

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**Form 20-F**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2017**

Commission file number 001-04192



*(Exact name of Registrant as specified in its charter)*

**Cayman Islands**  
*(Jurisdiction of incorporation or organization)*

**2-4 Merrion Row, Dublin 2, Ireland**  
*(Address of executive office)*

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*with a copy to:*  
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**Sangra Moller LLP**  
**1000 Cathedral Place, 925 West Georgia Street**  
**Vancouver, British Columbia, Canada V6C 3L2**  
**Facsimile: +1 604-669-8803**

*(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)*

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

Title of each class <b>Common Shares</b>	Name of each exchange on which registered <b>New York Stock Exchange</b>
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**Securities registered or to be registered pursuant to Section 12(g) of the Act:** None.

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:** None.

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.  
**There were 12,534,801 Common Shares of US\$0.001 par value each issued and outstanding as of December 31, 2017.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ YES ☒ NO

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. ☐ YES ☒ NO

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ YES ☐ NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See definition of “large accelerated filer,” “accelerated filer” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒  
Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards<sup>†</sup> provided pursuant to Section 13(a) of the Exchange Act. ☐

<sup>†</sup>The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing.

U.S. GAAP ☐ International Financial Reporting Standards as issued by the International Accounting Standards Board ☒ Other ☐

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

☐ Item 17 ☐ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ YES ☒ NO



DEAR FELLOW SHAREHOLDERS:

In 2017, we restructured our operations to focus on our merchant banking business. As a result, we disposed of certain subsidiaries which contributed to an overall reduction of \$101.7 million of trade receivables and \$166.4 million in borrowings and debt. **We believe that this reorganization better positions us to pursue our core business going forward and eliminate the discount in our share price to net book value per share of US\$17.66 as at December 31, 2017.**

Our financial results include a number of expenses and losses related to this restructuring, as well as costs to reduce our exposure to our insolvent former customer from approximately \$225 million at December 31, 2015 to \$21.4 million at December 31, 2017. These restructuring expenses included credit losses, losses from the disposition of subsidiaries, and finance costs which were mainly related to debt which was repaid or eliminated.

After giving effect to these restructuring costs and losses of approximately \$37.0 million, we had a net loss of \$47.9 million and Operating EBITDA \* loss of \$32.2 million in 2017.

	2017
<b>OPERATING EBITDA (In C\$ '000s)</b>	
Net loss <sup>(1)</sup>	\$ (47,065)
Reversal of impairment losses on resource properties	(8,945)
Income tax expense	8,658
Finance costs	8,415
Amortization, depreciation and depletion	6,732
Operating EBITDA (loss)	<u>\$ (32,205)</u>
Credit losses	\$ 23,923
Losses from dispositions of subsidiaries	10,219
Share based compensation	2,876
	<u>\$ 37,018</u>

**Note:**

(1) Includes net income attributable to non-controlling interests.

**As a result, we ended 2017 with \$277.8 million of shareholders' equity, or \$22.16 per share (US\$17.66 per share), which was mainly comprised of tangible assets.**

\* Operating EBITDA is defined as earnings from before interest, taxes, depreciation, depletion, amortization and impairment. Operating EBITDA is a non-IFRS financial measure and should not be considered in isolation or as a substitute for performance measures under IFRS. Management uses Operating EBITDA as a measure of our operating results and considers it to be a meaningful supplement to net income as a performance measure, primarily because we incur depreciation and depletion from time to time.

## Financial Highlights

The following table highlights selected figures on our financial position as at December 31, 2017:

<b>FINANCIAL POSITION</b> <b>(In C\$ '000s, except ratios, per share amounts or as otherwise indicated)</b>	<b>December 31,</b> <b>2017</b>
Cash and cash equivalents	\$ 74,870
Short-term securities	5,127
Trade receivables	34,259
Tax receivables	747
Other receivables	21,690
Inventories	9,826
Total current assets	149,281
Total current liabilities	92,769
Working capital	56,512
Current ratio <sup>(1)</sup>	1.61
Acid-test ratio <sup>(2)</sup>	1.48
Total assets	396,947
Short-term bank borrowings	2,074
Long-term debt including current portion	43,733
Debt-to-equity <sup>(3)</sup>	0.16
Total liabilities	116,998
Shareholders' equity	277,780
Net book value per share	22.16
Net book value per share (US\$) <sup>(4)</sup>	17.66

### Notes:

- (1) The current ratio is calculated as current assets divided by current liabilities.
- (2) The acid-test ratio is calculated as cash plus account receivables plus short-term securities, divided by current liabilities.
- (3) The long-term debt-to-equity ratio is calculated as long-term debt, including current portion, divided by shareholders' equity.
- (4) Calculated using the applicable exchange rate on December 31, 2017.

Our balance sheet reflects trade receivables of \$21.4 million due from our former customer that filed for insolvency in 2016, a decline of almost \$80 million in this concentration during the year. These remaining trade receivables from this former customer have risk mitigation instruments associated with them, and we are now litigating with the provider of this security to enforce our claims. As with any legal process, there is uncertainty as to the timing and amounts of proceeds, but we continue to diligently exercise our rights in connection with such receivables in order to maximize recoveries.

<b>As at December 31, 2017:</b> <b>(In '000s, except per share amounts)</b>	<b>Shareholders'</b> <b>Equity</b>	<b>Equity</b> <b>per Share</b>	<b>Equity</b> <b>per Share</b>
	<b>C\$</b>	<b>C\$</b>	<b>US\$ <sup>(2)</sup></b>
Adjusted working capital <sup>(1)</sup>	35,137	2.80	2.23
Trade receivables – former insolvent customer	21,375	1.71	1.36
Property, plant and equipment	83,954	6.70	5.34
Resource properties, net <sup>(3)</sup>	78,852	6.29	5.01
Real estate and investment properties	51,463	4.10	3.27
Other long-term assets	19,698	1.57	1.25
Other long-term liabilities <sup>(4)</sup>	(12,699)	(1.01)	(0.80)
Total	277,780	22.16	17.66

### Notes:

- (1) Defined as current assets less current liabilities, excluding trade receivables related to former insolvent customer.
- (2) Calculated using applicable exchange rate on December 31, 2017.
- (3) Net of decommissioning obligations.
- (4) Including non-controlling interests.

Simply put, we made a serious mistake with the concentration and relationship to that insolvent former customer, but we have implemented the necessary changes, learned from the experience, and significantly reduced this exposure.

Looking back, in March 2016, just months after we had made the decision to exit certain commodity product lines and geographies, we had \$405.3 million of trade receivables and inventories, and \$452.7 million of debt and borrowings.

After almost two years of liquidating, disposing of, rationalizing assets and underperforming subsidiaries and streamlining our operations, since March 31, 2016, we have reduced our trade receivables and inventories by approximately 90% to \$34.3 million and \$9.8 million, respectively. Our debt and borrowings have declined by approximately 90% to approximately \$45.8 million.

We are now back at a net cash position for the first time in more than five years, and our balance sheet has been significantly cleaned up.



In addition, we have made further progress towards our long-term goals, including:

- lowered our structural cost profile and reduced our headcount to 230 employees worldwide, down from 450 in 2016 and 650 in 2015;
- relocated our commercial operations to Dublin, Ireland. Ireland is a progressive financial center with many attractive attributes, and Dublin will be MFC Bancorp's footprint to our European business going forward;
- continued the process of permitting, site evaluations and logistics for our development healthcare business in China. Due to the substantially higher associated costs and capital expenditures required, we have elected to let our eye care lease expire, so our business in China is now exclusively focused on healthcare, merchant banking and related markets; and
- expanded our merchant banking activities in Europe by hiring qualified senior individuals in the finance and banking sector.

### Financial Results for the Year 2017

Revenues for 2017 decreased to \$274.0 million and costs of sales and services decreased to \$263.6 million, primarily as a result of our decision to exit certain product lines and geographies.

We recognized credit losses on loans and receivables (net of recoveries) of \$23.9 million, which included \$8.6 million relating to receivables due from a hydrocarbon subsidiary that was deconsolidated in 2015. In addition, we recognized a loss on the disposition of subsidiaries of \$10.2 million in 2017.

Selling, general and administrative expenses decreased to \$45.5 million, primarily as a result of the sale of non-core subsidiaries, the closure of certain offices and structural cost reductions.

Finance costs decreased to \$8.4 million, primarily as a result of a decrease in bank indebtedness.

We recognized a net non-cash reversal of \$8.9 million in connection with prior impairments on our remaining hydrocarbon properties.

Income tax expenses (other than resource revenue taxes) were \$6.9 million. Our income tax paid in cash, excluding resource revenue taxes, was \$1.7 million. We also recognized resource revenue taxes of \$1.8 million.

Overall, we recognized an income tax expense of \$8.7 million (income tax expense of \$6.9 million and resource property revenue taxes of \$1.8 million).

Our net loss attributable to shareholders was \$47.9 million, or \$3.81 per share on a basic and diluted basis.

At year end, cash and cash equivalents were \$74.9 million. Trade receivables and other receivables were \$34.3 million and \$21.7 million, respectively. Trade receivables included a decrease of \$78.6 million of receivables due from our insolvent former customer during the year. Tax receivables, consisting primarily of refundable value-added taxes, were \$0.7 million.

Inventories decreased to \$9.8 million, primarily as a result of the decision to reduce inventories and exit certain product lines and geographies. \$1.5 million of our inventories were contracted at fixed prices or hedged.

Our short-term securities increased to \$5.1 million. The increase was primarily as a result of government-issued securities held by our Bank at the date of acquisition.

Deposits, prepaid and other assets were \$2.4 million. The decrease was primarily a result of recoveries relating to prepayments for inventories from risk mitigation securities. We had short-term financial assets relating to hedging derivatives of \$0.2 million as at December 31, 2017, compared to \$1.2 million as at December 31, 2016.

Account payables and accrued expenses were \$44.8 million and deferred income tax liabilities were \$10.3 million.

Our short-term bank borrowings were \$2.1 million and long-term debt, all of which was current, was \$43.7 million at year end. We had decommissioning obligations of \$13.7 million relating to our hydrocarbon properties.

### Focus

MFC now operates as an international merchant bank providing financial services and committing proprietary capital to promising enterprises and investing to capture opportunities for our own account. We seek businesses or assets with intrinsic values not properly reflected in pricing. Our activities are not passive, as we seek projects where our financial expertise and management can add or unlock value. We are concentrating on three main priorities:

- *Merchant banking focus:* Our core expertise is in merchant banking for the financial services, natural resources, healthcare, and basic manufacturing industries. We also have experience in international distressed and high growth situations, both private and public, that fall outside of traditional industry categories.
- *Global reach:* Through our subsidiaries in Europe, Asia and the Americas, MFC can provide financial services to companies worldwide with a special concentration on Western Europe and China.
- *Commitment to creating shareholder value:* We are committed to creating shareholder value. A major component of this will be to create market awareness and improve liquidity for our shareholders, strengthen our financial discipline and focus in areas where we have specialized knowledge. **One of our primary goals is to eliminate the discount in our share price to our net book value per share of US\$17.66.**

### **Stakeholder Communications**

Management welcomes any questions you may have and looks forward to discussing our operations, results and plans with stakeholders. Further:

- Stakeholders are encouraged to read this entire Annual Report on Form 20-F and our audited financial statements for the year ended December 31, 2017 included herein for a greater understanding of our business and operations.
- All stakeholders who have questions regarding the information in this annual report may call our North American toll free line: 1 (844) 331 3343 (International callers: +1 (604) 662 8873) to book a conference call with our senior management. Questions may also be emailed to Rene Randall at [rrandall@bmgmt.com](mailto:rrandall@bmgmt.com).

Respectfully Submitted,



Michael J. Smith  
Chairman



## Form 20-F

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## INTRODUCTORY MATTERS

On July 14, 2017, MFC Bancorp Ltd., a corporation under the laws of British Columbia, referred to as “Old MFC”, and MFC Bancorp Ltd., a corporation under the laws of the Cayman Islands, referred to as “New MFC”, completed a plan of arrangement, referred to as the “Arrangement”, under the *Business Corporations Act* (British Columbia) that resulted in the holders of common shares of Old MFC, referred to as the “Old MFC Shares”, becoming holders of common shares of US\$0.001 par value each of New MFC, referred to as the “Common Shares”, and New MFC acquiring all of the Old MFC Shares. Unless otherwise indicated, references herein to numbers of our Common Shares or per Common Share amounts, including for prior periods, have been restated, where necessary, to reflect the Share Consolidation/Split (as defined herein) under the Arrangement. Please see “*Item 4: Information on the Company – B. Business Overview*” for further information.

