No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

PROSPECTUS

Initial Public Offering by way of a Distribution as a Dividend-in Kind March 20, 2014

HERITAGE GLOBAL INC.

20,644,481 Common Shares

This prospectus ("**Prospectus**") is being filed with the securities regulatory authorities in each of the provinces of Canada (the "**Qualifying Jurisdictions**") to enable Heritage Global Inc. (the "**Company**") to become a "reporting issuer" pursuant to the securities legislation of the Qualifying Jurisdictions and to qualify the distribution of 20,644,481 common shares of the Company (the "**Dividend Shares**") held by Counsel Corporation ("**Counsel**") to the shareholders of Counsel as a dividend-in-kind (the "**Dividend**"). No proceeds will be raised and all expenses in connection with the preparation and filing of this Prospectus will be paid in equal portions by the Company and Counsel.

Counsel intends to declare a dividend to holders of its common shares (the "**Counsel Common Shares**") of the Dividend Shares on the basis of approximately 0.2084 Dividend Shares for every Counsel Common Share held on the Record Date (as hereinafter defined), provided that the Dividend will be subject to applicable securities laws and any applicable withholding taxes and no holder will be entitled to receive any fractional interests in Dividend Shares. Holders that would otherwise be entitled to a fractional Dividend Share will not receive a cash payment. The record date (the "**Record Date**") for the dividend is expected to be on or about April 1, 2014.

As at the date of this Prospectus, the Company does not have any of its securities listed or quoted, has not applied to list or quote any of its securities, and does not intend to apply to list or quote any of its securities, on the Toronto Stock Exchange, a U.S. marketplace or a marketplace outside Canada and the United States of America other than the Alternative Investment Market of the London Stock Exchange or the PLUS markets operated by PLUS Markets Group plc. The common shares of the Company (the "**Heritage Common Shares**") are quoted in the OTC market in the United States and have a limited public trading market. Without an active trading market, there can be no assurance regarding the liquidity or resale value of the Dividend Shares. See "Risk Factors".

The last quoted price of the Heritage Common Shares on the OTC market on March 19, 2014 was $0.70.

The Company is an SEC issuer (as defined under applicable Canadian securities laws).

Following the Record Date and prior to the payment date of the Dividend, shareholders of Counsel who will receive Dividend Shares will be sent a letter (the "**Letter**") notifying them of the Dividend and advising them where and how electronic and hard copies of this Prospectus may be obtained. The Letter will be received, assuming normal mailing times, not less than seven days prior to the Dividend. A hard copy of this Prospectus may be obtained by the holders of Counsel Common Shares who receive Dividend Shares upon request from the Chief Financial Officer of the Company by returning the request card that will be enclosed with the Letter.

No person is authorized by the Company to provide any information or make any representations other than those contained in this Prospectus.

No underwriter has been involved in the preparation of this Prospectus or performed any review of the contents of this Prospectus.

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

This Prospectus contains certain "forward-looking statements" that 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 including those listed elsewhere in this Prospectus and in the Company's Annual Report on Form 10-K, filed with the SEC. See "Risk Factors". 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.

MEANING OF CERTAIN REFERENCES

Unless otherwise stated or the context otherwise requires, references in this Prospectus to "we", "us", "our", "Heritage" and the "Company" refer to Heritage Global Inc., a corporation incorporated under the laws of Florida.

Throughout this Prospectus, unless otherwise indicated, all references to generally accepted accounting principles ("**GAAP**") are to accounting principles generally accepted in the United States. The financial statements of the Company contained in this Prospectus have been prepared in accordance with GAAP. As an SEC issuer (as defined under applicable Canadian securities laws), the Company is permitted to file financial statements prepared in accordance with GAAP.

Unless expressly provided to the contrary, all monetary amounts in this Prospectus are stated in thousands of U.S. dollars, other than per share amounts.

EXCHANGE RATES

The following table reflects (i) the low, high, average and period-end noon spot rates of exchange for one U.S. dollar ("**$**"), expressed in Canadian dollars ("**Cdn$**"), during the periods noted, published by the Bank of Canada.

	3 Months Ended September 30		Year ended December 31		
	2013	**2012**	**2012**	**2011**	**2010**
	(C$)	**(C$)**	**(C$)**	**(C$)**	**(C$)**
Highest rate during the period	1.0576	1.0214	1.0418	1.0604	1.0778
Lowest rate during the period	1.0237	0.9710	0.9710	0.9449	0.9946
Average rate for the period	1.0386	0.9953	0.9996	0.9891	1.0299
Rate at the end of period	1.0285	0.9837	0.9949	1.0170	0.9946

On March 19, 2014, the Bank of Canada noon spot rate of exchange was $1.00 = Cdn$1.1179.

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PROSPECTUS SUMMARY

The following is a summary of the principal features of this Prospectus and should be read together with the more detailed information and financial data and statements contained elsewhere in this Prospectus.

The Company:	Heritage Global Inc. ("**Heritage**", "**we**" or the "**Company**") was incorporated in the State of Florida in 1983 under the name "MedCross, Inc." The Company's name was changed to "I-Link Incorporated" in 1997, to "Acceris Communications Inc." in 2003, to "C2 Global Technologies Inc." in 2005, to "Counsel RB Capital Inc." in 2011 and to Heritage Global Inc. effective August 22, 2013. See "The Company".
The Business of the Company:	The Company, through its subsidiaries, is engaged in the businesses of asset liquidation and patent licensing. See "The Company".
Purpose:	This Prospectus has been filed by the Company in order to become a reporting issuer in all of the provinces of Canada (the "**Qualifying Jurisdictions**") to permit Counsel Corporation to distribute up to 20,644,481 common shares of the Company (the "**Dividend Shares**") to the holders of the Counsel Common Shares as a dividend-in-kind (the "**Dividend**"). See "Nature of Distribution".
Distributing Company	Counsel Corporation
Distribution Ratio	Approximately 0.2084 Dividend Shares for each Counsel Common Share held as of the Record Date (as hereinafter defined). No fractional Dividend Shares will be distributed in connection with the Dividend and holders of Counsel Common Shares will not receive any cash payment in lieu of fractional shares to which they would otherwise be entitled.
Record Date	April 1, 2014
Certain Income Tax Considerations	The Dividend is expected to be treated as a taxable dividend for Canadian income tax purposes. In addition, the Heritage Common Shares will not be a "qualified investment" for a registered retirement savings plan ("**RRSP**"), registered retirement income fund ("**RRIF**"), tax-free savings account ("**TFSA**"), deferred profit sharing plan ("**DPSP**"), a registered education savings plan ("**RESP**") or registered disability savings plan ("**RDSP**") (each, a "**Registered Plan**") for the purposes of the Income Tax Act (Canada) (the "**Tax Act**"). Holders of Counsel Common Shares should consult with their tax advisor immediately regarding the consequences to them of the Dividend.
Eligibility for Investment	**The Heritage Common Shares will not be a "qualified investment" for a Registered Plan for the purposes of the Tax Act. Accordingly, as the result of the receipt of Heritage Common Shares by a Registered Plan, holders or annuitants of the Registered Plan, and/or the trust governed by the Registered Plan, may be subject to certain penalty taxes, the trust governed by the Registered Plan may become taxable under Part I of the Tax Act on its income earned in respect of the Heritage Common Shares, and the Registered Plan may have its status revoked, depending on the particular circumstances. The following provides a general overview of the consequences under the Tax Act of receipt of Heritage Common Shares by a Registered Plan. This overview is not intended to be comprehensive. Holders of Counsel Common Shares who hold such shares in a Registered Plan should consult their own tax advisors immediately.** In general, if Counsel Common Shares are held in a Registered Plan that is an RRSP, RRIF, TFSA or RDSP, the holder or annuitant of the Registered Plan, as the case may be, will be subject to a penalty tax equal to 50% of the fair market value the Heritage Common Shares at the time of the Dividend. In addition, any income earned on the Heritage Common Shares (including the full amount of

	any capital gain from the disposition of such shares and certain dividends that would not otherwise be included in income) while they are held by a trust governed by an RRSP, RRIF, TFSA or RDSP will be subject to tax under Part I of the Tax Act (unless such shares are a "prohibited investment" for the TFSA, RRSP or RRIF, in which case a separate penalty tax applies instead, as discussed below). In certain circumstances, the holder or annuitant of the Registered Plan, as the case may be, may be able to receive a refund of the penalty tax described above or such penalty tax may be waived at the discretion of the Canada Revenue Agency ("**CRA**"); however, it is unclear whether any refund or waiver will be available in these circumstances. In some circumstances a refund may only be available on application to the CRA, and there are time limits to the availability of any such refund. The Company has not consulted with CRA and makes no representation regarding the availability of a refund or waiver for any such penalty tax. If the Heritage Common Shares are a "prohibited investment" for a particular TFSA, RRSP or RRIF for purposes of the Tax Act, the holder of the TFSA or annuitant of the RRSP or RRIF, as the case may be, generally will be subject to a 100% tax in respect of any income earned on the Heritage Common Shares (including capital gains from the disposition of such shares) held in the TFSA, RRSP or RRIF. The Heritage Common Shares generally will not be a "prohibited investment" for these purposes unless the holder of the TFSA or the annuitant under the RRSP or RRIF, as applicable, (i) does not deal at arm's length with the Company for purposes of the Tax Act or (ii) has a "significant interest" as defined in the Tax Act in the Company. In addition, the Heritage Common Shares generally will not be a "prohibited investment" if the Heritage Common Shares are "excluded property" as defined in the Tax Act for trusts governed by a TFSA, RRSP or RRIF. If Counsel Common Shares are held in a DPSP, the trust governed by the DPSP will be subject to a tax equal to 100% of the fair market value of the Heritage Common Shares at the time of the Dividend. A refund of the tax may be claimed if the trust disposes of the Heritage Common Shares received pursuant to the Dividend. The refund will be equal to the lesser of the tax imposed and the proceeds of disposition in respect of the Heritage Common Shares. If Counsel Common Shares are held in an RESP, the trust governed by the RESP will be liable for a tax equal to 1% of the fair market value of the Heritage Common Shares at the time of the Dividend for each month in which the trust holds the Heritage Common Shares at the end of the month. In addition, as the result of acquisition of the Heritage Common Shares, the RESP's status may be revoked by the Minister of National Revenue, with the result that the trust will be taxable on its income under Part I of the Tax Act. **Holders of Counsel Common Shares that hold such shares in a Registered Plan are urged to consult with their tax advisor immediately regarding the consequences to them of the Dividend of Heritage Common Shares, whether they should remove their Counsel Common Shares or the Heritage Common Shares distributed to them from their Registered Plan and whether a refund or waiver of any applicable penalty tax described above may be available and the timeline for the availability of such refund.**
Financial Information	Included in this Prospectus are the audited financial statements of the Company for the financial years ended December 31, 2010, 2011 and 2012 and the unaudited quarterly financial statements of the Company for the period ended September 30, 2013.
Risk Factors:	In addition to the information presented elsewhere in this Prospectus, investors should carefully consider the risks described under "Risk Factors", which are summarized below: i. the Company faces significant competition in its asset liquidation

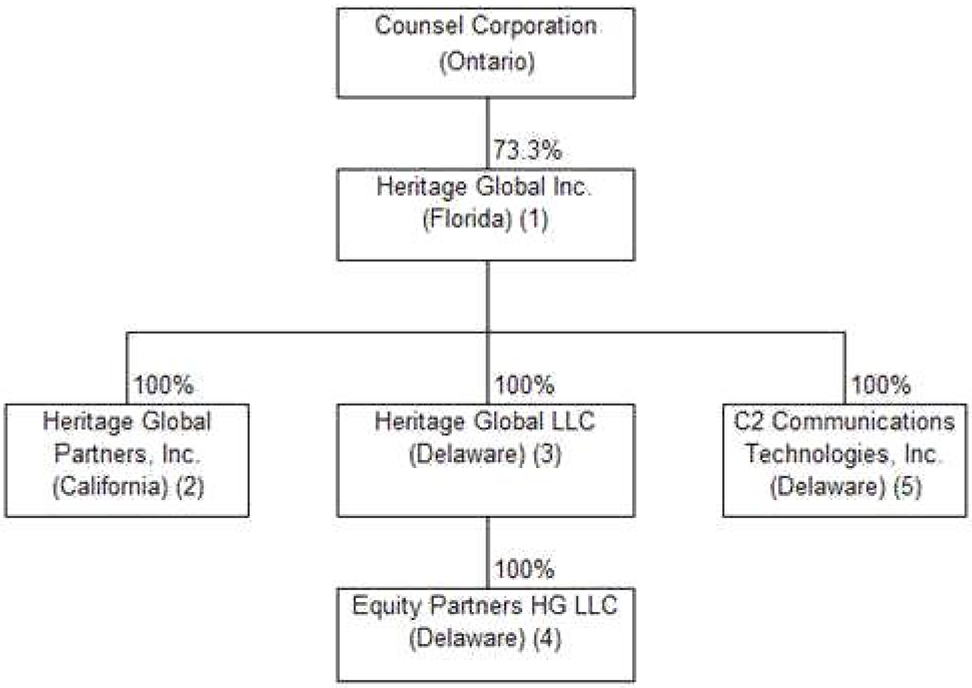
	business; ii. the asset liquidation business is subject to inventory risk and credit risk; iii. a significant portion of the Company's asset liquidation business is conducted through joint ventures; iv. the Company's operating results are subject to significant fluctuation; v. the Company is subject to the risks associated with managing growth; vi. the Company may become subject to foreign currency exchange rate risk; vii. the auction portion of the Company's liquidation business may be subject to a variety of additional costly government regulations; viii. certain categories of merchandise that the Company sells are subject to government restrictions; ix. the Company is subject to the U.S. Foreign Corrupt Practices Act; x. the Company's liquidation business is subject to environmental risk; xi. the Company is dependent upon key personnel; xii. the Company may require additional financing in the future, which may not be available, or may not be available on favourable terms; xiii. the Company has a significant investment in non-publicly traded equity; xiv. the Company is subject to litigation; xv. the Company may fail to either adequately protect its proprietary technology and processes, or enforce its intellectual property rights; xvi. provisions in the Company's articles of incorporation, as amended, could prevent or delay stockholders' attempts to replace or remove current management; xvii. the Company's Board of Directors may issue additional shares of preferred stock without stockholder approval; xviii. the Company may conduct future offerings of its common shares (the "**Heritage Common Shares**") and preferred stock and pay debt obligations with its common and preferred stock that may diminish its investors' pro rata ownership and depress its stock price; xix. there is a limited public trading market for the Heritage Common Shares; the market price of the Heritage Common Shares has been volatile and could experience substantial fluctuations; xx. the Company may not be able to utilize income tax loss carryforwards; xxi. the Company has not declared any dividends on the Heritage Common Shares to date and has no expectation of doing so in the foreseeable

	future.
Qualification:	This Prospectus is being filed in the Qualifying Jurisdictions.

THE COMPANY

Heritage Global Inc. ("**Heritage**", "**we**" or the "**Company**") was incorporated in the State of Florida pursuant to the Florida Business Corporation Act in 1983 under the name "MedCross, Inc." The Company's name was changed to "I-Link Incorporated" in 1997, to "Acceris Communications Inc." in 2003, to "C2 Global Technologies Inc." in 2005, to "Counsel RB Capital Inc." in 2011, and to Heritage Global Inc. effective August 22, 2013. The address of the Company's head office is 700 – 1 Toronto St., Toronto, Ontario, Canada M5C 2V6. The address of the Company's registered office is c/o NRAI Services, Inc., 1200 South Pine Island Road, Plantation, FL 33324.

The organization chart below outlines the basic corporate structure of the Company:



(1) Registrant
(2) Full service, global auction, appraisal and asset advisory company.
(3) Asset liquidation company which acquires and monetizes distressed and surplus assets.
(4) Investment banking firm specializing in financially distressed companies and properties.
(5) Owns and licenses telecommunications patents.

Asset liquidation

The Company's asset liquidation business is its principal operating segment, and the Company's objective is to be the leading resource for clients requiring capital asset solutions. The asset liquidation business began operations in 2009 with the establishment of Heritage Global LLC ("**HG LLC**", formerly known as Counsel RB Capital LLC). In addition to acquiring turnkey manufacturing facilities and used industrial machinery and equipment, HG LLC arranges traditional asset disposition sales, including liquidation and auction sales.

The Company expanded its asset liquidation operations in the second quarter of 2011, when HG LLC acquired 100% of the business of EP USA, LLC (d/b/a Equity Partners) ("**Equity Partners**"). Equity Partners is a boutique investment banking firm and provider of financial solutions for distressed businesses and properties. It was founded in 1988, and works with financially distressed companies and properties to arrange customized financial solutions in the form of debt/refinancing or equity investments, to create joint venture relationships, or to organize going concern sales of a business or property. Its services are intended to allow distressed businesses to remain intact in order to maintain their going concern values, which typically are significantly higher than their liquidation values. The combined operations of HG LLC and Equity Partners thus serve a variety of clients at different stages of the distressed business and surplus asset continuum.

In February 2012 the Company increased its in-house asset liquidation expertise via its acquisition of 100% of the outstanding equity of Heritage Global Partners, Inc. ("**HGP**" or "**Heritage Global Partners**"), a full-service, global auction, appraisal and asset advisory firm. The acquisition and integration of HGP created additional global opportunities.

In the fourth quarter of 2012, the Company launched Heritage Global Partners Europe. Through its wholly-owned subsidiary Heritage Global Partners UK Limited ("**HGP UK**"), the Company opened three European-based offices, one each in the United Kingdom, Germany and Spain. The European operations began earning revenue in the third quarter of 2013.

As discussed in Note 11 of the unaudited condensed consolidated interim financial statements for the period ended September 30, 2013, effective June 30, 2013 the Company's Co-CEOs terminated their employment with the Company and HG LLC, and departed the Company along with the personnel in the New York and Los Angeles offices of HG LLC. Following their departure, the managing partners of HGP are leading HG LLC. The senior managing director of Equity Partners continues to lead Equity Partners.

Heritage remains focused on building a sustainable, long-term global capital asset solutions business. Following the change in HG LLC 's management, the Company is concentrating its asset liquidation operations on its auction and appraisal business, as well as its customized financial solutions business. However, the Company expects that its future operations will continue to include asset acquisition and monetization transactions.

Intellectual property licensing

In 1994, the Company began operating as an Internet service provider, and in 1998 deployed its real-time IP communications network platform, which represented the first nationwide, commercially viable VoIP platform of its kind. The Company continued operations in the telecommunications business until the third quarter of 2005.

In 2002, the U.S. Patent and Trademark Office issued U.S. patent No. 6,438,124 (the "**C2 Patent**") for the Company's Voice Internet Transmission System, which encompasses the technology that allows two parties to converse phone-to-phone, regardless of the distance, by transmitting voice/sound via the Internet. In May 2003 the Company disposed of its domestic U.S. VoIP network, but retained all of its intellectual property rights and patents.

Also in 2003, the Company added to its VoIP patent holdings when it acquired U.S. Patent No. 6,243,373, "Method and Apparatus for Implementing a Computer Network/Internet Telephone System" (the "**VoIP Patent**"), which included a corresponding foreign patent and related international patent applications. The VoIP Patent, together with the C2 Patent and related international patents and patent applications, form the Company's international VoIP Patent Portfolio (the "**Portfolio**") that covers the basic process and technology that enable VoIP communication as used in the market today. As part of the consideration for the acquisition of the VoIP Patent, the vendor is entitled to receive 35% of the net earnings from the Portfolio. To date the Company has recognized aggregate revenue of $17,825 from settlement and licensing agreements, and paid $2,630 to the vendor.

All activities relating to the Company's licensing of the Portfolio, or its other intellectual property, constitute the Company's Intellectual Property Licensing operating segment. The Company's target market consists of carriers, equipment manufacturers, service providers and end users in the IP telephone market who are using the Company's patented VoIP technologies by deploying VoIP networks for phone-to-phone communications. The Company's objective is to obtain ongoing licensing and royalty revenue from the target market for its patents.

Below is a summary of the Company's patents:

Type	**Title**	**Number**	**Status**
VoIP Architecture	Computer Network/Internet Telephone System ("**VoIP Patent**")	U.S. No. 6,243,373	Issued: June 5, 2001 Expires: November 1, 2015

Type	Title	Number	Status
		Australia No. 716096	Issued: June 1, 2000 Expires: October 29, 2016
		People’s Republic of China No. ZL96199457.6	Issued: December 14, 2005 Expires: October 29, 2016
		Canada No. 2,238,867	Issued: October 18, 2005 Expires: October 29, 2016
		Hong Kong No. HK1018372	Issued: August 11, 2006 Expires: October 29, 2016
		Europe No. 0873637	Granted March 21, 2007 [1]
	Voice Internet Transmission System (“**C2 Patent**”)	U.S. No. 6,438,124	Issued: August 20, 2002 Expires: July 22, 2018
		U.S. No. 8,331,353	Issued: December 11, 2012 Expires: July 22, 2018
		People’s Republic of China No. ZL97192954.8	Issued: May 21, 2004 Expires: February 5, 2017
		Canada No. 2,245,815	Issued: October 10, 2006 Expires: February 5, 2017
		South Korea No. 847335	Issued: July 14, 2008 Expires: February 5, 2017
		South Korea No. 892950	Issued: April 3, 2009 Expires: February 5, 2017
		South Korea No. 923483	Issued: October 19, 2009 Expires: February 5, 2017
	Private IP Communication Network Architecture	U.S. No. 7,215,663	Issued: May 8, 2007 Expires: July 29, 2019
		U.S. No. 8,295,271	Issued: October 23, 2012 Expires: July 29, 2019
Conferencing	Delay Synchronization in Compressed Audio Systems	U.S. No. 5,754,534	Issued: May 19, 1998 Expires: May 6, 2016
	Volume Control Arrangement for Compressed Information Signal Delays	U.S. No. 5,898,675	Issued: April 27, 1999 Expires: April 29, 2016

Note:

1. The European patent has been validated in Austria, Belgium, Denmark, Finland, France, Germany, Great Britain, Greece, Ireland, Italy, the Netherlands, Portugal, Spain, Sweden and Switzerland.

In July 2013, the Company recorded intellectual property licensing revenue of $624 upon the sale of a licensing agreement to the Company’s former Co-CEOs. This transaction is discussed in more detail in Note 11 of the unaudited condensed consolidated interim financial statements for the period ended September 30, 2013 included in this Prospectus.

The Company’s segments are discussed in more detail in Note 12 of the unaudited condensed consolidated interim financial statements for the period ended September 30, 2013 included in this Prospectus.

Industry and Competition

Asset Liquidation

Our asset liquidation business is involved primarily in auction, appraisal and asset advisory services. It also includes the purchase and sale, including at auction, of industrial machinery and equipment, real estate, inventories, accounts receivable and distressed debt. The market for these assets is highly fragmented. To acquire assets for resale, the Company competes with other liquidators, auction companies, dealers and brokers. It competes for potential purchasers with other liquidators and auction companies, as well as with equipment manufacturers, distributors, dealers and equipment rental companies. Some of our competitors have significantly greater financial and marketing resources and name recognition.

The Company’s business strategy includes the option of partnering with one or more additional purchasers, pursuant to a partnership, joint venture or limited liability company agreement (collectively, “**Joint Ventures**”). These Joint Ventures allow us to have access to more opportunities, and to mitigate some of the competition from the market’s larger participants. Our objective is to be the leading resource for clients requiring capital asset solutions.

Patent Licensing

Historically, the communications services industry transmitted voice and data over separate networks using different technologies, such as circuit switching. VoIP technology can replace the traditional telephone network, and is more efficient than a dedicated circuit network, because it is not restricted by the one-call, one-line limitation of a traditional telephone network. In addition, VoIP technology enables the provision of enhanced services such as unified messaging. It has become widespread and accepted, with a variety of applications in the telecommunications and other industries.

The Company’s objective is to have telecommunications service providers (“**TSPs**”), equipment suppliers (“ESs”) and end users license its patents. In this regard, its competition is existing technology, outside the scope of its patents, which allows TSPs and ESs to deliver communication services to their customers. While we believe that there will be continued proliferation of VoIP technology in the coming years and that this proliferation will occur within the context of our patents, there is no certainty that this will occur, and/or that it will occur in a manner that requires organizations to license our patents.

Government Regulation

We are subject to federal, state and local consumer protection laws, including laws protecting the privacy of customer non-public information and regulations prohibiting unfair and deceptive trade practices. Many jurisdictions also regulate “auctions” and “auctioneers” and may regulate online auction services. These consumer protection laws and regulations could result in substantial compliance costs and could interfere with the conduct of our business.

Legislation in the United States, including the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Act of 2010, has increased public companies’ regulatory and compliance costs as well as the scope and cost of work provided by independent registered public accountants and legal advisors. The mandatory adoption of XBRL reporting in 2011 has also increased the Company’s costs paid to third party service providers. As regulatory and compliance guidelines continue to evolve, we expect to continue to incur costs, which may or may not be material, in order to comply with legislative requirements or rules, pronouncements and guidelines by regulatory bodies.

Employees

As of September 30, 2013, the Company and its subsidiaries had thirty four employees. Under the terms of the Management Agreement (as defined herein) with Counsel, Counsel employees provide management and administrative services to the Company and the associated costs are allocated to the Company. See “Relationship With Counsel Corporation”. The President has a separate employment arrangement. See “Executive Compensation”.

NATURE OF DISTRIBUTION

This Prospectus is being filed with the securities regulatory authority in each of the Qualifying Jurisdictions (the "**Commissions**") to enable the Company to become a reporting issuer pursuant to applicable securities legislation, notwithstanding that no sale of its securities is contemplated herein. Since no securities are being offered for sale pursuant to this Prospectus, no proceeds will be raised and all expenses in connection with the preparation and filing of this Prospectus will be paid in equal portions by the Company and Counsel.

RELATIONSHIP WITH COUNSEL CORPORATION

Counsel is the majority shareholder of the Company, holding 20,644,481 Heritage Common Shares representing 73.3% of the total issued and outstanding Heritage Common Shares. Counsel intends to distribute all of such shares via the Dividend. In addition, since December 2004, the Company and Counsel have entered into successive annual management services agreements (the "**Management Agreement**"). Under the terms of the Management Agreement, the Company agrees to pay Counsel for ongoing services provided to the Company by Counsel personnel. These services include preparation of the Company'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 are: 1) its Executive Vice President, Secretary and Chief Financial Officer, 2) its Senior Tax Manager, 3) an Accounting Manager, and 4) its Accounts Payable Clerk. These employees have the same or similar positions with the Company, but none of them receive compensation from the Company. Rather, Counsel allocates to the Company a percentage, based on time incurred, of the employees' base compensation paid by Counsel. While none of the executive compensation paid to Mr. Weintraub by Counsel for the last completed financial year was attributable to the services he provided to the Company, all services normally required of a Chief Financial Officer were provided to Heritage under the Management Agreement. The amounts due under the Management Agreement are payable within 30 days following the respective year end, subject to applicable restrictions. Any unpaid fee amounts bear interest at 10% per annum commencing on the day after such year end. In the event of a change of control, merger or similar event of the Company, all amounts owing, including fees incurred up to the date of the event, will become due and payable immediately upon the occurrence of such event. Counsel has continued to provide these services in 2013 on the same cost basis and will continue to provide such services following the Dividend.

Upon the declaration of the Dividend, the Management Agreement will be amended and restated (the "**Amended Management Agreement**") such that Counsel will remain as external manager subsequent to the Dividend and no change of control payment will be payable in connection with the Dividend. The Amended Management 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 Amended Management Agreement may be terminated at any time upon mutual agreement of the Company and Counsel. The Company is currently considering the internalization of its management in the future, but expects that it will continue to avail itself of the services provided under the Amended Management Agreement until such time.

DISTRIBUTION BY COUNSEL CORPORATION OF THE DIVIDEND SHARES BY WAY OF A DIVIDEND-IN-KIND

Counsel intends to distribute the Dividend Shares to the holders of the Counsel Common Shares as of the Record Date as a dividend. Holders of Counsel Common Shares will receive approximately 0.2084 Dividend Shares for each Counsel Common Share held. No fractional Dividend Shares will be distributed in connection with the Dividend and holders of Counsel Common Shares will not receive any payment in lieu of fractional shares to which they would otherwise be entitled.

Unless a recipient of Dividend Shares is an affiliate of the Company, as defined under applicable United States securities laws, such person's Dividend Shares may be resold without restriction.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis is supplemental to, and should be read in conjunction with, the financial statements and notes for the periods ended December 31, 2012, December 31, 2011 and September 30, 2013 appearing elsewhere in this Prospectus. The Company is an SEC issuer (as defined under applicable Canadian securities laws) and its financial statements are prepared in accordance with GAAP. The disclosure in this *management's discussion and analysis is adapted from the Company's documents filed with the SEC in accordance with Item 303 of Regulation S-K under the Securities Exchange Act of 1934, as amended (the "**Exchange Act**").*

Period Ended September 30, 2013

Liquidity and Capital Resources

Liquidity

At September 30, 2013 the Company had a working capital deficit of $3,624, as compared to a working capital deficit of $2,348 at December 31, 2012, an increase of $1,276. A significant change in the Company's working capital during the first nine months of 2013 was the receipt of $2,929 that was receivable from a related party, Counsel, at December 31, 2012, together with additional net advances totalling $3,649 from the same party. The other significant change within current assets was a decrease of $1,362 in deposits, partially offset by an increase of $892 in accounts receivable. The most significant change within current liabilities was a decrease of $9,342 in debt payable to third parties. This was partially offset by an increase of $3,938 in accounts payable and accrued liabilities.

The Company's debt payable to third parties consists of borrowings under HG LLC's revolving credit facility (the "**Credit Facility**"), and is subject to significant fluctuation depending on the number and magnitude of asset liquidation transactions in process at any given date. The Credit Facility has a maximum of $15,000 in place to finance purchases of assets for resale, as discussed in Note 7 of the unaudited condensed consolidated interim financial statements for the period ended September 30, 2013 included in this Prospectus.

During the first nine months of 2013, the Company's primary sources of cash were the operations of its asset liquidation business, borrowings under the associated Credit Facility, and net advances of $6,578 from its parent company, Counsel. The advances from Counsel were used to partially repay the Credit Facility. The Company also received $784 of cash distributions from its equity accounted investments. Cash disbursements, other than those related to a net $9,354 repayment of third party debt, were primarily related to operating expenses.

It should be noted that GAAP requires the Company to classify both real estate inventory and asset liquidation investments as non-current, although they are expected to be converted to cash within a year. If these assets were classified as current, the Company would report working capital of $6,028 at September 30, 2013 and working capital of $7,348 at December 31, 2012.

The Company is continuing to pursue licensing and royalty agreements with respect to its patents. However, the Company expects that its asset liquidation business will continue to be the primary source of cash required for ongoing operations for the foreseeable future, and that its operations will generate sufficient cash to cover the Company's requirements.

The Company's portfolio investments are in companies that are not publicly traded, and therefore these investments are illiquid. The Company's investments were made with the objective of recognizing long-term capital gains, and neither the amount nor the timing of such gains can be predicted with any certainty.

Ownership Structure and Capital Resources

At September 30, 2013 the Company had stockholders' equity of $44,144, as compared to $46,012 at December 31, 2012.

At December 31, 2012, and until July 25, 2013, the Company was 71.3% owned, and therefore controlled, by Counsel. The Company's Co-CEOs each owned 7.0%, the former owners of HGP and a single investor each owned 3.5%, and the remaining public stockholders owned 7.7%. Upon the departure of the Co-CEOs in the third quarter of 2013, and the associated return and cancellation of 800,000 shares on July 26, 2013, as discussed in Note 11 of the unaudited condensed consolidated interim financial statements for the period ended September 30, 2013 included in this Prospectus, Counsel's ownership increased to 73.3%. That of the former Co-CEOs decreased to 5.8% each, that of the former owners of HGP and the single investor increased to 3.6% each, and that of the remaining public stockholders increased to 7.9%.

Cash Position and Cash Flows

Cash and cash equivalents at September 30, 2013 were $4,543 as compared to $4,314 at December 31, 2012, an increase of $229.

Cash provided by operating activities: Cash provided by operating activities was $2,368 during the nine months ended September 30, 2013 and $3,453 during the same period in 2012. During the first nine months of 2013 the Company had a loss of $1,650, as compared to a loss of $1,031 for the same period in 2012. Gross profit from asset liquidation operations declined by approximately $1,700, earnings from asset liquidation investments declined by approximately $200, intellectual property licensing revenue increased by $824, patent licensing expenses increased by approximately $200, and operating expenses decreased by approximately $600. This net increase of approximately $700 in the Company's operating loss was accompanied by an increase of $224 in interest expense in 2013 as compared to 2012, due to both greater interest expense on the Company's Credit Facility and $91 of interest expense on an existing loan facility provided by Counsel (the "**Counsel Loan**") in 2013. These items were partially offset by the Company recording a tax recovery of $466 in the first nine months of 2013, compared to a tax recovery of $612 during the same period of 2012. It should be noted that the 2013 results include the operations of HGP for a full nine months, whereas the 2012 results only include the operations for the period beginning February 29, 2012.

