
Tax losses—non capital	62,884	11,867	(711)	(1,065)
Tax losses—restricted non capital	2,788	(771)	187	2,204
Tax losses—capital	368	—	—	(368)
	(9,349)	(7,045)	114	—

	2013			
	Opening balance \$	Recognized in income (loss) \$	Other \$	Reclassified to discontinued operations \$
Property, plant & equipment	217	39		256
Intangible assets	(3,674)	131	—	(3,543)
Incorporation costs	301	(1)		300
Deferred financing and other costs	158	36		194
Stock based compensation	750	(284)	(466)	—
Accrued liabilities	342	(262)		80
Other financial liabilities	(41,769)	(20,997)		(62,766)
Deferred portfolio insurance	(7,035)	(3,334)		(10,369)
Other	(2)	7	454	459
	(50,712)	(24,665)	(12)	—
Tax losses—non capital	71,845	18,477	—	(27,438)
Tax losses—restricted non capital	2,329	459		2,788
Tax losses—capital	368	—		368
	23,830	(5,729)	(12)	(27,438)

The composition of the Company's aggregate unrecognized deductible temporary differences and unused tax losses as at December 31 is as follows:

	2014 \$	2013 \$
Investment property	2,615	2,618
Tax losses—non capital	5,801	6,170
Tax losses—capital	30,007	74,794
	38,423	83,582

23. 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 in discontinued operations is as follows:

	December 31, 2014 \$	December 31, 2013 \$
Assets:		
Current		
Cash and cash equivalents	45	3,472
Amounts receivable	809	3,327
Inventory	—	7,080
Properties under development	—	3,429
Prepaid expenses and deposits	—	1,107
Total current assets	854	18,415
Non-current		
Deferred charges	11	14
Promissory note	475	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
Total Assets	1,340	71,782
Liabilities:		
Current		
Accounts payable and accrued liabilities	1,017	9,560
Customer deposits	—	1,544
Mortgages and loans payable	—	9,446
Total current liabilities	1,017	20,550
Non-current		
Long term liabilities on closing	150	318
Total Liabilities	1,167	20,868

All of the assets and liabilities in discontinued operations at December 31, 2014 related to the Real Estate segment.

The composition of earnings (loss) from discontinued operations for the period ending December 31 is as follows:

	December 31, 2014			
	Asset Liquidation \$	Case Goods \$	Real Estate \$	Total \$
Revenues	1,591	3,026	154	4,771
Expenses and other (income) losses				
Operating costs	231	1,417	—	1,648
Selling, general and administrative expense	2,388	576	309	3,273
Foreign exchange (gain) loss	(1,147)	(521)	—	(1,668)
Interest expense	70	—	2	72
Other	114	30	252	396
Income (loss) before fair value adjustments and income taxes	(65)	1,524	(409)	1,050
Fair value adjustments	(12,762)	—	—	(12,762)
Income (loss) before income taxes	(12,827)	1,524	(409)	(11,712)
Income tax provision (recovery)	(115)	—	(3)	(118)
Income (loss) before non-controlling interest	(12,712)	1,524	(406)	(11,594)
Net income (loss) attributable to non-controlling interest	(273)	833	—	560
Net income (loss)	(12,439)	691	(406)	(12,154)

	December 31, 2013			
	Asset Liquidation \$	Case Goods \$	Real Estate \$	Total \$
Revenues	10,448	7,378	294	18,120
Expenses and other (income) losses				
Operating costs	3,008	6,180	128	9,316
Selling, general and administrative expense	10,365	2,649	973	13,987
Interest expense	402	638	166	1,206
Other	(20)	—	(706)	(726)
Income (loss) before income taxes	(3,307)	(2,089)	(267)	(5,663)
Income tax provision (recovery)	2,986	—	—	2,986
Income (loss) before non-controlling interest	(6,293)	(2,089)	(267)	(8,649)
Net income (loss) attributable to non-controlling interest	(1,837)	(1,303)	38	(3,102)
Net income (loss)	(4,456)	(786)	(305)	(5,547)

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 adjusted to its fair value at that date and paid to Counsel shareholders, which resulted in a gain, net of any foreign exchange effects of \$270.