Prior to July 14, 2017, unless the context otherwise indicates, references herein to “we”, “us”, “our”, the “Company” or “MFC Bancorp” are to Old MFC and its subsidiaries and, on and subsequent to July 14, 2017, unless the context otherwise indicates, such references are to New MFC and its consolidated subsidiaries.

All references in this document to “\$” and “dollars” are to Canadian dollars, all references to “US\$” are to United States dollars and all references to “Euro” or “€” are to the European Union Euro, unless otherwise indicated.

## PART I

### FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking information and statements, including statements relating to matters that are not historical facts and statements of our beliefs, intentions and expectations about developments, results and events which will or may occur in the future, which constitute “forward-looking information” within the meaning of applicable Canadian securities legislation and “forward-looking statements” within the meaning of the “safe harbor” provisions of the United States *Private Securities Litigation Reform Act of 1995*, as amended, collectively referred to as “forward-looking statements”. Forward-looking statements are typically identified by words such as “anticipate”, “could”, “project”, “should”, “expect”, “seek”, “may”, “intend”, “likely”, “will”, “plan”, “estimate”, “believe” and similar expressions suggesting future outcomes or statements regarding an outlook or their negative or other comparable words. Also, discussions of strategy that involve risks and uncertainties share this “forward-looking” character.

Forward-looking statements are included throughout this document and include, but are not limited to, statements with respect to: our projected revenues; markets; production, demand and prices for products and services, including commodities; trends; economic conditions; performance; business prospects; results of operations; capital expenditures; foreign exchange rates; derivatives; and our ability to expand our business. All such forward-looking statements are based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. These forward-looking statements are, however, subject to known and unknown risks and uncertainties and other factors. As a result, actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits will be derived therefrom. These risks, uncertainties and other factors include, among others, those set forth under the section entitled “*Item 3: Key Information – D. Risk Factors*”.

Although we believe that the expectations reflected in such forward-looking information and statements are reasonable, we can give no assurance that such expectations will prove to be accurate. Accordingly, readers should not place undue reliance upon any of the forward-looking information and statements set out in this document. All of the forward-looking information and statements contained in this document are expressly qualified, in their entirety, by this cautionary statement. The various risks to which we are exposed are described in additional detail in this document under the section entitled “*Item 3: Key Information – D. Risk Factors*”. The forward-looking information and statements are made as of the date of this document and we assume no obligation to update or revise them except as required pursuant to applicable securities laws.

The following table sets forth the exchange rates for the translation of United States dollars and Euros to Canadian dollars in effect at the end of each of the five most recent financial years, the average exchange rates during these periods and the range of high and low exchange rates for these periods. The exchange rates are based on the noon rate of exchange for dates through April 28, 2017, and based on the average daily rate of exchange for dates after April 28, 2017, as reported by the Bank of Canada.

	Years Ended December 31,				
	2017	2016	2015	2014	2013
	(\$/US\$)				
End of period	1.2545	1.3427	1.3840	1.1601	1.0636
High for period	1.2128	1.2544	1.1728	1.0614	0.9839
Low for period	1.3743	1.4589	1.3990	1.1643	1.0697
Average for period	1.2986	1.3248	1.2787	1.1045	1.0299
	(\$/€)				
End of period	1.5052	1.4169	1.5029	1.4038	1.4655
High for period	1.3848	1.3875	1.3111	1.3927	1.2859
Low for period	1.5330	1.5928	1.5298	1.5549	1.4724
Average for period	1.4650	1.4660	1.4182	1.4671	1.3681

The following table sets forth the range of high and low exchange rates for the translation of United States dollars and Euros to Canadian dollars for each of the previous six months. The exchange rates are based on the average daily rate of exchange, as reported by the Bank of Canada.

Month	High	Low
	(\$/US\$)	
March 2018	1.2380	1.3088
February 2018	1.2288	1.2809
January 2018	1.2293	1.2535
December 2017	1.2545	1.2886
November 2017	1.2683	1.2888
October 2017	1.2472	1.2893
	(\$/€)	
March 2018	1.5683	1.6124
February 2018	1.5331	1.5664
January 2018	1.4853	1.5363
December 2017	1.4991	1.5246
November 2017	1.4757	1.5330
October 2017	1.4678	1.5073

On April 6, 2018, the average daily rate of exchange for the translation of United States dollars and Euros to Canadian dollars were US\$1.00 = \$1.2764 and €1.00 = \$1.5662, respectively.

#### NOTE ON FINANCIAL AND OTHER INFORMATION

Unless otherwise stated, all financial information presented herein has been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, referred to as “IFRS” and the “IASB”, respectively, which may not be comparable to financial data prepared by many U.S. companies.

Due to rounding, numbers presented throughout this document may not add up precisely to the totals we provide and percentages may not precisely reflect the absolute figures.

All websites referred to herein are inactive textual references only, meaning that the information contained on such websites is not incorporated by reference herein and you should not consider information contained on such websites as part of this document unless expressly specified.

## NON-IFRS FINANCIAL MEASURES

This document includes “non-IFRS financial measures”, that is, financial measures that either exclude or include amounts that are not excluded or included in the most directly comparable measure calculated and presented in accordance with IFRS. Specifically, we make use of the non-IFRS measures “Operating EBITDA” and “Operating EBITDA from continuing operations”.

Operating EBITDA is defined as earnings before interest, taxes, depreciation, depletion, amortization and impairment and Operating EBITDA from continuing operations is defined as earnings from continuing operations before interest, taxes, depreciation, depletion, amortization and impairment. Our management uses Operating EBITDA as a measure of our operating results and considers it to be a meaningful supplement to net income as a performance measurement, primarily because we incur significant depreciation and depletion and the exclusion of impairment losses in Operating EBITDA eliminates the non-cash impact.

Operating EBITDA is used by investors and analysts for the purpose of valuing an issuer. The intent of Operating EBITDA is to provide additional useful information to investors and the measure does not have any standardized meaning under IFRS. Accordingly, this measure should not be considered in isolation or used in substitute for measures of performance prepared in accordance with IFRS. Other companies may calculate Operating EBITDA differently. For a reconciliation of net income from continuing operations to Operating EBITDA, please see “*Item 5: Operating and Financial Review and Prospects – Results of Operations*”.

### ITEM 1: IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

### ITEM 2: OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

### ITEM 3: KEY INFORMATION

#### A. Selected Financial Data

The following table summarizes selected consolidated financial data prepared in accordance with IFRS for the five fiscal years ended December 31, 2017. Effective December 31, 2015, we changed our reporting currency to the Canadian dollar. Our consolidated financial statements as at and for each of the years ended December 31, 2014 and 2013 were reported using the United States dollar. With the change in reporting currency, comparative financial information for years prior to 2015 has been recast from United States dollars to Canadian dollars to reflect our consolidated financial statements as if they had been historically reported in Canadian dollars, consistent with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, referred to as “IAS 21”. The information in the table was extracted from our consolidated financial statements and related notes included elsewhere in this or previously filed annual reports on Form 20-F, and should be read in conjunction with such financial statements and with the information appearing under the heading “*Item 5: Operating and Financial Review and Prospects*”.

**Selected Financial Data**  
**(Stated in Canadian dollars in accordance with IFRS)**  
**(In thousands, other than per share amounts)**

	2017	2016	2015	2014	2013
Gross revenues	\$274,035	\$1,131,657	\$1,629,100	\$1,405,330	\$ 719,156
(Loss) earnings from continuing operations <sup>(1)</sup>	(47,855) <sup>(2)</sup>	(25,361) <sup>(3)</sup>	(246,228) <sup>(4)</sup>	17,840 <sup>(5)</sup>	22,782
Net (loss) income from continuing operations per share					
Basic	(3.81)	(2.01)	(19.50)	1.40	1.82
Diluted	(3.81)	(2.01)	(19.50)	1.40	1.82
Net loss from discontinued operations <sup>(1)</sup>	—	—	(241,402) <sup>(6)</sup>	(18,522) <sup>(7)</sup>	(13,050) <sup>(8)</sup>
Loss per share from discontinued operations:					
Basic	—	—	(19.12)	(1.45)	(1.04)
Diluted	—	—	(19.12)	(1.45)	(1.04)
Net (loss) income <sup>(1)</sup>	(47,855) <sup>(2)</sup>	(25,361) <sup>(3)</sup>	(487,630) <sup>(4)(6)</sup>	(682) <sup>(5)(7)</sup>	9,732 <sup>(8)</sup>
Net (loss) income per share:					
Basic	(3.81)	(2.01)	(38.61)	(0.05)	0.78
Diluted	(3.81)	(2.01)	(38.61)	(0.05)	0.78
Total assets	396,947	650,338	977,351	1,692,219	1,402,460
Net assets	279,949	329,430	369,200	778,933	744,245
Long-term debt, less current portion	—	80,564	174,333	297,157	201,947
Shareholders' equity	277,780	327,520	367,192	777,717	744,063
Capital stock, net of treasury stock	309,505	358,831	358,831	358,570	357,322
Weighted average number of common stock outstanding, diluted	12,544	12,628	12,628	12,591	12,551
Cash dividends paid to shareholders	—	—	4,388	12,486	15,353

**Notes:**

- (1) Attributable to our shareholders.
- (2) Includes a net non-cash reversal of \$8.9 million in connection with prior impairments of our remaining hydrocarbon properties, credit losses (net of recoveries) of \$23.9 million and losses of \$10.2 million on the disposition of subsidiaries.
- (3) Includes a net non-cash reversal of \$8.6 million in connection with prior impairments on our remaining hydrocarbon properties, credit losses (net of recoveries) of \$17.0 million and a gain of \$2.6 million on the disposition of subsidiaries.
- (4) Includes total non-cash impairment losses of \$235.9 million, before an income tax recovery of \$46.5 million, on our mining interest and remaining hydrocarbon properties interest that were reclassified as continuing operations and losses of \$51.4 million related to a customer that filed for insolvency in February 2016 and \$9.9 million on long-term off-take agreements entered into by a subsidiary acquired in 2014, which were terminated in 2016.
- (5) Includes a non-cash impairment loss on our hydrocarbon properties of \$2.8 million.
- (6) Includes total non-cash impairment losses of \$176.3 million, before a deferred income tax expense of \$50.9 million, recognized on our hydrocarbon properties and iron ore interests.
- (7) Includes total non-cash impairment losses of \$30.4 million, before a deferred income tax recovery of \$8.4 million, on our hydrocarbon properties.
- (8) Includes a non-cash impairment loss on our properties of \$6.5 million, before an income tax recovery of \$1.7 million.

**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable.

**D. Risk Factors**

An investment in our Common Shares involves a number of risks. You should carefully consider the following risks and uncertainties in addition to other information in this annual report on Form 20-F in evaluating our company and our business before making any investment decisions. Our business, operating and financial condition could be harmed due to any of the following risks, which include risks that are primarily or partially related to our discontinued operations.

## **Risk Factors Relating to Our Business – Risks Relating to Continuing Operations**

*Our financial results may fluctuate substantially from period to period.*

We expect our business to experience significant periodic variations in its revenues and results of operations in the future. These variations may be attributed in part to the fact that our merchant banking revenues are often earned upon the successful completion of a transaction, the timing of which is uncertain and beyond our control. In many cases, we may receive little or no payment for engagements that do not result in the successful completion of a transaction. Additionally, we seek to acquire undervalued assets where we can use our experience and management to realize upon the value. Often, we will hold or build upon these assets over time and we cannot predict the timing of when these assets' values may be realized. As a result, we are unlikely to achieve steady and predictable earnings, which could in turn adversely affect our financial condition and results of operations.

*A weakening of the global economy, including capital and credit markets, could adversely affect our business and financial results and have a material adverse effect on our liquidity and capital resources.*

Our business, by its nature, does not produce predictable earnings and it may be materially affected by conditions in the global financial markets and economic conditions generally. As demand for our products and merchant banking services has historically been determined by general global macro-economic activities, demand and prices for our products and services have historically decreased substantially during economic slowdowns. A significant economic downturn may affect our sales and profitability. Further, our suppliers and customers may also be adversely affected by an economic downturn. Depending on their severity and duration, the effects and consequences of a global economic downturn could have a material adverse effect on our liquidity and capital resources, including our ability to raise capital, if needed, and otherwise negatively impact our business and financial results.

A weakening of global economic conditions would likely aggravate the adverse effects of difficult economic and market conditions on us and on others in the merchant banking industry. In particular, we may face, among others, the following risks related to any future economic downturn: increased regulation of our banking operations; compliance with such regulation may increase the costs of our banking operations, may affect the pricing of our products and services and limit our ability to pursue business opportunities; reduced demand for our products and services; inability of our customers to comply fully or in a timely manner with their existing obligations; and the degree of uncertainty concerning economic conditions may adversely affect the accuracy of our estimates, which, in turn, impact the reliability of the process and the sufficiency of our credit loss allowances.