The most significant changes in operating activities during the first nine months of 2013 as compared to the first nine months of 2012 were in deposits, asset liquidation investments and accounts payable and accrued liabilities. Deposits decreased by $1,362 in 2013 as compared to increasing by $3,935 in 2012. Asset liquidation investments decreased by $44 in 2013 as compared to decreasing by $1,682 in 2012. Accounts payable and accrued liabilities increased by $3,925 in 2013 as compared to increasing by $5,864 in 2012. The changes in deposits and asset liquidation investments are due to the variability of the operations of HG LLC. The change in accounts payable and accrued liabilities is primarily due to the variability of all business units, combined with the initial effect of the acquisition of HGP in the first quarter of 2012.

Cash provided by or used in investing activities: Cash provided by investing activities during the nine months ended September 30, 2013 was $718, as compared to $2,241 of cash used during the same period in 2012. In 2012, the most significant transaction was the net cash outflow of $2,344 in connection with the Company's acquisition of HGP; there were no acquisitions in the first nine months of 2013. In 2013 the Company received $753 in cash distributions from its investment in KPL, LLC ("**Polaroid**"), and $31 in cash distributions from its investment in Knight's Bridge Capital Partners Internet Fund No. 1 GP LLC ("**Knight's Bridge GP**"), compared to total distributions of $161 in 2012, primarily from Polaroid. Additional investments in Polaroid were $56 and $51 in 2013 and 2012, respectively. In 2013 the Company invested $10 in property, plant and equipment; there were no similar transactions in 2012.

Cash used in financing activities: Cash used in financing activities was $2,857 during the nine months ended September 30, 2013, as compared to $1,807 cash used during the same period in 2012. In 2013 the Company repaid net cash of $9,354 to its third party lender, compared to receiving net cash of $1,723 in 2012. In 2013, the Company received net cash of $6,487 from Counsel, compared to repaying net cash of $3,544 in 2012. In the first nine months of 2013 the Company received $10 related to the exercise of options to purchase common shares, compared to $14 in 2012.

Management's Discussion of Results of Operations

Asset liquidation revenue is earned from the acquisition and subsequent disposition of distressed and surplus assets, including industrial machinery and equipment, real estate, inventories, accounts receivable and distressed debt. Following the acquisitions of HGP and Equity Partners, it is also earned from more traditional asset disposition services, such as commissions from on-site and webcast auctions, liquidations and negotiated sales, and fees earned for management advisory services. The Company also earns income from its asset liquidation business through its earnings from equity accounted asset liquidation investments.

The revenues and expenses discussed below include the operating results of HGP for the period following its acquisition by the Company on February 29, 2012. In the near-term, the Company's earnings have been impacted by the incremental costs associated with the acquisition and integration of HGP and the expansion of its operations into Europe, as discussed above under *Overview, History and Recent Developments*.

Three-Month Period Ended September 30, 2013 Compared to Three-Month Period Ended September 30, 2012

Asset liquidation revenues were $2,265 in 2013 compared to $3,052 in 2012, asset liquidation expense was $905 in 2013 compared to $1,167 in 2012, and earnings of equity accounted asset liquidation investments were $456 in 2013 compared to $222 in 2012. The net earnings of these three items were therefore $1,816 in 2013 compared to $2,107 in 2012. Because the Company conducts its asset liquidation operations both independently and through partnerships, and the ratio of the two is unlikely to remain constant in each period, the operations must be considered as a whole rather than on a line-by-line basis. The lower net earnings in the current quarter reflect the vagaries of the timing of asset liquidation transactions.

Intellectual property licensing revenue was $624 during the three months ended September 30, 2013, compared to $0 during the same period in 2012, and consisted of revenue from the sale of an intellectual property licensing agreement to the Company's former Co-CEOs.

Patent licensing and maintenance expense was $10 during the three months ended September 30, 2013, compared to $4 during the same period in 2012.

Selling, general and administrative expense, including expenses paid to related parties, was $2,078 during the quarter ended September 30, 2013, compared to $3,406 during the same period in 2012. The significant items included:

- Compensation expense was $1,363 in the third quarter of 2013, compared to $2,641 in the third quarter of 2012. Salary and benefits expense for HG LLC was $334 in 2013 and $645 in 2012; the decrease reflects the departure of the Co-CEOs and other HG LLC employees effective June 30, 2013. Salary and benefits expense for HGP was $911 and $751, respectively. The salary earned by the Company's President remained unchanged at $34. Stock based compensation was $83 in the third quarter of 2013 and $158 in the third quarter of 2012. The reduced expense in 2013 reflects the reversal of $50 expense that was previously charged with respect to options that were forfeited by the Co-CEOs and other HG LLC employees who departed the Company. It should also be noted that in the third quarter of 2012, $1,053 was expensed in association with the issue of 800,000 shares to the Co-CEOs in exchange for an intellectual property license. There were no similar transactions in 2013.

- Management fee expense and allocated compensation charged by our majority stockholder, Counsel, was $109 in the third quarter of both 2013 and 2012. See Note 11 of the unaudited condensed consolidated interim financial statements for the period ended September 30, 2013 included in this Prospectus for details regarding these items.

- Consulting expense, including fees paid to our board of directors, was $88 in the third quarter of 2013, compared to $132 in the third quarter of 2012. The decrease in 2013 is related to the operations of HG LLC.

- Legal expense was $18 in the third quarter of 2013, compared to $93 in the third quarter of 2012. The decrease is primarily the result of reduced expenses related to the operations of HG LLC.

- Accounting and tax consulting expenses were $79 in the third quarter of 2013, compared to $83 in the third quarter of 2012.

- Office rent was $57 in the third quarter of 2013 as compared to $109 in the third quarter of 2012, and related solely to the operations of the Company's asset liquidation business. The reduction is due to the cancellation of the leases on the New York and California offices of HG LLC, associated with the departure of the Co-CEOs and HG LLC employees.

- Insurance, including directors and officers' liability insurance, was $25 in the third quarter of 2013 as compared to $34 in the third quarter of 2012.

- Travel and entertainment expense was $107 in the third quarter of 2013 as compared to $142 in the third quarter of 2012. The majority of the expense relates to the Company's asset liquidation business, and the amount fluctuates depending on the location and complexity of transactions in a given period.

- Advertising, promotion and public relations expense was $84 in the third quarter of 2013 as compared to $98 in the third quarter of 2012.

Depreciation and amortization expense was $118 during the quarter ended September 30, 2013, compared to $272 during the same period in 2012. $113 represents amortization of the intangible assets recognized in connection with the acquisition of HGP, and the remaining $5 represents depreciation of property, plant and equipment. In 2012, $264 represents amortization of the intangible assets, and $8 represents depreciation of property, plant and equipment.

Other income (expenses) and earnings of other equity accounted investments – the significant items included:

- In the third quarter of 2013, the Company recorded other income of $0, as compared to other income of $8 in the third quarter of 2012. In 2012, the amount consisted of a $7 recovery of other expenses, and $1 of interest income.

- In the third quarter of 2013, the Company recorded income of $23 from its other equity accounted investments, as compared to a loss of $11 in the third quarter of 2012. In 2013, the amount consisted of $22 income from Polaroid, and $1 income from Knight's Bridge GP. In 2012 the amount consisted of a $12 loss from Polaroid and $1 of income from Knight's Bridge GP.

Nine-Month Period Ended September 30, 2013 Compared to Nine-Month Period Ended September 30, 2012

Asset liquidation revenues were $5,589 in 2013 compared to $9,917 in 2012, asset liquidation expense was $1,676 in 2013 compared to $4,352 in 2012, and earnings of equity accounted asset liquidation investments were $1,265 in 2013 compared to $1,449 in 2012. The net earnings of these three items were $5,178 in 2013 compared to $7,014 in 2012. The lower revenues and expenses in the current year reflect the vagaries of the timing of completion of asset liquidation transactions.

Intellectual property licensing revenue was $824 during the nine months ended September 30, 2013, compared to $0 during the same period in 2012. It consisted of $200 revenue from a settlement and licensing agreement entered into with the defendant in a patent infringement lawsuit, and $624 revenue from the sale of an intellectual property licensing agreement to the Company's former Co-CEOs.

Patent licensing and maintenance expense was $166 during the nine months ended September 30, 2013, compared to $38 during the same period in 2012. The increased expense related to the settlement and licensing agreement referenced above.

Selling, general and administrative expense, including expenses paid to related parties, was $7,256 during the nine months ended September 30, 2013, compared to $7,797 during the same period in 2012. The significant items included:

- Compensation expense was $4,733 in the first nine months of 2013, compared to $5,378 in the first nine months of 2012. Salary and benefit expense for HG LLC was $1,641 in 2013 and $2,010 in 2012; the decrease reflects the departure of the Co-CEOs and other HG LLC employees effective June 30, 2013. Salary and benefits expense for HGP was $2,579 in 2013, as compared to $1,776 in 2012. The increase reflects the inclusion of a full nine months in 2013, as compared to only seven months in 2012 following the acquisition of HGP on February 29. With respect to Heritage's operations, the salary earned by the President remained unchanged at $69. Stock based compensation was $410 in the first nine months of 2013 as compared to $436 in 2012. The reduced expense in 2013 reflects the reversal of $50 expense that was previously charged with respect to options that were forfeited by the Co-CEOs and other HG LLC employees who departed the Company. It should also be noted that in the third quarter of 2012, $1,053 was expensed in association with the issue of 800,000 shares to the Co-CEOs in exchange for an intellectual property license. There were no similar transactions in 2013.

- Management fee expense and allocated compensation charged by our majority stockholder, Counsel, was $325 in the first nine months of 2013, compared to $326 in the first nine months of 2012. See Note 11 of the unaudited condensed consolidated interim financial statements for the period ended September 30, 2013 included in this Prospectus for details regarding these items.

- Consulting expense, including fees paid to our board of directors, was $459 in the first nine months of 2013, compared to $216 in the first nine months of 2012. The increase in 2013 is related to the operations of HGP and the inclusion of a full nine months in 2013.

- Legal expense was $139 in the first nine months of 2013, compared to $256 in the first nine months of 2012. The decrease is primarily due to reduced expenses at the Corporate level.

- Accounting and tax consulting expenses were $168 in the first nine months of 2013, compared to $195 in the first nine months of 2012. The decrease is due to the fact that in 2012 there were more expenses related to review and audit of specific asset liquidation transactions. As well, the amount for 2013 includes the reversal of $19 over accrual of Corporate expense.

- Office rent was $297 in the first nine months of 2013 as compared to $277 in the first nine months of 2012, and related solely to the operations of the Company's asset liquidation business. Although the rent associated with the operations of HGP increased in 2013 due to the inclusion of a full nine months of HGP operations, there was a net reduction in expense due to the cancellation of the leases on the New York and California offices of HG LLC, associated with the departure of the Co-CEOs and HG LLC employees.

- Insurance, including directors and officers' liability insurance, was $98 in the first nine months of 2013 as compared to $100 in the first nine months of 2012.

- Travel and entertainment expense was $421 in the first nine months of 2013, as compared to $447 in the first nine months of 2012. The majority of the expense relates to the Company's asset liquidation business, and the amount fluctuates depending on the location and complexity of transactions in a given period.

- Advertising, promotion and public relations expense was $198 in the first nine months of 2013 as compared to $268 in the first nine months of 2012.

Depreciation and amortization expense was $358 during the nine months ended September 30, 2013, compared to $283 during the same period in 2012. $340 represents amortization of the intangible assets recognized in connection with the acquisition of HGP, and the remaining $18 represents depreciation of property, plant and equipment. In 2012, $264 represents amortization of the intangible assets, and $19 represents depreciation of property, plant and equipment.

Other income (expenses) and earnings of other equity accounted investments – the significant items included:

- Other income was $0 in the first nine months of 2013, as compared to other expense of $299 in the first nine months of 2012. In 2012, the primary item was a $363 write-down of real estate inventory. This was partially offset by a $39 recovery of an account receivable that had been written off in 2011, a $7 recovery of other expenses, and $18 of interest income.

- In the first nine months of 2013, the Company recorded income of $61 from its other equity accounted investments, as compared to a loss of $65 in the first nine months of 2012. In 2013, the amount consisted of $30 income from Polaroid and $31 income from Knight's Bridge GP. In 2012 the amount consisted of a $68 loss from Polaroid and $3 of income from Knight's Bridge GP.

Inflation. Inflation did not have a significant impact on our results during the fiscal quarter ended September 30, 2013.

Related Party Transactions. A discussion of transactions with related parties is set forth in this Prospectus under the heading "Interests of Management and Others in Material Transactions and Related Party Transactions.

Off-Balance Sheet Transactions. We have not engaged in any material off-balance sheet transactions.

Quantitative and Qualitative Disclosures about Market Risk.

Our exposure to market risk is limited to interest rate sensitivity, which is affected by changes in the general level of interest rates. Due to the fact that our cash is deposited with major financial institutions, we believe that we are not subject to any material interest rate risk as it relates to interest income. As to interest expense, we have one debt instrument that has a variable interest rate. Our revolving credit facility provides that the principal amount outstanding bears interest at the greater of the lender's prime rate + 1.0%, or 4.5%. Assuming that the debt amount on the revolving credit facility at September 30, 2013 was constant during the next twelve-month period, the impact of a one percent increase in the interest rate would be an increase in interest expense of approximately $2 for that twelve-month period. We do not believe that, in the near term, we are subject to material market risk on our debt.

We did not have any foreign currency hedges or other derivative financial instruments as of September 30, 2013. We do not enter into financial instruments for trading or speculative purposes and do not currently utilize derivative financial instruments. Until the third quarter of 2012, our operations were conducted primarily in the United States and as such were not subject to material foreign currency exchange rate risk. With the expansion of our operations to Europe, we may become subject to greater foreign currency exchange rate risk. Management will monitor operations and act as required to minimize this risk.

Controls and Procedures.

As of the end of the period ended September 30, 2013, our President and Chief Financial Officer (the "**Certifying Officers**") conducted evaluations of our disclosure controls and procedures. As defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act, the term "disclosure controls and procedures" means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including the Certifying Officers, to allow timely decisions regarding required disclosure. Based on this evaluation, the Certifying Officers have concluded that our disclosure controls and procedures were effective.

Further, there were no changes in our internal control over financial reporting during the third fiscal quarter of 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Period Ended December 31, 2012

Liquidity and Capital Resources

Liquidity

At December 31, 2012 the Company had a working capital deficit of $2,348, as compared to working capital of $7,626 at December 31, 2011. The most significant changes in the Company's non-cash current assets were increases of $2,334 in receivable from a related party, and $1,412 in deposits. Cash decreased by $2,358. The most significant changes to current liabilities were increases of $3,560 in accounts payable and accrued liabilities, and $7,792 in debt payable to third parties.

The changes in the amounts of the Company's consolidated assets and liabilities between December 31, 2011 and December 31, 2012 were due to two factors. The most significant and ongoing factor was the Company's acquisition of Heritage Global Partners during the first quarter of 2012. In particular, cash, accounts receivable and inventory associated with Heritage Global Partners at December 31, 2012 were $820, $365 and $238, respectively, and accounts payable and accrued liabilities were $3,426. The second factor relates to the uneven nature of the timing of asset liquidation transactions. Transactions in the fourth quarter of 2012, which included a significant acquisition of assets that had not been sold at December 31, were responsible for the increase in debt payable to third parties.

The Company's debt payable to third parties consisted of borrowings under HG LLC's revolving credit facility, and, as noted above, it is subject to significant fluctuation depending on the number and magnitude of asset liquidation transactions in process at any given date. The credit facility has a limit of $15,000, which may be used to finance purchases of assets for resale, as discussed in Note 7 of the audited consolidated financial statements for the period ended December 31, 2012 included in this Prospectus.

During 2012, the Company's primary source of cash, in addition to borrowings under HG LLC's revolving credit facility, was the operations of its asset liquidation business. Cash disbursements, other than those related to repayment of debt, and the net $2,344 related to the acquisition of Heritage Global Partners, were primarily related to operating expenses.

It should be noted that generally accepted accounting principles in the United States of America require the Company to classify both real estate inventory and asset liquidation investments as non-current, although they are expected to be converted to cash within a year. If these assets were classified as current, the Company would have reported working capital of $7,348 at December 31, 2012 and working capital of $13,212 at December 31, 2011.

The Company is continuing to pursue licensing and royalty agreements with respect to its patents. However, at the end of 2012, the Company expected that its asset liquidation business would continue to be the primary source of cash required for ongoing operations for the foreseeable future, and that its operations would generate sufficient cash to cover the Company's requirements.

The Company's portfolio investments are in companies that are not publicly traded, and therefore these investments are illiquid. The Company's investments were made with the objective of recognizing long-term capital gains, and neither the amount nor the timing of such gains can be predicted with any certainty. To date the Company has realized capital gains on its investments in MyTrade.com, LIMOS.com and Buddy Media, Inc., and has not sold any investments at a loss.

Ownership Structure and Capital Resources

At December 31, 2012 the Company had stockholders' equity of $46,012, as compared to $42,940 at December 31, 2011.

At December 31, 2012 the Company was 71.3% (December 31, 2011 – 76.1%) owned, and therefore controlled, by Counsel. At December 31, 2011 the Co-CEOs of HG LLC each owned 5.98% of the Company. One million shares, or 3.7%, were held by a single investor. The remaining 8.2% was owned by public stockholders. On February 29, 2012, as discussed in Note 2 of the audited consolidated financial statements for the period ended December 31, 2012 included in this Prospectus, the Company issued one million common shares as part of the consideration for its acquisition of Heritage Global Partners, representing 3.69% of the then-outstanding common shares. Subsequently, on August 10, 2012, the Company issued 800,000 shares to its Co-CEOs in connection with the acquisition of intellectual property from them. Counsel's ownership was thereby decreased to 71.3%, that of the Co-CEOs increased to 7.0% each, that of both the single investor referenced above, and the former owners of Heritage Global Partners, decreased to 3.5%, and that of the remaining public stockholders decreased to 7.7%.

Cash Position and Cash Flows

Cash at December 31, 2012 was $4,314 compared to $6,672 at December 31, 2011.

<u>Cash provided by or used in operating activities</u>: Cash used by operating activities during 2012 was $4,802, as compared to cash provided of $4,051 in 2011. In 2012 the Company had a loss of $1,813 from continuing operations, as compared to income of $30,713 in 2011. The decrease of $32,526 was largely due to the fact that in 2011 the Company recorded a deferred tax recovery of $26,317, whereas the deferred tax recovery recorded in 2012 was $978. As well, revenues in 2012 were approximately $3,100 less than in 2011, and operating expenses in 2012 were approximately $3,800 greater than in 2011. In both 2012 and 2011, the operations of the Company's asset liquidation business were the primary source of cash receipts and disbursements. As noted above, the acquisition of Heritage Global Partners in February 2012 had a significant impact on both the Company's operating results and its financial position.

During 2012, the Company's largest non-cash operating expense was for stock-based compensation, which was $1,647 in 2012 as compared to $296 in 2011. The primary reason for the increase was that during 2012 the Company acquired intellectual property licensing agreements from its Co-CEOs in return for 800,000 shares with a fair value of $1,054, which under GAAP was required to be recorded as stock-based compensation. Additionally, expense relating to the Company's stock options issued to its officers, employees and directors increased from $296 to $593, due to the ongoing vesting of options issued during 2011 and 2012. The Company's stock options are discussed in more detail in Note 14 of the audited consolidated financial statements.

During 2012, the Company recorded inventory write downs totaling $573; there were no similar transactions during 2011. As well, depreciation and amortization increased to $407 in 2012 compared to $2 in 2011. The majority of the increase was due to $376 amortization relating to the intangible assets that were part of the Company's acquisition of Heritage Global Partners. Depreciation and amortization of the property, plant and equipment that were part of that acquisition totaled $27 in 2012.

The Company recorded $112 as a net loss from non-asset liquidation equity accounted investments during 2012, primarily relating to Polaroid, as compared to earnings of $28 during 2011.

During 2012 the changes in the Company's consolidated operating assets and liabilities were significantly different from those in 2011, due to the business acquisition and transaction timing factors discussed above. This was most evident by the 2012 increases in inventories and deposits, which were $4,327 and $1,412, respectively, as compared to decreases of $1,023 and $702, respectively, in 2011. As well, in 2012 amounts receivable decreased by $592 as compared to increasing by $362 in 2011, and accounts payable and accrued liabilities increased by $817 as compared to decreasing by $1,700 in 2011. Deferred income tax assets increased by $973 in 2012 as compared to increasing by $26,555 in 2011. The 2011 increase was due to the Company's one-time reversal of the full valuation allowance that it had previously taken against its net deferred tax asset balance.

Cash flows from investing activities: Net cash used in investing activities during 2012 was $2,138, as compared to $213 cash used during 2011. The primary use of cash during 2012 was the net $2,344 paid to acquire Heritage Global Partners, as compared to $175 cash used to acquire Equity Partners in 2011. During 2012, the Company invested an additional $61 in Polaroid, compared to investing $42 in 2011. In 2012 the Company received cash distributions from Polaroid totaling $292; there were no distributions in 2011. The Company also received cash distributions from Knight's Bridge GP totaling $3 in 2012 and $4 in 2011. In 2012, the Company invested $28 in property, plant and equipment; there were no similar transactions in 2011.

Cash flows from financing activities: Net cash of $4,582 was provided by financing activities during 2012, as compared to cash provided of $226 in 2011. In 2012, in connection with the operations of HG LLC, the Company received net cash of $7,751 from third party lenders as compared to repaying net cash of $1,410 in 2011. Also in 2012, net cash of $2,334 was advanced to the Company's parent, Counsel, as compared to a net cash advance of $203 in 2011, and net cash of $849 was paid to the former owners of Heritage Global Partners. In 2012 the Company received $14 with respect to the exercise of 31,750 options, as compared to 2011, when the Company received a total of $1,839 cash from a private placement of one million common shares and the exercise of 30,000 options.

Consolidated Results of Operations

Key selected financial data for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Revenue:		
Asset liquidation		
Asset sale proceeds	$7,901	$14,733
Commissions and other	6,227	2,505
Total revenue	14,128	17,238

	2012	2011
Operating costs and expenses:		
Asset liquidation	7,090	9,766
Patent licensing and maintenance	50	84
Selling, general and administrative	11,057	4,986
Depreciation and amortization	407	2
Total operating costs and expenses	18,604	14,838
	(4,476)	2,400
Earnings of equity accounted asset liquidation investments	2,023	2,183
Operating income (loss)	(2,453)	4,583
Other income (expenses):		
Other income	64	30
Interest expense	(290)	(245)
Total other income (expenses)	(226)	(215)
Income (loss) from continuing operations before the undernoted	(2,679)	4,368
Income tax recovery	(978)	(26,317)
Earnings (loss) of equity accounted investments (net of $0 tax)	(112)	28
Net income (loss)	$(1,813)	$30,713

The revenues and expenses discussed below include the operating results of Heritage Global Partners for the period following its acquisition by the Company on February 29, 2012. Since acquisition, the Company's earnings have been impacted by the incremental costs associated with the acquisition and integration of Heritage Global Partners and the expansion of its operations into Latin America and Europe. See "The Company".

2012 Compared to 2011

Asset liquidation revenues were $14,128 in 2012 compared to $17,238 in 2011, asset liquidation expense was $7,090 in 2012 compared to $9,766 in 2011, and earnings of equity accounted asset liquidation investments were $2,023 in 2012 compared to $2,183 in 2011. The net earnings of these three items were $9,061 in 2012 compared to $9,655 in 2011. Because the Company conducts its asset liquidation operations both independently and through partnerships, as discussed in Note 2 of the audited consolidated financial statements for the period ended December 31, 2012 included in this Prospectus, and the ratio of the two is unlikely to remain constant year over year, the operations must be considered as a whole rather than on a line-by-line basis. The lower revenues and expenses in 2012 reflect the vagaries of the timing of completion of asset liquidation transactions. In addition, the operating results in 2011 were impacted by one large transaction, the sale of a paper mill in Gorham, NH.

Patent licensing and maintenance expense was $50 in 2012 compared to $84 in 2011. This expense consists primarily of annuity payments and legal fees.

Selling, general, administrative and other expense, including expenses paid to related parties, was $11,057 for the year ended December 31, 2012 as compared to $4,986 for the year ended December 31, 2011. The significant changes included:

- Compensation expense in 2012 was $7,500 compared to $3,001 in 2011. In 2012, compensation paid to HG LLC employees was $3,159, as compared to $2,567 paid in 2011. In 2012, salary and benefits expense for Heritage Global Partners was $2,556; there was no comparable expense in 2011. With respect to the Company's operations, the salary earned by the President of the Company remained unchanged at $138. In 2012, bonuses of $509 were recorded for HG LLC and Equity Partners employees, compared to $465 in 2011. Stock-based compensation expense increased by $1,351, from $296 in 2011 to $1,647 in 2012. The increase is due to stock options awarded during 2012 and 2011, related to the expansion of the Company's operations, and also includes $1,054 expensed in connection with the issue of 800,000 shares to the Company's Co-CEOs in August 2012, in exchange for intellectual property licensing agreements.

- Legal expenses in 2012 were $354, compared to $19 in 2011. The increase is largely due to the fact that the 2011 total was net of negotiated credits of $266 relating to fees billed in 2010. As well, the 2012 amount includes legal fees related to both the acquisition and operations of Heritage Global Partners.

- Accounting and tax consulting expenses in 2012 were $307 compared to $166 in 2011. The increase is primarily due to increasing complexity in the Company's operations as its asset liquidation business has expanded, and to the 2012 inclusion of accounting expense relating to the operations of Heritage Global Partners.

- Consulting expense, including fees paid to our Board of Directors, was $464 in 2012 as compared to $443 in 2011.

- Management fee expense and allocated compensation charged by our majority stockholder, Counsel, was $435 in 2012 and $430 in 2011. See "Interests of Management and Others in Material Transactions and Related Party Transactions".

- Uncompleted asset liquidation deal expenses were $71 in 2012 as compared to $76 in 2011.

- Insurance, including directors and officers' liability insurance, was $138 in 2012 as compared to $97 in 2011. The increase is due to the acquisition of Heritage Global Partners in 2012.

- Advertising, promotion and public relations expense was $345 in 2012 as compared to $20 in 2011. The increase is due to the growth of the Company's asset liquidation business.

- Travel and entertainment expense was $659 in 2012 as compared to $279 in 2011, and in both years was primarily related to the Company's asset liquidation operations. The increase is due to the growth of the Company's asset liquidation business, including the acquisition of Heritage Global Partners in 2012.

- Office rent was $392 in 2012 as compared to $179 in 2011, and related solely to the operations of the Company's asset liquidation business. The increase is due to the growth of the asset liquidation business, in particular to the acquisition of Equity Partners and Heritage Global Partners.

- Foreign exchange was a credit of $53 in 2012 as compared to a credit of $13 in 2011. The increase is primarily related to asset liquidation transactions in Canada.

Depreciation and amortization expense was $407 during 2012, compared to $2 in 2011. $376 represents amortization of the intangible assets recognized in connection with the acquisition of Heritage Global Partners, and the remaining $31 represents depreciation of property, plant and equipment.

Other income (expense) and earnings of other equity accounted investments – the significant items included:

- Other income was $64 in 2012, as compared to other income of $30 in 2011. In 2012, this consisted of settlement income of $46 and interest income of $18. In 2011, it consisted of $17 interest income and $13 refund of a retainer.

- In 2012, the Company recorded $112 as its share of losses from its equity accounted investments, as compared to earnings of $28 in 2011. In 2012, the amount consisted of a loss of $116 from Polaroid and income of $4 from Knight's Bridge GP. In 2011, the earnings consisted of $23 from Polaroid and $5 from Knight's Bridge GP.

Future Accounting Pronouncements

Applicable future accounting pronouncements are set forth in Note 2 of the unaudited condensed consolidated financial statements of the Company for the period ended September 30, 2013 included in this Prospectus.

Critical Accounting Policies

Use of estimates

Our audited consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. This requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Management bases its estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

Significant estimates required in the preparation of the audited consolidated financial statements for the period ended December 31, 2012, included in this Prospectus, include the assessment of collectability of revenue recognized, and the valuation of amounts receivable, inventory, investments, assets acquired, deferred income tax assets, goodwill and intangible assets, liabilities, and stock-based compensation. These estimates have the potential to significantly impact our consolidated 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 that are continuous in nature.

Amounts receivable

The Company's amounts receivable are primarily related to the operations of its subsidiaries HG LLC, Equity Partners and Heritage Global Partners. They consist of three major categories: receivables from Joint Venture partners, receivables from asset sales, and fees and retainers relating to the businesses of Equity Partners and Heritage Global Partners. The initial value of an amount receivable corresponds to the fair value of the underlying goods or services. To date all receivables have been classified as current and, due to their short-term nature, any decline in fair value would be due to issues involving collectability. At each financial statement date the collectability of each outstanding amount receivable is evaluated, and an allowance is recorded if the book value exceeds the amount that is deemed collectable. Collectability is determined on the basis of payment history.

To date, the Company has not experienced significant collectability issues with respect to its amounts receivable, and has not recorded an allowance since 2011. It should also be noted that amounts receivable associated with the sale of distressed assets are typically due upon asset delivery, which facilitates early identification of potential collectability issues.

The Company does not issue interest-bearing notes receivable in the normal course of its operations.

Inventory

The Company's inventory consists of assets acquired for resale by HG LLC and Heritage Global Partners, which are normally expected to be sold within a one-year operating cycle. They are recorded at the lower of cost and net realizable value. Since the commencement of HG LLC's operations in the second quarter of 2009, the assets' selling prices have in general been in excess of their cost. However, the Company did record total write downs of $573 in 2012, $123 in 2010 and $113 in 2009.

Asset Liquidation Investments

Asset liquidation transactions that involve the Company acting jointly with one or more additional purchasers, pursuant to a Joint Venture agreement, are accounted for using the equity method of accounting whereby the Company's proportionate share of the Joint Venture's net income (loss) is reported in the consolidated statement of operations as Earnings (Loss) of Equity Accounted Asset Liquidation Investments. At the balance sheet date, the Company's investments in these Joint Ventures are reported in the consolidated balance sheet as Asset Liquidation Investments. The Company monitors the value of the Joint Ventures' underlying assets and liabilities, and will record a write down of its investments should the Company conclude that there has been a decline in the value of the net assets. To date the Company has not recorded any write downs. Given that the underlying transactions are identical, in all material aspects, to asset liquidation transactions that the Company undertakes independently, the net assets are similarly expected to be sold within a one-year operating cycle. In assessing its operations and cash flows for internal reporting purposes, the Company regards Asset Liquidation Investments as a current asset. However, GAAP requires that the net investment be reported in the audited consolidated financial statements as a long term asset.

Investments

The Company holds investments in two private companies: an equity interest in Polaroid and an equity interest in Knight's Bridge GP. Both investments are accounted for under the equity method. Under this method, the investments are carried at cost, plus or minus the Company's share of increases and decreases in the investee's net assets and certain other adjustments. The Company's share of the net income or loss of the investee is reported separately in the Company's income statement, and any return of capital or dividend received from the investee is credited to the investment account. The Company also recognizes any other-than-temporary impairments of equity accounted investments.

Since neither of these investments are traded on an open market, and they are not convertible into investments that are traded on an open market, significant judgment is involved in estimating their fair values. These fair value estimates are based on Level 3 inputs. For Polaroid, an internal valuation, based on current financial statements and projections, was prepared at December 31, 2012. The Company concluded that its investment was not impaired. The value of Knight's Bridge GP is primarily based on the value of the investments held by its own equity method investee, the Internet Fund. These investments are also not publicly traded, and their values are estimated using Level 3 inputs, primarily investee financial statements and projections. Based on an analysis of Knight's Bridge GP and the Internet Fund at December 31, 2012, management concluded that its equity investment was not impaired as at December 31, 2012.

Assets and liabilities acquired

In the course of its operations, most recently with respect to the Heritage Global Partners acquisition in February 2012, the Company acquires assets and liabilities as a component of a business combination. Valuations are assigned to the acquired assets and liabilities based on management's assessment of their fair market value, which assessments may include engaging the services of third parties with valuation expertise. Historically, acquired liabilities have been short term and cash-based, such as accounts payable, and therefore valuation has not required a large degree of judgment. Intangible assets and goodwill related to business combinations have been more complex, and are discussed further below.

Intangible assets

Intangible assets are recorded at fair value upon acquisition and are amortized over their estimated lives. 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 fair value.

At December 31, 2012 the Company's intangible assets related to its acquisition of Heritage Global Partners in February 2012, and consisted of Customer/Broker Network and Trade Name. The Company engaged the services of an independent third party in order to determine the value of these intangible assets, and the valuation process was completed in the third quarter of 2012. Based on the Company's assessment at December 31, 2012, these assets were not impaired. See Note 2 and Note 6 of the audited consolidated financial statements for the period ended December 31, 2012 included in this Prospectus for more detail regarding the Company's intangible assets.

Goodwill

Goodwill, which results from the difference between the purchase price and the fair value of net identifiable assets acquired, is not amortized but is tested annually for impairment in accordance with GAAP. This testing is a two-step process, in which the carrying amount of the reporting unit associated with the goodwill is first compared to the reporting unit's estimated fair value. If the carrying amount of the reporting unit exceeds its estimated fair value, the fair values of the reporting unit's assets and liabilities are analyzed to determine whether the goodwill of the reporting unit has been impaired. An impairment loss is recognized to the extent that the Company's recorded goodwill exceeds its implied fair value as determined by this two-step process. An accounting pronouncement issued in May 2011 and early adopted by the Company in December 2011, *Testing Goodwill for Impairment* ("**ASU 2011-08**") provides the option to perform a qualitative assessment prior to performing the two-step process, which may eliminate the need for further testing. Goodwill, in addition to being tested for impairment annually, is tested for impairment between annual tests if an event occurs or circumstances change such that it is more likely than not that the carrying amount of goodwill may be impaired.