24. 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 year ended December 31, 2013, total rent of US\$57 and US\$306 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 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 each 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.

Beginning in December 2004, HGI and Counsel entered into successive annual management services agreements (collectively, the "Agreement"). Under the terms of the Agreement, HGI agreed to pay Counsel for ongoing services provided to HGI by Counsel personnel. These services included preparation of HGI's financial statements and regulatory filings, taxation matters, stock-based compensation administration, Board administration, patent portfolio administration and litigation matters. The Counsel employees providing the services were: 1) its Executive Vice President, Secretary and Chief Financial Officer, 2) its Tax Manager, 3) an Accounting Manager, and 4) its Accounts Payable Clerk. These employees have the same or similar positions with HGI, but none of them received compensation from HGI.

On March 20, 2014, Counsel declared a dividend in kind, consisting of Counsel's distribution of all of its shares of HGI to Counsel shareholders. The payment was made on April 30, 2014 to shareholders of record at April 1, 2014. Following this disposition, HGI and Counsel entered into a replacement management services agreement (the "Services Agreement"). Under the terms of the Services Agreement, Counsel remains as external manager and continues to provide the same services, at similar rates. The Services Agreement has an initial term of one year, which renews automatically for successive one-year terms unless notice by either party is given within ninety days before the expiration. The Services Agreement may be terminated at any time upon mutual agreement of HGI and Counsel. Counsel charged HGI US\$435 in 2014 (2013—US\$432) under the Services Agreements. In addition, at December 31, 2014, the Company had a loan receivable of US\$2,985 (2013—US\$2,550) from HGI.

25. Subsequent events

The Company has evaluated events subsequent to December 31, 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.

DIRECTORS AND OFFICERS

Directors

RONALD APPLEBY, Q.C. ^{(A)(C)(G)}

Partner, Robins Appleby LLP,
Barristers & Solicitors

TIBOR DONATH ^{(A)(G)}

Partner, Bench & Donath,
Chartered Accountants

PHILIP REICHMANN ^(C)

Founding Partner,
RH Capital Partners Inc.

BARRY ROTENBERG ^{(C)(G)}

Senior Partner, Harris, Sheaffer LLP,
Barristers & Solicitors

PAUL VESSEY ^(A)

Corporate Director

ALLAN C. SILBER

Chairman & Chief Executive Officer,
Counsel Corporation

Officers

ALLAN C. SILBER

Chairman & Chief Executive Officer

MORRIS PERLIS

Executive Vice Chairman

STEPHEN A. WEINTRAUB

Executive Vice President, Secretary &
Chief Financial Officer

Committees:

(A) Audit Committee

(C) Compensation Committee

(G) Governance Committee

Counsel Corporation is committed to employing best corporate governance practices. Our comprehensive Code of Conduct as well as Charters for all of the Board of Directors Committees are available on our website at www.counselcorp.com or by request to the Secretary of the Company.

CORPORATE INFORMATION

Counsel Corporation

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Toronto, Ontario M5C 2V6

Tel: 416 866 3000

Fax: 416 866 3061

Website:

www.counselcorp.com

Subsidiary website:

www.streetcapital.ca

SHAREHOLDER INFORMATION

Transfer Agent & Registrar

Computershare Investor Services Inc.

Tel: 1 800 564 6253

Capital Stock & Exchange Listing

At December 31, 2014 there were 99,358,448 common shares issued and outstanding.

Counsel Corporation's common shares are listed on The Toronto Stock Exchange under the symbol CXS.

Shareholder & Investor Contact

STEPHEN WEINTRAUB

Executive Vice President,
Secretary & CFO

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