Further, any disruption or volatility in the global financial markets could have a material adverse effect on us, including our ability to access capital and liquidity on financial terms acceptable to us, if at all. Market deterioration and weakness can result in a material decline in the number and size of the transactions that we execute for our own account or for our clients and to a corresponding decline in our revenues. Any market weakness can further result in losses to the extent that we hold assets in such market. If all or some of the foregoing risks were to materialize, this could have a material adverse effect on us.

*Our earnings and, therefore, our profitability may be affected by price volatility in our various products.*

The majority of our revenue from our merchant banking business is currently derived from the sale of products, which include metals, hydrocarbons and other materials. As a result, our earnings are directly related to the prices of these underlying products. There are many factors influencing the price of these products, including: expectations for inflation; global and regional demand and production; political and economic conditions; and production costs in major producing regions. These factors are beyond our control and are impossible for us to predict. Changes in the prices of our products may adversely affect our operating results.

*The merchant banking business is highly competitive.*

All aspects of the merchant banking business are highly competitive and we expect them to remain so.

Our competitors include merchant and investment banks, brokerage firms, commercial banks, private equity firms, hedge funds, financial advisory firms and natural resource and mineral royalty companies. Many of our competitors have substantially greater capital and resources, including access to supply, than we do. We believe that the principal factors affecting competition in our business include transaction execution, our products and services, client relationships, reputation, innovations, credit worthiness and price.

The scale of our competitors has increased in recent years as a result of substantial consolidation. These firms have the ability to offer a wider range of products than we do, which may enhance their competitive position.

If we are unable to compete effectively with our competitors, our business and results of operations will be adversely affected.

During the year ended December 31, 2017, none of our customers accounted for more than 10% of our revenues. However, the loss of key customers, due to competitive conditions or otherwise, may adversely affect our results of operations.

*If the fair values of our long-lived assets fall below our carrying values, we would be required to record non-cash impairment losses that could have a material impact on our results of operations.*

We review the carrying value of long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Should the markets for our products deteriorate, should we decide to invest capital differently or should other cash flow assumptions change, it is possible that we will be required to record non-cash impairment losses in the future that could have a material adverse effect on our results of operations.

*We may face a lack of suitable acquisition, merger or other proprietary investment candidates, which may limit our growth.*

In order to grow our business, we may seek to acquire, merge with or invest in new companies or opportunities. Our failure to make acquisitions or investments may limit our growth. In pursuing acquisition and investment opportunities, we face competition from other companies having similar growth and investment strategies, many of which may have substantially greater resources than us. Competition for these acquisitions or investment targets could result in increased acquisition or investment prices, higher risks and a diminished pool of businesses, services or products available for acquisition or investment.

*Strategic investments or acquisitions and joint ventures, or our entry into new business areas, may result in additional risks and uncertainties in our business.*

We intend to continue to grow our business both through internal expansion and through strategic investments, acquisitions or joint ventures. When we make strategic investments or acquisitions or enter into joint ventures, we expect to face numerous risks and uncertainties in combining or integrating the relevant businesses and systems, including the need to combine accounting and data processing systems and management controls and to integrate relationships with customers and business partners.

The costs of integrating acquired businesses (including restructuring charges associated with the acquisitions, as well as other related costs, such as accounting, legal and advisory fees) could significantly impact our operating results.

Although we perform due diligence on the businesses we purchase, in light of the circumstances of each transaction, an unavoidable level of risk remains regarding the actual condition of these businesses. We may not be able to ascertain the value or understand the potential liabilities of the acquired businesses and their operations until we assume operating control of these businesses.

Furthermore, any acquisitions of businesses or facilities could entail a number of risks, including, among others: problems with the effective integration of operations; inability to maintain key pre-acquisition business relationships; increased operating costs; exposure to substantial unanticipated liabilities; difficulties in realizing projected efficiencies, synergies and cost savings; the risks of entering markets in which we have limited or no prior experience; and the possibility that we may be unable to recruit additional managers with the necessary skills to supplement the management of the acquired businesses.

In addition, geographic and other expansions, acquisitions or joint ventures may require significant managerial attention, which may be diverted from our other operations. If we are unsuccessful in overcoming these risks, our business, financial condition or results of operations could be materially and adversely affected.

*Our merchant banking activities are subject to counterparty risks associated with the performance of obligations by our counterparties.*

Our business is subject to commercial risks, which include counterparty risk, such as failure of performance by our counterparties. We seek to reduce the risk of non-performance by requiring credit support from creditworthy financial institutions where appropriate. We also attempt to reduce the risk of non-payment by customers or other counterparties by imposing limits on open accounts extended to creditworthy customers and imposing credit support requirements for other customers. Nevertheless, we are exposed to the risk that parties owing us or our clients and other financial intermediaries may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons. These counterparty obligations may arise, for example, from placing deposits, the extension of credit or guarantees in trading and investment activities and participation in payment, securities and supply chain transactions on our behalf and as an agent on behalf of our clients. If any such customers or counterparties default on their obligations, our business, results of operations, financial condition and cash flow could be adversely affected.

*Larger and more frequent capital commitments in our merchant banking business increase the potential for significant losses.*

We may enter into large transactions in which we commit our own capital as part of our merchant banking business. The number and size of these large transactions may materially affect our results of operations in a given period. To the extent that we own assets (i.e., have long positions), a downturn in the value of those assets or in the markets in which those assets are traded or situated could result in losses. Conversely, to the extent that we have sold assets we do not own (i.e., have short positions) in any of those markets, an upturn in those markets could expose us to potentially large losses as we attempt to cover our short positions by acquiring assets in a rising market.

*We are subject to transaction risks that may have a material adverse effect on our business, results of operations, financial condition and cash flow.*

We manage transaction risks through allocating and monitoring our capital investments in circumstances where the risk to our capital is minimal, carefully screening clients and transactions and engaging qualified personnel to manage transactions. Nevertheless, transaction risks can arise from our proprietary investing activities. These risks include market and credit risks associated with our merchant banking operations. We intend to make investments in highly unstructured situations and in companies undergoing severe financial distress and such investments often involve severe time constraints. These investments may expose us to significant transaction risks. An unsuccessful investment may result in the total loss of such investment and may have a material adverse effect on our business, results of operations, financial condition and cash flow.

*Our risk management strategies may leave us exposed to unidentified or unanticipated risks that could impact our risk management strategies in the future and could negatively affect our results of operations and financial condition.*

We use a variety of instruments and strategies to manage exposure to various types of risks. For example, we may use derivative foreign exchange contracts to manage our exposure and our clients' exposure to foreign currency exchange rate risks. If any of the variety of instruments and strategies we utilize to manage our exposure to various types of risk are not effective, we may incur losses. Many of our strategies are based on historical trading patterns and correlations. However, these strategies may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk. Unexpected market developments may affect our risk management strategies and unanticipated developments could impact our risk management strategies in the future.

*Derivative transactions may expose us to unexpected risk and potential losses.*

We, from time to time, enter into derivative transactions that require us to deliver to the counterparty an underlying security, loan or other obligation in order to receive payment. Such derivative transactions may expose us to unexpected market, credit and operational risks that could cause us to suffer unexpected

losses. Severe declines in asset values, unanticipated credit events or unforeseen circumstances may create losses from risks not appropriately taken into account in the structuring and/or pricing of a derivative transaction. In a number of cases, we may not hold the underlying security, loan or other obligation and may have difficulty obtaining, or be unable to obtain, the underlying security, loan or other obligation through the physical settlement of other transactions. As a result, we are subject to the risk that we may not be able to obtain the security, loan or other obligation within the required contractual time frame for delivery. This could cause us to forfeit the payments due to us under these contracts or result in settlement delays with the attendant credit and operational risk as well as increased costs to us.

*The operations of our bank subsidiary are subject to regulation, which could adversely affect our business and operations.*

The operations of MFC Merchant Bank Limited, referred to as the “Bank”, are subject to a number of directives and regulations, which materially affect our businesses. The statutes, regulations and policies to which we are subject may be changed at any time. In addition, the interpretation and the application by regulators of the laws and regulations to which we are subject may also change from time to time. Extensive legislation affecting the financial services industry has recently been adopted in Europe that directly or indirectly affects our business, including in Malta and other jurisdictions, and regulations are in the process of being implemented. The manner in which those laws and related regulations are applied to the operations of credit institutions is still evolving. Any legislative or regulatory actions and any required changes to our business operations resulting from such legislation and regulations could result in significant loss of revenue, limit our ability to pursue business opportunities in which we might otherwise consider engaging or provide certain products and services, affect the value of assets that we hold, require us to increase our prices and therefore reduce demand for our financial products, impose additional compliance and other costs on us or otherwise adversely affect our businesses. Accordingly, there can be no assurance that future changes in regulations or in their interpretation or application will not adversely affect us. Please see “*Item 4: Information on the Company – Regulation*” for further information.

Further, the operations of our Bank may involve transactions with counterparties in the financial services industry, including commercial banks, investment banks and other institutional clients. Defaults by, and even rumors or questions about the solvency of certain financial institutions and the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by other institutions. We may enter into transactions that could expose us to significant credit risk in the event of default by one of our significant counterparties. A default by a significant financial counterparty, or liquidity problems in the financial services industry generally, could have a material adverse effect on us.

*Any failure to remain in compliance with sanctions, anti-money laundering laws or other applicable regulations in the jurisdictions in which we operate could harm our reputation and/or cause us to become subject to fines, sanctions or legal enforcement, which could have an adverse effect on our business, financial condition and results of operations.*

Our merchant banking business has adopted policies and procedures respecting compliance with sanctions and anti-money laundering laws and we have adopted various policies and procedures to ensure compliance with specific laws applicable to it, including internal controls and “know-your-customer” procedures aimed at preventing money laundering and terrorism financing; however, participation of multiple parties in any given transaction can make the process of due diligence difficult. Further, because trade finance can be more document-based than other banking activities, it is susceptible to documentary fraud, which can be linked to money laundering, terrorism financing, illicit activities and/or the circumvention of sanctions or other restrictions (such as export prohibitions, licensing requirements or other trade controls). While we are alert to high-risk transactions, we are also aware that efforts, such as forgery, double invoicing, partial shipments of goods and use of fictitious goods, may be used to evade applicable laws and regulations. If our policies and procedures are ineffective in preventing third parties from using our finance operations as a conduit for money laundering or terrorism financing without our knowledge, our reputation could suffer and/or we could become subject to fines, sanctions or legal action (including being added to any “blacklists” that would prohibit certain parties from engaging in transactions with us, including our banking subsidiary), which could have an adverse effect on our business, financial condition and results of operations. In addition, amendments to sanctions, anti-money laundering laws or other applicable laws or regulations in countries in which we operate could impose additional compliance burdens on our operations.

*Fluctuations in interest rates and foreign currency exchange rates may affect our results of operations and financial condition.*

Fluctuations in interest rates may affect the fair value of our financial instruments sensitive to interest rates. An increase or decrease in market interest rates may result in changes to the fair value of our fixed interest rate financial instrument liabilities, thereby resulting in a reduction in the fair value of our equity. Similarly, fluctuations in foreign currency exchange rates may affect the fair value of our financial instruments sensitive to foreign currency exchange rates.

*Some of our operations are subject to environmental laws and regulations that may increase the costs of doing business and may restrict such operations.*

Some of our operations present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of government laws and regulations. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Compliance with such laws and regulations can require significant expenditures, and a breach may result in the imposition of fines and penalties, which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. Any breach of environmental legislation by the operator of properties underlying our interests or by us, as an owner or operator of a property, could have a material impact on the viability of the relevant property and impair the revenue derived from the owned property or applicable royalty or other interest, which could have a material adverse effect on our results of operations and financial condition. Further, environmental hazards may exist on the properties on which we hold, or have previously held, interests, which are unknown to us at present and have been caused by previous or existing owners or operators of the properties.

Failure to comply with applicable laws, regulations or permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in resource operations or in the exploration or development of resource properties may also be required to compensate those suffering loss or damage by reason of the mining activities and may be subject to civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

We may not be fully insured against certain environmental risks, either because such insurance is not available or because of high premium costs. In particular, insurance against risks from environmental pollution occurring over time, as opposed to sudden and catastrophic damages, is not available on economically reasonable terms. Accordingly, our properties may be subject to liability due to hazards that cannot be insured against or that have not been insured against due to prohibitive premium costs or for other reasons.

*There can be no assurance that we will be able to obtain adequate financing in the future or that the terms of such financing will be favorable and, as a result, we may have to raise additional capital through the issuance of additional equity, which will result in dilution to our shareholders.*

There can be no assurance that we will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. Failure to obtain such additional financing could result in delay or indefinite postponement of further business activities. We may require new capital to grow our business and there are no assurances that capital will be available when needed, if at all. It is likely such additional capital will be raised through the issuance of additional equity, which would result in dilution to our shareholders.