At December 31, 2012 the Company's goodwill related to its acquisition of Equity Partners in June 2011 and its acquisition of Heritage Global Partners in February 2012. The valuation of the goodwill relating to Heritage Global Partners was completed in the third quarter of 2012, together with the valuation of the acquired intangible assets, as discussed above. Valuation tests were performed and no goodwill impairment was identified at December 31, 2012. See Note 2 and Note 6 of the audited consolidated financial statements for the period ended December 31, 2012 included in this Prospectus for more detail regarding the Company's goodwill.

Deferred income tax assets

The Company recognizes deferred tax assets and liabilities for temporary differences between the tax bases of assets and liabilities and the amounts at which they are carried in the financial statements, based upon the enacted tax rates in effect for the year in which the differences are expected to reverse. The Company establishes a valuation allowance when necessary to reduce deferred tax assets to the amount expected to be realized.

The Company periodically assesses the value of its deferred tax assets, which have been generated by a history of net operating and net capital losses, and determines the necessity for a valuation allowance. The Company evaluates which portion of the deferred tax assets, if any, will more likely than not be realized by offsetting future taxable income, taking into consideration any limitations that may exist on its use of its net operating and net capital loss carryforwards. For further discussion of the Company's income taxes, see Note 10 of the audited consolidated financial statements for the period ended December 31, 2012 included in this Prospectus.

Liabilities and contingencies

The Company is involved from time to time in various legal matters arising out of its operations in the normal course of business. On a case by case basis, the Company evaluates the likelihood of possible outcomes for this litigation. Based on this evaluation, the Company determines whether a liability accrual is appropriate. If the likelihood of a negative outcome is probable, and the amount is estimable, the Company accounts for the liability in the current period. At December 31, 2012, the Company was not involved in any material litigation and therefore no such liabilities were recorded.

Asset liquidation revenue

Asset liquidation revenue generally consists of gross proceeds from auction and negotiated sales of asset inventory, and commissions and fees from acting as the agent for asset sales by third parties. Revenue is recognized when persuasive evidence of an arrangement exists, the amount of the proceeds is fixed, delivery terms are arranged and collectability is reasonably assured. As noted above under *Amounts receivable*, asset transactions generally link delivery to payment and therefore revenue recognition presents few ambiguities.

Stock-based compensation

The Company's stock-based compensation is primarily in the form of options to purchase common shares. The fair value is calculated using the Black-Scholes Option Pricing Model, and subsequently expensed over the vesting period. The provisions of the Company's stock-based compensation plans do not require the Company to settle any options by transferring cash or other assets, and therefore the Company classifies the option awards as equity. See Note 14 of the audited consolidated financial statements for the period ended December 31, 2012 included in this Prospectus for further discussion of the Company's stock-based compensation. See "Executive Compensation".

Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Evaluation of Disclosure Controls and Procedures

As of December 31, 2012, under the supervision and with the participation of management, including our Certifying Officers, the Company conducted an evaluation of its disclosure controls and procedures. Based on this evaluation, the Certifying Officers concluded that the Company's disclosure controls and procedures were effective as of December 31, 2012. For further information on disclosure controls and procedures, see "-Period Ended September 30, 2013 – Controls and Procedures".

Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, in accordance with Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Under the supervision and with the participation of the Company's management, including the Certifying Officers, we conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on its assessment using these criteria, the Company's management concluded that the Company's internal control over financial reporting was effective as of December 31, 2012.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fourth fiscal quarter of 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Related Party Transactions

A discussion of transactions with related parties is set forth in this Prospectus under the heading "Interests of Management and Others in Material Transactions and Related Party Transactions.

Period Ended December 31, 2011

Ownership Structure and Capital Resources

- At December 31, 2011 the Company had stockholders' equity of $42,940, as compared to $9,448 at December 31, 2010.

- At December 31, 2011 the Company was 76.1% owned by Counsel, and therefore was controlled by Counsel. The Co-CEOs of HG LLC each owned 5.98% of the Company. One million shares, or 3.7%, were held by a single investor, who obtained the shares in a private placement on March 15, 2011. The remaining 8.2% was owned by public stockholders. On February 29, 2012, as discussed in Note 16 of the audited consolidated financial statements for the period ended December 31, 2011 included in this Prospectus, the Company issued one million common shares as part of its acquisition of HGP, representing 3.69% of the outstanding common shares. Counsel's ownership thereby decreased to 73.4%, that of the Co-CEOs to 5.8% each, that of the single investor referenced above to 3.6% and that of the remaining public stockholders to 7.8%.

- As discussed in Note 2 of the audited consolidated financial statements for the period ended December 31, 2011 included in this Prospectus, HG LLC was originally owned 75% by the Company and 25% by HG LLC's Co-CEOs, and at November 30, 2010 the Company acquired the 25% interest in HG LLC in exchange for 3,242,000 common shares of the Company. The net result of this transaction was a transfer of $921 from the non-controlling interest to the Company, $32 of which was allocated to common shares and $889 of which was allocated to additional paid-in capital. The remaining balance of the non-controlling interest was distributed to HG LLC's Co-CEOs.

Cash Position and Cash Flows

Cash at December 31, 2011 was $6,672 compared to $2,608 at December 31, 2010.

Cash provided by or used in operating activities. Cash provided by operating activities during 2011 was $4,051, as compared to cash provided of $4,555 in 2010. In 2011 the Company had income of $30,713 from continuing operations, as compared to income of $6,214 in 2010. The increase of $24,499 was primarily due to a deferred tax recovery of $26,317 recognized in 2011 as compared to a recovery of $1,318 in 2010. In both 2011 and 2010, the operations of HG LLC were the primary source of cash receipts and disbursements.

During 2011, the Company amortized deferred financing costs of $45 as compared to $80 in 2010. Stock-based compensation expense increased to $296 in 2011 from $46 in 2010, due to grants of 2,290,000 options to directors and employees in 2011, as compared to grants of 40,000 options in 2010. In 2011 the Company recorded a provision for doubtful accounts of $40, as compared to a provision of $168 in 2010.

The Company recorded $28 in earnings from non-asset liquidation equity accounted investments during 2011, $23 of which was from Polaroid, as compared to earnings of $30 during 2010.

During 2011, the Company recorded an increase of $26,555 in its total current and non-current deferred income tax assets, as compared to an increase of $1,499 in 2010. In both 2011 and 2010 the amount relates to projections regarding HG LLC's operations. At the end of 2011, following almost three years of consistent profitability from the Company's asset liquidation business coupled with the acquisition of HGP, the Company concluded that it was now more likely than not that it would utilize all of its tax losses against estimated future taxable income. Accordingly, the Company reversed the full valuation allowance that it had taken against its net deferred tax asset balance.

During 2010 the Company recorded a $123 write-down of inventory; there were no similar adjustments in 2011. During 2010, the Company recorded an impairment charge of $173 on goodwill; there were no similar adjustments in 2011. During 2011, the Company did not sell any of its investments and therefore did not record any realized gains or losses; in 2010 the Company recorded a gain of $332 related to the sale of its investment in Buddy Media, Inc.

Cash flows from investing activities. Net cash used in investing activities during 2011 was $213, as compared to cash provided of $444 during 2010. The primary use of cash during 2011 was $175 as a portion of the purchase price of Equity Partners, as discussed further in Note 2 of the consolidated financial statements for the period ended December 31, 2011 included in this Prospectus. During 2011, the Company invested an additional $42 in Polaroid, compared to investing $316 in 2010. The 2010 investment was partially offset by cash distributions from Polaroid totaling $288; there were no distributions in 2011. The Company also received cash distributions from Knight's Bridge GP totaling $4 in 2011 and $16 in 2010. In 2010, proceeds from the sale of the Company's remaining investment in Buddy Media were $456; there were no similar transactions in 2011.

Cash flows from financing activities. Net cash of $226 was provided by financing activities during 2011, as compared to cash used of $2,484 in 2010. In 2011, the Company received a total of $1,839 cash, net of share issuance costs, from a private placement of one million common shares and the exercise of 30,000 options. In 2011, in connection with the operations of HG LLC, the Company repaid net cash of $1,410 to third party lenders as compared to repaying net cash of $154 in 2010. Also in 2011, net cash of $203 was repaid to the Company's parent, Counsel, as compared to the repayment of net cash of $1,564 in 2010. During 2010, in connection with the Company's acquisition of the 25% non-controlling interest in HG LLC, the Company made a distribution of $766 to the non-controlling interest; there were no similar transaction in 2011.

Consolidated Results of Operations

Key selected financial data for the years ended December 31, 2011 and 2010 are as follows:

	2011	**2010**
Revenue:		
Asset liquidation		
Asset sale proceeds	$14,733	$2,733
Commissions and other	2,505	533
Total revenue	17,238	3,266
Operating costs and expenses:		
Asset liquidation	9,766	2,062
Patent licensing and maintenance	84	128
Selling, general and administrative	4,986	3,232
Depreciation	2	—
Total operating costs and expenses	14,838	5,422
	2,400	(2,156)
Earnings of equity accounted asset liquidation investments	2,183	7,586
Operating income	4,583	5,430
Other income (expenses):		
Other income (expense)	30	(55)
Goodwill impairment	—	(173)
Interest expense – third party	(245)	(272)
Interest expense – related party	—	(64)
Total other income (expenses)	(215)	(564)
Income from continuing operations before the undernoted	4,368	4,866
Income tax recovery	(26,317)	(1,318)
Earnings of equity accounted investments (net of $0 tax)	28	30
Net income and comprehensive income	30,713	6,214
Net income and comprehensive income attributable to non-controlling interest	—	(1,385)
Net income and comprehensive income attributable to controlling interest	$30,713	$4,829

2011 Compared to 2010

Asset liquidation revenues were $17,238 in 2011 compared to $3,266 in 2010, asset liquidation expense was $9,766 in 2011 compared to $2,062 in 2010, and earnings of equity accounted asset liquidation investments were $2,183 in 2011 compared to $7,586 in 2010. The net earnings of these three items were $9,655 in 2011 compared to $8,790 in 2010. Because HG LLC conducts its asset liquidation operations both independently and through partnerships, as discussed in Note 2 of the audited consolidated financial statements for the period ended December 31, 2011 included in this Prospectus, and the ratio of the two is unlikely to remain constant year over year, the operations must be considered as a whole rather than on a line-by-line basis. As HG LLC has become more established, its operations have expanded.

Patent licensing and maintenance expense was $84 in 2011 compared to $128 in 2010.

Selling, general, administrative and other expense was $4,986 for the year ended December 31, 2011 as compared to $3,232 for the year ended December 31, 2010. The significant changes included:

- Compensation expense in 2011 was $3,001 compared to $1,741 in 2010. In 2011, compensation paid to HG LLC employees was $2,567, as compared to $1,281 paid in 2010. As HG LLC's operations continued to expand, the number of direct employees increased from seven to eleven. In both 2011 and 2010 the salary earned by the President of the Company was $138; however, in 2010 a bonus of $275 was awarded to the CEO of the Company, while there was no corresponding expense in 2011. In 2011, bonuses of $465 were recorded for HG LLC employees, compared to $44 in 2010. Stock-based compensation expense increased by $250, from $46 in 2010 to $296 in 2011. The increase is due to stock options awarded during 2011, related to the expansion of HG LLC's operations.

- Legal expenses in 2011 were $19, compared to $143 in 2010. The change is primarily due to negotiated credits of $266 relating to fees billed previously. In 2010, $80 of these expenses were related to HG LLC's operations, and the majority of the remaining expense related to the Company's acquisition of HG LLC's non-controlling interest.

- Accounting and tax consulting expenses in 2011 were $166 compared to $138 in 2010. The increase of $28 is primarily due to increasing complexity in the Company's operations as HG LLC's activities have expanded.

- Fees paid to the members of our Board of Directors were $136 in both 2011 and 2010.

- Consulting expense was $307 in 2011 as compared to $105 in 2010, and related solely to the operations of HG LLC. The increase of $202 is due to the expansion of HG LLC's operations.

- Management fee expense charged by our majority stockholder, Counsel, remained unchanged at $360 in both 2011 and 2010. See "Interests of Management and Others in Material Transactions and Related Party Transactions".

- Uncompleted asset liquidation deal expenses were $76 in 2011 as compared to $6 in 2010. The increase is due to the growth of HG LLC's operations and the greater number of potential transactions.

- Directors and officers liability insurance expense was $54 in 2011 as compared to $51 in 2010.

- Office rent was $179 in 2011 as compared to $100 in 2010, and related solely to the operations of HG LLC. The increase is due to the growth of the business and the requirement for additional space as the number of employees increased.

- Travel and entertainment expense was $279 in 2011 as compared to $75 in 2010, and in both years was primarily related to the operations of HG LLC. The increase is due to the growth of HG LLC's business during 2011.

- During 2011, the Company recorded a provision of $40 on accounts and notes receivable related to HG LLC's operations, as compared to recording a provision of $168 in 2010.

Other income (expense) and earnings of equity accounted investments – the changes are related to the following:

- Other income was $30 in 2011, as compared to other expense of $55 in 2010. In 2011, this consisted of $17 interest income and $13 refund of a retainer. In 2010, the Company realized a gain of $332 on the fourth quarter sale of its remaining investment in Buddy Media. The other significant source of other income in 2010 was a $153 settlement from legacy litigation involving a joint venture in which HG LLC had invested. These items were partially offset by a $123 writedown of HG LLC's real estate inventory, and $426 of net operating expenses relating to properties held for sale by HG LLC.

- Third party interest expense was $245 in 2011 as compared to $272 in 2010, all of which related to the third party debt owed by HG LLC. In 2011, $45 of this expense represents the amortization of deferred financing costs, as compared to $80 in 2010.

- Related party interest expense was $0 in 2011, as compared to $64 in 2010. During 2010 the Company repaid the $1,564 that was owing to Counsel at December 31, 2009, and at December 31, 2011 and 2010 had a receivable from Counsel of $595 and $392, respectively.

- In 2011, the Company recorded $28 of earnings from its equity accounted investments, as compared to earnings of $30 in 2010. In 2011, the earnings consisted of $23 from Polaroid and $5 from Knight's Bridge GP. In 2010, the earnings consisted of $14 from Polaroid and $16 from Knight's Bridge GP.

Critical Accounting Policies

See "- Period Ended December 31, 2012 – Critical Accounting Policies".

Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Evaluation of Disclosure Controls and Procedures

As of December 31, 2011, under the supervision and with the participation of management, including our Certifying Officers, the Company conducted an evaluation of its disclosure controls and procedures. Based on this evaluation, the Certifying Officers concluded that the Company's disclosure controls and procedures were effective as of December 31, 2011. For further information on disclosure controls and procedures, see "-Period Ended September 30, 2013 – Controls and Procedures".

Management's Annual Report on Internal Control Over Financial Reporting

The Company's management concluded that the Company's internal control over financial reporting was effective as of December 31, 2011. For further information on internal control over financial reporting, see "- Period Ended December 31, 2012 – Internal Control Over Financial Reporting".

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fourth fiscal quarter of 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Related Party Transactions

A discussion of transactions with related parties is set forth in this Prospectus under the heading "Interests of Management and Others in Material Transactions and Related Party Transactions.

DESCRIPTION OF SHARE CAPITAL

The Company's authorized capital stock consists of 300,000,000 Heritage Common Shares, with a par value of $0.01 per share, and 10,000,000 preferred shares with a par value of $10.00 per share.

As of March 19, 2014, there were 28,167,248 Heritage Common Shares and 579 Series N Preferred shares issued and outstanding. Each Class N preferred share has a voting entitlement equal to 40 Heritage Common Shares, votes with the Heritage Common Shares on an as-converted basis and is senior to all other preferred stock of the Company. Dividends, if any, will be paid on an as-converted basis equal to common share dividends. The value of each Class N preferred share is $1,000, and each Class N preferred share is convertible to 40 Heritage Common Shares at the rate of $25 per Heritage Common Share. At March 19, 2014, of the 10,000,000 preferred shares authorized, 9,486,500 remain undesignated and unissued.

CONSOLIDATED CAPITALIZATION

There have been no material changes in the share and loan structure of the Company since September 30, 2013.

STOCK OPTION PLANS

A description of the Company's stock option plans is set forth in Note 14 to the audited consolidated financial statements of the Company for the period ended December 31, 2012 included in this Prospectus.

The following table sets forth information regarding the ownership of options to purchase Heritage Common Shares:

Name	Number of Heritage Common Shares underlying unexercised option (#)	Option exercise price ($)	Option expiration date	Value of unexercised in-the-money options ($)
Directors(1) of the Company	30,000	0.70	April 2, 2014	300
Directors(1) of the Company	40,000	0.90	March 31, 2015	—
Directors(1) of the Company	40,000	0.15	March 31, 2016	22,400
Directors(1) of the Company	40,000	0.08	March 29, 2017	25,200
Directors(1) of the Company	40,000	0.92	March 31, 2018	—
Directors(1) of the Company	50,000	2.00	April 2, 2019	—
Directors(1) of the Company	50,000	1.00	April 1 2020	—
Executive Officers(2) of the Company	250,000	1.974	June 29, 2018	—
Executive Officers of HGP(3)	625,000	2.00	February 29, 2019	—
Executive Officers of Equity Partners(4)	200,000	1.83	June 23, 2018	—
Executive Officers of Equity Partners(4)	150,000	1.00	March 11, 2020	—
All other employees of HGP	185,000	2.00	March 28, 2019	—
All consultants	30,000	1.83	June 23, 2018	—
All consultants	400,000	1.974	June 29, 2018	—

Notes:

(1) Including five current and past directors, as a group.
(2) Including one current executive officer.
(3) Including two current and past executive officers, as a group.
(4) Including one current executive officer.

PRIOR SALES

The following table contains details of the prior sales of Heritage Common Shares and securities that are convertible or exchangeable into Heritage Common Shares in the 12-month period before the date of this Prospectus:

Date of Issue	Security Issued	Reason for Issuance	Number of Securities Issued	Price per Security ($)
May 22, 2013	Heritage Common shares	Exercise of options	10,000	$0.51
May 30, 2013	Heritage Common shares	Exercise of options	11,500	$0.51

Date of Issue	Security Issued	Reason for Issuance	Number of Securities Issued	Price per Security ($)
December 24, 2013	Heritage Common shares	Conversion of Class N Preferred Shares	520	$0.25

PRINCIPAL SHAREHOLDERS

The following table sets forth the shareholdings of each of those persons who, as of the date of this Prospectus, beneficially owns, or controls or directs, directly or indirectly, voting securities carrying 10% or more of the voting rights attached to any class of the Company's voting securities:

Name	Number of Class N Preferred Shares	Number of Heritage Common Shares	Percentage of Voting Rights
Counsel Corporation	Nil	20,644,481	73.3%

Following the Dividend, Counsel does not intend to hold any shares of the Company.

PROMOTER

Counsel is considered to be a promoter of the Company. For details relating to Counsel and its relationship with the Company, including the number and percentage of Heritage Common Shares held by Counsel and a description of agreements between Counsel and the Company, see "Relationship with Counsel Corporation" and "Interests of Management and Others in Material Transactions and Related Party Transactions".

PRICE RANGE AND TRADING VOLUME OF HERITAGE COMMON SHARES

The Heritage Common Shares, $0.01 par value per share, are quoted in the OTC market ("**OTCQB**") in the United States under the symbol "HGBL.OB".

The following table sets forth the high and low prices for the Heritage Common Shares, as quoted on the OTCQB, for the prior 12 months, based on inter-dealer quotations, without retail mark-up, mark-down or commissions. These prices may not represent actual transactions.

Month	Price per share Monthly High (*$*)	Price per share Monthly Low (*$*)	Total monthly Volume (*Units*)
December 2012	1.36	1.01	34,000
January 2013	1.10	0.81	8,000
February 2013	1.01	0.80	12,100
March 2013	1.00	0.51	17,800
April 2013	1.05	0.52	26,800
May 2013	0.85	0.51	31,200
June 2013	0.80	0.55	7,700
July 2013	0.80	0.58	10,700
August 2013	0.80	0.52	7,900
September, 2013	0.80	0.75	1,200
October, 2013	0.75	0.33	12,000
November, 2013	0.71	0.01	13,100
December, 2013	0.71	0.26	10,700

On March 19, 2014, being the last day on which the Heritage Common Shares traded prior to the date hereof, the last quoted price of the Heritage Common Shares on the OTCQB was $0.70.

DIRECTORS AND EXECUTIVE OFFICERS

Under the Company's constating documents, the board of directors (the "**Board**") is divided into three classes, with the total number of directors to be not less than five and not more than nine. Each director is to serve a term of three years or until his or her successor is duly elected and qualified. As of the date hereof, the Board consists of six members: one Class I director (Mr. Shimer), three Class II directors (Messrs. Toh, Heaton, and Silber) and two Class III directors (Messrs. Turock and Ryan). The following table sets forth the names, ages and positions with the Company of our current directors and executive officers. With the exception of Ross Dove and Kirk Dove, who are brothers, there are no family relationships between any present executive officers and directors.

Name	Age(1)	Province/State of Residence	Title
Allan C. Silber	65	Ontario	Chairman of the Board and President
Hal B. Heaton	63	Utah	Director (2), (3), (4)
Henry Y.L. Toh	56	Texas	Director (2), (3), (4)
Samuel L. Shimer	50	New York	Director(2)
David L. Turock	56	New Jersey	Director(2)
J. Brendan Ryan	71	New York	Director(2)
Kenneth Mann	46	Maryland	Senior Managing Director, Distressed M&A, Equity Partners HG LLC
Ross Dove	61	California	Managing Partner, Heritage Global Partners Inc.
Kirk Dove	58	California	Managing Partner, Heritage Global Partners Inc.
Stephen A. Weintraub	66	Ontario	Executive Vice President, Corporate Secretary and Chief Financial Officer

Notes:

(1) As of March 19, 2014

(2) Independent Director

(3) Member of the Audit Committee

(4) Member of the Compensation Committee

As a group all executive officers and directors of the Company beneficially own, directly or indirectly, or exercise control or direction over 1,188,688 common shares representing approximately 4.22% of the common shares outstanding.

Set forth below are descriptions of the backgrounds of the executive officers and directors of the Company:

Allan C. Silber, Chairman of the Board and President. Mr. Silber was elected to the Board as a Class II director in September 2001. He was appointed as Chairman of the Board in November 2001, a position he held until October 2004, and was again appointed as Chairman of the Board in March 2005. On January 19, 2011, in connection with the appointment of Jonathan Reich and Adam Reich as Co-Chief Executive Officers of the Company, Mr. Silber resigned the position of Chief Executive Officer and assumed the position of President. Mr. Silber is the Chairman and CEO of Counsel Corporation, which he founded in 1979, the Chairman of Knight's Bridge Capital Partners Inc., a wholly-owned subsidiary of Counsel that is a financial services provider, and, since 2007, the Chairman and, until December 2010, the CEO of Terra Firma Capital Corporation, a Toronto Stock Exchange Venture Exchange listed company of which Counsel formerly owned approximately 20%. Mr. Silber attended McMaster University and received a Bachelor of Science degree from the University of Toronto.

Hal B. Heaton, Director. Dr. Heaton was appointed by the Board as a Class II director on June 14, 2000 to fill a Board vacancy. Dr. Heaton has expertise in capital markets, corporate finance, emerging markets and entrepreneurial finance, all of which have relevance to the Company as it pursues varied investment and business opportunities in both North America and foreign markets. From 1983 to the present he has been a professor of Finance at Brigham Young University and between 1988 and 1990 was a visiting professor of Finance at Harvard University. From 2001 to 2007, Dr. Heaton served on the board of Mity Enterprises Inc., and was a member of its Compensation Committee. Dr. Heaton holds a Bachelor's degree in Computer Science/Mathematics and a Master's in Business Administration from Brigham Young University, as well as a Master's degree in Economics and a Ph.D. in Finance from Stanford University.

Henry Y.L. Toh, Director. The Board elected Mr. Toh as a Class II director and as Vice Chairman of the Board in April 1992. Mr. Toh has valuable experience as a director with a variety of technology-oriented companies, in addition to extensive hands-on experience as an executive officer of the Company. Mr. Toh became President of the Company in May 1993, Acting Chief Financial Officer in September 1995 and Chairman of the Board in May 1996, and served as such through September 1996. Mr. Toh was appointed as Chairman of the Audit Committee in March 2005. Mr. Toh currently serves as Vice Chairman/Executive Vice President and Director of NuGen Holdings Inc. (formerly InovaChem, Inc.), a research, development and production company specializing in Axio flux electric motor systems, since January 2008, and President and CEO of Amerique Investments International Corporation since 1992. He previously served as Executive Vice President and a director of NuGen Holdings Inc., from February 2008 to December 2009. Mr. Toh has served as a director of iDNA, Inc., a specialized finance and entertainment company, since 1999; a director of Teletouch Communications, Inc., a retail provider of internet, cellular and paging services, since 2002; a director of Isolagen, Inc., a biotechnology company, from 2003 until 2009; and a director of American Surgical Holdings, Inc. from 2007 to April 2011. Mr. Toh is a graduate of Rice University.

Samuel L. Shimer, Director. Mr. Shimer was appointed by the Board as a Class I director on April 15, 2001 to fill a Board vacancy. Mr. Shimer has extensive expertise in mergers and acquisitions, including those transactions that occurred while he was an officer of the Company and Counsel, where he was initially employed as a Senior Vice President, Mergers & Acquisitions and Business Development in July, 1997. He was appointed Managing Director in February, 2000 and he terminated his employment with the Company in February 2004 to join J. H. Whitney & Co., a private equity fund management company, where he remained as a Partner until December 2009. Mr. Shimer is currently Managing Director of SLC Capital Partners, LP, a private equity fund that he co-founded in April 2010. From 1991 to 1997, Mr. Shimer worked at two merchant banking funds affiliated with Lazard Frères & Co., Center Partners and Corporate Partners, ultimately serving as a Principal. Mr. Shimer earned a Bachelor of Science in Economics degree from The Wharton School of the University of Pennsylvania, and a Master's of Business Administration degree from Harvard Business School.

David L. Turock, Director. Mr. Turock was appointed by the Board as a Class III director on January 16, 2008 to fill a Board vacancy. Mr. Turock is the inventor of the Company's VoIP Patent, and an expert on numerous technologies and their applications. Mr. Turock began his career working with AT&T Bell Laboratories in 1982 and Bell Communications Research in 1988, and subsequently founded enhanced telephone service provider, Call Sciences. He later formed Interexchange, which designed and operated one of the world's largest debit card systems. Most recently, from 2001 to 2007, Mr. Turock was Chief Technology Officer of Therap Services, a provider of informatics services to disabled patients. Mr. Turock received his B.S. in Experimental Psychology from Syracuse University, his M.S. and Ph.D. degrees in Cognitive Psychology from Rutgers University, and his M.S.E. in Computer Science from the Moore School of the University of Pennsylvania.

J. Brendan Ryan, Director. Mr. Ryan was appointed by the Board as a Class III director on August 8, 2011 to fill a Board vacancy. Mr. Ryan has had a distinguished career in the advertising industry, most recently as Chairman and Chairman Emeritus with Foote Cone & Belding Worldwide (now Draftfcb), a position he held between June 2005 and December 2010. He has served on the boards of several public companies and currently serves as a board member of several non-profit corporations. Mr. Ryan has extensive experience at the Board level with respect to the workings of public companies as well as an extensive network of contacts that could be of benefit to the Company. Mr. Ryan received his B.A. in History from Fordham College and his M.B.A. in Marketing from the Wharton Graduate School of the University of Pennsylvania.

Kenneth Mann, Senior Managing Director, Distressed M&A, Equity Partners HG LLC. Mr. Mann has been employed by the Company since March 2011, when he joined the Company in connection with its acquisition of Equity Partners. Prior to the acquisition, Mr. Mann was a Partner at Equity Partners since 1995, and a Managing Partner since September 2002. During his career, Mr. Mann has had extensive experience handling investment banking services for distressed businesses operating in a wide variety of industries. Mr. Mann holds a Bachelor of Science Degree in Business Administration from Salisbury University. He began sponsoring events with the American Bankruptcy Institute in 1995, became a member in March 2003, and has served on its Asset Sales Committee since 2003.

Ross Dove, Managing Partner, Heritage Global Partners Inc. Together with his brother, Kirk Dove, Mr. Dove joined the Company when it acquired Heritage Global Partners in February 2012. Mr. Dove began his career in the auction business over thirty years ago, beginning with a small family-owned auction house and helping to expand it into a global firm, DoveBid, which was sold to a third party in 2008. The Mssrs. Dove remained as global presidents of the business until September 2009, and then formed Heritage Global Partners in October 2009. During his career, Mr. Dove has been actively involved in auction industry advances such as theatre-style auctions, which was a first step in migrating auction events onto the Internet. Mr. Dove has been a member of the National Auctioneers Associations since 1985, and a founding member of the International Auctioneers Association. He served as a director of Critical Path from January 2002 to January 2005 and has served on the boards of several venture funded companies.

Kirk Dove, Managing Partner, Heritage Global Partners Inc. Together with his brother, Ross Dove, Mr. Dove joined the Company when it acquired Heritage Global Partners in February 2012. Mr. Dove began his career in the auction business over twenty-five years ago, including, along with his brother, the position of global president of DoveBid, which was sold to a third party in 2008. The Mssrs. Dove remained as global presidents of the business until September 2009, and then formed Heritage Global Partners in October 2009. In addition to his experience with the auction business, Mr. Dove was employed at Merrill Lynch for several years as a Senior Account Executive. Mr. Dove holds a Bachelor of Sciences degree in Business from Northern Illinois University. He is a Senior ASA Member of the American Society of Appraisers, and has been a member of the National Auctioneers Associations since 1985.

Stephen A. Weintraub, Executive Vice President, Corporate Secretary and Chief Financial Officer. Mr. Weintraub was appointed Senior Vice President and Secretary of the Company in December 2002. Mr. Weintraub was elected as a Class I director on November 26, 2003, and served as a director until June 15, 2004. He became an Executive Vice President in October 2005 and was appointed Chief Financial Officer in December 2005. Mr. Weintraub joined Counsel in June 1983 as Vice President, Finance and Chief Financial Officer. He has been and is an officer and director of Counsel and various Counsel subsidiaries. He has been Secretary of Counsel since 1987 and was appointed Senior Vice President in 1989. In December 2004, Mr. Weintraub was promoted to Executive Vice President and Secretary and became Chief Financial Officer again in December 2005. Mr. Weintraub received a Bachelor's degree in Commerce from the University of Toronto in 1969, qualified as a Chartered Accountant with Clarkson, Gordon (now Ernst & Young LLP) in 1972 and received his law degree (LL.B.) from Osgoode Hall Law School, York University in 1975.

Each officer of the Company has been appointed by the Board and holds his office at the discretion of the Board.

No director or officer of our company has, during the last ten years: (i) been subject to or involved in any legal proceedings described under Item 401(f) of Regulation S-K, including, without limitation, any criminal proceeding (excluding traffic violations or similar misdemeanors) or (ii) been a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, United States federal or state securities laws, or finding any violations with respect to such laws.

Committees of the Board

The Board has designated two standing committees: the Audit Committee and the Compensation Committee. The Company does not have a nominating or a corporate governance committee. However, corporate governance functions are included in the Audit Committee Charter, a copy of which is annexed hereto as Appendix A, and Board nominations are considered by the full Board. See "Corporate Governance".

CORPORATE CEASE TRADE ORDERS OR BANKRUPTCIES

None of the Company's directors or executive officers, and to the best of the Company's knowledge, no shareholder holding a sufficient number of securities to affect materially the control of the Company is, as at the date of this Prospectus, or has been within the 10 years before the date of this Prospectus, (a) a director, chief executive officer or chief financial officer of any company that was subject to an order that was issued while the existing or proposed director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer, or (b) was subject to an order that was issued after the existing or proposed director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer, or (c) a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets. For the purposes of this paragraph, "order" means a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, in each case, that was in effect for a period of more than 30 consecutive days.

Penalties or Sanctions

None of the Company's directors or executive officers, and to the best of the Company's knowledge, no shareholder holding a sufficient number of securities to affect materially the control of the Company, has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor making an investment decision.

Individual Bankruptcies

None of the Company's directors or executive officers, and to the best of the Company's knowledge, no shareholder holding a sufficient number of securities to affect materially the control of the Company, has, within the 10 years prior to the date of this Prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of that individual.

Conflicts of Interest

To the best of the Company's knowledge and other than as disclosed herein, there are no existing or potential conflicts of interest among the Company, its directors or officers.

AUDIT COMMITTEE

The Audit Committee is responsible for making recommendations to the Board concerning the selection and engagement of independent accountants and for reviewing the scope of the annual audit, audit fees, results of the audit and independent registered public accounting firm's independence. The Audit Committee is also responsible for corporate governance, and reviews and discusses with management and the Board such matters as accounting policies, internal accounting controls and procedures for preparation of financial statements. Its membership is currently comprised of Mr. Toh (Chairman) and Dr. Heaton, both independent directors who are financially literate, as defined in National Instrument 52-110 – *Audit Committees* ("**NI 52-110**"). The Company's Audit Committee is governed by its Audit Committee Charter, a copy of which is annexed hereto as **Appendix A**.

