

COUNSEL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2003 (In thousands of U.S. dollars, except per share amounts) (Unaudited)

standard also eliminates "industry practice" as a possible source to consult. The standard is effective for years beginning on or after October 1, 2003. The Company is currently evaluating the effects that the adoption of this standard will have on its financial position and results of operations.

Stock-Based Compensation

CICA Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments was amended to require an expense to be recognized in the financial statements for all forms of employee stock-based compensation, including stock options, effective for periods beginning on or after January 1, 2004 for public companies. The Company is currently evaluating the effects that the adoption of this standard will have on its financial position and results of operations.

4. Acquisitions

In July 2002, the Company, through its controlling interest in I-Link/Acceris, agreed to purchase certain assets and related liabilities of Transpoint Communications, LLC ("Transpoint") and Local Telecom Holdings, LLC ("Local Telecom"). Also in July 2002, the Company and Local Telecom entered into a management agreement, pursuant to which the Company provided certain management services to Local Telecom for a monthly fee of \$15, and a wholesale telecommunications services agreement, pursuant to which the Company provides network services (at prices comparable to those charged to third party carriers) to Local Telecom. The acquisition closed on July 28, 2003. The Company recorded revenues from Local Telecom for management and wholesale telecommunications services totaling \$182 during 2003 until the closing. As part of the management agreement, the Company collected customer accounts on behalf of Local Telecom and paid certain costs and expenses of Local Telecom from the date of the agreement through closing. As of the closing date, the Company had an asset (which had been included in other assets) from Local Telecom of \$2,836 that represented uncollected revenues from Local Telecom plus costs and expenses paid for Local Telecom, less collections on accounts receivable of Local Telecom. At closing, the \$2,836 was applied as part of the total purchase price of \$2,879. The intent of this acquisition was primarily to increase the Company's customer base in the Company's commercial agent business and improve network utilization. Subsequent to closing, actual revenues of \$931 from Local Telecom customers have been recorded as telecommunication services revenues in the third quarter of 2003.

The preliminary allocation of the purchase price to the fair values of assets acquired and liabilities assumed is as follows. The completion of the purchase price allocations is pending the completion of the valuation of the intangible assets. The preliminary allocation to the intangible assets is to customer contracts and relationships (\$1,399) and agent relationships (\$1,398) that are being amortized over one and three years, respectively:

	\$
Accounts receivable and other current assets	685
Furniture, fixtures and equipment	5
Intangible assets	2,797
Accounts payable and accrued liabilities	(608)
	<u>2,879</u>

During the second quarter, the Company acquired the Imperial Square retail development site located in Guelph, Ontario. The purchase price amounted to \$2,134, including closing adjustments of \$89. This acquisition was funded by the assumption of \$1,328 of first mortgage debt at 9.25% maturing December 2004 and with funds from the Company and an investment partner that acquired a 35% equity interest in the property. The investment partner is affiliated with a member of the board of directors of the Company.