*Limitations on our access to capital could impair our liquidity and our ability to conduct our business.*

Liquidity, or ready access to funds, is essential to companies engaged in our business. Failures of financial firms have often been attributable in large part to insufficient liquidity. Liquidity is of particular importance to our merchant banking business and perceived liquidity issues may affect our clients' and counterparties' willingness to engage in transactions with us. Our liquidity could be impaired due to circumstances that we may be unable to control, such as a general market disruption or an operational problem that affects our clients, counterparties, our lenders or us. Further, our ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time.

*Our existing and future financing arrangements that contain operating and financial restrictions may restrict our business and financing activities.*

The terms and conditions of our debt agreements and future financial obligations may impose, among other things, operating and financial restrictions on us. For example, they may, among other things, prohibit or otherwise limit our ability to: enter into other financing arrangements; incur additional indebtedness; create or permit liens on our assets; make investments; change the general nature of our business; utilize the proceeds of dispositions; and make capital expenditures. If we are unable to comply with the terms and conditions in our current or future financing agreements, a default could occur under the terms of those agreements. Our ability to comply with these terms and conditions, including meeting financial ratios and tests, is dependent on our future performance and may be affected by events beyond our control. If a default occurs under current or future financing agreements and we do not obtain a corresponding waiver or amendment to the underlying agreement, lenders could terminate their commitments to lend or accelerate our obligations thereunder and declare all amounts borrowed due and payable. If any of these events occur, we may be unable to find alternative financing on acceptable terms or at all.

*We may substantially increase our debt in the future.*

It may be necessary for us to obtain financing with banks or financial institutions to provide funds for working capital, capital purchases, potential acquisitions and business development. Interest costs associated with any debt financing may adversely affect our profitability. Further, the terms on which amounts may be borrowed – including standard financial covenants regarding the maintenance of financial ratios, the prohibition against engaging in major corporate transactions or reorganizations and the payment of dividends – may impose additional constraints on our business operations and our financial strength.

*As a result of our global operations, we are exposed to political, economic, legal, operational and other risks that could adversely affect our business, results of operations, financial condition and cash flow.*

In conducting our business in major markets around the world, we are subject to political, economic, legal, operational and other risks that are inherent in operating in other countries. These risks range from difficulties in settling transactions in emerging markets to possible nationalization, expropriation, price controls and other restrictive governmental actions, and terrorism. We also face the risk that exchange controls or similar restrictions imposed by foreign governmental authorities may restrict our ability to convert local currency received or held by us in their countries into Swiss francs, Canadian dollars, Euros or other hard currencies or to take those other currencies out of those countries. If any of these risks become a reality, our business, results of operations, financial condition and cash flow could be negatively impacted.

*We are exposed to litigation risks in our business that are often difficult to assess or quantify and we could incur significant legal expenses every year in defending against litigation.*

We are exposed to legal risks in our business and the volume and amount of damages claimed in litigation against financial intermediaries are increasing. These risks include potential liability for advice we provide to participants in corporate transactions and disputes over the terms and conditions of complex trading arrangements. We also face the possibility that counterparties in complex or risky trading transactions will claim that we improperly failed to inform them of the risks involved or that they were not authorized or permitted to enter into such transactions with us and, accordingly, that their obligations to us are not enforceable. During a prolonged market downturn, we expect these types of claims to increase. We are also exposed to legal risks in our trade finance and proprietary investing activities.

We seek to invest in undervalued businesses or assets often as a result of financial, legal, regulatory or other distress affecting them. Investing in distressed businesses and assets can involve us in complex legal issues relating to priorities, claims and other rights of stakeholders. These risks are often difficult to assess or quantify and their existence and magnitude often remains unknown for substantial periods of time. We may incur significant legal and other expenses in defending against litigation involved with any of these risks and may be required to pay substantial damages for settlements and/or adverse judgments. Substantial legal liability or significant regulatory action against us could have a material adverse effect on our financial condition and results of operations.

*We rely significantly on the skills and experience of our executives and the loss of any of these individuals may harm our business.*

Our future success depends to a significant degree on the skills, experience and efforts of our executives and the loss of their services may compromise our ability to effectively conduct our business. We do not maintain “key person” insurance in relation to any of our employees.

*We may experience difficulty attracting and retaining qualified management and technical personnel to efficiently operate our business and the failure to operate our business effectively could have a material adverse effect on our profitability, financial condition and results of operations.*

We are dependent upon the continued availability and commitment of our management, whose contributions to immediate and future operations are of significant importance. The loss of any such management could negatively affect our business operations. From time to time, we will also need to identify and retain additional skilled management and specialized technical personnel to efficiently operate our business. The number of persons skilled in the acquisition, exploration and development of royalties and interests in natural resource properties is limited, and competition for such persons is intense. Recruiting and retaining qualified personnel is critical to our success and there can be no assurance of our ability to attract and retain such personnel. If we are not successful in attracting and retaining qualified personnel, our ability to execute our business model and growth strategy could be affected, which could have a material adverse impact on our profitability, results of operations and financial condition.

*We conduct business in countries with a history of corruption and transactions with foreign governments and doing so increases the risks associated with our international activities.*

As we operate internationally, we are subject to the United States’ *Foreign Corrupt Practices Act* and other laws that prohibit improper payments or offers of payments to foreign governments and their officials and political parties by the United States and other business entities that have securities registered in the United States for the purpose of obtaining or retaining business. We have operations and agreements with third parties in countries known to experience corruption. Further international expansion may involve more exposure to such practices. Our activities in these countries create the risk of unauthorized payments or offers of payments by our employees or consultants that could be in violation of various laws including the *Foreign Corrupt Practices Act*, even though these parties are not always subject to our control. It is our policy to implement safeguards to discourage these practices by our employees and consultants. However, our existing safeguards and any future improvements may prove to be less than effective and our employees or consultants may engage in conduct for which we might be held responsible. Violations of the *Foreign Corrupt Practices Act* may result in criminal or civil sanctions and we may be subject to other liabilities, which could negatively affect our business, operating results and financial condition.

*The operation of the iron ore mine underlying our royalty interest was closed in 2014. Its operation is generally determined by a third-party operator and we currently have no decision-making power as to how the property is operated. In addition, we have no or very limited access to technical or geological data respecting the mine, including as to mineralization or reserves. The operator’s failure to perform or other operating decisions could have a material adverse effect on our revenue, results of operations and financial condition.*

The operation of the iron ore mine underlying our royalty interest was closed in 2014. A new operator acquired the former operator’s interests in the second quarter of 2017. The operator generally has the power to determine the manner in which the property is operated. The interests of the operator and our interests may not always be aligned. Our inability to control the operations of the mine can adversely affect our profitability, results of operations and financial condition. In addition, we have no or very limited access to technical or geological data respecting the mine, including as to mineralization and reserves.

To the extent grantors of royalties and other interests do not abide by their contractual obligations, we may be forced to take legal action to enforce our contractual rights. Should any decision with respect to such action be determined adversely to us, such decision may have a material adverse effect on our profitability, results of operations and financial condition.

*Our hydrocarbon and related operations are subject to inherent risks and hazards.*

There are many operating risks and hazards inherent in our resource operations, including environmental hazards, industrial accidents, changes in the regulatory environment, impact of non-compliance with laws and regulations, potential damage to equipment or personal injury and fires, explosions, blowouts, spills or other accidents. Additionally, we could experience interruptions to, or the termination of, production,

processing or transportation activities due to bad weather, natural disasters, delays in obtaining governmental approvals or consents, insufficient storage or transportation capacity or other geological or mechanical conditions. Any of these events that result in an interruption or suspension of operations would adversely affect our discontinued operations.

In addition, certain of our undeveloped reserves are, or may in the future be, subject to third-party operating agreements, including farm-out and participation agreements. As a result, development activities conducted by such third-parties may not be entirely within our control.

*Future environmental and reclamation obligations respecting our resource properties and interests may be material.*

We have not established a separate reclamation fund for the purpose of funding estimated future environmental and reclamation obligations or liabilities. Any site reclamation or abandonment costs incurred in the ordinary course in a specific period will be funded out of cash flow from operations. To the extent our hydrocarbon properties are not disposed of, we expect to incur site restoration costs over a prolonged period as wells reach the end of their economic life and may also be subject to reclamation and other environmental liabilities for past resource activities. There are significant uncertainties related to decommissioning obligations and the impact on the financial statements could be material. The eventual timing of and costs for these asset retirement and other environmental obligations or potential liabilities could differ from current estimates.

*Tax audits or disputes, or changes in the tax laws applicable to us, could materially increase our tax payments.*

We exercise significant judgment in calculating our provision for income taxes and other tax liabilities. Although we believe our tax estimates are reasonable, many factors may affect their accuracy. Applicable tax authorities may disagree with our tax treatment of certain material items potentially causing an increase in tax liabilities. Due to the size, complexity and nature of our operations, various tax matters and litigation are outstanding from time to time, including relating to our former affiliates. Currently, based upon information available to us, we do not believe any such matters would have a material adverse effect on our financial condition or results of operations. However, due to the inherent uncertainty, we cannot provide certainty as to their outcome. If our current assessments are materially incorrect or if we are unable to resolve any of these matters favorably, there may be a material adverse impact on our financial performance, cash flows or results of operations.

Furthermore, changes to existing laws may also increase our effective tax rate. A substantial increase in our tax burden could have an adverse effect on our financial results. Please see “*Item 8: Financial Information – A. Consolidated Statements and Other Financial Information*” for further information.

*Employee misconduct could harm us and is difficult to detect and deter.*

It is not always possible to detect and deter employee misconduct. The precautions we take to detect and prevent employee misconduct may not be effective in all cases and we could suffer significant reputational and economic harm for any misconduct by our employees. The potential harm to our reputation and to our business caused by such misconduct is impossible to quantify.

*Failures or security breaches of our information technology systems could disrupt our operations and negatively impact our business.*

We use information technologies, including information systems and related infrastructure as well as cloud applications and services, to store, transmit, process and record sensitive information, including employee information and financial and operating data, communicate with our employees and business partners and for many other activities related to our business. Our business partners, including operating partners, suppliers, customers and financial institutions, are also dependent on digital technology. Some of these business partners may be provided limited access to our sensitive information or our information systems and related infrastructure in the ordinary course of business.

Despite security design and controls, our information technology systems, and those of our third-party partners and providers, may be vulnerable to a variety of interruptions, including during the process of upgrading or replacing software, databases or components thereof, natural disasters, terrorist attacks, telecommunications failures, computer viruses, cyber-attacks, the activities of hackers, unauthorized access attempts and other security issues or may be breached due to employee error, malfeasance or other disruptions. Any such interruption or breach could result in operational disruptions or the

misappropriation of sensitive data that could subject us to civil and criminal penalties, litigation or have a negative impact on our reputation. There can be no assurance that such disruptions or misappropriations and the resulting repercussions will not negatively impact our cash flows and materially affect our results of operations or financial condition.

### **General Risks Faced by Us**

*Investors' interests may be diluted and investors may suffer dilution in their net book value per share if we issue additional shares or raise funds through the sale of equity securities.*

Our constating documents authorize the issuance of our Common Shares and preference shares, issuable in series. In the event that we are required to issue any additional shares or enter into private placements to raise financing through the sale of equity securities, investors' interests in us will be diluted and investors may suffer dilution in their net book value per share depending on the price at which such securities are sold. If we issue any such additional shares, such issuances will also cause a reduction in the proportionate ownership of all other shareholders. Further, any such issuance may result in a change of control of our company. Please see "Item 10: Additional Information – B. Memorandum and Articles of Association" for further information.

*Certain factors may inhibit, delay or prevent a takeover of our company, which may adversely affect the price of our Common Shares.*

Certain provisions of our charter documents may discourage, delay or prevent third parties from effecting a change of control or changes in our management in a tender offer or otherwise engaging in a merger or similar type of transaction with us. If a change of control or change of management is delayed or prevented, the market price of our Common Shares could decline.

*Investors may face difficulties in protecting their interests, and their ability to protect their rights through U.S. courts may be limited, because we are incorporated under Cayman Islands law.*

We are an exempted company incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our memorandum and articles of association, the Companies Law of the Cayman Islands (2016 Revision), referred to as the "Cayman Act" and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. Some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States.

The Cayman Islands courts are also unlikely to recognize or enforce against us judgments of courts of the United States based on certain civil liability provisions of U.S. securities laws; and to impose liabilities against us, in original actions brought in the Cayman Islands, based on certain civil liability provisions of U.S. securities laws that are penal in nature.

There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will in certain circumstances recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would as public shareholders of a company incorporated in the United States.