Audit Committee Oversight

Since the commencement of the Corporation's most recently completed fiscal year, the Corporation's board of directors has not failed to adopt a recommendation of the Audit Committee to nominate or compensate an external auditor.

Relevant Education and Experience

The following is a summary of the relevant education and experience of each of the members of the Corporation's Audit Committee:

Mr. Toh: Mr. Toh has served as Chief Financial Officer of the Company and was appointed as Chairman of the Audit Committee in March 2005. Accordingly, Mr. Toh has had significant responsibility for, among other things, financial reporting as well as disclosure controls and internal controls over financial reporting of a public company.

Dr. Heaton: Dr. Heaton has expertise in capital markets, corporate finance, emerging markets and entrepreneurial finance. From 1983 to the present he has been a professor of Finance at Brigham Young University and between

1988 and 1990 was a visiting professor of Finance at Harvard University. Dr. Heaton holds a Master's in Business Administration from Brigham Young University, as well as a Master's degree in Economics and a Ph.D. in Finance from Stanford University.

Reliance on Certain Exemptions

Since January 1, 2012, the Company has not relied on the exemptions contained in sections 2.4 or 8 of NI 52-110.

External Audit Service Fees

Fees paid or expected to be paid to Deloitte LLP ("**Deloitte**"), our independent registered public accounting firm for the fiscal periods ended December 31, 2012 and 2013, are set forth below.

	Year Ended December 31,	
	2012	**2013**
Audit fees	$ 143	$129
Audit-related fees	11	—
Tax fees	—	—
All other fees	—	—
Total	$ 154	$129

Audit Fees

Audit fees are for professional services for the audit of our annual financial statements, the reviews of the financial statements included in our Quarterly Reports on Form 10-Q filed with the SEC, and services in connection with our statutory and regulatory filings.

Audit-Related Fees

Audit related fees are for assurance and related services that are reasonably related to the audit and reviews of our financial statements, exclusive of the fees disclosed as Audit Fees above. These fees include benefit plan audits and accounting consultations.

Tax Fees

Tax fees are for services related to tax compliance, consulting and planning services and include preparation of tax returns, review of restrictions on net operating loss carryforwards and other general tax services. For 2011 and 2012, these services were provided by an independent registered public accountant, rather than Deloitte.

All Other Fees

We did not incur fees for any services, other than the fees disclosed above relating to audit, audit-related and tax services, rendered during the years ended December 31, 2011 and 2012.

Audit and Non-Audit Service Pre-Approval Policy

In accordance with the requirements of the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated thereunder, the Audit Committee has adopted an informal approval policy to pre-approve services performed by the independent registered public accounting firm. All proposals for services to be provided by the independent registered public accounting firm, which must include a detailed description of the services to be rendered and the amount of corresponding fees, are submitted to the Chairman of the Audit Committee and the Chief Financial Officer. The Chief Financial Officer authorizes services that have been pre-approved by the Audit Committee. If there is any question as to whether a proposed service fits within a pre-approved service, the Audit Committee chair is consulted for a determination. The Chief Financial Officer submits requests or applications to provide services that have not been pre-approved by the Audit Committee, which must include an affirmation by the Chief Financial

Officer and the independent registered public accounting firm that the request or application is consistent with the SEC's rules on auditor independence, to the Audit Committee (or its Chairman or any of its other members pursuant to delegated authority) for approval.

Audit Services. Audit services include the annual financial statement audit (including quarterly reviews) and other procedures required to be performed by the independent registered public accounting firm to be able to form an opinion on our financial statements. The Audit Committee pre-approves specified annual audit services engagement terms and fees and other specified audit fees. All other audit services must be specifically pre-approved by the Audit Committee. The Audit Committee monitors the audit services engagement and may approve, if necessary, any changes in terms, conditions and fees resulting from changes in audit scope or other items.

Audit-Related Services. Audit-related services are assurance and related services that are reasonably related to the performance of the audit or review of our financial statements which historically have been provided to us by the independent registered public accounting firm and are consistent with the SEC's rules on auditor independence. The Audit Committee pre-approves specified audit-related services within pre-approved fee levels. All other audit-related services must be pre-approved by the Audit Committee.

Tax Services. The Audit Committee pre-approves specified tax services that the Audit Committee believes would not impair the independence of the independent registered public accounting firm and that are consistent with SEC rules and guidance. All other tax services must be specifically approved by the Audit Committee.

All Other Services. Other services are services provided by the independent registered public accounting firm that do not fall within the established audit, audit-related and tax services categories. The Audit Committee pre-approves specified other services that do not fall within any of the specified prohibited categories of services.

Exemption

The Corporation is relying upon the exemption in section 6.1 of NI 52-110 for venture issuers which allows for an exemption from Parts 3 (Composition of the Audit Committee) and 5 (Reporting Obligations) of NI 52-110.

CORPORATE GOVERNANCE

The Company is a small organization, with a market capitalization at March 19, 2014 of approximately $19.7 million, of which approximately 73.3% is owned by Counsel. The Board does not have a lead independent director since, given the relatively modest size and scale of the Company's operations, the Company believes the Board, as a whole, effectively oversees the strategic priorities of the Company and its operations. The Company's operations are relatively modest and it has few employees. It therefore requires limited oversight by the Board. As such, the Board meets quarterly to review and approve the Company's operating results. It meets annually to review and approve the Company's strategy and budget. Material matters such as acquisitions and dispositions, investments and business initiatives are approved by the full Board. The Board held five meetings during the fiscal year ended December 31, 2012 and six meetings in 2013.

1. **Board of Directors —** All of the directors other than Mr. Allan Silber are independent for the purposes of applicable securities laws. Mr. Silber is the Chairman and CEO of Counsel, and he also assumes the roles of Chairman and President at the Company.

2. **Directorships —** See "Directors and Executive Officers".

3. **Orientation and Continuing Education —** The Company does not have any formal policies with respect to the orientation of new directors nor does it take any measures to provide continuing education for the directors. At this stage of the Company's development and given the levels of experience of the current members of the Board, the Board does not feel it necessary to have such policies or programs in place. As the Company grows in size and scope, the Board may develop a formal orientation program for new directors and provide ongoing educational opportunities for all directors.

4. **Ethical Business Conduct —** The Company has adopted a code of ethics that applies to its employees, including its principal executive, financial and accounting officers or persons performing similar functions.

The Code of Conduct (the "**Code**") can be found on the Company's website at http://www.heritageglobalinc.com (follow Corporate Governance link to Governance Documents tab). The Company intends to satisfy the applicable continuous disclosure requirements regarding any amendments to, or waivers from, a provision of the Code that applies to its principal executive, financial and accounting officers or persons performing similar functions by posting such information on its website at the website address set forth above.

5. **Nomination of Directors —** There are no specific criteria for director nominees, and the Company does not specifically consider diversity with respect to the selection of its Board nominees. Given the combination of the Company's limited operations and its majority ownership by Counsel, the Company has believed that it would have difficulty identifying and attracting a diverse selection of candidates. To date, it has been deemed most effective to nominate and appoint individuals who are either former employees with detailed knowledge of the business, such as Mr. Toh and Mr. Shimer, individuals with expertise that is unique to the Company's operations, such as Mr. Turock, or individuals with expertise that will be of value as the Company expands its market presence, such as Mr. Ryan. There has been no material change in the procedures by which our shareholders may recommend nominees to our Board since such procedures were adopted and implemented.

6. **Compensation —** Each director who is not employed by the Company or by Counsel receives a $20,000 per year cash retainer, $1,000 per meeting attended in person or by telephone, and an annual grant of stock options to purchase 10,000 Heritage Common Shares, which is awarded on March 31 or the next business day. In addition, the Chairman of the Audit Committee receives a cash retainer of $10,000 per year, Audit Committee members who are not the chair receive a cash retainer of $5,000 per year, and other committee chairpersons receive an annual cash retainer of $2,000 per year. The directors are also eligible to receive options under our stock option plans at the discretion of the Board. No discretionary stock options were awarded during 2012 or 2011 and no discretionary stock options have been awarded in 2013 prior to the date hereof. See "Executive Compensation".

7. **Other Board Committees —** The Board has designated two standing committees: the Audit Committee and the Compensation Committee.

8. **Assessments —** The Company does not have any formal process with respect to the board assessments. The Board may consider implementing a formal process for assessments of the Board as a whole, its committees and individual directors in the future should circumstances warrant. Based on the Company's size and its stage of development, the Board considers a formal assessment process to be unnecessary at this time.

EXECUTIVE COMPENSATION

The disclosure in this "Executive Compensation" section is adapted from the Company's documents filed with the SEC in accordance with Item 402 of Regulation S-K under the Exchange Act.

Compensation Discussion and Analysis

Summary

The following sections provide an explanation and analysis of our executive compensation program and the material elements of total compensation paid to each of our named executive officers. Included in the discussion is an overview and description of:

- our compensation philosophy and program;
- the objectives of our compensation program;
- what our compensation program is designed to reward;
- each element of compensation;

- why we choose to pay each element;
- how we determine the amount for each element; and
- how each compensation element and our decision regarding that element fit into our overall compensation objectives and affect decisions regarding other elements, including the relationship between our compensation objectives and our overall risk management.

In reviewing our executive compensation program, we considered issues pertaining to policies and practices for allocating between long-term and currently paid compensation and those policies for allocating between cash and non-cash compensation. We also considered the determinations for granting awards, performance factors for our company and our named executive officers, and how specific elements of compensation are structured and taken into account in making compensation decisions. Questions related to the benchmarking of total compensation or any material element of compensation, the tax and accounting treatment of particular forms of compensation and the role of executive officers (if any) in the total compensation process also are addressed where appropriate. In addition to the named executive officers discussed below, the Company has only twenty-five salaried employees. As their compensation does not contain any elements that promote risk-taking, and thus could not have a material adverse effect on the Company, this compensation requires no discussion.

General Executive Compensation Philosophy

We compensate our executive management through a combination of base salaries, merit based performance bonuses, and long-term equity compensation that is designed to be competitive with similarly situated companies within our industry.

We adhere to the following compensation policies, which are designed to support the achievement of our business strategies:

- Our executive compensation program should strengthen the relationship between compensation, both cash and equity-based, and performance by emphasizing variable, at-risk earnings that are dependent upon the successful achievement of specified corporate, business unit and individual performance goals.
- A portion of each executive's total compensation should be comprised of long-term, at-risk compensation to focus management on the long-term interests of shareholders.
- An appropriately balanced mix of at-risk incentive cash and equity-based compensation aligns the interests of our executives with that of our shareholders. The equity-based component promotes a continuing focus on building profitability and shareowner value.
- Total compensation should enhance our ability to attract, retain, motivate and develop knowledgeable and experienced executives upon whom, in large part, our successful operation and management depends.
- Total compensation should encourage our executives to ensure that the risks involved in any business decision align that executive's potential personal return with maximal return to shareholders.

We set compensation by establishing targeted compensation levels for each senior executive and allocating that compensation amount, where appropriate, among base salary, merit-based compensation bonuses, and long-term equity compensation. At the highest and most senior levels, we offer incentive based compensation to reward company-wide performance and to maximize future profitability, stock appreciation and shareholder value.

A core principle of our executive compensation program is the belief that compensation paid to executive officers should be closely aligned with our near- and long-term success, while simultaneously giving us the flexibility to recruit and retain the most qualified key executives. Our compensation program is structured so that it is related to our stock performance and other factors, direct and indirect, all of which may influence long-term shareholder value and our success.

We utilize each element of executive compensation to ensure proper balance between our short- and long-term success as well as between our financial performance and shareholder return. In this regard, we believe that the executive compensation program for our named executive officers is consistent with our financial performance and the performance of each named executive officer. We do not utilize the services of compensation consultants in determining or recommending executive or director compensation.

Our Named Executive Officers

This analysis focuses on the compensation paid to our "named executive officers," which is a defined term generally encompassing all persons that served as our principal executive officer or principal financial officer at any time during the fiscal year, as well as certain other highly paid executive officers serving in such positions at the end of the fiscal year. During 2013, our named executive officers consisted of the following officers.

Allan C. Silber - our President and Chairman of the Board. Mr. Silber is the Chairman and CEO of Counsel Corporation, our majority shareholder, which he founded in 1979.

Stephen A. Weintraub – our Executive Vice President, Corporate Secretary and Chief Financial Officer since December 2005. Mr. Weintraub is the Executive Vice President, Corporate Secretary and Chief Financial Officer of Counsel Corporation. The Company pays no compensation directly to Mr. Weintraub, as his services are included in the management services agreement between the Company and Counsel. In the last completed financial year, none of the executive compensation paid to Mr. Weintraub by Counsel was attributable to the services he provided to the Company, directly or indirectly. See "Relationship with Counsel Corporation".

Kenneth Mann – Senior Managing Director, Distressed M&A, Equity Partners. Mr. Mann has held this position prior to and since the Company's acquisition of Equity Partners in June 2011.

Ross Dove and Kirk Dove – Managing Partners, HGP. The Messrs. Dove, who are brothers, are the founders of HGP, which was acquired by the Company in February 2012.

Jonathan Reich and Adam Reich – Former Co-CEOs of Heritage and HG LLC. The Messrs. Reich, who are brothers, were appointed to these positions on January 19, 2011, and departed the Company effective June 30, 2013.

Elements of Compensation

<u>Base Salaries</u>

Unless specified otherwise in their employment agreements, the base salaries of the Company's named executive officers are evaluated annually. In evaluating appropriate pay levels and salary increases for such officers, the Compensation Committee uses a subjective analysis, considering achievement of the Company's strategic goals, level of responsibility, individual performance, and internal equity and external pay practices. In addition, the Committee considers the scope of the executives' responsibilities, taking into account competitive market compensation for similar positions where available, as well as seniority of the individual, our ability to replace the individual and other primarily judgmental factors deemed relevant by our Board and Compensation Committee. The Compensation Committee does not use any specific benchmark in the determination of base salaries.

Base salaries are reviewed annually by our Compensation Committee and our Board, and adjusted from time to time pursuant to such review or at other appropriate times, in order to align salaries with market levels after taking into account individual responsibilities, performance and experience.

During 2013 and 2012, all of the Company's named executive officers, with the exception of Mr. Weintraub, were paid employees. As noted above, the Company's President, Mr. Allan Silber, is also the CEO of Counsel. Mr. Silber's annual salary of $137.5, and a discretionary bonus of up to 100% of his base salary, have been fixed at these amounts since 2005.

Mr. Mann earns a base salary of $375 and is eligible for a performance bonus as described below.

The Messrs. Dove each earn base salaries of $300 and are eligible for discretionary bonuses of up to 50% of their base salaries.

The Messrs. Reich each earned base salaries of $500 and were eligible for discretionary bonuses of up to 50% of their base salaries

Bonuses

Bonus awards are designed to focus management attention on key operational goals for the current fiscal year. Our executives may earn a bonus based upon achievement of their specific operational goals and achievement by the Company or business unit of its financial targets. Cash bonus awards are distributed based upon the Company and the individual meeting performance criteria objectives. The final determination for all bonus payments is made by our Compensation Committee based on a subjective analysis of the foregoing elements.

We set bonuses based on a subjective analysis of certain performance measures in order to maximize and align the interests of our officers with those of our shareholders. Although performance goals are generally standard for determining bonus awards, we have and will consider additional performance rating goals when evaluating the bonus compensation structure of our executive management. In addition, in instances where the employee has responsibility over a specific area, performance goals may be directly tied to the overall performance of that particular area.

Mr. Silber is entitled to a bonus of up to 100% of his annual salary. No bonus was awarded for 2013 or 2012.

Mr. Mann is eligible for a performance bonus calculated as 80% of the amount by which Equity Partners HG LLC's earnings exceed $200, to a maximum of $187.5 (50% of Mr. Mann's annual salary). In 2013 he earned a bonus of $151.925 and in 2012 he earned a bonus of $187.5.

The Messrs. Dove are eligible to receive an annual bonus of up to 50% of their annual salaries. They did not receive a bonus in either 2013 or 2012.

The Messrs. Reich were eligible to receive an annual bonus of up to 50% of their annual salaries. In 2013, they did not receive any bonus. In 2012, each of the Messrs. Reich received a bonus of $146.25.

As the bonuses described above, with the exception of Mr. Mann, can only be awarded at the discretion of the Compensation Committee, they do not encourage inappropriate risk-taking on the part of the named executive officers, nor represent a risk to the Company. As Mr. Mann's bonus is closely tied to the Company's performance, it also does not encourage inappropriate risk-taking on his part.

Equity Incentive Grants

In keeping with our philosophy of providing a total compensation package that favors at-risk components of pay, long-term incentives can comprise a significant component of our executives' total compensation package. These incentives are designed to motivate and reward executives for maximizing shareowner value and encourage the long-term employment of key employees. Our objective is to provide executives with above-average, long-term incentive award opportunities.

We view stock options as our primary long-term compensation vehicle for our executive officers. Stock options generally are granted at the prevailing market price on the date of grant and will have value only if our stock price increases. Grants of stock options generally are based upon our performance, the level of the executive's position, and an evaluation of the executive's past and expected future performance. We do not time or plan the release of material, non-public information for the purpose of affecting the value of executive compensation.

We believe that stock options will continue to be used as the predominant form of stock-based compensation. During 2011, Mr. Silber was granted 250,000 options, and the Messrs. Reich were each granted 625,000 options to purchase Heritage Common Shares. No options were granted to any of our named executive officers during 2012. However, during 2012 the Company issued 400,000 shares of common stock to each of the Messrs. Reich in return for an intellectual property licensing agreement, and this was deemed to be an award of stock-based compensation. During 2013, Mr. Mann was granted 150,000 options to purchase common stock.

Other Benefits

The additional benefits provided to the named executive officers during 2013 were the payment of an automobile allowance to Mr. Ross Dove and each of the Messrs. Reich, payments of gross-ups for taxes to each of the Messrs. Reich, and health insurance premiums and Social Security for Mr. Mann, the Messrs. Dove and the Messrs. Reich. During 2012, both of the Messrs. Dove and both of the Messrs. Reich were paid an automobile allowance, and health insurance premiums and Social Security were paid for Mr. Mann, the Messrs Dove and the Messrs. Reich. There were no pension or change in control benefits in either 2013 or 2012.

Tax Considerations

Section 162(m) of the Internal Revenue Code places limits on the deductibility of compensation in excess of $1 million paid to executive officers of publicly held companies. The Compensation Committee does not believe that Section 162(m) has had or will have any impact on the compensation policies followed by the Company.

Executive Compensation Process

Compensation Committee

Our Compensation Committee oversees and approves all compensation and awards made to the President. The Compensation Committee reviews the performance and compensation of the President, without his participation, and establishes his compensation accordingly, with consultation from others when appropriate. For the additional executive officers, at this time consisting of the Senior Managing Director of Equity Partners, and the two Managing Partners of Heritage Global Partners, the Chairman of the Board reviews performance and determines the amount of any bonus to be awarded.

Hedging of Equity-Based Compensation

While the Company does not have a specific policy against it, to the Company's knowledge, named executive officers and directors do not purchase financial instruments designed to hedge or offset a decrease in the market value of equity securities of the Company granted as compensation or held, directly or indirectly, by the named executive officer or director.

Executive and Director Compensation – Tabular Disclosure

Please note that all amounts reported in the tables below, and the accompanying notes, are in dollars, rounded to the nearest dollar.

Summary Compensation Table

The following table sets forth the aggregate compensation for services rendered during the fiscal years ended December 31, 2013 and 2012 by our named executive officers. As discussed below and under the heading "Relationship with Counsel Corporation", certain employees of Counsel provide services to Heritage, and compensation for those services is provided and paid for under the terms and provisions of the Management Agreement. See "Relationship with Counsel Corporation".

Name and Principal Position[1]	Year	Salary	Bonus	Stock Awards	Option Awards[3]	All Other Compensation	Total
Allan Silber	2013	$ 137,500	$ —	$ —	$ —	$ —	$ 137,500
Chairman of the Board and President	2012	137,500	—	—	—	—	137,500
Ross Dove	2013	300,000	—	—	—	14,008[2]	314,008
Managing Partner, Heritage Global	2012	242,304	—	—	—	13,933[2]	256,237

Partners							
Kirk Dove	2013	300,000	—	—	—	—	300,000
Managing Partner, Heritage Global Partners	2012	242,304	—	—	—	15,924[2]	258,228
Kenneth Mann	2013	375,000	151,925	—	111,097[3]	—	638,022
Senior Managing Director, Equity Partners	2012	375,000	187,500	—	—	—	562,500
Jonathan Reich	2013	250,000	—	—	—	84,750[4]	334,750
Former Co-CEO	2012	500,000	146,250	526,688[5]	—	12,000[2]	1,184,938
Adam Reich	2013	250,000	—	—	—	84,750[4]	334,750
Former Co-CEO	2012	500,000	146,250	526,688[5]	—	12,000[2]	1,184,938

Notes:

(1) No disclosure is provided with respect to the Company's CFO, Mr. Weintraub, as his services are covered under the terms of the Management Services Agreement referenced above, and no compensation is paid directly by the Company. Messrs Reich ceased to be employed by the Company effective June 30, 2013..

(2) This amount represents an automobile allowance.

(3) See "Grants of Plan-Based Awards", below, for details regarding the assumptions made in the valuation of these option awards.

(4) This amount represents $78,750 as a gross-up for payment of taxes and $6,000 as payment of an automobile allowance.

(5) This amount represents 400,000 shares of common stock of the Company with a value of $1.31672 per share, issued in exchange for intellectual property licenses.

Allan Silber, the President of HERITAGE, is an employee of Counsel. As President of HERITAGE, he is entitled to an annual salary of $137,500, plus a discretionary bonus of up to 100% of the base salary.

Ken Mann, Senior Managing Director, Distressed M&A, Equity Partners HG LLC is entitled to an annual salary of $375,000. He is also entitled to a variable annual bonus based on the profitability of Equity Partners HG LLC. The bonus is calculated as 80% of the amount by which Equity Partners HG LLC's earnings exceed $200,000, to a maximum of $187,500 (50% of Mr. Mann's annual salary).

The Messrs. Dove, the Managing Partners of HGP, are each entitled to an annual salary of $300,000 per year, plus a discretionary bonus of up to 50% of the base salary. Their employment agreements, which commenced on February 29, 2012, provide for a term of five years, with automatic annual renewals thereafter. Upon termination of employment by the Company without cause, the Managing Partners are entitled to twelve month's base salary and a pro rata share of the bonus payable in the fiscal year of termination based on the termination date (provided the Managing Partner has met as of the termination date the performance criteria established with respect to the bonus for the fiscal year in which the termination date occurs).

The Messrs. Reich, who resigned from the Company effective June 30, 2013, were each entitled to an annual salary of $500,000 per year pursuant to their respective employment agreements, which could have been increased but not decreased upon annual review by the Board, plus a discretionary annual bonus of up to 50% of the base salary. Their employment agreements, which were effective as of January 19, 2011, provided for an initial term of five years, with automatic annual renewals thereafter unless either party gave notice of termination. Upon termination of employment by the Company without cause, the Co-CEOs were entitled to twelve month's base salary and a pro rata share of the bonus payable in the fiscal year of termination based on the termination date (provided the Co-CEO had met as of the termination date the performance criteria established with respect to the bonus for the fiscal year in which the termination date occurred). No bonus or termination amounts were payable upon the cessation of their employment with the Company.

Grants of Stock Awards

On August 10, 2012, 400,000 Heritage Common Shares, valued at $1.31672 per share, were granted to each of the Messrs. Reich. The shares were issued in return for intellectual property licensing agreements with each of the Messrs. Reich. These Heritage Common Shares were returned on July 26, 2013 in connection with the resignation of the Co-CEOs and cancelled by the Company.

Grants of Plan-Based Awards

On March 11, 2013, 150,000 options, having an exercise price of $1.00 and a fair value of $0.74, were granted to Mr. Mann. These options are part of the 2003 Stock Options and Appreciation Rights Plan. The inputs to the Black-Scholes Option Pricing Model were an expected volatility of 125%, a risk-free interest rate of 0.40%, an expected term of 4.75 years, and an expected dividend yield of zero.

On February 12, 2012, 312,500 options, having an exercise price of $2.00 and a fair value of $1.81, were granted to each of the Messrs. Dove. These options were issued as part of the consideration for the acquisition of HGP. The inputs to the Black-Scholes Option Pricing Model were an expected volatility of 133%, a risk-free interest rate of 0.36%, an expected term of 4.75 years, and an expected dividend yield of zero.

On June 23, 2011, 200,000 options, having an exercise price of $1.83 and a fair value of $2.00, were acquired by a corporation solely owned by Mr. Mann as part of the consideration for the acquisition of Equity Partners. The inputs to the Black-Scholes Option Pricing Model were an expected volatility of 323%, a risk-free interest rate of 0.94%, an expected term of 4.75 years, and an expected dividend yield of zero.

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth the detail of outstanding equity awards, as regards exercisable and unexercisable options, at December 31, 2013.

Name	Number of Securities Underlying Unexercised Options: Exercisable	Number of Securities Underlying Unexercised Options: Unexercisable	Option Exercise Price ($/Share)	Option Expiration Date
Allan Silber	125,000(1)	125,000(1)	$ 1.974	June 29, 2018
Kenneth Mann	200,000(2)	--	1.83	June 23, 2018
Kenneth Mann	--	150,000(3)	1.00	March 11, 2020
Ross Dove	78,125 (4)	234,375(4)	2.00	February 28, 2019
Kirk Dove	78,125 (4)	234,375(4)	2.00	February 28, 2019

Note:

(1) The options vest 25% annually beginning on the first anniversary of the grant date, which was June 29, 2011.

(2) These options were part of the consideration paid to acquire Equity Partners on June 23, 2011, and vested immediately.

(3) The options vest 25% annually beginning on the first anniversary of the grant date, which was March 11, 2013.

(4) The options vest 25% annually beginning on the first anniversary of the grant date, which was February 29, 2012.

There were no adjustments or changes in the terms of any of the Company's equity awards in 2013.

Compensation of Directors

The following table sets forth the aggregate compensation for services rendered during the fiscal year ended December 31, 2013 by each person serving as a director:

Name	Fees Earned or Paid in Cash	Option Awards[1]	Total
Henry Y.L. Toh	$ 44,000	$ 8,249	$ 52,249
Hal B. Heaton	37,000	8,249	45,249
Samuel L. Shimer	26,000	8,249	34,249

David L. Turock	26,000	8,249	34,249
J. Brendan Ryan	26,000	8,249	34,249

Note:

(1) The value included in this column represents the grant date fair value of the option award computed in accordance with FASB ASC Topic 718. The aggregate number of shares underlying stock options outstanding at fiscal year-end for each of the directors listed in the table was as follows: Mr. Toh — 70,000; Dr. Heaton — 70,000; Mr. Shimer — 70,000; Mr. Turock — 60,000; Mr. Ryan 20,000.

Please see “Corporate Governance” for the components of the compensation paid to the Company’s independent directors.

Stock Option Plans

At December 31, 2013, the Company had six stock-based employee compensation plans, which are described in Note 14 of the audited consolidated financial statements for the period ended December 31, 2012 included in this Prospectus.

INDEBTEDNESS OF DIRECTORS AND OFFICERS

Directors and officers of the Company neither owe nor are owed any funds to or by the Company.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS AND RELATED PARTY TRANSACTIONS

Related Party Debt with Counsel

At September 30, 2013 the Company had a balance of $3,649 owing to Counsel under the Counsel Loan, of which $91 was accrued interest, as compared to a receivable of $2,929 at December 31, 2012. For further discussion of the terms of the Counsel Loan, see Note 8 of the unaudited condensed consolidated financial statements of the Company for the period ended September 30, 2013. The Counsel Loan is expected to remain outstanding following the Dividend. As the Credit Facility is only available to the Company for certain purposes in connection with acquisitions of assets, the purpose of the Counsel Loan is to provide liquidity not otherwise available to the Company.

Counsel Services Provided to Company

Counsel is the majority shareholder of the Company, holding 20,644,481 common shares representing 73.3% of the total issued and outstanding common shares of the Company. Counsel intends to distribute all of such shares via the Dividend. In addition, since December 2004, the Company and Counsel have entered into successive annual management services agreements (the “**Management Agreement**”). Under the terms of the Management Agreement, the Company agrees to pay Counsel for ongoing services provided to the Company by Counsel personnel. These services include preparation of the Company’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 are: 1) its Executive Vice President, Secretary and Chief Financial Officer, 2) its Senior Tax Manager, 3) an Accounting Manager, and 4) its Accounts Payable Clerk. These employees have the same or similar positions with the Company, but none of them receive compensation from the Company. Rather, Counsel allocates to the Company a percentage, based on time incurred, of the employees’ base compensation paid by Counsel. The amounts due under the Management Agreement are payable within 30 days following the respective year end, subject to applicable restrictions. Any unpaid fee amounts bear interest at 10% per annum commencing on the day after such year end. In the event of a change of control, merger or similar event of the Company, all amounts owing, including fees incurred up to the date of the event, will become due and payable immediately upon the occurrence of such event. Counsel has continued to provide these services in 2013 on the same cost basis and will continue to provide such services following the Dividend. Upon the declaration of the Dividend, the Management Agreement will be amended and restated (the “**Amended Management Agreement**”) such that Counsel will remain as external manager subsequent to the Dividend and no change of control payment will be payable in connection with the Dividend. The Amended Management 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 (90) days before the expiration. The Amended Management Agreement may be terminated at any time upon mutual agreement of the Company and Counsel. The Company is currently considering the internalization of its management in the future, but expects that it will continue to avail itself of the services provided under the Amended Management Agreement until such time.

In addition to the above, beginning in the first quarter of 2011, additional amounts have been charged to the Company for the services of Counsel personnel that relate to the ongoing operations of the Company's asset liquidation business. All amounts charged by Counsel are detailed below:

Item	**Nine months ended September 30,**		**Twelve months ended December 31,**	
	2013	**2012**	**2012**	**2011**
Management fees	$270	$270	$360	$360
Other charges	55	56	75	70
Total	$325	$326	$435	$430

Transactions with Other Related Parties

On July 26, 2013, the Company and its Co-CEOs entered into an agreement by which the Co-CEOs terminated their employment with the Company and HG LLC. Under the agreement, as disclosed in the Company's Current Report on Form 8-K filed on July 31, 2013, effective June 30, 2013 the Co-CEOs departed the Company along with the personnel in the New York and Los Angeles offices of HG LLC. In August 2012, each Co-CEO had acquired 400,000 common shares of the Company, with a total value of $1,054, in return for intellectual property licensing agreements. The $1,054 was recorded as stock-based compensation in 2012. On July 26, 2013, the Co-CEOs returned these common shares, which had a fair value of $624, in order to re-acquire the licensing agreements. The Company therefore recorded intellectual property licensing revenue of $624. The shares have been cancelled.

The Company, beginning in 2009, leased office space in White Plains, NY and Los Angeles, CA as part of the operations of HG LLC. Both premises are owned by entities that are controlled by a former Co-CEO of HG LLC and the Company. In connection with the departure of the Co-CEOs, these lease agreements were terminated, without penalty, effective June 30, 2013.

Additionally, the Company leases office space in Foster City, CA as part of the operations of HGP. The premises are owned by an entity that is jointly controlled by the former owners of HGP.

The lease amounts paid by the Company to the related parties are detailed below:

Leased premises location	**Nine months ended September 30,**		**Twelve months ended December 31,**	
	2013	**2012**	**2012**	**2011**
White Plains, NY	$66	$95	$126	$122
Los Angeles, CA	12	19	26	26
Foster City, CA	171	92	130	—
Total	$249	$206	$282	$148

As part of the acquisition of HGP in February 2012, the Company issued Promissory Notes totaling $1,000 to its two former owners, partially offset by $151 of accounts receivable from the former owners. During the third quarter of 2012, the Promissory Notes, which did not accrue interest, were repaid in full, and the accounts receivable were collected.

ESCROWED SECURITIES

In accordance with the Canadian Securities Administrators National Policy 46-201 entitled "Escrow for Initial Public Offerings" (the "**Policy**") and pursuant to an agreement (the "**Escrow Agreement**") dated as of March 19, 2014 among Allan Silber, Kirk Dove and Ross Dove (collectively, the "**Principals**"), the Company and Computershare Investor Services Inc. (the "**Trustee**"), a total of 2,049,010 Heritage Common Shares will be deposited into escrow with the Trustee as escrow agent upon completion of the Dividend (the "**Escrowed Securities**").

Under the Policy, the Company is an "emerging issuer". Based on the Company being an emerging issuer, the Escrowed Securities will be subject to a three year escrow. Ten percent of the Principals' Escrowed Securities will be released at the time of the Dividend with the balance being released in six month intervals from the date of the initial release date with the balance being released in equal tranches at six month intervals from the date of the initial release date, with 15% of the Escrowed Securities released in each tranche:

The Escrowed Securities cannot generally be transferred or otherwise dealt with while in escrow. Permitted transfers or dealings within escrow include: (i) transfers to existing or, upon their appointment, incoming directors and senior officers of the Company or of a material operating subsidiary, with approval of the Company's board of directors; (ii) transfers to a person or company that, before the transfer, holds more than 20% of the Heritage Common Shares; (iii) transfers to a person or company that, after the transfer, will hold more than 10% of the Heritage Common Shares and has the right to elect or appoint one or more directors or senior officers of the Company or any of its material operating subsidiaries; (iv) transfers to an RRSP or similar trustee plan provided that the only beneficiaries are the transferor or the transferor's spouse, children or parents; (v) transfers upon bankruptcy to the trustee in bankruptcy; and (vi) transfer to a financial institution on the realization of Escrowed Securities pledged, mortgaged or charged by the holder to the financial institution as collateral for a loan. Tenders of Escrowed Securities to a take-over bid would be permitted provided that, if the holder of the Escrowed Securities is a principal of the successor issuer upon completion of the take-over bid, securities received in exchange for tendered Escrowed Securities are substituted in escrow on the basis of the successor issuer's escrow classification. Any amendments to the Escrow Agreement require the approval of all securities regulators having jurisdiction.

RISK FACTORS

We face significant competition in our asset liquidation business.

Our asset liquidation business depends on our ability to successfully obtain a continuous supply of distressed and surplus assets for profitable resale to third parties. In this regard, we compete with numerous other organizations, some of which are much larger and better-capitalized, with greater resources available for both asset acquisition and associated marketing to potential customers. Additionally, some competitors have a longer history of activity in the asset liquidation business, and may have advantages with respect to accessing both deals and capital.

Our asset liquidation business is subject to inventory risk and credit risk.

Under our business model, when not acting solely as auctioneer, we assume the general and physical inventory and credit risks associated with purchasing assets for subsequent resale. Although we do enter into transactions for which a subsequent purchaser has already been identified, in most cases we purchase assets and assume the risk that they may sell for less than our forecasted price. As well, we may miscalculate demand or resale value, and subsequently sell the assets for less than their original purchase price. Either situation could have a material adverse effect upon our use of working capital and our results of operations.

A significant portion of our asset liquidation business is conducted through Joint Ventures.

Conducting business through Joint Ventures, as described above, allows us to participate in significantly larger deals than those we could fund independently. If we ceased entering into Joint Ventures, the pool of potential transactions would be reduced. This could negatively impact our ability to obtain a continuous supply of assets for resale, and could have a material adverse effect upon our use of working capital and our results of operations.

Our operating results are subject to significant fluctuation.

Our revenue and operating results are subject to fluctuation from quarter to quarter and from year to year due to the nature of the asset liquidation business, which involves discrete deals of varying size that are very difficult to predict. The timing of revenue recognition related to significant transactions can materially affect quarterly and annual operating results. Despite the accompanying variability of direct asset liquidation costs, quarterly fixed costs that are largely composed of salaries and benefits could exceed operating margins. There can therefore be no assurance that we can sustain profitability on a quarterly or annual basis.

We are subject to the risks associated with managing growth.

Since the establishment of our asset liquidation business in 2009, we have experienced significant growth. This has occurred through the acquisitions of Equity Partners in 2011 and Heritage Global Partners in 2012, as well as through the expansion of our operations to Latin America and Europe during the second half of 2012. This growth requires increased investment in personnel, systems and facilities. In the absence of continued revenue growth, the Company's operating margins could decline from current levels. Additional acquisitions will be accompanied by such risks as exposure to unknown liabilities of acquired businesses, unexpected acquisition expenses, greater than anticipated investments in personnel, systems and facilities, the expense of integrating new and existing operations, diversion of senior management resources, and dilution to existing shareholders. Failure to anticipate and manage these risks could have a material adverse effect upon our business and results of operations.

We may become subject to foreign currency exchange rate risk.

During the last half of 2012, we expanded our operations to Latin America, the United Kingdom ("**UK**"), and Europe. Our UK and European operations are conducted in pounds sterling (£) and European euros (€), respectively, rather than $US. Although we expect the European operations to generate sufficient revenue to cover all local operating expenses, this has not yet occurred, and it is possible that we may be required to continue to use funds generated by our US operations to meet European obligations as they come due. We would thereby incur ongoing exchange rate risk. Failure to anticipate and manage this risk could have a material adverse effect upon our business and results of operations.

The auction portion of our asset liquidation business may be subject to a variety of additional costly government regulations.

Many states and other jurisdictions have regulations governing the conduct of traditional "auctions" and the liability of traditional "auctioneers" in conducting auctions, which may also apply to online auction services. In addition, certain states have laws or regulations that expressly apply to online auction services. We expect to continue to incur costs in complying with these laws and could be subject to fines or other penalties for any failure to comply with these laws. We may be required to make changes in our business to comply with these laws, which could increase our costs, reduce our revenue, cause us to prohibit the listing of certain items, or otherwise adversely affect our financial condition or operating results.

Certain categories of merchandise that we sell are subject to government restrictions.

We sell merchandise, such as scientific instruments, that is subject to export control and economic sanctions laws, among other laws, imposed by the United States and other governments. Such restrictions include the U.S. Export Administration regulations, the International Traffic in Arms regulations, and economic sanctions and embargo laws administered by the Office of the Foreign Assets Control regulations. These restrictions prohibit us from, among other things, selling property to (1) persons or entities that appear on lists of restricted or prohibited parties maintained by the United States or other governments or (2) countries, regimes, or nationals that are the target of applicable economic sanctions or other embargoes.

We may incur significant costs or be required to modify our business to comply with these requirements. If we are alleged to have violated any of these laws or regulations we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or prohibition from doing business with U.S. federal government agencies. In addition, we could suffer serious harm to our reputation if allegations of impropriety are made against us, whether or not true.

We are subject to the U.S. Foreign Corrupt Practices Act ("FCPA").

We are subject to the FCPA, which generally prohibits U.S. companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or retaining business. Our recent expansion into Latin America and Europe has increased the risk of non-compliance with the FCPA. Failure to comply with the FCPA could subject the Company to, among other things, penalties and legal expenses that could harm our reputation and have a material adverse effect on our business, financial condition and results of operations.

Our asset liquidation business is subject to environmental risk.

Our asset liquidation business at times includes the purchase and resale of buildings and land. Although our purchase process includes due diligence to determine that there are no adverse environmental issues, it is possible that such issues could be discovered subsequent to a completed purchase. Any remediation and related costs could have a material adverse effect upon our business and results of operations.

We are dependent upon key personnel.

Our operations, particularly those of our asset liquidation business, are substantially dependent on the knowledge, skills and performance of several of our executive officers, particularly the President of the Company and the Managing Partners of Heritage Global Partners, Inc. The loss of any one of these officers could damage key relationships, and result in the loss of essential information and expertise. As our operations expand, we will be required to hire additional employees, and may face competition for them. Therefore, either the loss of the services of the above existing officers, or the inability to attract and retain appropriately skilled new employees, could have a material adverse effect upon our business and results of operations.

We may require additional financing in the future, which may not be available, or may not be available on favourable terms.

We may need additional funds to finance our operations, particularly our asset liquidation business, to make additional investments, or to acquire complementary businesses or assets. We may be unable to generate these funds from our operations. If funds are not available, or not available on acceptable terms, we could experience a material adverse effect upon our business.

We have a significant investment in non-publicly traded equity.

The Company’s investment in Polaroid, which was initially made during 2009, represents approximately 4% of its total assets at December 31, 2012. The investment is in a private company and therefore not easily liquidated. Although the Company’s analysis of this investment opportunity concluded that it will generate positive returns, there can be no assurance that the Company will either recover the entire value of its initial investment or earn a positive return to the extent predicted.

We are subject to litigation.

We are, from time to time, involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The significant litigation matters in which we are involved at this time are detailed elsewhere in this Prospectus. See “Legal Proceedings”.

We may fail to either adequately protect our proprietary technology and processes, or enforce our intellectual property rights.

The Company’s VoIP Patent Portfolio consists of United States Patents No. 6,243,373 and No. 6,438,124. The ultimate value of these patents has yet to be determined. If we fail to obtain or maintain adequate protections, or are unsuccessful in enforcing our patent rights, we may not be able to either realize additional value from our patents, or prevent third parties from benefiting from those patents without benefit to the Company. Any currently pending or future patent applications may not result in issued patents. In addition, any issued patents may not have priority over any patent applications of others or may not contain claims sufficiently broad to protect us against third parties with similar technologies, products or processes. In addition, the Company’s existing patents have finite lives (although they may be extended by filing continuations and/or divisional applications), most of which expire over the next three to five years. There is no guarantee that they will be fully exploited or commercialized before expiry.

Provisions in our Articles of Incorporation, as amended, could prevent or delay stockholders’ attempts to replace or remove current management.

Our Articles of Incorporation, as amended, provide for staggered terms for the members of our Board. The Board is divided into three staggered classes, and each director serves a term of three years. At each annual stockholders’ meeting only those directors comprising one of the three classes will have completed their term and stand for re-election or replacement. These provisions may be beneficial to our management and the Board in a hostile tender offer, and may have an adverse impact on stockholders who may want to participate in such a tender offer, or who may want to replace some or all of the members of the Board.

Our Board of Directors may issue additional shares of preferred stock without stockholder approval.

Our Articles of Incorporation, as amended, authorize the issuance of up to 10,000,000 shares of preferred stock, $10.00 par value per share. The Board is authorized to determine the rights and preferences of any additional series or class of preferred stock. The Board may, without stockholder approval, issue shares of preferred stock with dividend, liquidation, conversion, voting or other rights that are senior to the Heritage Common Shares or that could adversely affect the voting power or other rights of the existing holders of outstanding preferred shares or Heritage Common Shares. The issuance of additional shares of preferred stock may also hamper or discourage an acquisition or change in control of Heritage.

We may conduct future offerings of Heritage Common Shares and preferred shares and pay debt obligations with Heritage Common Shares and preferred shares that may diminish our investors' pro rata ownership and depress our share price.

We reserve the right to make future offers and sales, either public or private, of our securities including shares of our preferred shares, Heritage Common Shares or securities convertible into Heritage Common Shares at prices differing from the price of the Heritage Common Shares previously issued. In the event that any such future sales of securities are effected or we use our Heritage Common Shares or preferred stock to pay principal or interest on our debt obligations, an investor's pro rata ownership interest may be reduced to the extent of any such issuances and, to the extent that any such sales are effected at consideration which is less than that paid by the investor, the investor may experience dilution and a diminution in the market price of the Heritage Common Shares.

There is a limited public trading market for the Heritage Common Shares; the market price of the Heritage Common Shares has been volatile and could experience substantial fluctuations.

The Heritage Common Shares are currently traded in the OTC market and have a limited public trading market. Without an active trading market, there can be no assurance regarding the liquidity or resale value of the Heritage Common Shares. In addition, the market price of the Heritage Common Shares has been, and may continue to be, volatile. Such price fluctuations may be affected by general market price movements or by reasons unrelated to our operating performance or prospects such as, among other things, announcements concerning us or our competitors, technological innovations, government regulations, and litigation concerning proprietary rights or other matters.

We may not be able to utilize income tax loss carryforwards.

Restrictions in our ability to utilize income tax loss carry forwards have occurred in the past due to the application of certain changes in ownership tax rules in the United States. There is no certainty that the application of these rules may not recur. In addition, further restrictions of, reductions in, or expiry of net operating loss and net capital loss carry forwards may occur through future merger, acquisition and/or disposition transactions or through failure to continue a significant level of business activities. Any such additional limitations could require us to pay income taxes in the future and record an income tax expense to the extent of such liability. We could be liable for income taxes on an overall basis while having unutilized tax loss carry forwards since these losses may be applicable to one jurisdiction and/or particular line of business while earnings may be applicable to a different jurisdiction and/or line of business. Additionally, income tax loss carry forwards may expire before we have the ability to utilize such losses in a particular jurisdiction 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.

We have not declared any dividends on the Heritage Common Shares to date and have no expectation of doing so in the foreseeable future.

The payment of cash dividends on the Heritage Common Shares rests within the discretion of our Board of Directors and will depend, among other things, upon our earnings, unencumbered cash, capital requirements and our financial condition, as well as other relevant factors. To date, we have not paid dividends on the Heritage Common Shares nor do we anticipate that we will pay dividends in the foreseeable future. As of the date of this Prospectus, we do not have any preferred shares outstanding that have any preferential dividends.

We are located outside of Canada

The Company, its subsidiaries and the majority of their assets are located outside of Canada. It may be difficult therefore for investors to enforce any judgments obtained against the Company in Canada, including judgments predicated on the civil liability provisions of applicable Canadian securities laws and investors may be effectively prevented from pursuing remedies against the Company under Canadian securities laws or otherwise.

LEGAL PROCEEDINGS

On August 27, 2009 the Company's wholly-owned subsidiary, C2 Communications Technologies Inc., filed a patent infringement lawsuit against PAETEC Corporation, Matrix Telecom, Inc., Windstream Corporation, and Telephone and Data Systems, Inc. The complaint was filed in the United States District Court for the Eastern District of Oklahoma and alleged that the defendants' services and systems utilizing VoIP infringe the Company's U.S. Patent No. 6,243,373. The complaint sought an injunction, monetary damages and costs. In the fourth quarter of 2009, the complaint against Matrix Telecom, Windstream Corporation and Telephone and Data Systems, Inc. was dismissed without prejudice. Also in the fourth quarter of 2009, the case was transferred to the Eastern District of Texas. A trial date was set for March 13, 2013, but in the first quarter of 2013 the Company entered into a settlement and license agreement with the remaining defendant.

The Company is involved in various other legal matters arising out of its operations in the normal course of business, none of which are expected, individually or in the aggregate, to have a material adverse effect on the Company.

AUDITOR, TRANSFER AGENT AND REGISTRAR

The Auditor of the Corporation is Deloitte LLP, located in Toronto, Ontario. The transfer agent and registrar for the Heritage Common Shares is American Stock Transfer & Trust Company, LLC at its principal office in New York, NY.

AGENT FOR SERVICE OF PROCESS

Each of the Company, Henry Y. L. Toh, Hal B. Heaton, Samuel L. Shimer, David L. Turock, J. Brendan Ryan, Kenneth W. Mann, Kirk Dove and Ross Dove is incorporated or resides outside of Canada and will appoint Counsel Corporation, 700 – 1 Toronto St., Toronto, Ontario, Canada M5C 2V6 as its or his agent for service of process. Investors are advised that it may not be possible to enforce judgments obtained in Canada against any person or company that is organized under the laws of a foreign jurisdiction or who resides outside of Canada, even if the party has appointed an agent for service of process.

MATERIAL CONTRACTS

The Company's material contracts have been publicly filed in the United States in accordance with applicable securities laws and include the following:

- Management Agreement.
- Loan and Security Agreement between Israel Discount Bank of New York (as Agent) and Counsel RB Capital LLC, dated as of June 2, 2009 ("the "**Credit Facility**").
- Counsel Loan.
- Asset Purchase Agreement among EP USA, LLC, Equity Partners, Inc. of Maryland, The Rexford Company, LLC and Cross Concepts, LLC (as Sellers) and Equity Partners CRB LLC (as Buyer), dated June 23, 2011 (the "**APA**").

- Share Purchase Agreement by and among Heritage Global Partners, Inc. as the Company; Kirk Dove and Ross Dove as Sellers; and Counsel RB Capital Inc. as Buyer Dated as of February 29, 2012 (the "**SPA**").

Pursuant to the APA, the cost of the acquisition of the assets of EP USA, LLC was satisfied by the payment of $175 in cash, the issuance of 122,950 Heritage Common Shares valued at $1.50 per share and the granting of options to purchase 230,000 Heritage Common Shares with a fair value of $1.9992 per option. Additionally, one of the previous owners of EP USA, LLC was issued a put option that matured in September 2011, and another entered into a lock-up agreement with respect to his shares and options that expired in 2013. The APA included other terms and conditions that are customary for agreements of this nature.

Pursuant to the SPA, the cost of the acquisition of shares of Heritage Global Partners, Inc. was satisfied by the payment of $3,000 in cash, the issuance of promissory notes totaling $1,000, the issuance of 1,000,000 Heritage Common Shares valued at $1.95 per share and the granting of options to purchase 625,000 Heritage Common Shares with a fair value of $1.8092 per option. The SPA included other terms and conditions that are customary for agreements of this nature.

The Credit Facility is provided by a U.S. bank under the terms and provisions of a certain Loan and Security Agreement dated as of June 2, 2009 and most recently amended as of September 27, 2012. Particulars of the Credit Facility are set forth in Note 8 of the unaudited quarterly financial statements of the Company for the period ended September 30, 2013 included elsewhere in this Prospectus.

EXPERTS

Deloitte LLP has advised that it is independent within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario and the rules and standards of the Public Company Accounting Oversight Board (United States) and the securities laws and regulations administered by the SEC.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal adviser.

INDEX TO FINANCIAL STATEMENTS

HERITAGE GLOBAL INC.

UNAUDITED QUARTERLY FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2013

HERITAGE GLOBAL INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands of U.S. dollars, except share and per share amounts)
(unaudited)

	September 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,543	$ 4,314
Amounts receivable (net of allowance for doubtful accounts of $0; 2012 - $0)	1,960	1,068
Receivable from a related party	—	2,929
Deposits	119	1,481
Inventory – equipment	486	820
Other current assets	740	312
Income taxes recoverable	118	70
Deferred income tax assets	1,953	1,956
Total current assets	9,919	12,950
Non-current assets:		
Inventory – real estate	6,078	6,078
Asset liquidation investments	3,574	3,618
Investments	1,757	2,426
Property, plant and equipment, net	33	52
Intangible assets, net	4,923	5,263
Goodwill	5,301	5,301
Deferred income tax assets	26,102	25,622
Total assets	$ 57,687	$ 61,310
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 8,353	$ 4,415
Debt payable to third parties	1,541	10,883
Debt payable to a related party	3,649	—
Total current liabilities	13,543	15,298
Commitments and contingencies		
Equity:		
Preferred stock, $10.00 par value, authorized 10,000,000 shares; issued and outstanding 592 Class N shares at September 30, 2013 and December 31, 2012, liquidation preference of $592 at September 30, 2013 and December 31, 2012	6	6
Common stock, $0.01 par value, authorized 300,000,000 shares; issued and outstanding 28,166,728 shares at September 30, 2013 and 28,945,228 shares at December 31, 2012	282	290
Additional paid-in capital	283,084	283,281
Accumulated deficit	(239,208)	(237,558)
Accumulated other comprehensive loss	(20)	(7)
Total equity	44,144	46,012
Total liabilities and equity	$ 57,687	$ 61,310

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

HERITAGE GLOBAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME
(unaudited)

(In thousands of US dollars, except per share amounts)	**Three Months Ended September 30, 2013**	**2012**	**Nine Months Ended September 30, 2013**	**2012**
Revenue:				
Asset liquidation				
Asset sales	$ 1,201	$ 1,284	$ 1,799	$ 5,175
Commissions and other	1,064	1,768	3,790	4,742
Total asset liquidation revenue	2,265	3,052	5,589	9,917
Intellectual property licensing	624	—	824	—
Total revenue	2,889	3,052	6,413	9,917
Operating costs and expenses:				
Asset liquidation	819	1,152	1,401	4,360
Inventory maintenance	86	15	275	(8)
Patent licensing and maintenance	10	4	166	38
Selling, general and administrative	1,912	3,210	6,682	7,265
Expenses paid to related parties	166	196	574	532
Depreciation and amortization	118	272	358	283
Total operating costs and expenses	3,111	4,849	9,456	12,470
	(222)	(1,797)	(3,043)	(2,553)
Earnings of equity accounted asset liquidation investments	456	222	1,265	1,449
Operating income (loss)	234	(1,575)	(1,778)	(1,104)
Other income (expenses):				
Other income (expenses)	—	8	—	(299)
Interest expense – third party	(39)	(71)	(308)	(175)
Interest expense – related party	(91)	11	(91)	—
Total other income (expenses)	(130)	(52)	(399)	(474)
Income (loss) before the undernoted	104	(1,627)	(2,177)	(1,578)
Income tax expense (recovery)	387	(638)	(466)	(612)
Earnings (loss) of other equity accounted investments (net of $0 tax)	23	(11)	61	(65)
Net income (loss)	(260)	(1,000)	(1,650)	(1,031)
Other comprehensive loss:				
Currency translation adjustment (net of tax of $0)	(4)	—	(13)	—
Comprehensive income (loss)	$(264)	$(1,000)	$ (1,663)	$ (1,031)
Weighted average common shares outstanding – basic (in thousands)	28,384	28,593	28,759	28,072
Weighted average common shares outstanding – diluted (in thousands)	28,384	28,593	28,759	28,072
Earnings (loss) per share – basic and diluted:				
Common shares	$ (0.01)	$ (0.03)	$ (0.06)	$ (0.04)

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

HERITAGE GLOBAL INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the period ended September 30, 2013
(in thousands of US dollars, except share amounts)
(unaudited)

	Preferred stock		Common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total
	Shares	Amount	Shares	Amount				
Balance at December 31, 2011	592	$ 6	27,117,450	$ 271	$ 278,408	$ (235,745)	$ —	$ 42,940
Issuance of common stock	—	—	1,800,000	19	3,135	—	—	3,154
Exercise of options	—	—	27,778	—	14	—	—	14
Issuance of options	—	—	—	—	1,131	—	—	1,131
Compensation cost related to stock options	—	—	—	—	593	—	—	593
Comprehensive loss	—	—	—	—	—	(1,813)	(7)	(1,820)
Balance at December 31, 2012	592	6	28,945,228	290	283,281	$ (237,558)	$ (7)	46,012
Cancellation of shares (Note 11)	—	—	(800,000)	(8)	(616)	—	—	(624)
Compensation cost related to stock options	—	—	—	—	409	—	—	409
Exercise of options	—	—	21,500	—	10	—	—	10
Comprehensive loss	—	—	—	—	—	(1,650)	(13)	(1,663)
Balance at September 30, 2013	592	$ 6	28,166,728	$ 282	$ 283,084	$ (239,208)	$ (20)	$ 44,144

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

HERITAGE GLOBAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(In thousands of US dollars)	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Cash flows provided by operating activities:		
Net income (loss)	$ (1,650)	$ (1,031)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Accrued interest added to principal of third party debt	12	19
Accrued interest added to principal of related party debt	91	—
Amortization of financing costs on debt payable to third party	—	9
Stock-based compensation expense	409	1,490
Loss (earnings) of other equity accounted investments	(61)	65
Revenue from sale of intellectual property license	(624)	—
Writedown of real estate inventory	—	363
Depreciation and amortization	358	283
Changes in operating assets and liabilities:		
Increase in amounts receivable	(892)	(279)
Decrease (increase) in deposits	1,362	(3,935)
Decrease in inventory	334	110
Decrease in asset liquidation investments	44	1,682
Increase in other assets	(415)	(254)
Increase in income taxes recoverable	(48)	—
Increase in deferred income tax assets	(477)	(599)
Increase in accounts payable and accrued liabilities	3,925	5,864
Decrease in income taxes payable	—	(334)
Net cash provided by operating activities	2,368	3,453
Cash flows provided by (used in) investing activities:		
Net cash paid for business acquisition	—	(2,344)
Investment in other equity accounted investments	(56)	(51)
Cash distributions from other equity accounted investments	784	161
Purchase of property, plant and equipment	(10)	(7)
Net cash provided by (used in) investing activities	718	(2,241)
Cash flows used in financing activities:		
Proceeds of debt payable to third parties	1,901	9,863
Repayment of debt payable to third parties	(11,255)	(8,140)
Proceeds of advances from a related party	8,887	2,155
Repayment of debt payable to related parties	(2,400)	(5,699)
Proceeds from exercise of options to purchase common shares	10	14
Net cash used in financing activities	(2,857)	(1,807)
Increase (decrease) in cash	229	(595)
Cash and cash equivalents at beginning of period	4,314	6,672
Cash and cash equivalents at end of period	$ 4,543	$ 6,077
Supplemental schedule of non-cash investing and financing activities:		
Issuance of common stock in exchange for assets of acquired business	$ —	$ 2,100
Issuance of options to purchase common stock in exchange for assets of acquired business	—	1,131
Supplemental cash flow information:		
Taxes paid	$ 39	$ 368
Interest paid	354	163

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

Note 1 –Basis of Presentation

These unaudited condensed consolidated interim financial statements include the accounts of Heritage Global Inc. (formerly known as Counsel RB Capital Inc.) together with its subsidiaries, including Heritage Global LLC ("HG LLC", formerly known as Counsel RB Capital LLC), Equity Partners HG LLC ("Equity Partners", formerly known as Equity Partners RB LLC), Heritage Global Partners, Inc. ("HGP"), C2 Communications Technologies Inc., and C2 Investments Inc. These entities, collectively, are referred to as "HGI", the "Company", "we" or "our" in these financial statements. Our unaudited condensed consolidated interim financial statements were prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), as outlined in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"), and include the assets, liabilities, revenues, and expenses of all subsidiaries over which HGI exercises control. All significant intercompany accounts and transactions have been eliminated upon consolidation.

We have prepared the condensed consolidated interim financial statements included herein pursuant to the rules and regulations of the United States Securities and Exchange Commission (the "SEC"). In management's opinion, these financial statements reflect all adjustments that are necessary to present fairly the results for interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations; however, we believe that the disclosures are appropriate. These unaudited condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2012, filed with the SEC on March 28, 2013.

The results of operations for the three and nine-month periods ended September 30, 2013 are not necessarily indicative of those operating results to be expected for any subsequent interim period or for the entire year ending December 31, 2013.

Note 2 – Summary of Significant Accounting Policies

Use of estimates

The preparation of the Company's consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Management bases its estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

Significant estimates include the assessment of collectability of revenue recognized, and the valuation of amounts receivable, inventory, investments, deferred income tax assets, goodwill and intangible assets, liabilities, and stock-based compensation. These estimates have the potential to significantly impact our consolidated 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 that are continuous in nature.

The critical accounting policies used in the preparation of our audited consolidated financial statements are discussed in our Annual Report on Form 10-K for the year ended December 31, 2012. There have been no changes to these policies in the first nine months of 2013.

Recent Accounting Pronouncements

In February 2013, the FASB issued Accounting Standards Update 2013-02, *Other Comprehensive Income (Topic 220)* ("ASU 2013-02"). ASU 2013-02 requires entities to disclose additional information about items reclassified out of accumulated other comprehensive income ("AOCI"). Specifically, entities must report 1) changes in AOCI balances by component, including the income tax benefit or expense attributed to each component, and 2) significant items reclassified out of AOCI by component, either on the face of the income statement or as a separate footnote to the financial statements. ASU 2013-02 does not change the current GAAP requirement for a total for comprehensive income to be reported in condensed interim financial statements in either a single continuous statement or two separate but consecutive statements. ASU 2013-02 is effective for interim periods and fiscal years beginning after December 15, 2012, with early adoption permitted. The Company adopted ASU 2013-02 in the first quarter of 2013. As the Company's AOCI is immaterial, and consists solely of cumulative foreign currency translation adjustments of a subsidiary, its adoption did not have a significant impact on the Company's condensed consolidated interim financial statements.

Future Accounting Pronouncements

In March 2013, the FASB issued Accounting Standards Update 2013-05, *Foreign Currency Matters (Topic 83)* ("ASU 2013-05"). ASU 2013-05 specifies that a cumulative translation adjustment (CTA) is attached to a parent company's investment in a foreign entity and should be released in a manner consistent with derecognition guidance on investments in entities. Therefore, the entire amount of the CTA associated with a foreign entity would be released upon 1) sale of a subsidiary or group of net assets within a foreign entity, which represents the substantially complete liquidation of the investment in the entity, 2) loss of a controlling financial interest in an investment in a foreign entity, or 3) step acquisition of a foreign entity. ASU 2013-05 does not change the requirement to release a pro rata portion of the CTA of the foreign entity into earnings for a partial sale of an equity method investment in a foreign entity. ASU 2013-05 is effective for interim periods and fiscal years beginning on or after December 15, 2013, with early adoption permitted. The Company does not expect that the adoption of ASU 2013-05 will have a significant impact on its consolidated financial statements.

In July 2013, the FASB issued Accounting Standards Update 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or Tax Credit Carryforward Exists* ("ASU 2013-11"). ASU 2013-11 requires that an unrecognized tax benefit must be presented as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. An exception to this presentation can be made when the carryforward or tax loss is not available at the reporting date under applicable tax law to settle taxes that would result from the disallowance of the tax position, or when the reporting entity does not intend to use the deferred tax asset for this purpose. In those circumstances, the unrecognized tax benefit would be presented as a liability. ASU 2013-11 does not require any additional disclosures. The ASU is effective for annual periods beginning after December 15, 2013, and interim periods within those years. Early adoption is permitted. The Company has not yet assessed the impact of ASU 2013-11 on its consolidated financial statements.

Note 3 – Acquisition of Heritage Global Partners, Inc.

On February 29, 2012 the Company expanded its asset liquidation operations by acquiring 100% of the issued and outstanding capital stock in Heritage Global Partners ("HGP"), a full-service, global auction and asset advisory firm. In connection with the acquisition, HGI entered into employment agreements with the previous owners and employees of HGP. In the third quarter of 2012, the Company finalized the valuation of all assets acquired and liabilities assumed. The following table summarizes the consideration paid for HGP and the amounts of the assets acquired and liabilities assumed, which were recognized at the acquisition date:

At February 29, 2012	**$**
Consideration paid	
Cash [1]	3,000
Promissory notes, net of receivable from owners [2]	849
Equity instruments:	
1,000,000 HGI common shares [3]	2,100
625,000 options to purchase HGI common shares at $2.00 per share [4]	1,131
Fair value of total consideration	7,080
Acquisition related costs (included in selling, general, and administrative expenses in HGI's consolidated statement of operations for the year ended December 31, 2012)	78

Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash [1]	656
Accounts receivable (net of $0 allowance for doubtful accounts)	870
Deposits	20
Prepaid expenses	43
Property, plant and equipment	37
Identifiable intangible assets	5,640
Accounts payable and accrued liabilities	(1,212)
Client liability account	(1,424)
Short-term note payable	(100)
Future income taxes payable	(2,178)
Total identifiable net assets assumed	2,352
Goodwill	4,728
	7,080

[1] Net cash used for the acquisition was $2,344.
[2] The notes (the "Promissory Notes") were paid in full on their August 31, 2012 maturity date.
[3] Value determined using the closing price of the Company's common shares on February 29, 2012.
[4] Value determined using the Black-Scholes Option Pricing Model. Inputs to the model included an expected volatility rate of 133%, a risk-free interest rate of 1.25%, an expected life of 4.75 years, and an expected dividend yield of $nil.

The fair value of the accounts receivable is the value as reported in the above table.

The goodwill and identifiable intangible assets are discussed in Note 6.

The only transactions recognized separately from the acquisition were the acquisition costs noted in the above table.

Note 4 – Stock-based Compensation

At September 30, 2013 the Company maintained six stock-based compensation plans, which are described more fully in Note 14 to the audited consolidated financial statements for the year ended December 31, 2012, contained in the Company's most recently filed Annual Report on Form 10-K.

During the first nine months of 2013 the Company issued 150,000 options to an officer of the Company in accordance with his employment agreement, and 50,000 options to the Company's independent directors as part of their annual compensation. During the first nine months of 2012, the Company issued a total of 990,000 options to officers and employees, including the 625,000 options issued to the former owners of HGP as part of the acquisition, and 50,000 options to the Company's independent directors.

During the first nine months of 2013, primarily associated with the departure of the Co-CEOs and several employees of HG LLC, 1,530,000 options were forfeited. Additionally, 408,198 vested options that had not been exercised reached maturity and therefore expired. In 2012, employee departures resulted in the forfeiture of 250,000 options, and 1,250 options expired unexercised.

The following summarizes the changes in common stock options for the nine months ended September 30, 2013 and 2012:

	Options	**Weighted Average Exercise Price**
Outstanding at December 31, 2012	3,898,198	$ 1.75
Granted	200,000	$ 1.00
Exercised	(30,000)	$ 0.51
Forfeited	(1,530,000)	$ 1.91
Expired	(408,198)	$ 0.85
Outstanding at September 30, 2013	2,130,000	$ 1.75
Options exercisable at September 30, 2013	930,000	$ 1.69

	Options	Weighted Average Exercise Price
Outstanding at December 31, 2011	3,141,198	$ 1.65
Granted	1,040,000	$ 2.04
Exercised	(31,750)	$ 0.61
Forfeited	(250,000)	$ 1.83
Expired	(1,250)	$ 1.40
Outstanding at September 30, 2012	3,898,198	$ 1.75
Options exercisable at September 30, 2012	1,298,198	$ 1.39

Note 5 – Earnings Per Share

The Company is required, in periods in which it has net income, to calculate basic earnings per share ("basic EPS") using the two-class method. The two-class method is required because the Company's Class N preferred shares, each of which is convertible to 40 common shares, have the right to receive dividends or dividend equivalents should the Company declare dividends on its common stock. Under the two-class method, earnings for the period are allocated on a pro-rata basis to the common and preferred stockholders. The weighted-average number of common and preferred shares outstanding during the period is then used to calculate basic EPS for each class of shares.

In periods in which the Company has a net loss, basic loss per share is calculated by dividing the loss attributable to common stockholders by the weighted-average number of common shares outstanding during the period. The two-class method is not used, because the preferred stock does not participate in losses.

Options are included in the calculation of diluted earnings per share, since they are assumed to be exercised, except when their effect would be anti-dilutive. For the nine months ended September 30, 2013 and 2012, respectively, all of the Company's outstanding options were excluded due to the Company's net loss in both periods.