*Certain judgments obtained against us by our shareholders may not be enforceable.*

We are a Cayman Islands company with substantially all of our assets located outside of the United States. In addition, a majority of our directors and officers are nationals and residents of countries other than the United States. Substantially all of the assets of these persons are located outside the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the United States in the event that you believe that your rights have been infringed under the U.S. federal securities laws or otherwise.

## **ITEM 4: INFORMATION ON THE COMPANY**

### **A. History and Development of the Company**

#### ***Corporate Information***

We are a corporation organized under the Cayman Act. We were incorporated on June 5, 2017 as “MFC 2017 Ltd.” and changed our name to “MFC Bancorp Ltd.” on July 5, 2017.

On July 14, 2017, Old MFC, our former parent company, completed the Arrangement, which resulted in the holders of Old MFC Shares becoming the holders of our Common Shares. Please see “*B. Business Overview – Recent Developments*” for further information.

Our executive office is located at 2-4 Merrion Row, Dublin, Ireland, c/o MFC Financial Ltd., and its telephone number is +1 844 331 3343. Our registered office is located at 4<sup>th</sup> Floor, Harbour Place, 103 South Church Street, Grand Cayman, Cayman Islands.

#### ***General***

We are an international merchant bank that provides financial services and facilitates structured trade for corporations and institutions. We specialize in markets that are not adequately addressed by traditional sources of supply and finance, with an emphasis on providing solutions for small and medium sized enterprises. We operate in multiple geographies and participate in industries including manufacturing, natural resources and medical equipment and services.

As a supplement to our operating business, we commit proprietary capital to assets and projects where intrinsic values are not properly reflected. These investments can take many forms, and our activities are generally not passive. The structure of each of these opportunities is tailored to each individual transaction.

Our business is divided into two operating segments: (i) Merchant Banking, which includes our marketing activities, captive supply assets, structured solutions, financial services and proprietary investing activities; and (ii) All Other, which encompasses our corporate and other investments and business interests, primarily being its business activities in medical equipment, instruments, supplies and services.

Please see “*B. Business Overview*” for further information regarding our recent developments.

### **B. Business Overview**

The following is a brief description of our business and recent activities.

#### **Recent Developments**

##### ***Plan of Arrangement***

On July 14, 2017, Old MFC, the former parent of our group of companies, completed the Arrangement under the *Business Corporations Act* (British Columbia), pursuant to which, among other things, the following transactions were completed:

- *Share Consolidation/Split* . The Old MFC Shares were consolidated on a 100 for 1 basis, with any resulting fractional shares being eliminated and the registered holders of the same being paid therefor in cash based upon the weighted average price of the Old MFC Shares over the ten trading days immediately prior to the effective date of the Arrangement and, thereafter, such Old MFC Shares were split on a 1 for 20 basis, referred to as the “Share Consolidation/Split”;
- *Share Capital* . Old MFC’s stated shareholders’ capital was reduced by an amount equal to its retained deficit; and

- *Share Exchange* . Each Old MFC Share outstanding after the completion of the Share Consolidation/Split was exchanged for one of our Common Shares and US\$0.0001 in cash.

Our Common Shares commenced trading on the New York Stock Exchange on July 14, 2017 under the symbol “MFCB”.

### ***Reallocation of Resources to More Profitable Operations***

In 2017, we continued to advance our plan, which commenced in 2016, to exit product lines and geographies with unsatisfactory margins in order to reallocate capital to higher return operations, including our merchant banking business. To this end, in 2017, we, among other things:

- rationalized our inventories, reducing them by 69% from \$32.0 million at December 31, 2016 to \$9.8 million at December 31, 2017;
- reduced our trade receivables by more than \$100 million, to \$34.2 million from \$136.0 million at December 31, 2016;
- deleveraged through reducing our short-term bank borrowings by 98% from \$95.4 million at December 31, 2016 to \$2.1 million at December 31, 2017;
- reduced our total debt by 63% from \$116.8 million at December 31, 2016 to \$43.7 million at December 31, 2017;
- completed the sale and deconsolidation of non-core subsidiaries; and
- allocated resources for the expansion of our merchant banking business.

As part of our plan, in the fourth quarter of 2017, we completed a restructuring, which included the disposition of certain subsidiaries, as a result of which we recognized a loss of \$10.2 million and primarily as a result of which overall in the fourth quarter of 2017, we reduced our trade receivables, short term borrowings and debt by approximately \$94 million, \$67 million and \$31 million, respectively.

In 2017, the sale of a non-core subsidiary in Latin America resulted in the deconsolidation of assets of \$45.7 million and liabilities of \$29.9 million, which were previously classified as assets held for sale.

### **Business Segments**

Our business is divided into two operating segments: (i) Merchant Banking, which includes our marketing activities, captive supply assets, structured solutions, financial services and proprietary investing activities; and (ii) All Other, which encompasses our corporate and other investments and business interests, primarily being our business activities in medical equipment, instruments, supplies and services.

#### ***Merchant Banking***

We are an international merchant bank that provides financial services and facilitates structured trade for corporations and institutions. We specialize in markets that are not adequately addressed by traditional sources of supply and finance, with an emphasis on providing solutions for small and medium sized enterprises. We operate in multiple geographies and participate in industries including manufacturing, natural resources and medical equipment and services.

Our merchant banking segment includes our marketing activities, captive supply assets, financial services, proprietary investing activities, hydrocarbon interests and iron ore interest. Under our business model, such activities are generally interlinked. For example, we may market products sourced from captive supply assets, which include interests acquired through our proprietary investing or we would provide financial services to the end customers of our marketing activities. Our marketing activities, including the sale of products from our captive supply assets, represented the majority of our revenues in 2017.

We make proprietary investments as part of our overall merchant banking activities and we seek to realize gains on such investments over time. We seek to participate in many industries, emphasizing those business opportunities where the perceived intrinsic value is not properly recognized, often as a result of financial or other distress affecting them. These investments can take many forms and can include acquiring entire businesses or portions thereof, investing in equity or investing in existing indebtedness (secured and unsecured) of businesses or in new equity or debt issues. These activities are generally not passive. The structure of each of these opportunities is tailored to each individual transaction.

We consider opportunities where:

- our existing participation in marketing and production provides expert insight;
- we can obtain a satisfactory return of future capital investment; and
- there are synergistic benefits with our existing business.

Our philosophy is to utilize our financial strength to realize the commercial potential of assets in markets where we have a comprehensive understanding of the drivers of value.

In the first quarter of 2016, we completed the acquisition of the Bank, which is licensed in Europe. Through ownership of an “in-house” bank, we will be able to supplement our core business with regulated banking services. The Bank does not engage in general retail or commercial banking, but provides specialty banking services, focused on merchant banking, to our customers, suppliers and group members. These products include: bank guarantees, letters of credit, factoring, other financing transactions, advisory services and merchant banking products and services.

In 2016, we commenced our plan to focus on our core merchant banking activities and have exited various products and geographies, including disposing of a Latin America-focused commodities trading business, our interest in a ferrosilicon production facility, our interest in quartz quarries, our interest in an iron ore property in the United States, the significant portion of our hydrocarbon properties and our steel and ferroalloys trading businesses in Europe and the United States.

As part of our merchant banking business, we historically acquired and sold commodity products, sourcing products from various suppliers globally or selling products sourced through our captive supply assets. In connection with such transactions, we also provided finance, transport, warehousing and delivery for customers. In 2017, the customers for these activities included steel mills, foundries, refractory customers and users of finished steel and aluminum goods. In 2017, these activities mainly included the following products: steel, ferroalloys, minerals, chemicals and metals (such as zinc and aluminum).

We hold various production assets, including: (a) a zinc alloy processing facility, located in Slovakia, whose customers include steel companies and other related industry suppliers in Europe; (b) a natural gas power plant located in Alberta, Canada and a hydro-electric power plant located in Africa; (c) a non-ferrous rolling mill in Germany whose customers include companies in automotive, engineering and other industries; and (d) natural gas production and processing in Alberta, Canada.

We also derive revenues from a mining sub-lease of the lands upon which the Wabush iron ore mine is situated in Newfoundland and Labrador, Canada. The sub-lease commenced in 1956 and expires in 2055. Revenues from this interest, excluding the collection of the underpayment of royalties in prior years, represented approximately 1% of the Company’s revenues in 2017.

In late 2014, the mine operator announced the closure of the mine and, in 2015, commenced proceedings under the *Companies’ Creditors Arrangement Act*, referred to as the “CCAA”. A new operator took over the mine in the third quarter of 2017 after acquiring the underlying assets through the CCAA process. In the third quarter of 2017, we entered into a settlement agreement with the new operator in respect of an underpayment of royalties under the lease by the past operator, whereby we received \$5.6 million in settlement of such claims. Pursuant to such agreement, we also amended and restated the sub-lease underlying our interest. As a result, our royalty interest is now a 7.0% net revenues royalty interest on iron ore produced from the mine and 4.2% net revenues royalty interest on iron ore produced from tailings and other disposed materials. The new operator has not re-commenced mining operations. Under the terms of the sub-lease, we are entitled to minimum royalty payments of \$3.25 million per year. With respect to minimum payments, before tax, amounting to approximately \$5.7 million for prior periods, the CCAA Court ruled in the first quarter of 2018 that such amount was not payable to us and, as a result, we recognized an impairment of \$1.4 million on such receivable in 2017. We are in the process of appealing such ruling. However, there can be no assurance that such appeal will be successful.

Our main business office is located in Dublin, Ireland, through a subsidiary. We also maintain offices in Malta, China, Canada, Germany and Uganda. In addition, we establish relationships with marketing agents located worldwide. Our marketing and other business activities in this segment are supported by a network of agents and relationships.

***All Other***

Our All Other segment encompasses our corporate and other investments and business interests, primarily relating to business activities in medical equipment, instruments, supplies and services.

***Competitive Conditions***

Both segments of our business are intensely competitive and we expect them to remain so.

We operate in a highly competitive environment in most of our markets and we face competition in our merchant banking activities, principally from international banks, the majority of which are European, North American or Latin American regulated banks, in our finance and fee-generating activities. Such competition may have the effect of reducing spreads on our financing activities.

Our merchant banking business is small compared to our competitors in the sector. Many of our competitors have far greater financial resources, a broader range of products and sources of supply, larger customer bases, greater name recognition and marketing resources, a larger number of senior professionals to serve their clients' needs, greater global reach and more established relationships with clients than we do. These competitors may be better able to respond to changes in business conditions, compete for skilled professionals, finance acquisitions, fund internal growth and compete for market share generally.

We believe that our experience and operating structure permit us to respond more rapidly to our clients' needs than many of our larger competitors. These traits are important to small and mid-sized business enterprises, many of which do not have large internal corporate finance departments to handle their capital requirements. We develop a partnership approach to assist our clients. This often permits us to develop multiple revenue sources from the same client. For example, we may commit our own capital to make a proprietary investment in its business or capital structure.

***Regulation***

Our operations are international in nature and are subject to the laws and regulations of a number of international jurisdictions, as well as oversight by regulatory agencies and bodies in those jurisdictions. In particular, the banking industry is subject to extensive regulation and oversight. The operations of our Bank are subject to the regulations and directives issued by the European Union, as well as any additional Maltese legislation. The Bank is subject to direct supervision by the Malta Financial Services Authority and indirect supervision by the European Central Bank. The regulations which most significantly affect our Bank, or which could most significantly affect it in the future, relate to capital requirements, liquidity and the funding and development of a banking union in the European Union. As a Maltese credit institution, the Bank is subject to the Capital Requirements Directive Framework, referred to as the "CRD IV Framework", through which the European Union began implementing the Basel III Capital reforms from January 1, 2014, with certain requirements in the process of being phased in by January 1, 2019. The CRD IV Framework, among other things, requires regulatory reporting of "large exposures", which are generally exposures to a client or group of connected clients in excess of 10% of the Bank's eligible capital base and such large exposures cannot be greater than 25% of the Bank's eligible capital base, after taking into account credit risk mitigation.

Our gas and oil operations are subject to various Canadian governmental regulations including those imposed by the Alberta Energy Regulator and Alberta Utilities Commission. Matters subject to regulation include discharge permits for drilling operations, drilling and abandonment bonds and pooling of properties and taxation. The production, handling, storage, transportation and disposal of oil and gas, by-products thereof, and other substances and materials produced or used in connection with such operations are also subject to regulation under federal, provincial and local laws and regulations. We are subject to decommissioning obligations in connection with our ownership interests in hydrocarbon assets, including well sites, gathering systems and processing facilities. The total decommissioning obligation is estimated based on our net ownership interest in wells and facilities, estimated costs to reclaim and abandon same and the estimated timing of the costs to be incurred in future years. We have estimated the net present value of total decommissioning obligations to be \$13.7 million as at December 31, 2017.