Note 6 – Composition of Certain Financial Statement Items

Amounts receivable

The Company's amounts receivable are primarily related to the operations of its subsidiaries HG LLC, Equity Partners, and HGP. To date, the Company has not experienced any significant collectability issues with respect to any of its receivables. Given this experience, together with the ongoing business relationships between the Company and its joint venture partners, the Company has not yet been required to develop a policy for formal credit quality assessment. As the Company's asset liquidation business continues to develop, more comprehensive credit assessments may be required.

At September 30, 2013 the Company had no interest-bearing receivables. At December 31, 2012, the Company had one interest-bearing receivable in the amount of $10, an employee advance bearing interest at 10%, which was repaid in the second quarter of 2013.

At September 30, 2013 the Company had past due non-interest bearing financing receivables of $36, as compared to none at December 31, 2012. The Company does not believe that any allowance for this receivable is required at this time.

During the first nine months of 2013, there were no changes in the Company's accounting policies for financing receivables, and therefore no related change in the current-period provision for credit losses. During the same period, there were no purchases, sales or reclassifications of financing receivables. There were no troubled debt restructurings during the first nine months of 2013.

Amounts receivable from third parties consisted of the following at September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
Accounts receivable (net of allowance for doubtful accounts of $0; 2012 - $0)	$ 1,960	$ 1,046
Notes receivable (net of allowance for doubtful accounts of $0)	—	10
Lease receivable	—	12
	$ 1,960	$ 1,068

Intangible assets

The Company's intangible assets are related to its asset liquidation business.

As discussed in Note 3, on February 29, 2012 the Company acquired HGP for a total purchase price of $7,080, of which $5,640 was assigned to identifiable intangible assets, as shown below. The Customer/Broker Network intangible asset is being amortized over 12 years, and the Trade Name intangible asset is being amortized over 14 years. No impairment resulted from the completion of the impairment tests at December 31, 2012, and there have been no events or circumstances in 2013 that would make it more likely than not that the carrying amount of the intangible assets may not be recoverable.

	September 30, 2013	December 31, 2012
Customer/Broker Network	$ 4,180	$ 4,180
Accumulated amortization	(552)	(290)
	3,628	3,890
Trade Name	1,460	1,460
Accumulated amortization	(165)	(87)
	1,295	1,373
Total net intangible assets	$ 4,923	$ 5,263

Goodwill

The Company's goodwill is related to its asset liquidation business.

As part of its acquisition of Equity Partners in June 2011, the Company recognized goodwill of $573. No goodwill impairment resulted from the completion of the impairment tests at December 31, 2012, and there have been no events or changes in circumstances in 2013 that make it more likely than not that the carrying amount of this goodwill may be impaired.

As part of its acquisition of HGP in February 2012, the Company recognized goodwill of $4,728. No goodwill impairment resulted from the completion of the impairment tests at December 31, 2012, and there have been no events or changes in circumstances in 2013 that make it more likely than not that the carrying amount of this goodwill may be impaired.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consisted of the following at September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
Due to auction clients	$5,407	$2,242
Due to Joint Venture partners	412	487
Sales and other taxes	1,157	552
Customer deposits	191	—
Remuneration and benefits	336	373
Asset liquidation expenses	27	184
Auction expenses	271	134
Regulatory and legal fees	34	87

	September 30, 2013	December 31, 2012
Accounting, auditing and tax consulting	193	170
Patent licensing and maintenance	14	9
Other	311	177
Total accounts payable and accrued liabilities	$ 8,353	$ 4,415

Note 7 – Asset Liquidation Investments and Other Investments

Summarized financial information – Equity accounted asset liquidation investments

The table below details the results of operations attributable to HGI from the Joint Ventures in which it was invested.

	Nine months ended September 30	
	2013	2012
Gross revenues	$ 5,056	$ 5,976
Gross profit	$ 907	$ 1,445
Income from continuing operations	$ 1,265	$ 1,449
Net income	$ 1,265	$ 1,449

Other investments

The Company's other investments as of September 30, 2013 and December 31, 2012 consisted of the following:

	September 30, 2013	December 31, 2012
Knight's Bridge Capital Partners Internet Fund No. 1 GP LLC	$ 20	$ 20
Polaroid	1,737	2,406
Total investments	$ 1,757	$ 2,426

The Company accounts for its investments under the equity method.

Knight's Bridge Capital Partners Internet Fund No. 1 GP LLC ("Knight's Bridge GP")

In December 2007 the Company acquired a one-third interest in Knight's Bridge Capital Partners Internet Fund No. 1 GP LLC ("Knight's Bridge GP"), a private company, for a purchase price of $20. The additional two-thirds interest in Knight's Bridge GP was acquired by parties affiliated with Counsel. Knight's Bridge GP is the general partner of Knight's Bridge Capital Partners Internet Fund No. 1 LP (the "Fund"). The Fund holds investments in several non-public Internet-based e-commerce businesses. Since the Company's initial investment, the Company's share of earnings has been almost exactly offset by cash distributions, and at September 30, 2013 the Company's net investment was $20. Based on the Company's analysis of Knight's Bridge GP's financial statements and projections as at September 30, 2013, the Company concluded that there has been no impairment in the fair value of its investment, and that its book value is the best estimate of its fair value.

Polaroid

In the second quarter of 2009, the Company indirectly acquired an approximate 5% interest in Polaroid Corporation ("Polaroid"), pursuant to a Chapter 11 reorganization in a U.S. bankruptcy court. The investment was made as part of a joint venture investor group that includes both related and non-related parties. The Company, the related parties and two of the unrelated parties formed KPL, LLC ("KPL") to pool their individual investments in Polaroid. KPL is managed by a related party, Knight's Bridge Capital Partners Management, L.P. (the "Management LP"), which acts as KPL's General Partner. The Management LP is a wholly-owned subsidiary of the Company's majority shareholder, Counsel Corporation (together with its subsidiaries, "Counsel").

The Company's investment in KPL has two components:

- HGI acquired Counsel's rights and obligations as an indirect limited partner (but not Counsel's limited partnership interest) in Knight's Bridge Capital Partners Fund I, L.P., a related party, with respect to its investment in Class A units. HGI is also responsible for Counsel's share of the management fees, which are approximately $40 per year. The economic interest entitles HGI to an 8% per annum preferred return. Any profits generated in addition to the preferred return, subsequent to the return of invested capital, are subject to the Management LP's 20% carried interest.

- HGI directly acquired Class D units. These units are subject to a 2% annual management fee, payable to the General Partner, of approximately $11 per year. The units have a 10% per annum preferred return. Any profits generated in addition to the preferred return, subsequent to the return of invested capital, are subject to the Management LP's 20% carried interest.

The components of the Company's investment in Polaroid at September 30, 2013 and December 31, 2012 are detailed below:

September 30, 2013

Unit type	Capital invested	Equity in earnings	Capital returned	Net investment
Class A	$ 2,492	$ 159	$ (1,259)	$ 1,392
Class D	617	36	(308)	345
Total	$ 3,109	$ 195	$ (1,567)	$ 1,737

December 31, 2012

Unit type	Capital invested	Equity in earnings	Capital returned	Net investment
Class A	$ 2,447	$ 137	$ (654)	$ 1,930
Class D	606	30	(160)	476
Total	$ 3,053	$ 167	$ (814)	$ 2,406

Note 8 – Debt

	September 30, 2013	December 31, 2012
Credit Facility	$ 1,541	$ 10, 883
Counsel Loan	3,649	—
Total debt	$ 5,190	$ 10,883

At September 30, 2013 and December 31, 2012, all of the Company's outstanding debt was current. At September 30, 2013 it consisted of a revolving credit facility (the "Credit Facility"), which had a balance of $1,541, and debt payable to a related party (the "Counsel Loan"), which had a balance of $3,649. At December 31, 2012, the only outstanding debt was the $10,883 balance of the Credit Facility.

The Credit Facility is provided to HG LLC by a U.S. bank under the terms and provisions of a certain Loan and Security Agreement (the "Loan Agreement") dated as of June 2, 2009 and most recently amended as of September 27, 2012 (the "Amendment Date"). It is utilized to finance the acquisition of eligible property and equipment for purposes of resale. The Credit Facility bears interest at the greater of prime rate + 1.0%, or 4.5%, and the maximum borrowing available under the Credit Facility is US $15,000, subject to HG LLC maintaining a 1:2 ratio of capital funds, i.e. the sum of HG LLC's tangible net worth plus subordinated indebtedness, as defined in the Loan Agreement, to the outstanding balance. The amount of any advance is determined based upon the value of the eligible assets being acquired, which serve as collateral. At September 30, 2013, $6,964 of such assets served as collateral for the loan (December 31, 2012 - $13,392). A monthly fee is payable with respect to unused borrowing ("Unused Line Fee"). The Unused Line Fee is equal to the product of 0.50% per annum multiplied by the difference between $15,000 and the average loan amount outstanding during the month. Effective the Amendment Date, an annual facility fee ("Facility Fee") of $75 was payable to the lender. Subsequent payments of $50 will be due on each anniversary of the Amendment Date. The Credit Facility also contains other terms and provisions customary for agreements of this nature, and has been guaranteed by both the Company and Counsel. At September 30, 2013 and December 31, 2012 the Company was in compliance with all covenants of the Credit Facility.

The Counsel Loan outstanding at September 30, 2013 consisted of net advances received by the Company from Counsel under an existing loan facility, and accrued interest payable of $91. The Counsel Loan, which was originally entered into during the fourth quarter of 2003, accrues interest at 10% per annum compounded quarterly from the date funds are advanced, and is due on demand. Any outstanding balance under the Counsel Loan is secured by the assets of the Company. At December 31, 2012, the balance of the Counsel Loan was zero due to the Company having a net receivable of $2,929 from Counsel. For further discussion of transactions with Counsel, see Note 11.

Note 9 – Patent Participation Fee

In 2003, HGI acquired a VoIP patent from a third party. Consideration provided was $100 plus a 35% residual payable to the third party relating to the net proceeds from future licensing and/or enforcement actions from the HGI VoIP patent portfolio. Net proceeds are defined as amounts collected from third parties net of the direct costs associated with putting the licensing or enforcement in place and related collection costs. The vendor of the VoIP Patent was also granted a first priority security interest in the patent in order to secure HGI's obligations under the associated purchase agreement.

In March 2013, the Company concluded a patent infringement lawsuit, which had initially been filed in August 2009, by entering into a settlement and license agreement in return for a payment of $200. No amounts were payable with respect to the residual discussed above, as the direct costs incurred since the Company last entered into settlement and licensing agreements were in excess of $200.

Note 10 – Income Taxes

In the third quarter of 2013, the Company recognized an income tax expense of $387 (2012- $638 recovery), comprised of a current income tax expense of $113 (2012 - $60 recovery) and a deferred tax expense of $274 (2012 - $578 recovery). For the nine months ended September 30, 2013, the current income tax expense is $9 (2012 - $14 recovery) and the deferred tax recovery is $475 (2012 - $598). The $28,055 net deferred income tax asset balance as at September 30, 2013 (2012 - $27,204) reflects the tax benefit of available tax loss carry forwards that are more likely than not expected to be utilized against future income.

At September 30, 2013, the Company had available federal tax loss carry-forwards of approximately $58,300 (2012 - $55,300) of unrestricted net operating tax losses and approximately $28,800 (2012 - $28,800) of restricted net operating tax losses. The net operating loss carry forwards expire between 2024 and 2033.

The Company's utilization of restricted net operating tax loss carry forwards against future income for tax purposes is restricted pursuant to the "change in ownership" rules in Section 382 of the Internal Revenue Code. These rules, in general, provide that an ownership change occurs when the percentage shareholdings of 5% direct or indirect stockholders of a loss corporation have, in aggregate, increased by more than 50 percentage points during the immediately preceding three years.

Restrictions in net operating loss carry forwards occurred in 2001 as a result of the acquisition of the Company by Counsel. Further restrictions may have occurred as a result of subsequent changes in the share ownership and capital structure of the Company and Counsel and disposition of business interests by the Company. Pursuant to Section 382 of the Internal Revenue Code, the annual usage of the Company's net operating loss carry forwards was limited to approximately $2,500 per annum until 2008 and $1,700 per annum thereafter. There is no certainty that the application of these "change in ownership" rules may not recur, resulting in further restrictions on the Company's income tax loss carry forwards existing at a particular time. In addition, further restrictions, reductions in, or expiry of net operating loss and net capital loss carry forwards may occur through future merger, acquisition and/or disposition transactions or failure to continue a significant level of business activities. Any such additional limitations could require the Company to pay income taxes on its future earnings and record an income tax expense to the extent of such liability, despite the existence of such tax loss carry forwards. Furthermore, any such additional limitations may result in the Company having to reverse all or a portion of its deferred tax balance or set up a valuation allowance at such time.

The Company, until recently, has had a history of incurring annual tax losses, beginning in 1991. All loss taxation years remain open for audit pending the application of the respective tax losses against income in a subsequent taxation year. In general, the statute of limitations expires three years from the date that a company files a tax return applying prior year tax loss carry forwards against income for tax purposes in the later year. The Company applied historic tax loss carry forwards to offset income for tax purposes in 2008, 2010 and 2011, respectively. The 2009 through 2011 taxation years remain open for audit.

The Company is subject to state income tax in multiple jurisdictions. In most states, the Company does not have tax loss carry forwards available to shield income attributable to a particular state from being subject to tax in that particular state.

Note 11 – Related Party Transactions

Related Party Debt with Counsel

At September 30, 2013 the Company had a balance of $3,649 owing to Counsel under the Counsel Loan, of which $91 was accrued interest, as compared to a receivable of $2,929 at December 31, 2012. For further discussion of the terms of the Counsel Loan, see Note 8.

Counsel Services Provided to Company

Since December 2004, HGI and Counsel have entered into successive annual management services agreements (the "Agreement"). Under the terms of the Agreement, HGI agrees to pay Counsel for ongoing services provided to HGI by Counsel personnel. These services include preparation of the Company'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 are: 1) its Executive Vice President, Secretary and Chief Financial Officer, 2) its Senior 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 receive compensation from HGI. Rather, Counsel allocates to HGI a percentage, based on time incurred, of the employees' base compensation paid by Counsel. The amounts due under the Agreement are payable within 30 days following the respective year end, subject to applicable restrictions. Any unpaid fee amounts bear interest at 10% per annum commencing on the day after such year end. In the event of a change of control, merger or similar event of HGI, all amounts owing, including fees incurred up to the date of the event, will become due and payable immediately upon the occurrence of such event. Counsel has continued to provide these services in 2013 on the same cost basis.

In addition to the above, beginning in the first quarter of 2011, additional amounts have been charged to HGI for the services of Counsel personnel that relate to the ongoing operations of HGI's asset liquidation business. All amounts charged by Counsel are detailed below:

	Nine months ended September 30	
Item	**2013**	**2012**
Management fees	$270	$270
Other charges	55	56
Total	$325	$326

Transactions with Other Related Parties

On July 26, 2013, the Company and its Co-CEOs entered into an agreement by which the Co-CEOs terminated their employment with the Company and HG LLC. Under the agreement, as disclosed in the Company's Current Report on Form 8-K filed on July 31, 2013, effective June 30, 2013 the Co-CEOs departed the Company along with the personnel in the New York and Los Angeles offices of HG LLC. In August 2012, each Co-CEO had acquired 400,000 common shares of the Company, with a total value of $1,054, in return for intellectual property licensing agreements. The $1,054 was recorded as stock-based compensation in 2012. On July 26, 2013, the Co-CEOs returned these common shares, which had a fair value of $624, in order to re-acquire the licensing agreements. The Company therefore recorded intellectual property licensing revenue of $624. The shares have been cancelled.

The Company, beginning in 2009, leased office space in White Plains, NY and Los Angeles, CA as part of the operations of HG LLC. Both premises are owned by entities that are controlled by a former Co-CEO of HG LLC and the Company. In connection with the departure of the Co-CEOs, these lease agreements were terminated, without penalty, effective June 30, 2013.

Additionally, the Company leases office space in Foster City, CA as part of the operations of HGP. The premises are owned by an entity that is jointly controlled by the former owners of HGP.

The lease amounts paid by the Company to the related parties are detailed below:

	Nine months ended September 30	
Leased premises location	**2013**	**2012**
White Plains, NY	$ 66	$95
Los Angeles, CA	12	19
Foster City, CA	171	92
Total	$249	$206

As discussed in Note 3, as part of the acquisition of Heritage Global Partners in February 2012, the Company issued Promissory Notes totaling $1,000 to its two former owners, partially offset by $151 of accounts receivable from the former owners. During the third quarter of 2012, the Promissory Notes, which did not accrue interest, were repaid in full, and the accounts receivable were collected.

Note 12 – Segment Reporting

From 2005 until the second quarter of 2009, the Company operated in a single business segment, Patent Licensing. With the commencement of HG LLC's operations in the second quarter of 2009, the Company diversified into a second segment, Asset Liquidation. For both the nine months ending September 30, 2013 and the year ending December 31, 2012, only the Asset Liquidation segment had revenues and assets sufficiently significant to require separate reporting.

There are no material inter-segment revenues or expenses. To date the Company's business has been conducted principally in North America, but the establishment of offices in Europe in the third quarter of 2012 is expected to result in more international operations in future periods.

The table below presents information about the Company's segments as of and for the three and nine months ended September 30, 2013 and 2012:

	For the three months ended September 30	
	2013	**2012**
	Asset Liquidation	**Asset Liquidation**
Revenues from external customers	$ 2,265	$ 3,052
Earnings from equity accounted asset liquidation investments	456	222
Other income (expense)	—	7
Interest expense	39	70
Depreciation and amortization	118	272
Segment loss	(112)	(311)
Investment in equity accounted asset liquidation investees	3,574	1,773
Segment assets	24,685	27,349

	For the nine months ended September 30	
	2013	2012
	Asset Liquidation	Asset Liquidation
Revenues from external customers	$ 5,589	$ 9,917
Earnings from equity accounted asset liquidation investments	1,265	1,449
Other income (expense)	—	(301)
Interest expense	308	174
Depreciation and amortization	358	283
Segment income (loss)	(1,631)	755

The following table reconciles reportable segment information to the unaudited condensed consolidated interim financial statements of the Company:

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Total other income (expense) for reportable segments	$ —	$ 7	$ —	$ (301)
Unallocated other income (expense)	—	1	—	2
Total other income (expense)	$ —	$ 8	$ —	$ (299)
Total interest expense for reportable segments	$ 39	$ 70	$ 308	$ 174
Unallocated interest expense from third party debt	—	1	—	1
Unallocated interest expense from related party debt	91	(11)	91	—
Total interest expense	$ 130	$ 60	$ 399	$ 175
Total depreciation and amortization for reportable segments	$ 118	$ 272	$ 358	$ 283
Other unallocated depreciation from corporate assets	—	—	—	—
Total depreciation and amortization	$ 118	$ 272	$ 358	$ 283
Total segment income (loss)	$ (112)	$ (311)	$ (1,631)	$ 755
Revenue not allocated to reportable segments	624	—	824	—
Other income (expense) and earnings (loss) of other equity accounted investments	22	(11)	61	(63)
Other corporate expenses (primarily corporate level interest, general and administrative expenses)	(407)	(1,316)	(1,370)	(2,335)
Income tax expense (recovery)	387	(638)	(466)	(612)
Net loss from continuing operations	$ (260)	$ (1,000)	$ (1,650)	$ (1,031)

	As at September 30, 2013	As at September 30, 2012
Segment assets	$24,685	$27,349
Other assets not allocated to segments (1)	33,002	33,583
Total assets	$57,687	$60,932

(1) Other assets not allocated to segments are corporate assets such as cash, non-trade accounts receivable, prepaid insurance, investments and deferred income tax assets.

Note 13 – Commitments and Contingencies

At September 30, 2013, HGI has no commitments other than the Unused Line Fee on its third party debt and leases on the HGP offices in California and Washington. The leases expire on March 14, 2014, December 11, 2015 and July 31, 2016. The annual lease obligations are as shown below:

2013	$ 131
2014	288
2015	293
2016	145
	$ 857

In the normal course of its business, HGI may be subject to contingent liability with respect to assets sold either directly or through Joint Ventures. At September 30, 2013 HGI does not expect any of these liabilities, individually or in the aggregate, to have a material adverse effect on its assets or results of operations.

The Company is involved in various other legal matters arising out of its operations in the normal course of business, none of which are expected, individually or in the aggregate, to have a material adverse effect on the Company.

Note 14 – Subsequent Events

The Company has evaluated events subsequent to September 30, 2013 for disclosure. There have been no material subsequent events requiring disclosure in this Report.

COUNSEL RB CAPITAL INC.

(N.K.A. HERITAGE GLOBAL INC.)
AUDITED ANNUAL FINANCIAL STATEMENTS
FOR THE PERIODS ENDED DECEMBER 31, 2012, 2011 AND 2010

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Counsel RB Capital Inc.

We have audited the accompanying consolidated balance sheets of Counsel RB Capital Inc. and subsidiaries (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of comprehensive income (loss), changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Counsel RB Capital Inc. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte LLP
Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
March 28, 2013

COUNSEL RB CAPITAL INC.
CONSOLIDATED BALANCE SHEETS
as of December 31, 2012 and 2011
(In thousands of US dollars, except share and per share amounts)

	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,314	$ 6,672
Amounts receivable (net of allowance for doubtful accounts of $0; 2011 - $186)	1,068	917
Receivable from a related party	2,929	595
Deposits	1,481	69
Inventory – equipment	820	1,013
Other current assets	312	148
Income taxes recoverable	70	—
Deferred income tax assets	1,956	2,419
Total current assets	12,950	11,833
Non-current assets:		
Inventory – real estate	6,078	2,131
Asset liquidation investments	3,618	3,455
Investments	2,426	2,772
Property, plant and equipment, net	52	19
Intangible assets, net	5,263	—
Goodwill	5,301	573
Deferred income tax assets	25,622	26,364
Total assets	$ 61,310	$ 47,147
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 4,415	$ 855
Income taxes payable	—	261
Debt payable to third parties	10,883	3,091
Total current liabilities	15,298	4,207
Commitments and contingencies		
Equity:		
Preferred stock, $10.00 par value, authorized 10,000,000 shares; issued and outstanding 592 Class N shares at December 31, 2012 and 2011, liquidation preference of $592 at December 31, 2012 and 2011	6	6
Common stock, $0.01 par value, authorized 300,000,000 shares; issued and outstanding 28,945,228 shares at December 31, 2012 and 27,117,450 shares at December 31, 2011	290	271
Additional paid-in capital	283,281	278,408
Accumulated deficit	(237,558)	(235,745)
Accumulated other comprehensive loss	(7)	—
Total equity	46,012	42,940
Total liabilities and equity	$ 61,310	$ 47,147

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

COUNSEL RB CAPITAL INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
for the years ended December 31, 2012, 2011 and 2010
(In thousands of US dollars, except per share amounts)

	2012	2011	2010
Revenue:			
Asset liquidation			
Asset sales	$ 7,901	$ 14,733	$ 2,733
Commissions and other	6,227	2,505	533
Total asset liquidation revenue	14,128	17,238	3,266
Operating costs and expenses:			
Asset liquidation	7,001	8,244	2,087
Inventory maintenance	89	1,522	(50)
Asset liquidation costs paid to a related party	—	—	25
Patent licensing and maintenance	50	84	128
Selling, general and administrative	10,341	4,408	2,791
Expenses paid to related parties	716	578	441
Depreciation and amortization	407	2	—
Total operating costs and expenses	18,604	14,838	5,422
	(4,476)	2,400	(2,156)
Earnings of equity accounted asset liquidation investments	2,023	2,183	7,586
Operating income (loss)	(2,453)	4,583	5,430
Other income (expenses):			
Other income (expense)	64	30	(55)
Goodwill impairment	—	—	(173)
Interest expense – third party	(290)	(245)	(272)
Interest expense – related party	—	—	(64)
Total other income (expenses)	(226)	(215)	(564)
Income (loss) before the undernoted	(2,679)	4,368	4,866
Income tax recovery	(978)	(26,317)	(1,318)
Earnings (loss) of other equity accounted investments (net of $0 tax)	(112)	28	30
Net income (loss)	(1,813)	30,713	6,214
Other comprehensive loss:			
Currency translation adjustment	(7)	—	—
Comprehensive income (loss)	(1,820)	30,713	6,214
Comprehensive income attributable to non-controlling interest	—	—	(1,385)
Comprehensive income attributable to controlling interest	$ (1,820)	$ 30,713	$ 4,829
Weighted average common shares outstanding – basic (in thousands)	28,292	26,834	22,887
Weighted average common shares outstanding – diluted (in thousands)	28,292	27,096	22,887
Net income (loss) per share – basic	$ (0.06)	$ 1.14	$ 0.21
Net income (loss) per share – diluted	$ (0.06)	$ 1.13	$ 0.21

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

COUNSEL RB CAPITAL INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
for the years ended December 31, 2012, 2011 and 2010
(In thousands of US dollars, except share amounts)

	Preferred stock		Common stock		Additional paid-in capital	Accumulated equity (deficit)	Accumulated other comprehensive income (loss)	Total
	Shares	Amount	Shares	Amount				
Balance at December 31, 2009	592	$ 6	22,718,080	$ 227	274,706	(271,287)	$ 302	$ 3,954
Issuance of common stock	-	—	3,242,000	32	—	—	(32)	—
Distribution to non-controlling interest	-	—	—	—	—	—	(766)	(766)
Transfer from non-controlling interest to controlling interest	-	—	—	—	889	—	(889)	—
Compensation cost related to stock options	-	—	—	—	46	—	—	46
Comprehensive income	-	—	—	—	—	4,829	1,385	6,214
Balance at December 31, 2010	592	$ 6	25,960,080	$ 259	$ 275,641	$ (266,458)	$ —	$ 9,448
Issuance of common stock	-	—	1,122,950	12	1,995	—	—	2,007
Issuance of options	-	—	—	—	460	—	—	460
Exercise of options	-	—	34,420	—	16	—	—	16
Compensation cost related to stock options	-	—	—	—	296	—	—	296
Comprehensive income	-	—	—	—	—	30,713	—	30,713
Balance at December 31, 2011	592	$ 6	27,117,450	$ 271	$ 278,408	$ (235,745)	$ —	$ 42,940
Issuance of common stock	-	—	1,800,000	19	3,135	—	—	3,154
Issuance of options	-	—	—	—	1,131	—	—	1,131
Exercise of options	-	—	27,778	—	14	—	—	14
Compensation cost related to stock options	-	—	—	—	593	—	—	593
Comprehensive loss	-	—	—	—	—	(1,813)	(7)	(1,820)
Balance at December 31, 2012	592	$ 6	28,945,228	$ 290	$ 283,281	$ (237,558)	$ (7)	$ 46,012

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

COUNSEL RB CAPITAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended December 31, 2012, 2011 and 2010
(In thousands of US dollars)

	2012	2011	2010
Cash flows from operating activities:			
Net income (loss)	$ (1,813)	$ 30,713	$ 6,214
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Accrued interest included in third party debt	41	16	13
Amortization of financing costs on debt payable to third party	9	45	80
Stock-based compensation expense	1,647	296	46
Loss (earnings) of other equity accounted investments	112	(28)	(30)
Writedown of inventory	573	—	123
Depreciation and amortization	407	2	—
Provision for doubtful accounts	—	40	168
Goodwill impairment	—	—	173
Gain on sale of investments	—	—	(332)
Changes in operating assets and liabilities:			
Decrease (increase) in amounts receivable	592	(362)	854
Decrease (increase) in lease receivable	136	(148)	—
Decrease in note receivable	—	—	428
Decrease (increase) in deposits	(1,412)	702	(471)
Decrease (increase) in inventory	(4,327)	1,023	(2,452)
Decrease (increase) in asset liquidation investments	(163)	93	395
Increase in other assets	(117)	(149)	(425)
Increase in deferred income tax assets	(973)	(26,555)	(1,499)
Increase (decrease) in accounts payable and accrued liabilities	817	(1,700)	1,098
Increase (decrease) in income taxes payable	(331)	63	172
Net cash provided by (used in) operating activities	(4,802)	4,051	4,555
Cash flows from investing activities:			
Net cash paid for business acquisition	(2,344)	(175)	—
Investment in other equity accounted investments	(61)	(42)	(316)
Cash distributions from other equity accounted investments	295	4	304
Proceeds from sale of investments	—	—	456
Purchase of property, plant and equipment	(28)	—	—
Net cash provided by (used in) investing activities	(2,138)	(213)	444
Cash flows from financing activities:			
Proceeds of debt payable to third parties	17,186	6,229	12,732
Repayment of debt payable to third parties	(9,435)	(7,639)	(12,886)
Advances from related parties	3,006	1,493	2,126
Advances to related parties	(6,189)	(1,696)	(3,690)
Distribution to non-controlling interest	—	—	(766)
Proceeds from exercise of options to purchase common shares	14	16	—
Proceeds from issuance of common shares, net of share issuance costs	—	1,823	—
Net cash provided by (used in) financing activities	4,582	226	(2,484)
Increase (decrease) in cash	(2,358)	4,064	2,515
Cash at beginning of year	6,672	2,608	93
Cash at end of year	$ 4,314	$ 6,672	$ 2,608

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

COUNSEL RB CAPITAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
for the years ended December 31, 2012, 2011 and 2010
(In thousands of US dollars)

	2012	2011	2010
Supplemental schedule of non-cash investing and financing activities:			
Issuance of common stock in exchange for assets of acquired business	$ 2,100	$ 184	$ —
Issuance of common stock in exchange for intellectual property licenses	1,054	—	—
Issuance of options to purchase common stock in exchange for assets of acquired business	1,131	460	—
Issuance of common stock in exchange for non-controlling interest	—	—	32
Transfer of non-controlling interest to additional paid-in capital in exchange for common stock	—	—	889
Supplemental cash flow information:			
Income taxes paid	364	204	24
Interest paid	256	198	243

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

Note 1 – Description of Business and Principles of Consolidation

These consolidated financial statements include the accounts of Counsel RB Capital Inc. together with its subsidiaries, including Counsel RB Capital LLC ("Counsel RB"), Equity Partners CRB LLC ("Equity Partners"), Heritage Global Partners, Inc. ("Heritage Global Partners"), C2 Communications Technologies Inc., and C2 Investments Inc. These entities, collectively, are referred to as "CRBCI", the "Company", "we" or "our" in these consolidated financial statements. These consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), as outlined in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") and include the assets, liabilities, revenues, and expenses of all subsidiaries over which CRBCI exercises control. All significant intercompany accounts and transactions have been eliminated upon consolidation.

The Company operates in two business segments, Asset Liquidation and Patent Licensing. The Company's segments are discussed in more detail in Note 15.

The Company's Asset Liquidation segment, which began operations in the second quarter of 2009, specializes in the acquisition and disposition of distressed and surplus assets, together with related services. It consists of the operations of Counsel RB, Equity Partners and Heritage Global Partners. These operations are discussed in more detail in Note 2.

Licensing of intellectual property constitutes the Company's Patent Licensing segment. CRBCI owns certain patents, including two foundational patents in voice over internet protocol ("VoIP") technology – U.S. Patent Nos. 6,243,373 (the "VoIP Patent") and 6,438,124 (the "C2 Patent") (together the "VoIP Patent Portfolio"), which it licenses. CRBCI's target market consists of carriers, equipment manufacturers, service providers and end users in the internet protocol telephony market who are using CRBCI's patented VoIP technologies by deploying VoIP networks for phone-to-phone communications.

In 2007, the Company began investing in Internet-based e-commerce businesses by acquiring minority positions in several companies. It has since sold some of those interests, realizing gains in each case. The Company's most significant investment took place in 2009, when it indirectly acquired an approximate 5% interest in Polaroid Corporation, pursuant to a Chapter 11 reorganization in a U.S. bankruptcy court. The Company's investments are discussed in more detail in Note 5.

Note 2 – Asset Liquidation Operations

The Company began its asset liquidation operations in the second quarter of 2009, through its subsidiary Counsel RB, which specializes in capital asset solutions. These involve finding, acquiring and monetizing distressed and surplus capital assets. In addition to acquiring turn-key manufacturing facilities and used industrial machinery and equipment, Counsel RB arranges traditional asset disposition sales, including liquidation and auction sales, earning commission revenue from the latter. Counsel RB was originally owned 75% by the Company and 25% by Counsel RB's Co-CEOs. In November 2010, the Company acquired the Co-CEOs' 25% interest in exchange for approximately 3.2 million shares of the Company.

In June 2011, Counsel RB expanded its operations through its acquisition of 100% of the business of EP USA, LLC (d/b/a Equity Partners) ("Equity Partners"), a boutique investment banking firm and provider of financial solutions. Equity Partners was founded in 1988, and works with financially distressed companies and properties to arrange customized financial solutions in the form of debt/refinancing or equity investments, to create joint venture relationships, or to organize going concern sales of a business or property. Its services are intended to allow distressed businesses to remain intact in order to maintain their going concern values, which typically are significantly higher than their liquidation values. As part of the acquisition, CRBCI entered into employment and consulting agreements with the previous owners and employees of Equity Partners. The following table summarizes the consideration paid for Equity Partners and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date.

	$
Consideration paid	
Cash	175
Equity instruments:	
122,950 CRBCI common shares [1]	184
230,000 options to purchase CRBCI common shares at $1.83 per share [2]	460
Fair value of total consideration	819
Acquisition related costs (included in selling, general, and administrative expenses in CRBCI's condensed consolidated statement of comprehensive income (loss) for the year ended December 31, 2011)	46
Recognized amounts of identifiable assets acquired and liabilities assumed	
Accounts receivable (net of $0 allowance for doubtful accounts)	244
Property, plant and equipment	2
Total identifiable net assets assumed	246
Goodwill	573
	819

1 Value determined using the closing price of the Company's common shares on June 22, 2011.

2 Value determined using the Black-Scholes Option Pricing Model. Inputs to the model included an expected volatility of 323%, a risk-free interest rate of 2.10%, an expected life of 4.75 years, and an expected dividend yield of zero.

The fair value of the accounts receivable is the value as reported in the above table.

The goodwill is discussed in Note 6.

The only transactions recognized separately from the acquisition were the acquisition costs noted in the above table.

On February 29, 2012 the Company again expanded its asset liquidation operations through the acquisition of 100% of the issued and outstanding capital stock in Heritage Global Partners, a full-service, global auction, appraisal and asset advisory firm. In connection with the acquisition, CRBCI entered into employment agreements with the previous owners and employees of Heritage Global Partners. The following table summarizes the consideration paid for Heritage Global Partners and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date:

At February 29, 2012

	$
Consideration paid	
Cash [1]	3,000
Promissory notes, net of receivable from owners [2]	849
Equity instruments:	
1,000,000 CRBCI common shares [3]	2,100
625,000 options to purchase CRBCI common shares at $2.00 per share [4]	1,131
Fair value of total consideration	7,080
Acquisition related costs (included in selling, general, and administrative expenses in CRBCI's consolidated statement of comprehensive income (loss) for the year ended December 31, 2012)	78
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash [1]	656
Accounts receivable (net of $0 allowance for doubtful accounts)	870
Deposits	20
Prepaid expenses	43
Property, plant and equipment	37
Identifiable intangible assets	5,640
Accounts payable and accrued liabilities	(1,212)
Client liability account	(1,424)
Short-term note payable	(100)
Future income taxes payable	(2,178)
Total identifiable net assets assumed	2,352
Goodwill	4,728
	7,080

[1] Net cash used for the acquisition was $2,344.

[2] The notes (the "Promissory Notes") were paid in full on their August 31, 2012 maturity date.

[3] Value determined using the closing price of the Company's common shares on February 29, 2012

[4] Value determined using the Black-Scholes Option Pricing Model. Inputs to the model included an expected volatility rate of 133%, a risk-free interest rate of 1.25%, an expected life of 4.75 years, and an expected dividend yield of $nil.

The fair value of the accounts receivable is the value as reported in the above table.

The goodwill and identifiable intangible assets are discussed in Note 6.

To date, the only transactions recognized separately from the acquisition were the acquisition costs noted in the above table.

Expansion into international markets

In the third quarter of 2012, the Company began expanding its asset liquidation operations into markets outside of North America. In July an exclusive strategic alliance agreement was signed with Asset Remarketing S. De R.L. de C.V. ("Asset Remarketing"), a Mexican company specializing in the monetization of manufacturing assets and real estate in Latin America, including Mexico, Costa Rica and the Dominican Republic. The Company and Asset Remarketing operate under the name "Asset Remarketing – HGP Latin America".

In the fourth quarter of 2012, the Company launched Heritage Global Partners Europe. Through its wholly-owned subsidiary Heritage Global Partners UK Limited ("HGP UK"), the Company opened three European-based offices, one each in the United Kingdom, Germany and Spain.

Note 3 – Summary of Significant Accounting Policies

Use of estimates

The preparation of the Company's consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Management bases its estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

Significant estimates include the assessment of collectability of revenue recognized, and the valuation of amounts receivable, inventory, investments, assets acquired, deferred income tax assets, goodwill and intangible assets, liabilities, and stock-based compensation. These estimates have the potential to significantly impact our consolidated 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 that are continuous in nature.

Asset liquidation accounting

Counsel RB's asset liquidation transactions are generally conducted through two different formats. GAAP requires that they be reported separately in the consolidated financial statements.

Revenue from transactions that Counsel RB conducts directly is reported as Asset Liquidation revenue, and the associated direct costs are reported as Asset Liquidation costs. At the balance sheet date, any unsold assets are reported as Inventory, any outstanding accounts receivable are included in the Company's Amounts Receivable, and any associated liabilities are included in the Company's Accrued Liabilities. Although all inventory is expected to be sold in less than one year, real estate inventory is not recorded as a current asset.

Transactions that involve Counsel RB acting jointly with one or more additional purchasers, pursuant to a partnership, joint venture or limited liability company ("LLC") agreement (collectively, "Joint Ventures"), require that Counsel RB's proportionate share of the net income (loss) be reported as Earnings (Loss) of Equity Accounted Asset Liquidation Investments. At each balance sheet date, the Company's investments in these Joint Ventures are reported in the consolidated balance sheet as Asset Liquidation Investments. Although Counsel RB expects to exit each of its investments in Joint Ventures in less than one year, they are reported on the balance sheet as non-current Asset Liquidation Investments. The Company monitors the value of the Joint Ventures' underlying assets and liabilities, and records a write down of its investments if the Company concludes that there has been a decline in the value of the net assets.

Neither Equity Partners nor Heritage Global Partners participate in Joint Ventures; they primarily earn revenue from fee-based services.

Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The Company maintains its cash and cash equivalents with financial institutions in Toronto, Canada; New York, NY and San Diego, CA. These accounts may from time to time exceed federally insured limits. The Company has not experienced any losses on such accounts.

Amounts receivable

The Company's amounts receivable are primarily related to the operations of its subsidiaries Counsel RB, Equity Partners, and Heritage Global Partners. They consist of three major categories: receivables from Joint Venture partners, receivables from asset sales, and fees and retainers relating to the businesses of Equity Partners and Heritage Global Partners. The initial value of an amount receivable corresponds to the fair value of the underlying goods or services. To date all receivables have been classified as current and, due to their short-term nature, any decline in fair value would be due to issues involving collectability. At each financial statement date the collectability of each outstanding amount receivable is evaluated, and an allowance is recorded if the book value exceeds the amount that is deemed collectable. Collectability is determined on the basis of payment history. See Note 6 for more detail regarding the Company's amounts receivable.

Inventory

The Company's inventory consists of assets acquired for resale by Counsel RB and Heritage Global Partners, which are normally expected to be sold within a one-year operating cycle. They are recorded at the lower of cost and net realizable value. During 2012 the Company recorded write downs of $363 on its real estate inventory and $210 on its equipment inventory, both of which were reported as part of Asset Liquidation Expenses. There were no write downs during 2011. During 2010, the Company recorded a write down of $123 on its real estate inventory.

Investments

At December 31, 2012 and 2011 the Company held two investments in private companies, both of which were accounted for under the equity method. Under this method, the investments are carried at cost, plus or minus the Company's share of increases and decreases, respectively, in the investee's net assets and certain other adjustments. Impairments, equity pick-ups, and realized gains and losses on equity securities are reported separately in the consolidated statement of operations. The Company monitors its investments for impairment by considering factors such as the economic environment and market conditions, as well as the operational performance of, and other specific factors relating to, the businesses underlying the investments. The fair values of the securities are estimated quarterly using the best available information as of the evaluation date, such as recent financing rounds of the investee, and other investee-specific information. See Note 5 for further discussion of the Company's investments.

Fair value of financial instruments

The fair value of financial instruments is the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. At December 31, 2012 and 2011, the carrying values of the Company's cash, amounts receivable, related party receivable, deposits, accounts payable, accrued liabilities and third party debt approximate fair value. There are three levels within the fair value hierarchy: Level 1 – quoted prices in active markets for identical assets or liabilities; Level 2 – significant other observable inputs; and Level 3 – significant unobservable inputs. The fair value hierarchy does not apply to the financial instruments noted above, with the exception of cash. The Company considers the fair value of cash to be Level 2 within the hierarchy.

Although the Company does not employ fair value accounting for any of its assets or liabilities, in assessing the fair values of its financial instruments, the Company applies the Level 1, 2 and 3 valuation principles required by GAAP.

Assets and liabilities acquired

In the course of its operations, most recently with respect to the Heritage Global Partners acquisition in February 2012, the Company acquires assets and liabilities as components of a business combination. Valuations are assigned to the acquired assets and liabilities based primarily on management's assessment of their fair market value. With respect to the acquisition of Heritage Global Partners, the Company engaged the services of an independent third party to determine the value of the acquired intangible assets and goodwill.

Intangible assets

Intangible assets are recorded at fair value upon acquisition and are amortized over their estimated lives. 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 fair value.

At December 31, 2012 the Company's intangible assets relate to its acquisition of Heritage Global Partners in February 2012. See Note 2 and Note 6 for more detail regarding the Company's intangible assets.

Goodwill

Goodwill, which results from the difference between the purchase price and the fair value of net identifiable assets acquired, is not amortized but is tested annually at December 31 for impairment in accordance with GAAP. Testing is a two-step process, in which the carrying amount of the reporting unit associated with the goodwill is first compared to the reporting unit's estimated fair value. If the carrying amount of the reporting unit exceeds its estimated fair value, the fair values of the reporting unit's assets and liabilities are analyzed to determine whether the goodwill of the reporting unit has been impaired. An impairment loss is recognized to the extent that the Company's recorded goodwill exceeds its implied fair value as determined by this two-step process. FASB Accounting Standards Update 2011-08, *Testing Goodwill for Impairment*, provides the option to perform a qualitative assessment prior to performing the two-step process, which may eliminate the need for further testing. Goodwill, in addition to being tested for impairment annually, is tested for impairment between annual tests if an event occurs or circumstances change such that it is more likely than not that the carrying amount of goodwill may be impaired.

At December 31, 2012 the Company's goodwill relates to its acquisition of Equity Partners in June 2011 and its acquisition of Heritage Global Partners in February 2012. At December 31, 2010 the Company's goodwill consisted of $173 that related to its Patent Licensing segment. Upon performance of the impairment tests, the Company determined that this goodwill was impaired and it was written down to $0. See Note 2 and Note 6 for more detail regarding the Company's goodwill.

Deferred income tax assets

The Company recognizes deferred tax assets and liabilities for temporary differences between the tax bases of assets and liabilities and the amounts at which they are carried in the financial statements, based upon the enacted tax rates in effect for the year in which the differences are expected to reverse. The Company establishes a valuation allowance when necessary to reduce deferred tax assets to the amount expected to be realized.

The Company periodically assesses the value of its deferred tax assets, which have been generated by a history of net operating and net capital losses, and determines the necessity for a valuation allowance. The Company evaluates which portion of the deferred tax assets, if any, will more likely than not be realized by offsetting future taxable income, taking into consideration any limitations that may exist on its use of its net operating and net capital loss carryforwards. See Note 10 for further discussion of the Company's income taxes.

Liabilities and contingencies

The Company is involved from time to time in various legal matters arising out of its operations in the normal course of business. On a case by case basis, the Company evaluates the likelihood of possible outcomes for this litigation. Based on this evaluation, the Company determines whether a liability accrual is appropriate. If the likelihood of a negative outcome is probable, and the amount is estimable, the Company accounts for the liability in the current period.

Asset liquidation revenue

Asset liquidation revenue generally consists of gross proceeds from auctions and negotiated sales of asset inventory, and commissions and fees from acting as the agent for asset sales by third parties. Revenue is recognized when persuasive evidence of an arrangement exists, the amount of the proceeds is fixed, delivery terms are arranged and collectability is reasonably assured.

Stock-based compensation

The Company's stock-based compensation is primarily in the form of options to purchase common shares. The fair value is calculated using the Black-Scholes Option Pricing Model, and subsequently expensed over the vesting period. The provisions of the Company's stock-based compensation plans do not require the Company to settle any options by transferring cash or other assets, and therefore the Company classifies the option awards as equity. See Note 14 for further discussion of the Company's stock-based compensation.

Segment reporting

Since the second quarter of 2009, the Company has operated in two business segments, Asset Liquidation and Patent Licensing. The asset liquidation segment includes the operations of Counsel RB, Equity Partners and Heritage Global Partners. The patent licensing segment includes all operations relating to licensing of the Company's intellectual property. See Note 15 for further discussion of the Company's segments.

Recent accounting pronouncements

In May 2011, the FASB issued Accounting Standards Update 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* ("ASU 2011-04"). ASU 2011-04 results from joint efforts by the FASB and the International Accounting Standards Board ("IASB") to develop converged guidance on how to measure fair value and what disclosures to provide about fair value measurements. Although ASU 2011-04 is largely consistent with the existing US GAAP fair value measurement principles, it expands existing disclosure requirements and makes other amendments. ASU 2011-04 became effective for interim or annual reporting periods beginning after December 15, 2011, with early adoption not permitted. The Company adopted ASU 2011-04 in the first quarter of 2012; its adoption did not have a material effect on the Company's consolidated financial statements.

In December 2011, the FASB issued Accounting Standards Update 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* ("ASU 2011-12"). ASU 2011-12 defers certain provisions of ASU 2011-05 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income ("OCI"). Both ASU 2011-05 and 2011-12 became effective for interim or annual reporting periods beginning after December 15, 2011, with early adoption permitted. The guidance must be applied retrospectively for all periods presented in the financial statements. The Company adopted ASU 2011-05 and ASU 2011-12 in the first quarter of 2012. However, because the Company recorded OCI for the first time in the fourth quarter of 2012, the adoptions had minimal effect on the Company's consolidated financial statements.

Future accounting pronouncements

In July 2012, the FASB issued Accounting Standards Update 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment* ("ASU 2012-02"). ASU 2012-02 amends the indefinite-lived intangible asset impairment testing guidance in ASC 350-30, by providing the option to perform a qualitative assessment before calculating the fair value of the asset. If it is determined, on the basis of qualitative factors, that the fair value of the indefinite-lived intangible asset is not more likely than not (i.e., a likelihood of more than 50 percent) impaired, a reporting entity would not need to calculate the fair value of the asset. ASU 2012-02 does not change the requirement to test indefinite-lived intangible assets annually for impairment, or to test for impairment between annual tests if warranted by events or circumstances. However, it does revise the examples of events and circumstances that should be considered. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company will formally adopt ASU 2012-02 in the first quarter of 2013, but based on management's assessment, the adoption will not have a significant impact on its consolidated financial statements.

Note 4 – Earnings (Loss) per Share

The Company is required, in periods in which it has net income, to calculate basic earnings per share ("basic EPS") using the two-class method. The two-class method is required because the Company's Class N preferred shares, each of which is convertible to 40 common shares, have the right to receive dividends or dividend equivalents should the Company declare dividends on its common stock. Under the two-class method, earnings for the period are allocated on a pro-rata basis to the common and preferred stockholders. The weighted-average number of common and preferred shares outstanding during the period is then used to calculate basic EPS for each class of shares.

In periods in which the Company has a net loss, basic loss per share is calculated by dividing the loss attributable to common stockholders by the weighted-average number of common shares outstanding during the period. The two-class method is not used, because the preferred stock does not participate in losses.

Options are included in the calculation of diluted earnings per share, since they are assumed to be exercised, except when their effect would be anti-dilutive. For the year ended December 31, 2012, all of the Company's outstanding options were excluded due to the Company's net loss. For the years ended December 31, 2011 and 2010, 2,386,198 and 658,246 options were excluded, respectively.

Basic and diluted EPS were calculated using the following:

	Year ended December 31,		
(In thousands, except per share amounts)	**2012**	**2011**	**2010**
Net income (loss)	$ (1,813)	$ 30,713	$ 4,829
Less: income allocated to preferred stockholders	—	27	5
Net income (loss) allocated to common stockholders	$ (1,813)	$ 30,686	$ 4,824
Weighted average shares for basic EPS	28,292	26,834	22,887
Add: incremental shares from assumed conversions of stock options	—	262	15
Weighted average shares for diluted EPS	28,292	27,096	22,902
Basic earnings (loss) per share attributable to common stockholders	$(0.06)	$1.14	$0.21
Diluted earnings (loss) per share attributable to common stockholders	$(0.06)	$1.13	$0.21

Note 5 –Asset Liquidation Investments and Other Investments

The table below details the summarized results of operations, for the years ended December 31, 2012, 2011 and 2010, attributable to CRBCI from the Joint Ventures in which it was invested during those years.

	2012	2011	2010
Gross revenues	$ 8,666	$ 3,505	$ 22,262
Gross profit	$ 2,099	$ 2,201	$ 7,758
Income from continuing operations	$ 2,023	$ 2,183	$ 7,586
Net income	$ 2,023	$ 2,183	$ 7,586

The table below details the summarized components of assets and liabilities, as at December 31, 2012 and 2011, attributable to CRBCI from the Joint Ventures in which it was invested at those dates.

	2012	2011
Current assets	$ 3,733	$ 3,435
Noncurrent assets	$ 222	$ 34
Current liabilities	$ 337	$ 14
Noncurrent liabilities	$ —	$ —

The Company's other investments as at December 31, 2012 and 2011 consisted of the following:

	2012	2011
Knight's Bridge Capital Partners Internet Fund No. 1 GP LLC	$ 20	$ 19
Polaroid	2,406	2,753
Total investments	$ 2,426	$ 2,772

Knight's Bridge Capital Partners Internet Fund No. 1 GP LLC

In December 2007 the Company acquired a one-third interest in Knight's Bridge Capital Partners Internet Fund No. 1 GP LLC ("Knight's Bridge GP"), a private company, for a purchase price of $20. The additional two-thirds interest in Knight's Bridge GP was acquired by parties affiliated with Counsel. Knight's Bridge GP is the general partner of Knight's Bridge Capital Partners Internet Fund No. 1 LP (the "Fund"). The Fund holds investments in several non-public Internet-based e-commerce businesses. Since the Company's initial investment, the Company's share of earnings has been exactly offset by cash distributions, and at December 31, 2012 the Company's net investment was $20. Based on the Company's analysis of Knight's Bridge GP's financial statements and projections as at December 31, 2012, the Company concluded that there has been no impairment in the fair value of its investment, and that its book value is the best estimate of its fair value.

Polaroid

In the second quarter of 2009, the Company indirectly acquired an approximate 5% interest in Polaroid Corporation, pursuant to a Chapter 11 reorganization in a U.S. bankruptcy court. The investment was made as part of a joint venture investor group (the "JV Group") that includes both related and non-related parties. The JV Group formed two operating companies (collectively, "Polaroid") to hold the acquired Polaroid assets. The Company, the related parties and two of the unrelated parties formed KPL, LLC ("KPL" or the "LLC") to pool their individual investments in Polaroid. The pooled investments totalled approximately $19,000 of the aggregate purchase price of approximately $55,000. KPL is managed by a related party, Knight's Bridge Capital Partners Management, L.P. (the "Management LP"), which acts as the General Partner of the LLC. The Management LP is a wholly-owned subsidiary of the Company's majority shareholder, Counsel Corporation (together with its subsidiaries, "Counsel").

The Company's investment in the LLC has two components:

- CRBCI acquired Counsel's rights and obligations as an indirect limited partner (but not Counsel's limited partnership interest) in Knight's Bridge Capital Partners Fund I, L.P. ("Knight's Bridge Fund"), a related party, with respect to its investment in Class A units. The investment is held by Knight's Bridge Fund in the name of a Canadian limited partnership (the "LP") comprised of Counsel (95.24%) and several parties related to Counsel. CRBCI is also responsible for Counsel's share of the management fees, which are approximately $40 per year. The economic interest entitles CRBCI to an 8% per annum preferred return. Any profits generated in addition to the preferred return, subsequent to the return of invested capital, are subject to the Management LP's 20% carried interest.

- CRBCI directly acquired Class D units. These units are subject to a 2% annual management fee, payable to the General Partner, of approximately $11 per year. The units have a 10% per annum preferred return. Any profits generated in addition to the preferred return, subsequent to the return of invested capital, are subject to the Management LP's 20% carried interest.

The components of the Company's investment in Polaroid at December 31, 2012 are detailed below:

Unit type	Capital invested	Equity in earnings	Capital returned	Net investment
Class A	$ 2,447	$ 137	$ (654)	$ 1,930
Class D	606	30	(160)	476
Total	$ 3,053	$ 167	$ (814)	$ 2,406

Note 6 – Composition of Certain Financial Statement Captions

Amounts receivable

As described in Note 3, the Company's amounts receivable are primarily related to the operations of its subsidiaries Counsel RB, Equity Partners, and Heritage Global Partners. To date, the Company has not experienced any significant collectability issues with any of its receivables. Given this experience, together with the ongoing business relationships between the Company and its joint venture partners, the Company has not yet been required to develop a policy for formal credit quality assessment. The Equity Partners and Heritage Global Partners businesses have similarly not required formal credit quality assessments. As the Company's asset liquidation business continues to develop, more comprehensive credit assessments may be required.

At December 31, 2012, the Company had one interest-bearing receivable in the amount of $10, which was an employee advance bearing interest at 10%. To date the Company has recorded only one other interest-bearing note receivable, which was a note in the amount of $225, acquired when Counsel RB commenced operations in the second quarter of 2009. An allowance of $146 was recorded in the fourth quarter of 2010, and a further allowance of $40 was recorded in the second quarter of 2011. The remaining balance of $39 was collected during the second quarter of 2012.

In the first quarter of 2011, the Company acquired a lease receivable in the amount of $248, which is being reduced by monthly payments of $12 that began in April 2011. The lease receivable began accruing interest beginning April 1, 2011.

At December 31, 2012 the Company had a $9 non-interest bearing financing receivable that was past due. The Company expects to collect the full amount and therefore has not recorded an allowance for any part of this amount.

During the year ended December 31, 2012, there were no changes in the Company's accounting policies for financing receivables, and therefore no related change in the current-period provision for credit losses. During the same period, there were no purchases, sales or reclassifications of financing receivables. There were no troubled debt restructurings during the year ended December 31, 2012.

Amounts receivable consisted of the following at December 31, 2012 and 2011:

	December 31, 2012	December 31, 2011
Accounts receivable		
(net of allowance for doubtful accounts of $0; 2011 - $0)	$ 1,046	$ 730
Notes receivable		
(net of allowance for doubtful accounts of $0; 2011 - $186)	10	39
Lease receivable	12	148
	$ 1,068	$ 917

Intangible assets

The Company's intangible assets are related to its asset liquidation business.

As discussed in Note 2, on February 29, 2012 the Company acquired Heritage Global Partners for a total purchase price of $7,080, of which $5,640 was assigned to identifiable intangible assets. Of this amount, $4,180 was assigned to Customer/Broker Network and $1,460 was assigned to Trade Name. The Customer/Broker Network intangible asset is being amortized over 12 years, and the Trade Name intangible asset is being amortized over 14 years. Based on the Company's assessment at December 31, 2012, these assets were not impaired. The details are as shown below:

	December 31, 2012
Customer/Broker Network (net of amortization of $290)	$ 3,890
Trade Name (net of amortization of $87)	1,373
	$ 5,263

Goodwill

The Company's goodwill is related to its asset liquidation business.

As part of its acquisition of Equity Partners in June 2011, the Company recognized goodwill of $573. No goodwill impairment resulted from the completion of the impairment tests at December 31, 2012, and there have been no events or changes in circumstances in 2012 that make it more likely than not that the carrying amount of this goodwill may be impaired.

As part of its acquisition of Heritage Global Partners in February 2012, the Company recognized goodwill of $4,728, as discussed in more detail in Note 2. This valuation was finalized in the third quarter of 2012, and the goodwill was subsequently tested for impairment at December 31, 2012. Based on the testing, management concluded that the goodwill was not impaired at December 31, 2012.

The Company recorded a goodwill impairment charge of $173 at December 31, 2010, reducing the carrying value of the goodwill that it held at that date to $0. The goodwill related to an investment in a subsidiary company that holds certain of the Company's patent rights.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consisted of the following at December 31:

	2012	2011
Due to auction clients	$ 2,242	$ —
Due to Joint Venture partners	487	89
Sales and other taxes	552	66
Remuneration and benefits	347	402
Asset liquidation expenses	184	—
Regulatory and legal fees	87	49
Accounting, auditing and tax consulting	170	169
Patent licensing and maintenance	9	8
Other	337	72
	$ 4,415	$ 855

Note 7 – Debt

At December 31, 2012 and 2011, the Company's only outstanding debt was a revolving credit facility (the "Credit Facility"), which had a balance of $10,883 and $3,091 at December 31, 2012 and 2011, respectively. The Credit Facility is provided to Counsel RB by a U.S. bank under the terms and provisions of a certain Loan and Security Agreement (the "Loan Agreement") dated as of June 2, 2009 and most recently amended as of September 27, 2012 (the "Amendment Date"). It is utilized to finance the acquisition of eligible property and equipment for purposes of resale. The Credit Facility bears interest at the greater of prime rate + 1.0%, or 4.5%, and the maximum borrowing available under the Credit Facility is US $15,000, subject to Counsel RB maintaining a 1:2 ratio of capital funds, i.e. the sum of Counsel RB's tangible net worth plus subordinated indebtedness, as defined in the Loan Agreement, to the outstanding balance. The amount of any advance is determined based upon the value of the eligible assets being acquired, which serve as collateral. At December 31, 2012, $13,392 of such assets served as collateral for the loan (December 31, 2011 - $4,303). Effective March 1, 2011, a monthly fee is payable with respect to unused borrowing ("Unused Line Fee"). The Unused Line Fee is equal to the product of 0.50% per annum multiplied by the difference between $15,000 and the average loan amount outstanding during the month. Effective the Amendment Date, an annual facility fee ("Facility Fee") of $50 was paid to the lender. Subsequent payments will be due on each anniversary of the Amendment Date. The Credit Facility also contains other terms and provisions customary for agreements of this nature, and has been guaranteed by both the Company and Counsel. At December 31, 2012 and 2011 the Company was in compliance with all covenants of the Credit Facility.

In connection with the February 2012 acquisition of HGP, the Company issued promissory notes (the "Promissory Notes") payable to the former owners of HGP, which were due on August 31, 2012. The Promissory Notes were paid in full on August 31.

Note 8 – Commitments and Contingencies

At December 31, 2012, CRBCI has no commitments other than the Unused Line Fee on its third party debt and the leases on its offices in New York and California. The lease on the New York office expires on December 31, 2015. The leases on the California offices expire on September 30, 2013, December 11, 2015 and July 31, 2016. The annual lease obligations are as shown below:

2013	$ 433
2014	428
2015	442
2016	145
	$1,448

In the normal course of its business, CRBCI may be subject to contingent liability with respect to assets sold either directly or through Joint Ventures. At December 31, 2012 CRBCI does not expect any of these liabilities, individually or in the aggregate, to have a material adverse effect on its assets or results of operations.

Note 9 – Patent Participation Fee

In 2003, CRBCI acquired a VoIP patent from a third party. Consideration provided was $100 plus a 35% residual payable to the third party relating to the net proceeds from future licensing and/or enforcement actions from the CRBCI VoIP Patent Portfolio. Net proceeds are defined as amounts collected from third parties net of the direct costs associated with putting the licensing or enforcement in place and related collection costs. The vendor of the VoIP Patent was also granted a first priority security interest in the patent in order to secure CRBCI's obligations under the associated purchase agreement.

Note 10 – Income Taxes

In 2012 the Company recognized a net income tax recovery of $978 comprised of a current income tax recovery of $5 and a net deferred income tax recovery of $973. In 2011 the Company recognized a net income tax recovery of $26,317 primarily comprised of a current income tax expense of $238 and a net deferred income tax recovery of $26,555. The deferred income tax recovery for the year is primarily due to the recognition of the tax benefit of available tax loss carry forwards generated during the year that are more likely than not expected to be utilized against future income. In 2010 the Company recognized a net income tax recovery of $1,318 as a result of a reversal of a deferred income tax asset of $729 recorded at the end of 2009 offset by an additional deferred income tax recovery of $2,228 with respect to the tax effect of available tax loss carry forwards expected to be utilized in 2011 and a current income tax expense of $181.

The $27,578 net deferred income tax asset balance as at December 31, 2012 reflects the tax benefit of available tax loss carry forwards that are more likely than not expected to be utilized against future income and is net of approximately $2,065 of deferred tax liability recorded in 2012 related to the intangible assets acquired through the Heritage Global Partners acquisition for which the Company received only nominal tax basis.

The reported tax benefit varies from the amount that would be provided by applying the statutory U.S. Federal income tax rate to the income (loss) from continuing operations before taxes for the following reasons:

	2012	2011	2010
Expected federal statutory tax expenses (benefit)	$(944)	$1,485	$1,202
Increase (reduction) in taxes resulting from:			
State income taxes recoverable	(5)	175	161
Non-deductible expenses (permanent differences)	36	36	86
Change in valuation allowance attributable to continuing operations, net	—	(27,789)	(14,277)
Capital loss expiry	—	125	11,542
Adjustment to effective tax rate	(12)	—	—
Other	(53)	(349)	(32)
Income tax recovery	$(978)	$(26,317)	$(1,318)

At December 31, 2012, the Company had available federal tax loss carry-forwards of approximately $55,592 of unrestricted net operating tax losses and approximately $28,800 of restricted net operating tax losses. The net operating loss carry forwards expire between 2024 and 2032.

The Company's utilization of restricted net operating tax loss carry forwards against future income for tax purposes is restricted pursuant to the "change in ownership" rules in Section 382 of the Internal Revenue Code. These rules, in general, provide that an ownership change occurs when the percentage shareholdings of 5% direct or indirect stockholders of a loss corporation have, in aggregate, increased by more than 50 percentage points during the immediately preceding three years.

Restrictions in net operating loss carry forwards occurred in 2001 as a result of the acquisition of the Company by Counsel. Further restrictions may have occurred as a result of subsequent changes in the share ownership and capital structure of the Company and Counsel and disposition of business interests by the Company. Pursuant to Section 382 of the Internal Revenue Code, the annual usage of the Company's net operating loss carry forwards was limited to approximately $2,500 per annum until 2008 and $1,700 per annum thereafter. There is no certainty that the application of these "change in ownership" rules may not recur, resulting in further restrictions on the Company's income tax loss carry forwards existing at a particular time. In addition, further restrictions, reductions in, or expiry of net operating loss and net capital loss carry forwards may occur through future merger, acquisition and/or disposition transactions or failure to continue a significant level of business activities. Any such additional limitations could require the Company to pay income taxes on its future earnings and record an income tax expense to the extent of such liability, despite the existence of such tax loss carry forwards. Furthermore, any such additional limitations may result in the Company having to reverse all or a portion of its deferred tax balance or set up a valuation allowance at such time.

The Company, until recently, has had a history of incurring annual tax losses, beginning in1991. All loss taxation years remain open for audit pending the application of the respective tax losses against income in a subsequent taxation year. In general, the statute of limitations expires three years from the date that a company files a tax return applying prior year tax loss carry forwards against income for tax purposes in the later year. The Company applied historic tax loss carry forwards to offset income for tax purposes in 2008, 2010 and 2011, respectively. The 2009 through 2011 taxation years remain open for audit.

The Company is subject to state income tax in multiple jurisdictions. In most states, the Company does not have tax loss carry forwards available to shield income attributable to a particular state from being subject to tax in that particular state.

The components of the deferred tax asset and liability as of December 31 (after derecognizing uncertain tax positions) are as follows:

	2012	2011	2010
Net operating loss carry-forwards	$28,736	$28,293	$29,222
Capital loss carry forwards	—	2	125
Intangibles	(7)	62	275
Stock based compensation	469	242	127
Start-up costs	32	35	33
Accrued liabilities	—	—	7
Reserve for accounts receivable	—	—	2
Depreciation and amortization	15	(1)	—
Other	398	150	226
Valuation allowance	—	—	(27,789)
Heritage Global Partners – Trade Name	(459)	—	—
Heritage Global Partners – Customer List/Business Network	(1,606)	—	—
Net deferred tax assets	$27,578	28,783	2,228

Uncertain Tax Positions

The accounting for uncertainty in income taxes requires a more-likely-than-not threshold for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. Upon adoption of this principle, effective January 1, 2007, the Company derecognized certain tax positions that, upon examination, more likely than not would not have been sustained as a recognized tax benefit. As a result of derecognizing uncertain tax positions, the Company has recorded a cumulative reduction in its deferred tax assets of approximately $12,000 associated with prior years' tax benefits, which are not expected to be available primarily due to change of control usage restrictions, and a reduction in the rate of the tax benefit associated with all of its tax attributes.

Due to the Company's historic policy of applying a valuation allowance against its deferred tax assets, the effect of the above was an offsetting reduction in the Company's valuation allowance. Accordingly, the above reduction had no net impact on the Company's financial position, operations or cash flow. As of December 31, 2012, the unrecognized tax benefit has been determined to be $12,059, which is unchanged from the balance as of December 31, 2011.

In the unlikely event that these tax benefits are recognized in the future, the amount recognized at that time should result in a reduction in the Company's effective tax rate.

The Company's policy is to recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense. Because the Company has tax loss carry forwards in excess of the unrecognized tax benefits, the Company did not accrue for interest and penalties related to unrecognized tax benefits either upon the initial derecognition of uncertain tax positions or in the current period.

It is possible that the total amount of the Company's unrecognized tax benefits will significantly increase or decrease within the next 12 months. These changes may be the result of future audits, the application of "change in ownership" rules leading to further restrictions in tax losses arising from changes in the capital structure of the Company and/or that of its parent company Counsel, reductions in available tax loss carry forwards through future merger, acquisition and/or disposition transactions, failure to continue a significant level of business activities, or other circumstances not known to management at this time. At this time, an estimate of the range of reasonably possible outcomes cannot be made.