### C. Organizational Structure

The following table describes our material subsidiaries as at December 31, 2017, their respective jurisdictions of organization and our interest in respect of each subsidiary. The table excludes subsidiaries that only hold inter-company assets and liabilities and do not have active businesses or whose results and net assets do not materially impact our consolidated results and net assets.

<b>Subsidiaries</b>	<b>Country of Incorporation</b>	<b>Proportion of Voting Interest <sup>(1)</sup>(2)</b>
Kasese Cobalt Company Limited	Uganda	75%
MFC (A) Ltd	Marshall Islands	99.72%
MFC (D) Ltd	Marshall Islands	99.72%
M Financial Corp.	Barbados	100%
Merchants Financial Corp.	Marshall Islands	99.96%
MFC Merchant Bank Limited	Malta	100%
Sino Medical Technology Co. Ltd.	Marshall Islands	99.54%

**Notes:**

- (1) Our proportional voting interests are identical to our proportional beneficial interests, except for: (a) a non-wholly owned subsidiary in Africa from which we derive a 100% beneficial interest resulting from our shareholder loan; and (b) MFC (A) Ltd. and MFC (B) Ltd., in each of which we hold a 99.68% proportional beneficial interest.
- (2) In 2017, Merchants Financial Corp. and Sino Medical Technology Co. Ltd. granted rights to employee incentive corporations to acquire up to 10% of their share capital on a diluted basis at a price to be no less or more than the then existing net tangible asset value. The rights expire in 2027 and, as at December 31, 2017 such rights had been exercised in respect of 0.04% and 0.46% of the ownership, respectively.

Please see Note 31 to our audited consolidated financial statements for the year ended December 31, 2017 for further information.

### D. Property, Plants and Equipment

Our executive office is located at 2-4 Merrion Row, Dublin, Ireland, c/o MFC Financial Ltd.

We believe that our existing facilities are adequate for our needs through the end of the year ending December 31, 2018. Should we require additional space at that time or prior thereto, we believe that such space can be secured on commercially reasonable terms.

We also hold an interest under a mining sub-lease related to an iron ore mine located in Newfoundland and Labrador, Canada, which commenced in 1956 and expires in 2055. Please see “*B. Business Overview*” for further information.

As at December 31, 2017, we had hydrocarbon interests located in west central Alberta, Canada comprised of approximately 61 producing and 96 non-producing natural gas wells and approximately 3 producing and 18 non-producing oil wells and an average 76.2% working interest in approximately 86,500 gross acres of land. We also own a 16.5 megawatt natural gas power plant in Alberta, Canada, which is currently idled and a 9.9 megawatt hydroelectric power plant in Uganda.

### ITEM 4A: UNRESOLVED STAFF COMMENTS

None

**ITEM 5: OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

*The following discussion and analysis of our financial condition and results of operations for the year ended December 31, 2017 and 2016 should be read in conjunction with our audited consolidated financial statements and related notes.*

**General**

We are a merchant bank that provides financial services and facilitates structured trade for corporations and institutions. Our business activities involve customized structured financial solutions and are supported by captive sources and products secured from third parties. We do business in multiple geographies and specialize in a wide range of industrial products.

We also commit our own capital to promising enterprises and invest and otherwise capture investment opportunities for our own account. We seek to invest in businesses or assets whose intrinsic value is not properly reflected in their share price or value. Our investing activities are generally not passive. We actively seek investments where our financial expertise and management can add or unlock value.

Our results of operations have been and may continue to be affected by many factors of a global nature, including economic and market conditions, the availability of capital, the level and volatility of equity prices and interest rates, currency values, asset prices and other market indices, technological changes, the availability of credit, inflation and legislative and regulatory developments. Our results of operations may also be materially affected by competitive factors. Our competitors include firms traditionally engaged in trade finance such as merchant and investment banks, along with other capital sources such as hedge funds, private equity firms, insurance companies and other companies engaged in supply chain activities in Europe, Asia and globally.

Our results of operations for any particular period may also be materially affected by our realization on proprietary investments. These investments are made to maximize total return through long-term appreciation and recognized gains on divestment. We realize on our proprietary investments through a variety of methods including sales, capital restructuring or other forms of divestment.

**Business Environment**

Our financial performance is, and our consolidated results in any period can be, materially affected by economic conditions and financial markets generally, including the availability of capital, the availability of credit and the level of market and commodity price volatility. Our results of operations may also be materially affected by competitive factors. Our competitors include firms traditionally engaged in merchant banking and trade finance as well as other capital sources such as hedge funds and private equity firms and other companies engaged in similar activities in Europe, Asia and globally.

We operate internationally and therefore our financial performance and position are impacted by changes in the Canadian dollar, our reporting currency, against the other functional currencies of our international subsidiaries and operations, particularly the Euro. Changes in currency rates affect our financial performance and position because our European subsidiaries' assets, liabilities, revenues and operating costs are denominated in Euros. Accordingly, a weakening of the Canadian dollar against the Euro would have the effect of increasing the value of such assets, liabilities, revenues and operating costs when translated into Canadian dollars, our reporting currency. Conversely, a strengthening of the Canadian dollar against these currencies would have the effect of decreasing such values. In addition, we also have exposure to the Chinese yuan and the United States dollar.

As at December 31, 2017, the Canadian dollar had weakened by 5.9% against the Euro from the end of 2016. We recognized a net \$4.3 million currency translation adjustment loss under other comprehensive income within equity in 2017, compared to \$14.6 million in 2016.

## Results of Operations

The following table sets forth certain selected operating results and other financial information for each of the years ended December 31, 2017, 2016 and 2015:

	Years Ended December 31,		
	2017	2016	2015
	(In thousands, except per share amounts)		
Gross revenues	\$ 274,035	\$ 1,131,657	\$ 1,629,100
Costs and expenses	312,442	1,148,363	1,919,895
Costs of sales and services	263,586	1,061,052	1,573,868
Selling, general and administrative expenses	45,472	79,164	86,648
Finance costs	8,415	24,102	22,329
Share-based compensation – selling, general and administrative	2,876	—	—
Impairment of available-for-sale securities	—	91	245
(Reversal) recognition of impairment losses on resource properties	(8,945)	(8,566)	235,875
Loss from continuing operations <sup>(1)</sup>	(47,855) <sup>(2)</sup>	(25,361) <sup>(3)</sup>	(246,228) <sup>(4)</sup>
Net loss from discontinued operations <sup>(1)</sup>	—	—	(241,402) <sup>(5)</sup>
Net loss <sup>(1)</sup>	(47,855) <sup>(2)</sup>	(25,361) <sup>(3)</sup>	(487,630) <sup>(4)(5)</sup>
Loss per share:			
Basic	(3.81)	(2.01)	(38.61)
Diluted	(3.81)	(2.01)	(38.61)

### Notes:

- (1) Attributable to our shareholders.
- (2) Includes a net non-cash reversal of \$8.9 million in connection with prior impairments of our remaining hydrocarbon properties, credit losses (net of recoveries) of \$23.9 million and losses of \$10.2 million on the disposition of subsidiaries.
- (3) Includes a net non-cash reversal of \$8.6 million in connection with prior impairments on our remaining hydrocarbon properties, credit losses (net of recoveries) of \$17.0 million and a gain of \$2.6 million on the disposition of subsidiaries.
- (4) Includes total non-cash impairment losses of \$235.9 million, before an income tax recovery of \$46.5 million, on our mining interest and remaining hydrocarbon properties that were reclassified as continuing operations and losses of \$51.4 million related to a customer that filed for insolvency in February 2016 and \$9.9 million on long-term off-take agreements entered into by a subsidiary acquired in 2014, which were terminated in 2016.
- (5) Includes total non-cash impairment losses of \$176.3 million, before a deferred income tax expense of \$50.9 million, recognized on our hydrocarbon properties and iron ore interests.

The following table provides a breakdown of our total revenues from continuing operations for each of the years ended December 31, 2017, 2016 and 2015:

	Years Ended December 31,		
	2017	2016	2015
	(In thousands)		
Merchant banking products and services	\$ 249,581	\$ 1,078,745	\$ 1,580,935
Interest	973	3,056	4,237
Dividends	—	6	7
Other	23,481	49,850	43,921
Total revenues	<u>\$ 274,035</u>	<u>\$ 1,131,657</u>	<u>\$ 1,629,100</u>

### Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016

The following is a breakdown of our gross revenues by segment for each of the years indicated:

	Years Ended December 31,	
	2017	2016
	(In thousands)	
<b>Gross Revenues:</b>		
Merchant banking	\$ 256,412	\$ 1,095,896
All other	17,623	35,761
	<u>\$ 274,035</u>	<u>\$ 1,131,657</u>

The following charts illustrate our revenues by geographic distribution in the fiscal years ended December 31, 2017 and 2016:



The following is a breakdown of our revenues by product and service for each of the years ended December 31, 2017 and 2016:

	<b>Years Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(In thousands)</b>	
Metals	\$ 143,572	\$ 223,244
Plastics	98	25,277
Wood products	—	13,385
Steel products	23,898	298,772
Minerals, chemicals and alloys	57,768	483,806
Natural gas	8,931	18,094
Royalties	8,868	4,875
Power/electricity	4,215	5,882
Total sales by products	247,350	1,073,335
Fees	2,231	5,410
Revenues from products and services	<u>\$ 249,581</u>	<u>\$ 1,078,745</u>

Our metals, plastics, wood products, steel products, minerals, chemicals and alloys revenues decreased from 2016 as a result of our decision to exit certain product lines and geographies. In 2017, our royalties revenues increased primarily as a result of the recognition of \$5.6 million for the underpayment of resource property royalties as a result of our settlement with the current operator of such interest. Our natural gas revenues decreased primarily due to the pricing environment and the shut-in of certain wells during the year.

Based upon the average exchange rates for 2017, the Canadian dollar strengthened by approximately 0.1% in value against the Euro compared to the average exchange rates for 2016.

Revenues for 2017 decreased to \$274.0 million from \$1,131.7 million in 2016, primarily as a result of our decision to exit certain product lines and geographies.

Revenues for our merchant banking business for 2017 decreased to \$256.4 million from \$1,095.9 million in 2016, primarily as a result of our decision to exit certain product lines.

Revenues for our all other segment were \$17.6 million in 2017, compared to \$35.8 million in 2016. The decrease was primarily as a result of the expiry of our eye care lease due to the substantially higher associated costs and capital expenditures required.

Costs of sales and services decreased to \$263.6 million during 2017 from \$1,061.1 million in 2016, primarily as a result of our decision to exit certain product lines and geographies.

The following is a breakdown of our costs of sales and services for each of the years indicated:

	Years Ended December 31,	
	2017	2016
	(In thousands)	
Merchant banking products and services	\$ 223,049	\$ 1,027,627
Credit losses on loans and receivables and guarantees, net of recoveries	23,923	17,023
Market value (increase) decrease on commodity inventories	(400)	4,273
(Gain) loss on derivative contracts, net	(1,934)	521
Loss on securities, net	619	116
Dispositions of subsidiaries	10,219	(2,585)
Write-off of payables	(3,779)	—
Other	11,889	14,077
Total costs of sales and services	<u>\$ 263,586</u>	<u>\$ 1,061,052</u>

In 2017, we recognized credit losses on loans and receivables (net of recoveries) of \$23.9 million, which included \$8.6 million relating to receivables due from a hydrocarbon subsidiary that was deconsolidated in 2015, compared to \$17.0 million in 2016.

We recognized a loss on the disposition of subsidiaries of \$10.2 million in 2017, which consisted of the difference between the book value of such assets and the consideration received, compared to a gain of \$2.6 million in 2016 on the disposition of subsidiaries.

Selling, general and administrative expenses decreased to \$45.5 million in 2017 from \$79.2 million in 2016 primarily as a result of the sale of non-core subsidiaries, the closure of certain offices and structural cost reductions.

In 2017, finance costs decreased to \$8.4 million from \$24.1 million in 2016, primarily as a result of a decrease in bank indebtedness.

In late 2015, one of our customers in the wood products market experienced financial difficulties and, in February 2016, filed for insolvency. As a result, we recognized allowances for credit losses in connection with such customer and its affiliates in 2015 and 2016. Please see our comparison of 2016 to 2015 financial results below for further information regarding such prior years. In 2017, our management continued to monitor and assess the collectability of the receivables. As a result of such review, we reversed and credited an allowance of \$1.5 million to profit or loss in the third quarter of 2017. In the fourth quarter of 2017, we disposed of certain subsidiaries which had trade receivables from the former customer group. As a result, we have trade receivables due from this former customer group of \$21.4 million as at December 31, 2017.

In 2017, we recognized a net non-cash reversal of \$8.9 million in connection with prior impairments on our remaining hydrocarbon properties. In 2016, we recognized a net non-cash reversal of \$8.6 million in connection with prior impairments on our remaining hydrocarbon properties.