Note 11 – Related Party Transactions

Transactions with Counsel

At December 31, 2012 the Company had a receivable from Counsel in the amount of $2,929, as compared to a receivable of $595 at December 31, 2011. No interest is charged on this receivable. In the normal course of operations, the Company may receive advances from Counsel under an existing loan facility (the "Counsel Loan"). The Counsel Loan, which was originally entered into during the fourth quarter of 2003, accrues interest at 10% per annum compounded quarterly from the date funds are advanced, and is due on demand. For the year ended December 31, 2010, interest expense related to the Counsel Loan was $64. Any outstanding balance under the Counsel Loan is secured by the assets of the Company. At December 31, 2012 and 2011, the balance of the Counsel Loan was zero due to the Company's net receivable from Counsel.

Counsel Management Services

Since December 2004, CRBCI and Counsel have entered into successive annual management services agreements (the "Agreement"). Under the terms of the Agreement, CRBCI agrees to pay Counsel for ongoing services provided to CRBCI by Counsel personnel. These services include preparation of the Company'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 are: 1) its Executive Vice President, Secretary and Chief Financial Officer, 2) its Vice President, Tax & Asset Management, 3) an Accounting Manager, and 4) its Accounts Payable Clerk. These employees have the same or similar positions with CRBCI, but none of them receive compensation from CRBCI. Rather, Counsel allocates to CRBCI a percentage, based on time incurred, of the employees' base compensation paid by Counsel. The amounts due under the Agreement are payable within 30 days following the respective year end, subject to applicable restrictions. Any unpaid fee amounts bear interest at 10% per annum commencing on the day after such year end. In the event of a change of control, merger or similar event of CRBCI, all amounts owing, including fees incurred up to the date of the event, will become due and payable immediately upon the occurrence of such event. The Company expects that Counsel will continue to provide these services in 2013 on the same cost basis.

In 2010, the Company paid Counsel a fee of $25 in return for its assistance with a transaction in Canada. In addition to the above, beginning in the first quarter of 2011, additional amounts have been charged to CRBCI for the services of Counsel personnel that relate to the ongoing operations of CRBCI's asset liquidation business. These amounts are detailed below:

Item	**Year ended December 31,**		
	2012	**2011**	**2010**
Management fees	$360	$360	$360
Other charges	75	70	—
Total	$435	$430	$360

Transactions with Other Related Parties

The Company leases office space in White Plains, NY and Los Angeles, CA as part of the operations of Counsel RB. Both premises are owned by entities that are controlled by a Co-CEO of Counsel RB and the Company. Additionally, the Company leases office space in Foster City, CA as part of the operations of Heritage Global Partners, which is owned by an entity that is jointly controlled by the former owners of Heritage Global Partners. The lease amounts paid by the Company to the related parties are detailed below:

Leased premises location	**Year ended December 31,**		
	2012	**2011**	**2010**
White Plains, NY	$126	$122	$74
Los Angeles, CA	26	26	7
Foster City, CA	130	—	—
Total	$282	$148	$81

As discussed in Note 2, as part of the acquisition of Heritage Global Partners during the first quarter of 2012, the Company issued Promissory Notes totaling $1,000 to its two former owners, partially offset by $151 of accounts receivable from the former owners. During the third quarter of 2012, the Promissory Notes, which did not accrue interest, were repaid in full, and the accounts receivable were collected.

On August 10, 2012, the Company entered into intellectual property licensing agreements with each of the Company's Co-CEOs. In return for an exclusive, perpetual license to use his name, each Co-CEO was issued 400,000 shares of common stock of the Company, valued at $1.31672 per share, resulting in a total transaction value of $1,054.

On November 30, 2010, the Company acquired the 25% non-controlling interest in Counsel RB owned by Counsel RB's Co-CEOs.

Note 12 – Legal Proceedings

Intellectual Property Enforcement Litigation

On August 27, 2009 the Company's wholly-owned subsidiary, C2 Communications Technologies Inc., filed a patent infringement lawsuit against PAETEC Corporation, Matrix Telecom, Inc., Windstream Corporation, and Telephone and Data Systems, Inc. The complaint was filed in the United States District Court for the Eastern District of Oklahoma and alleged that the defendants' services and systems utilizing VoIP infringe the Company's U.S. Patent No. 6,243,373. The complaint sought an injunction, monetary damages and costs. In the fourth quarter of 2009, the complaint against Matrix Telecom, Windstream Corporation, and Telephone and Data Systems, Inc., was dismissed without prejudice. Also in the fourth quarter of 2009, the case was transferred to the Eastern District of Texas. A trial date was set for March 13, 2013, but in the first quarter of 2013 the Company entered into a settlement and license agreement with the remaining defendant and received a payment of $200.

The Company is involved in various other legal matters arising out of its operations in the normal course of business, none of which are expected, individually or in the aggregate, to have a material adverse effect on the Company.

Note 13 – Capital Stock

	Number of Shares		Capital Stock	
Issued and outstanding	**2012**	**2011**	**2012**	**2011**
Common shares, $0.01 par value	28,945,228	27,117,450	$290	$271
Class N preferred shares, $10.00 par value	592	592	$ 6	$ 6

The Company's authorized capital stock consists of 300,000,000 common shares, with a par value of $0.01 per share, and 10,000,000 preferred shares with a par value of $10.00 per share.

On February 29, 2012, as discussed in Note 2, the Company issued 1,000,000 shares in connection with its acquisition of Heritage Global Partners. On August 10, 2012, as discussed in Note 11, the Company issued 400,000 shares to each of its Co-CEOS, in exchange for intellectual property licensing agreements. During the first and third quarters of 2012, the Company issued 17,778 and 10,000 shares, respectively, due to option exercises.

On March 15, 2011, the Company issued 1,000,000 shares, for net proceeds of $1,803, through a private placement. On June 23, 2011 the Company issued 122,950 shares in connection with Counsel RB's acquisition of Equity Partners. During the third and fourth quarters of 2011, the Company issued 26,275 and 8,145 shares, respectively, due to option exercises.

In December 2010 the Company issued 3,242,000 common shares in exchange for the minority interest in Counsel RB.

Each Class N preferred share has a voting entitlement equal to 40 common shares, votes with the common stock on an as-converted basis and is senior to all other preferred stock of the Company. Dividends, if any, will be paid on an as-converted basis equal to common stock dividends. The value of each Class N preferred share is $1,000, and each share is convertible to 40 common shares at the rate of $25 per common share. During 2012 and 2011, none of the Company's Class N preferred stock was converted into common stock. At December 31, 2012 and 2011, of the 10,000,000 shares of preferred stock authorized, 9,486,500 remain undesignated and unissued.

Note 14 – Stock-Based Compensation

Stock- Based Compensation Plans

At December 31, 2012, the Company had six stock-based compensation plans, which are described below. All share amounts disclosed below reflect the effect of the 1-for-20 reverse stock split which was approved by the stockholders on November 26, 2003.

1995 Director Stock Option and Appreciation Rights Plan

The 1995 Director Stock Option and Appreciation Rights Plan (the "1995 Director Plan") provides for the issuance of incentive stock options, non-qualified stock options and stock appreciation rights ("SARs") to directors of the Company up to 12,500 shares of common stock (subject to adjustment in the event of stock dividends, stock splits, and other similar events). If any incentive option, non-qualified option or SAR terminates prior to exercise thereof and during the duration of the 1995 Director Plan, the shares of common stock as to which such option or right was not exercised will become available under the 1995 Director Plan for the grant of additional options or rights to any eligible director. Each option is immediately exercisable for a period of ten years from the date of grant. The Company has 12,500 shares of common stock reserved for issuance under the 1995 Director Plan. As of December 31, 2012 and 2011, there were no options outstanding under the 1995 Director Plan.

1995 Employee Stock Option and Appreciation Rights Plan

The 1995 Employee Stock Option and Appreciation Rights Plan (the "1995 Employee Plan") provides for the grant of incentive stock options, non-qualified stock options, and SARs of up to 20,000 shares of common stock (subject to adjustment in the event of stock dividends, stock splits, and other similar events). Directors of the Company are not eligible to participate in the 1995 Employee Plan. The 1995 Employee Plan provides for the grant of stock options, which qualify as incentive stock options under Section 422 of the Internal Revenue Code, to be issued to officers who are employees and other employees, as well as for the grant of non-qualified options to be issued to officers, employees and consultants. In addition, SARs may be granted in conjunction with the grant of incentive and non-qualified options. To the extent that an incentive option or non-qualified option is not exercised within the period of exercisability specified therein, it will expire as to the then unexercisable portion. If any incentive option, non-qualified option or SAR terminates prior to exercise thereof and during the duration of the 1995 Employee Plan, the shares of common stock as to which such option or right was not exercised will become available under the 1995 Employee Plan for the grant of additional options or rights to any eligible employee. The shares of common stock subject to the 1995 Employee Plan may be made available from either authorized but unissued shares, treasury shares or both. The Company has 20,000 shares of common stock reserved for issuance under the 1995 Employee Plan. As of December 31, 2012 and 2011, there were no options outstanding under the 1995 Employee Plan.

1997 Recruitment Stock Option Plan

In October 2000, the stockholders of the Company approved an amendment of the 1997 Recruitment Stock Option Plan (the "1997 Plan") which provides for the issuance of incentive stock options, non-qualified stock options and SARs up to an aggregate of 370,000 shares of common stock (subject to adjustment in the event of stock dividends, stock splits, and other similar events). The price at which shares of common stock covered by the option can be purchased is determined by the Company's Board; however, in all instances the exercise price is never less than the fair market value of the Company's common stock on the date the option is granted. The Board also has discretion to determine, for each grant, the requisite service, vesting and exercise periods.

As of December 31, 2012, there were options to purchase 228,198 shares (2011 – 231,198 shares) of the Company's common stock outstanding under the 1997 Plan. 225,000 options with an exercise price of $0.66 per share were vested at December 31, 2012 and 2011. 3,198 options with an exercise price of $2.40 per share were vested at December 31, 2012 (2011 – 6,198 options with exercise prices of $1.40 to $2.40 per share). The options with an exercise price of $0.66 must be exercised within seven years of grant date and can only be exercised while the option holder is an employee of the Company. The remaining options must be exercised within ten years of grant date and can only be exercised while the option holder is an employee of the Company. The Company has not awarded any SARs under the 1997 Plan. During 2012 and 2011, no options to purchase shares of common stock were issued. During 2012, 1,750 options were exercised (2011 – 0) and 1,250 options expired (2011 - 2,965).

2003 Stock Option and Appreciation Rights Plan

In November 2003, the stockholders of the Company approved the 2003 Stock Option and Appreciation Rights Plan (the "2003 Plan") which provides for the issuance of incentive stock options, non-qualified stock options and SARs up to an aggregate of 2,000,000 shares of common stock (subject to adjustment in the event of stock dividends, stock splits, and other similar events). The price at which shares of common stock covered by the option can be purchased is determined by the Company's Board or a committee thereof; however, in the case of incentive stock options the exercise price shall not be less than the fair market value of the Company's common stock on the date the option is granted. As of December 31, 2012, there were options to purchase 1,565,000 shares (2011 – 1,430,000 shares) of the Company's common stock outstanding under the 2003 Plan. The outstanding options vest over four years at exercise prices ranging from $0.08 to $2.40 per share. During 2012, 415,000 options (2011 – 1,040,000 options) were granted, and 30,000 options were exercised (2011 – 50,000). During 2012, 250,000 options to purchase shares of common stock were forfeited or expired (2011 – 53,250). No SARs have been issued under the 2003 Plan.

2010 Non-Qualified Stock Option Plan

In the fourth quarter of 2010, the Company's Board approved the 2010 Non-Qualified Stock Option Plan (the "2010 Plan") to induce certain key employees of the Company or any of its subsidiaries who are in a position to contribute materially to the Company's prosperity to remain with the Company, to offer such persons incentives and rewards in recognition of their contributions to the Company's progress, and to encourage such persons to continue to promote the best interests of the Company. The Company reserved 1,250,000 shares of common stock (subject to adjustment under certain circumstances) for issuance or transfer upon exercise of options granted under the 2010 Plan. Options may be issued under the 2010 Plan to any key employees or consultants selected by the Company's Board (or a committee appointed by the Board). Options may not be granted with an exercise price less than the fair market value of the common stock of the Company as of the day of the grant. Options granted pursuant to the plan are subject to limitations on transfer and execution and may be issued subject to vesting conditions. Options may also be forfeited in certain circumstances. As of December 31, 2012 and 2011, there were options to purchase 1,250,000 shares of the Company's common stock outstanding under the 2010 Plan. The outstanding options vest over four years at an exercise price of $1.83 per share. During 2012, no options (2011 - 1,250,000) were granted under the 2010 Plan. There were no exercises, expiries or forfeitures in 2012 or 2011.

Equity Partners Stock Option Plan

In the second quarter of 2011, the Company's Board approved the Equity Partners Stock Option Plan (the "Equity Partners Plan") to allow the Company to issue options to purchase common stock as a portion of the purchase price of Equity Partners. The Company reserved 230,000 shares of common stock for issuance upon exercise of options granted under the Equity Partners Plan. During 2011, 230,000 options with an exercise price of $1.83, vesting immediately, were granted under the Equity Partners Plan. There were no grants, exercises or forfeitures during 2012.

Other Options Issued

In the first quarter of 2012, the Company's Board approved the issuance of options as part of the acquisition of Heritage Global Partners, and reserved 625,000 shares of common stock for issuance upon option exercise. During 2012, 625,000 options with an exercise price of $2.00, vesting over four years, were granted. Unlike other options issued by the Company under its stock option plans, the options issued as part of the Heritage Global Partners acquisition survive termination of employment. During 2012 there were no forfeitures, and none of the option holders terminated their employment with the Company.

Stock-Based Compensation Expense

Total compensation cost related to stock options in 2012, 2011 and 2010 was $593, $296 and $46, respectively. These amounts were recorded in selling, general and administrative expense in all years. During 2012, a tax benefit of $25 was recognized in connection with the exercise of 31,750 options, compared to $44 recognized in 2011 in connection with the exercise of 50,000 options. No tax benefit from stock-based compensation was recognized in 2010, as no options were exercised. During 2012, the Company received $14 of cash in connection with the exercise of options; as compared to receiving $17 in 2011 and $0 in 2010. Option holders are not entitled to receive dividends or dividend equivalents.

During 2012 the Company also recognized $1,054 of stock-based compensation expense, which was included in selling, general and administrative expense, with respect to the 400,000 common shares of the Company that were issued to each of its Co-CEOs in exchange for intellectual property licensing agreements, as discussed above in Notes 11 and 13.

During 2012, the Company granted a total of 1,040,000 options. Of these, 365,000 were issued to employees of the Company. 625,000 were issued to the former owners of Heritage Global Partners in connection with the Company's acquisition of Heritage Global Partners, and 50,000 were issued to the Company's independent directors in accordance with their standard compensation. During 2011, the Company granted a total of 2,520,000 options. Of these, 2,250,000 were issued to officers and employees of the Company and its parent, Counsel. 230,000 were issued to the former owners of Equity Partners in connection with the Company's acquisition of Equity Partners, and 40,000 were issued to the Company's independent directors in accordance with their standard compensation. During 2010, the only options granted were 40,000 to the Company's independent directors.

The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	2012	2011	2010
Risk-free interest rate	1.25% - 1.47%	1.49% - 2.90%	1.40%
Expected life (years)	4.75	4.75 – 6.80	4.75
Expected volatility	133% - 135%	262% - 323%	257.8%
Expected dividend yield	Zero	Zero	Zero
Expected forfeitures	Zero	Zero	Zero

The risk-free interest rates are those for U.S. Treasury constant maturities, for terms matching the expected term of the option. The expected life of the options is calculated according to the simplified method for estimating the expected term of the options, based on the vesting period and contractual term of each option grant. Expected volatility is based on the Company's historical volatility. The Company has never paid a dividend on its common stock and therefore the expected dividend yield is zero.

The following summarizes the changes in common stock options for the years ended December 31, 2012, 2011 and 2010:

	2012		2011		2010	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	3,141,198	$ 1.65	728,246	$ 0.89	994,027	$ 6.02
Granted	1,040,000	$ 2.04	2,520,000	$ 1.88	40,000	$ 0.08
Exercised	(31,750)	$ 0.61	(50,000)	$ 0.90	—	—
Expired	(1,250)	$ 1.40	(57,048)	$ 2.73	(305,781)	$ 17.47
Forfeited	(250,000)	$ 1.83	—	$ —	—	$ —
Outstanding at end of year	3,898,198	$ 1.75	3,141,198	$ 1.65	728,246	$ 0.89
Options exercisable at year end	1,298,198	$ 1.39	791,198	$ 1.08	630,746	$ 0.98
Weighted-average fair value of options granted during the year		$ 1.75		$ 0.93		$ 0.08

As of December 31, 2012, the total unrecognized stock-based compensation expense related to unvested stock options was $1,642, which is expected to be recognized over a weighted-average period of thirty months.

The following summarizes the changes in unvested common stock options for the years ending December 31, 2012, 2011 and 2010:

	Options	Weighted Average Grant Date Fair Value
Unvested at December 31, 2011	2,350,000	$0.83
Granted	1,040,000	$1.75
Vested	(540,000)	$0.87
Forfeited	(250,000)	$0.20
Unvested at December 31, 2012	2,600,000	$1.23

	Options	Weighted Average Grant Date Fair Value
Unvested at December 31, 2010	97,500	$0.29
Granted	2,520,000	$0.93
Vested	(267,500)	$1.77
Unvested at December 31, 2011	2,350,000	$0.83

	Options	Weighted Average Grant Date Fair Value
Unvested at December 31, 2009	198,750	$0.48
Granted	40,000	$0.08
Vested	(141,250)	$0.50
Unvested at December 31, 2010	97,500	$0.29

The total fair value of options vesting during the years ending December 31, 2012, 2011 and 2010 was $468, $474 and $70, respectively. The unvested options have no associated performance conditions. Therefore, the Company expects that, barring the departure of individual directors or employees, all of the unvested options will vest according to the standard four-year timetable.

The following table summarizes information about all stock options outstanding at December 31, 2012:

Exercise price	Options Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Remaining Life (years)	Weighted Average Exercise Price
$ 0.08 to $ 0.15	80,000	3.75	$ 0.12	50,000	3.65	$ 0.12
$ 0.51 to $ 1.11	545,000	1.07	$ 0.82	515,000	0.82	$ 0.81
$ 1.83 to $ 1.97	2,130,000	7.00	$ 1.87	705,000	6.63	$ 1.86
$ 2.00 to $ 2.40	1,143,198	6.13	$ 2.07	28,198	5.08	$ 2.40
	3,898,198	5.85	$ 1.75	1,298,198	4.18	$ 1.39

Note 15 – Segment Reporting

From 2005 until the second quarter of 2009, the Company operated in a single business segment, Patent Licensing. With the commencement of Counsel RB's operations in the second quarter of 2009, the Company diversified into a second segment, Asset Liquidation. For the years ending December 31, 2012, 2011 and 2010, only the Asset Liquidation segment had revenues and assets sufficiently significant to require separate reporting.

There are no material inter-segment revenues or expenses. To date the Company's business has been conducted principally in North America, but the establishment of offices in Latin America and Europe in the third quarter of 2012 will result in more international operations in future periods. To date these operations have not been sufficiently significant to require reporting as a separate segment. The table below presents information about the Asset Liquidation segment of the Company as of and for the years ended December 31, 2012, 2011 and 2010:

	Year Ended December 31		
	2012	2011	2010
	Asset Liquidation		
Revenues from external customers	$14,128	$17,238	$3,266
Earnings from equity accounted asset liquidation investments	2,023	2,183	7,586
Other income (expense)	63	30	(387)
Interest expense	289	245	272
Depreciation and amortization	407	2	—
Segment income from continuing operations	92	5,593	6,114
Investment in equity accounted asset liquidation investees	3,618	3,455	3,548
Segment assets	27,752	8,801	10,677

The following table reconciles reportable segment information to the consolidated financial statements of the Company:

	Year ended December 31,		
	2012	2011	2010
Total other income (expense) for reportable segments	$ 63	$ 30	$ (387)
Unallocated other income	1	—	159
Total other income (expense)	$ 64	$ 30	$ (228)
Total interest expense for reportable segments	$ 289	$ 245	$ 272
Unallocated interest expense from third and related party debt	1	—	64
Total interest expense	$ 290	$ 245	$ 336
Total segment income	$ 92	$ 5,593	$ 6,114
Other income (expense) and earnings (loss) of other equity accounted investments	(111)	28	189
Other corporate expenses (primarily corporate level interest, general and administrative expenses)	(2,772)	(1,225)	(1,407)
Income tax recovery	978	26,317	1,318
Net income (loss) from continuing operations	$ (1,813)	$ 30,713	$ 6,214
Segment assets	$ 27,752	$ 8,801	$ 10,677
Other assets not allocated to segments[(1)]	33,558	38,346	6,009
Total assets	$ 61,310	$ 47,147	$ 16,686

(1) Other assets not allocated to segments are corporate assets such as cash, non-trade accounts receivable, prepaid insurance, investments and deferred income tax assets.

Note 16 – Subsequent Events

Effective August 22, 2013 the Company changed its name from Counsel RB Capital Inc. to Heritage Global Inc.

CERTIFICATE OF THE CORPORATION

Dated: March 20, 2014

This Prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by the securities legislation of each of the provinces of Canada.

HERITAGE GLOBAL INC.

(Signed) Allan Silber President	(Signed) Stephen Weintraub Chief Financial Officer

On behalf of the Board of Directors

(Signed) Hal B. Heaton Director	(Signed) Henry Y. L. Toh Director

CERTIFICATE OF THE PROMOTER

Dated: March 20, 2014

This Prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by the securities legislation of each of the provinces of Canada.

COUNSEL CORPORATION.

(Signed) Stephen Weintraub
Chief Financial Officer

APPENDIX A
COMPANY'S AUDIT COMMITTEE CHARTER

The Audit Committee Charter was amended and adopted by the Board of Directors (the "Board") of Heritage Global Inc. (the "Corporation") on March 23, 2004.

I. PURPOSE

The Audit Committee (the "Committee") shall assist the Board of Directors (the "Board") in fulfilling its responsibility to oversee management regarding:

(i) the conduct and integrity of the Corporation's financial reporting to any governmental or regulatory body, the public or other users thereof,

(ii) the Corporation's systems of internal accounting and financial and disclosure controls,

(iii) the qualifications, engagement, compensation, independence and performance of the Corporation's independent auditors, their conduct of the annual audit, and their engagement for any other services

(iv) the Corporation's legal and regulatory compliance,

(v) the Corporation's code of Conduct as established by management and the Board; and

(vi) the preparation of the audit committee report required by SEC rules to be included in the Corporation's annual proxy statement.

In discharging its role, the Committee is empowered to inquire into any matter it considers appropriate to carry out its responsibilities, with access to all books, records, facilities and personnel of the Corporation. The Committee has the power to retain outside counsel, independent auditors or other advisors to assist it in carrying out its activities. The Corporation shall provide adequate resources to support the Committee's activities, including compensation of the Committee's counsel, independent auditors and other advisors. The Committee shall have the sole authority to retain, compensate, direct, oversee and terminate counsel, independent auditors, and other advisors hired to assist the Committee, who shall be accountable ultimately to the Committee.

II. COMMITTEE MEMBERSHIP

The Committee shall consist of three or more members of the Board, each of whom the Board has selected and determined to be "independent" in accordance with applicable rules of the Securities & Exchange Commission ("SEC") and the Nasdaq National Market ("NASDAQ"). All members of the Committee shall meet the financial literacy requirements of the NASDAQ and at least one member shall be an "audit committee financial expert" as such term is defined under applicable SEC rules. No member of the Committee may serve on the audit committee of more than three public companies, including the Corporation, unless the Board of Directors has determined that such simultaneous service would not impair the ability of such member to effectively serve on the Committee. Such determination shall be disclosed in the annual proxy statement.

III. COMMITTEE MEETINGS

The Committee shall meet on a regularly scheduled basis at least four times per year or more frequently as circumstances dictate. The Committee shall meet at least quarterly with the independent auditor in separate executive sessions to provide the opportunity for full and frank discussion without members of senior management present.

IV. KEY RESPONSIBILITIES

The Committee's role is one of oversight. The Corporation's management is responsible for preparing the Corporation's financial statements and the independent auditors are responsible for auditing those financial statements. The Committee recognizes that management and the independent auditors have more time, knowledge and detailed information about the Corporation than do Committee members. Consequently, in carrying out its oversight responsibilities, the Committee is not providing any expert or special assurance as to the Corporation's financial statements or any professional certification as to the independent auditor's work.

The following responsibilities are set forth as a guide for fulfilling the Committee's purposes, with the understanding that the Committee's activities may diverge as appropriate given the circumstances. The Committee is authorized to carry out these activities and other actions reasonably related to the Committee's purposes or assigned by the Board from time to time.

To fulfill its purposes, the Committee shall:

A. Supervise the Independent Audit

1. appoint, evaluate, compensate, oversee the work of, and if appropriate terminate, the independent auditor, who shall report directly to the Committee;

2. review and approve the terms of the independent auditor's retention, engagement and scope of the annual audit, and pre-approve any audit-related and permitted non-audit services (including the fees and terms thereof) to be provided by the independent auditor (with pre-approvals disclosed as appropriate in the Corporation's periodic public filings);

3. on an annual basis:

    i. review a formal written statement from the independent auditor delineating all relationships between the independent auditor and the Corporation, consistent with Independence Standards Board Standard No. 1 (as modified or supplemented), actively engage in a dialogue with the independent auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditor and take appropriate action in response to the independent auditor's report to satisfy itself of the auditor's independence;

    ii. consider whether, in addition to assuring the regular rotation of the lead audit partner as required by law, in the interest of assuring continuing independence of the independent auditor, the Corporation should regularly rotate its independent auditor; and

    iii. set clear hiring policies for employees or former employees of the independent auditors;

4. review and discuss with management and the independent auditor:

    i. any significant findings during the year, including the status of previous audit recommendations;

    ii. any accounting adjustments that were noted or proposed by the auditor but were "passed" (as immaterial or otherwise) or any other audit problems or difficulties encountered in the course of audit work;

    iii. any restrictions on the scope of activities or access to required information;

    iv. any changes required in the scope of the audit plan;

    v. the audit budget and staffing; and

    vi. the coordination of audit efforts in order to monitor completeness of coverage, reduction of redundant efforts, and the effective use of audit resources;

5. review and resolve any disagreements between management and the independent auditor concerning financial reporting, or relating to any audit report or other audit, review or attest services provided by the independent auditor.

B. Oversee Internal Audit, Internal Controls & Risk Management

6. review and discuss with management and the independent auditor:

    i. the adequacy of the Corporation's internal and disclosure controls and procedures, (including computerized information system disclosure controls and security), including whether such controls and procedures are designed to provide reasonable assurance that transactions entered into by the Corporation are properly authorized, assets are safeguarded from unauthorized or improper use, and transactions by the Corporation are properly recorded and reported;

ii. any significant deficiencies in the design or operation of the Corporation's internal controls which could adversely affect the Corporation's ability to record, process, summarize and report financial data;

iii. any fraud, whether or not material, that involves management or other employees who have a significant role in the Corporation's internal controls; and

iv. related findings and recommendations of management together with the independent auditor's attestation report;

7. review and discuss with management and the independent auditor any significant risks or exposures and assess the steps management has taken to minimize such risks; and discuss with management and the independent auditor, and oversee the Corporation's underlying policies with respect to, risk assessment and risk management;

8. establish and oversee procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;

9. review and recommend the appointment, reassignment, replacement, compensation or dismissal of the head of internal audit;

C. <u>Oversee Financial Reporting</u>

10. review and discuss with management and the independent auditor:

i. all critical accounting policies and practices used by the Corporation;

ii. any significant changes in accounting policies;

iii. any material alternative accounting treatments within GAAP that have been discussed with management, including the ramifications of the use of the alternative treatments and the treatment preferred by the accounting firm; and

iv. any accounting and financial reporting proposals that may have a significant impact on the Corporation's financial reports;

11. inquire as to the independent auditor's view of the accounting treatment related to significant new transactions or other significant matters or events not in the ordinary course of business;

12. review and discuss with the independent auditor the matters required to be discussed with the independent auditor by:

i. Statement of Auditing Standards No. 61, including the auditor's responsibility under generally accepted auditing standards, the significant accounting policies used by the Corporation, accounting estimates used by the Corporation and the process used by management in formulating them, any consultation with other accountants and any major issues discussed with management prior to its retention;

ii. Statement of Auditing Standards No. 90, including whether accounting principles as applied are conservative, moderate, or aggressive from the perspective of income, asset, and liability recognition, and whether or not those principles reflect common or minority practices; and

iii. Statement of Auditing Standards No. 100, including the review of the interim financial information of the Corporation and any material modifications that need to be made to the interim financial information for it to conform with GAAP;

13. review and discuss with management and the independent auditor any material financial or non-financial arrangements that do not appear on the financial statements of the Corporation;

14. review and discuss with the independent auditor:

i. any accounting adjustments that were noted or proposed by the auditors but were "passed" (as immaterial or otherwise);

ii. any communications between the audit team and audit firm's national office respecting auditing or accounting issues presented by the engagement; and

iii. any “management” or “internal control” letter issued, or proposed to be issued, by the independent auditors to the Corporation or any other material written communications between the accounting firm and management, such as any management letter or schedule of “unadjusted differences;”

15. review the Corporation’s financial statements, including:

    i. prior to public release, review and discuss with management and the independent auditor the Corporation’s annual and quarterly financial statements to be filed with the SEC (including the Corporation’s disclosures under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and any certifications regarding the financial statements or the Corporation’s internal accounting and financial controls and procedures and disclosure controls or procedures filed with SEC by the Corporation’s senior executive and financial officers); and Appendix e – Audit Committee charter

    ii. with respect to the independent auditor’s annual audit report and certification, before release of the annual audited financial statements, meet with the independent auditor without any management member present to discuss adequacy of the Corporation’s system of internal accounting and financial controls, the appropriateness of the accounting principles used and judgments made in the preparation of the Corporation’s audited financial statements, and the quality of the Corporation’s financial reports;

    iii. meet separately, periodically, with management, internal auditors (or other personnel responsible for the internal audit function) and the independent auditor;

    iv. recommend to the Board whether to include the audited annual financial statement in the Corporation’s Annual Report on Form 10-K to be filed with the SEC; and

    v. prior to submission of any financial statements of the Corporation that differ from the financial statements filed by the Corporation with the SEC, reviewing such financial statements and any report, certification or opinion thereon provided by the independent auditor.

16. at least annually, review a report by the independent auditor describing:

    i. the firm’s internal quality-control procedures;

    ii. any material issues raised by the most recent internal quality-control review of the firm, or by any review, inquiry or investigation by governmental or professional authorities (including the Public Corporation Accounting Oversight Board), within the preceding five years, regarding one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and

    iii. all relationships between the independent auditor and the Corporation (to be set out in a formal written statement);

17. discuss with management and the independent auditor, as appropriate, earnings press releases and financial information and earnings guidance (including non-GAAP financial measures) provided to analysts and to rating agencies;

D. <u>Oversee Legal & Ethical Compliance</u>

18. review periodically

    i. legal and regulatory matters that may have a material impact on the Corporation’s financial statement; and

    ii. the scope and effectiveness of compliance policies and programs;

19. review at least annually with management compliance with, the adequacy of and any requests for waivers under the Corporation’s code(s) of business conduct and ethics (including codes that apply to all employees as well as those applicable to directors, senior officers and financial officers and the Corporation’s policies and procedures concerning trading in the Corporation’s securities and use in trading of proprietary or confidential information);

20. review and address conflicts of interest of directors and executive officers;

21. review, discuss with management and the independent auditor, and approve any transactions or courses of dealing with related parties (*e.g.*, including significant shareholders of the Corporation, directors, corporate officers or other members of senior management or their family members) that are significant in size or

involve terms or other aspects that differ from those that would likely be negotiated with independent parties;

E. Report & Self Evaluate

22. oversee the preparation and approve all reports required by the Committee, including the report for inclusion in the Corporation's annual proxy statement, stating whether the Committee:

    i. has reviewed and discussed the audited financial statements with management;

    ii. has discussed with the independent auditors the matters required to be discussed by SAS Nos. 61 and 90;

    iii. has received the written disclosure and letter from the independent auditors (describing their relationships with the Corporation) and has discussed with them their independence; and

    iv. based on the review and discussions referred to above, the members of the Committee recommended to the Board that the audited financials be included in the Corporation's Annual Report on Form 10-K for filing with the SEC;

23. conduct an annual self-evaluation of the performance of the Committee, including its effectiveness and compliance with this Charter;

24. review and reassess the adequacy of this Charter annually, and recommend to the Board amendments as the Committee deems appropriate; and

25. report regularly to the Board on Committee findings and recommendations (including on any issues that arise with respect to the quality or integrity of the Corporation's financial statements, the Corporation's compliance with legal or regulatory requirements, the performance and independence of the independent auditors or the performance of the internal audit function) and any other matters the Committee deems appropriate or the Board requests, and maintain minutes or other records of Committee meetings and activities.