In 2017, we recognized a net foreign currency transaction loss of \$1.0 million, compared to a net foreign currency transaction gain of \$7.5 million in 2016, in our consolidated statement of operations. The foreign currency transaction gain and loss primarily represent exchange differences arising on the settlement of monetary items or on translating monetary items into our functional currencies at rates different from those at which they were translated on initial recognition during the period or in previous financial statements and the gains and losses on our foreign currency derivatives and includes \$11.3 million reclassified from accumulated other comprehensive income within equity to profit or loss, which stemmed from the disposition of an immaterial subsidiary during the year.

We recognized an income tax expense (other than resource revenue taxes) of \$6.9 million in 2017, compared to an income tax expense of \$6.0 million in 2016. Our income tax paid in cash, excluding resource revenue taxes, during 2017 was \$1.7 million, compared to \$2.8 million in 2016. We also recognized resource revenue taxes of \$1.8 million in 2017, compared to \$1.0 million in 2016.

Overall, we recognized an income tax expense of \$8.7 million (income tax expense of \$6.9 million and resource revenue taxes of \$1.8 million) in 2017, compared to an income tax expense of \$7.0 million (income tax expense of \$6.0 million and resource revenue taxes of \$1.0 million) in 2016.

In 2017, our net loss attributable to shareholders was \$47.9 million, or \$3.81 per share on a basic and diluted basis, compared to \$25.4 million, or \$2.01 per share on a basic and diluted basis, in 2016.

For 2017, our Operating EBITDA loss was \$32.2 million, compared to Operating EBITDA of \$10.8 million for 2016.

The following is a reconciliation of our net loss to Operating EBITDA for each of the years indicated.

	<b>Years Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(In thousands)</b>	
<b>Operating EBITDA (loss)</b>		
Net loss <sup>(1)</sup>	\$ (47,065)	\$ (23,720)
Reversal of impairment losses on resource properties	(8,945)	(8,566)
Income tax expense	8,658	7,014
Finance costs	8,415	24,102
Amortization, depreciation and depletion	6,732	11,951
Operating EBITDA (loss)	<u>\$ (32,205)</u>	<u>\$ 10,781</u>

**Note:**

(1) Includes net income attributable to non-controlling interests.

Please see “ *Non-IFRS Financial Measures* ” for additional information.

***Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015***

The following is a breakdown of our gross revenues by segment for each of the years indicated:

	<b>Years Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>(In thousands)</b>	
<b>Gross Revenues:</b>		
Merchant banking	\$ 1,095,896	\$ 1,593,879
All other	35,761	35,221
	<u>\$ 1,131,657</u>	<u>\$ 1,629,100</u>

In 2016, 25% of our revenues were from Germany, 37% were from Europe, 25% were from the Americas and 13% were from Asia and other regions.

The following charts illustrate our revenues by geographic distribution in the fiscal years ended December 31, 2016 and 2015:



The following is a breakdown of our revenues by product and service for each of the years ended December 31, 2016 and 2015:

	<b>Years Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>(In thousands)</b>	
Metals	\$ 223,244	\$ 248,561
Plastics	25,277	41,231
Wood products	13,385	221,943
Steel products	298,772	308,428
Mineral, chemicals and alloys	483,806	696,725
Natural gas	18,094	47,761
Royalties	4,875	1,624
Power/electricity	5,882	7,349
Total sales by products	1,073,335	1,573,622
Fees	5,410	7,313
Revenues from products and services	<u>\$ 1,078,745</u>	<u>\$ 1,580,935</u>

Based upon the average exchange rates for 2016, the Canadian dollar weakened by approximately 3% in value against the Euro compared to the average exchange rates for 2015.

Revenues for 2016 decreased to \$1,131.7 million from \$1,629.1 million in 2015, primarily as a result of our decision to exit certain product lines and geographies, marginally offset by the positive impact of the weaker Canadian dollar against the Euro in 2016. As a substantial portion of our revenues are generated in Euros, the weakening of the Canadian dollar against the Euro positively impacted our revenues in 2016 when such Euro-denominated revenues were translated to Canadian dollars.

Revenues for our merchant banking business for 2016 decreased to \$1,095.9 million from \$1,593.9 million in the same period of 2015, primarily as a result of our decision to exit certain product lines, marginally offset by the positive impact of the weaker Canadian dollar against the Euro in 2016.

Revenues for our all other segment were \$35.8 million in 2016, compared to \$35.2 million in 2015.

Costs of sales and services decreased to \$1,061.1 million during 2016 from \$1,573.9 million in 2015, primarily as a result of our decision to exit certain product lines and geographies, marginally offset by the impact of the weaker Canadian dollar against the Euro in 2016.

The following is a breakdown of our costs of sales and services for each of the years indicated:

	<b>Years Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>(In thousands)</b>	
Merchant banking products and services	\$ 1,027,627	\$ 1,512,970
Credit losses on loans and receivables and guarantees, net of recoveries	17,023	54,540
Market value decrease on commodity inventories	4,273	1,910
Loss (gain) on derivative contracts, net	521	(2,913)
Loss on securities, net	116	84
Dispositions of subsidiaries	(2,585)	—
Other	14,077	7,277
Total costs of sales and services	<u>\$ 1,061,052</u>	<u>\$ 1,573,868</u>

In 2016, we recognized credit losses on loans and receivables of \$17.0 million, primarily relating to receivables due from a former hydrocarbon subsidiary that was deconsolidated in 2015, compared to \$54.5 million in 2015.

We recognized a gain on the disposition of subsidiaries of \$2.6 million in 2016, primarily in connection with the disposition of our former ferrosilicon subsidiary and related entities.

Selling, general and administrative expenses decreased to \$79.2 million in 2016 from \$86.6 million in 2015.

In 2016, finance costs increased to \$24.1 million from \$22.3 million in 2015, primarily as a result of expanded factoring activities.

In the fourth quarter of 2015, one of our customers in the wood products market experienced financial difficulties and, in February 2016, filed for insolvency, which was an adjusting subsequent event in the prior year under *IAS 10, Events after the Reporting Period*, referred to as “IAS 10”. As a result, we had to determine an allowance for credit losses against our trade receivables due from this customer and its affiliates, referred to as the “former customer group” as at December 31, 2015. As at December 31, 2015, we had gross trade receivables of \$103.3 million due from this former customer group as well as other contracts with such former customer group. Our management conducted an extensive assessment of impairment losses on these trade receivables. This assessment involved a number of judgments and a high level of estimation uncertainty. The factors considered in these estimates include our legal rights and obligations under all related contracts and collateral, which include inventories, mortgages, insurance of collateral and other credit enhancement instruments. We recognized an allowance for credit losses of \$10.7 million in connection with this customer and its affiliates as at December 31, 2015.

In addition, we guaranteed certain prepayment loans made by third-party banks to this former customer group to finance off-take contracts for which we were the off-taker. These guarantees were previously classified as contingent liabilities prior to December 31, 2015 and, as a result, we had recorded a provision of \$40.7 million for the expected payments under the guarantees. We paid such amount in the year ended December 31, 2016. During the year ended December 31, 2016, we received proceeds of \$39.1 million from risk mitigation assets related to these provisions, of which \$35.1 million was credited to profit or loss through a recovery of credit losses and the remainder was credited to trade receivables.

As at December 31, 2016, our management reviewed the underlying contracts, legal documents, credit enhancement instruments and collateral to assess the recoverability of the receivables from this former customer group. This assessment required management to make certain assumptions regarding possible future outcomes and carries a degree of estimation uncertainty. While our management believes that these receivables are collectable, a wide range of possible outcomes was considered in its analysis, which resulted in a probability-weighted valuation below the gross carrying amount. Therefore, we recognized a cumulative allowance for credit losses of \$43.9 million due in connection with this former customer group as at December 31, 2016, including an additional provision of \$33.3 million which was recognized during the second quarter of 2016. The resulting carrying amount is most sensitive to the assumptions regarding the likelihood of recovering amounts based on the various sources of collateral. The timing of the resolution of the uncertainty related to the recoverability of these receivables is dependent on the legal processes being followed to recovering these amounts. After the recognition of such impairment losses, we had net trade receivables of \$100.0 million due from this former customer group as at December 31, 2016.

In 2016, we recognized a net foreign currency transaction gain of \$7.5 million, compared to a net foreign currency transaction loss of \$0.9 million in 2015, in our consolidated statement of operations. The foreign currency transaction gain and loss primarily represent exchange differences arising on the settlement of monetary items or on translating monetary items into our functional currencies at rates different from those at which they were translated on initial recognition during the period or in previous financial statements and the gains and losses on our foreign currency derivatives.

In 2016, we recognized a net non-cash reversal of \$8.6 million in connection with prior impairments on our remaining hydrocarbon properties. In 2015, we recognized non-cash impairment losses of \$235.9 million on our resource properties before the recognition of a deferred tax recovery of \$46.5 million.

We recognized an income tax expense (other than resource revenue taxes) of \$6.0 million in 2016, compared to an income tax recovery of \$46.5 million in 2015. Our income tax paid in cash, excluding resource revenue taxes, during 2016 was \$2.8 million, compared to \$5.0 million in 2015. We also recognized resource revenue taxes of \$1.0 million in 2016, compared to \$0.3 million in 2015.

Overall, we recognized an income tax expense of \$7.0 million (income tax expense of \$6.0 million and resource revenue taxes of \$1.0 million) in 2016, compared to an income tax recovery of \$46.2 million (income tax recovery of \$46.5 million and resource revenue taxes of \$0.3 million) in 2015. The recovery in 2015 related to impairment losses recognized in 2015.

In 2016, our net loss attributable to shareholders was \$25.4 million, or \$2.01 per share on a basic and diluted basis, compared to \$487.6 million, or \$38.61 per share on a basic and diluted basis, in 2015, which included a loss from discontinued operations of \$241.4 million, or \$19.11 per share on a basic and diluted basis, in 2015.

For 2016, our Operating EBITDA from continuing operations increased to \$10.8 million from a loss of \$26.1 million for 2015.

The following is a reconciliation of our net loss from continuing operations to Operating EBITDA from continuing operations for each of the years indicated.

	Years Ended December 31,	
	2016	2015
	(In thousands)	
<b>Operating EBITDA (loss) from continuing operations</b>		
Net loss from continuing operations <sup>(1)</sup>	\$ (23,720)	\$ (244,602) <sup>(2)</sup>
(Reversal) recognition of impairment losses on resource properties	(8,566)	235,875
Income tax expense (recovery)	7,014	(46,193)
Finance costs	24,102	22,329
Amortization, depreciation and depletion	11,951	6,450
<b>Operating EBITDA (loss) from continuing operations</b>	<b>\$ 10,781</b>	<b>\$ (26,141) <sup>(2)</sup></b>

**Notes:**

(1) Includes net income attributable to non-controlling interests.

(2) Includes losses of \$51.4 million related to a customer that filed for insolvency in February 2016 and \$9.9 million on long-term off-take agreements entered into by a subsidiary acquired in 2014, which have since been terminated.

Please see “ *Non-IFRS Financial Measures* ” for additional information.

## Liquidity and Capital Resources

### General

Liquidity is of importance to our business as insufficient liquidity often results in underperformance.

Our objectives when managing capital are:

- to safeguard our ability to continue as a going concern so that we can continue to provide returns for shareholders and benefits for other stakeholders;
- to provide an adequate return to our shareholders by pricing products and services commensurately with the level of risk; and
- to maintain a flexible capital structure that optimizes the cost of capital at acceptable risk.

We set the amount of capital in proportion to risk. We manage our capital structure and make adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust this capital structure, we may issue new shares or sell assets to reduce debt.

Consistent with others in our industry, we monitor capital on the basis of our net debt-to-equity ratio and long-term debt-to-equity ratio. The net debt-to-equity ratio is calculated as net debt divided by shareholders’ equity. Net debt is calculated as total debt less cash and cash equivalents. The long-term debt-to-equity ratio is calculated as long-term debt divided by shareholders’ equity. The computations are based on continuing operations.

The following table sets forth the calculation of our net debt-to-equity ratio as at the dates indicated:

	December 31,		
	2017	2016	2015
	(In thousands, except ratio amounts)		
Total debt	\$ 43,733	\$ 116,813	\$ 259,038
Less: cash and cash equivalents	(74,870)	(120,676)	(197,519)
Net debt	Not applicable	Not applicable	61,519
Shareholders’ equity	277,780	327,520	367,192
Net debt-to-equity ratio	Not applicable	Not applicable	0.17

There were no amounts in accumulated other comprehensive income relating to cash flow hedges, nor were there any subordinated debt instruments as at December 31, 2017, 2016 and 2015. Our net debt-to-equity ratio as at December 31, 2017 and 2016 was not applicable as we had a net cash and cash equivalents balance and, as at December 31, 2015 was 0.17.

The following table sets forth the calculation of our long-term debt-to-equity ratio as at the dates indicated:

	December 31,		
	2017	2016	2015
	(In thousands, except ratio amounts)		
Long-term debt, less current portion	\$ —	\$ 80,564	\$ 174,333
Shareholders' equity	277,780	327,520	367,192
Long-term debt-to-equity ratio	Not applicable	0.25	0.47

During 2017, our strategy, which remained unchanged from 2016 and 2015, was to maintain our net debt-to-equity ratio and long-term debt-to-equity ratio at manageable levels.

### **Cash Flows**

Due to the number of businesses we engage in, our cash flows are not necessarily reflective of net earnings and net assets for any reporting period. As a result, instead of using a traditional cash flow analysis solely based on cash flow statements, our management believes it is more useful and meaningful to analyze our cash flows by overall liquidity and credit availability. Please see the discussion on our financial position, short-term bank loans, facilities and long-term debt below.

Our business can be cyclical and our cash flows can vary accordingly. Our principal operating cash expenditures are for our working capital, proprietary investments and general and administrative expenses.

Working capital levels fluctuate throughout the year and are affected by the level of our merchant banking operations, the markets and prices for commodities, the timing of collection of receivables and the payment of payables and expenses. Changes in the volume of transactions can affect the level of receivables and influence overall working capital levels. We currently have a sufficient level of cash on hand and expected cash flows from operations to meet our working capital and other requirements as well as unexpected cash demands.

The following table presents a summary of cash flows for our continuing operations for each of the periods indicated:

	Years Ended December 31,		
	2017	2016	2015
	(In thousands)		
Cash flows (used in) provided by continuing operating activities	\$ (3,197)	\$ 99,867	\$ (95,048)
Cash flows (used in) provided by continuing investing activities	\$ (3,494)	\$ 35,482	\$ (8,561)
Cash flows used in continuing financing activities	\$(42,720)	\$(167,275)	\$ (68,669)
Exchange rate effect on cash and cash equivalents	\$ 3,605	\$ (37,540)	\$ 35,619
Decrease in cash and cash equivalents	\$(45,806)	\$ (69,466)	\$ (145,058)

### **Cash Flows from Continuing Operating Activities**

Operating activities used cash of \$3.2 million in 2017, compared to providing cash of \$99.9 million in 2016. In 2017, a decrease in short-term bank borrowings used cash of \$34.5 million, compared to an increase in short-term bank borrowings providing cash of \$34.7 million in 2016. A decrease in receivables provided cash of \$30.2 million in 2017, compared to an increase in receivables using cash of \$16.9 million in 2016. A decrease in inventories provided cash of \$19.6 million in 2017, compared to \$184.9 million in 2016. A decrease in account payables and accrued expenses used cash of \$26.5 million in 2017, compared to \$124.5 million in 2016. A decrease in assets held for sale provided cash of \$12.6 million in 2017 compared to \$nil in 2016. The decrease in assets held for sale resulted from the disposition of our non-core Latin American commodities subsidiary. A decrease in deposits, prepaid and other provided cash of \$8.4 million in 2017, compared to \$24.7 million in 2016.

Operating activities provided cash of \$99.9 million in 2016, compared to using cash of \$95.0 million in 2015. In 2016, an increase in short-term bank borrowings provided cash of \$34.7 million, compared to a decrease in short-term bank borrowings using cash of \$137.6 million in 2015. An increase in receivables (including derivative assets) used cash of \$16.9 million in 2016, compared to a decrease in receivables providing cash of \$57.6 million in 2015, primarily as a result of collections of trade receivables. A decrease in account payables and accrued expenses (including derivative liabilities) used cash of \$124.5 million in

2016, compared to \$18.6 million in 2015. A decrease in inventories provided cash of \$184.9 million in 2016, compared to \$15.7 million in 2015. A decrease in deposits, pre-paid and other, provided cash of \$24.7 million in 2016, compared to an increase in deposits, pre-paid and other using cash of \$8.6 million in 2015.

#### ***Cash Flows from Continuing Investing Activities***

Investing activities used cash of \$3.5 million in 2017, compared to providing cash of \$35.5 million in 2016. In 2017, the disposition of subsidiaries used cash of \$8.4 million, compared to providing cash of \$48.8 million in 2016. In 2017, sales of property, plant and equipment, net of purchases provided cash of \$4.8 million, compared to using cash of \$0.2 million in 2016.

Investing activities provided cash of \$35.5 million in 2016, compared to using cash of \$8.6 million in 2015. Our acquisition of the Bank used cash of \$23.9 million (net of cash acquired) and the disposition of subsidiaries provided cash of \$48.8 million (net of cash and cash equivalents disposed of). Purchases of property, plant and equipment, net of proceeds from dispositions, used cash of \$0.2 million in 2016, compared to \$8.0 million in 2015.

#### ***Cash Flows from Continuing Financing Activities***

Net cash used by financing activities was \$42.7 million in 2017, compared to \$167.3 million in 2016. A net decrease in debt used cash of \$42.3 million in 2017, compared to \$165.6 million in 2016.

Net cash used by financing activities was \$167.3 million in 2016, compared to \$68.7 million in 2015. A net decrease in debt used cash of \$165.6 million in 2016, compared to \$63.0 million in 2015. In 2015, dividends paid to our shareholders used cash of \$4.4 million in connection with the fourth instalment of our 2014 dividend, which was paid in the first quarter of 2015.

#### ***Cash Flows from Discontinued Operations***

Discontinued operating activities used cash of \$7.0 million in 2015.

Discontinued investing activities used cash of \$1.4 million in 2015.

#### ***Financial Position***

The following table sets out our selected financial information as at the dates indicated:

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(In thousands)</b>	
Cash and cash equivalents	\$ 74,870	\$ 120,676
Short-term cash deposits	194	182
Short-term securities	5,127	5,018
Securities – derivatives	190	1,240
Trade receivables	34,259	135,962
Tax receivables	747	11,743
Other receivables	21,690	35,251
Inventories	9,826	31,954
Real estate held for sale	—	1,066
Deposits, prepaid and other	2,378	12,195
Assets held for sale	—	45,667
Total assets	396,947	650,338
Working capital	56,512	186,278
Short-term bank borrowings	2,074	95,416
Debt, current portion	43,733	36,249
Account payables and accrued expenses	44,750	45,114
Financial liabilities – derivatives	302	6,454
Income tax liabilities	1,910	2,486
Liabilities relating to assets held for sale	—	29,897
Long-term debt, less current portion	—	80,564
Decommissioning obligations	13,699	13,219
Shareholders' equity	277,780	327,520

We maintain an adequate level of liquidity, with a portion of our assets held in cash and cash equivalents and securities. The liquid nature of these assets provides us with flexibility in managing and financing our business and the ability to realize upon investment or business opportunities as they arise. We also use this liquidity in client-related services by acting as a financial intermediary for third parties (e.g., by acquiring a position or assets and reselling such position or assets) and for our own proprietary trading and investing activities.

As at December 31, 2017, cash and cash equivalents decreased to \$74.9 million from \$120.7 million as at December 31, 2016.

Trade receivables and other receivables were \$34.3 million and \$21.7 million, respectively, as at December 31, 2017, compared to \$136.0 million and \$35.3 million, respectively, as at December 31, 2016. The reduction in trade receivables included a decrease of \$78.6 million of trade receivables due from our former insolvent customer, primarily as a result of the disposition of subsidiaries and other dispositions in 2017. The decrease in other receivables was primarily as a result of the write-off of receivables.

Inventories decreased to \$9.8 million as at December 31, 2017, from \$32.0 million as at December 31, 2016, primarily as a result of the decision to reduce inventories and exit certain product lines and geographies, partially offset by our acquisition of a metals processing company in the fourth quarter of 2017. \$1.5 million of our inventories were contracted at fixed prices or hedged as at December 31, 2017.

Our assets held for sale, consisting of assets related to our former Latin American-focused commodities trading business, decreased to \$nil as at December 31, 2017 from \$45.7 million as at December 31, 2016. As at December 31, 2017, we had liabilities relating to assets held for sale of \$nil, compared to liabilities relating to assets held for sale of \$29.9 million, comprised of debt of \$20.1 million and other liabilities of \$9.8 million, as at December 31, 2016. The decrease was the result of the completion of our sale of a former subsidiary in the first quarter of 2017.

Tax receivables, consisting primarily of refundable value-added taxes, were \$0.7 million as at December 31, 2017 and \$11.7 million as at December 31, 2016. The decrease was primarily the result of the disposition of subsidiaries.

We had short-term securities of \$5.1 million as at December 31, 2017, compared to \$5.0 million as at December 31, 2016. The increase was primarily as a result of government-issued securities held by our Bank at the date of acquisition.

Deposits, prepaid and other assets were \$2.4 million as at December 31, 2017, compared to \$12.2 million as at December 31, 2016. The decrease was primarily a result of recoveries relating to prepayments for inventories from risk mitigation securities.

We had short-term financial assets relating to hedging derivatives of \$0.2 million as at December 31, 2017, compared to \$1.2 million as at December 31, 2016. We had current liabilities relating to hedging derivatives of \$0.3 million as at December 31, 2017, compared to \$5.5 million as at December 31, 2016. We had long-term liabilities relating to hedging derivatives of \$nil as at December 31, 2017, compared to \$0.9 million as at December 31, 2016.

Account payables and accrued expenses were \$44.8 million as at December 31, 2017, compared to \$45.1 million as at December 31, 2016. The decrease was primarily due to the disposition of subsidiaries.

We had deferred income tax liabilities of \$10.3 million as at December 31, 2017, compared to \$7.4 million as at the end of 2016. The increase was primarily the result of the additional reversal of impairments in 2017.

Our short-term bank borrowings decreased to \$2.1 million as at December 31, 2017, from \$95.4 million as at December 31, 2016, primarily as a result of the repayment of borrowings in the first half of 2017 and the disposition of subsidiaries.

Total long-term debt decreased to \$43.7 million as at December 31, 2017, from \$116.8 million as at December 31, 2016, primarily as a result of debt repayments and the disposition of subsidiaries. As at December 31, 2017, \$43.7 million of long-term debt was classified from long-term liabilities to current liabilities. Such long-term debt was due to a bank from two subsidiaries and consisted of two loans for the refinancing of long-term assets. The lender provided notice of acceleration of such indebtedness in 2018. We are in the process of negotiating an extension or other resolution with the lender. However, given the nature of such negotiations, there can be no assurance that an extension will be obtained on favourable terms or at all.

As at December 31, 2017, we had decommissioning obligations of \$13.7 million relating to our hydrocarbon properties.

#### ***Short-Term Bank Loans and Facilities***

As part of our operations, we establish, utilize and maintain various kinds of credit lines and facilities with banks, brokers and insurers. Most of these facilities are short-term. These facilities are used in our day-to-day structured solutions and merchant banking business. The amounts drawn under such facilities fluctuate with the kind and level of transactions being undertaken.

As at December 31, 2017, we had credit facilities from banks aggregating \$29.0 million, comprised of: (i) non-recourse factoring lines for receivables financing of \$19.6 million; (ii) a refinancing line at our Bank of \$7.5 million; and (iii) a commodities hedging facility of \$1.9 million, which allows us to hedge industrial metals and products for our production subsidiaries. All of these facilities are renewable on a yearly basis or usable until further notice.

In 2017, we reduced and eliminated certain customer- and subsidiary-specific credit facilities with which we no longer commercially transact as well as certain foreign exchange credit facilities which were underutilized. We continue to evaluate the benefits of certain facilities that may not have strategic long-term relevance to our business and priorities going forward and may modify or eliminate additional facilities in the future. We do not anticipate that this will have a material impact on our corporate vision or our liquidity.

#### ***Long-Term Debt***

Other than lines of credit drawn and as may be outstanding for trade financing and structured solutions activities, as at December 31, 2017, the maturities of our long-term debt from our continuing operations were as follows:

<u>Maturity</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	<b>(In thousands)</b>		
2018	\$ 43,733	\$ 1,630	\$ 45,363
2019	—	—	—
2020	—	—	—
2021	—	—	—
2022	—	—	—
Thereafter	—	—	—
	<u>\$ 43,733</u>	<u>\$ 1,630</u>	<u>\$ 45,363</u>

We expect our maturing debt to be satisfied primarily through the settlement of underlying supply chain transactions, trade financing transactions, including structured solutions transactions, cash on hand and cash flows from operations. Much of our maturing debt may either subsequently be made re-available to us by the applicable financial institution or we may replace such facilities with new facilities depending upon particular capital requirements.

In 2018, we received notice from the lender that the long-term debt at our subsidiaries had been called accelerated and called due, and therefore all long-term debt was classified to current liabilities as at December 31, 2017. We are in the process of negotiating an extension or other resolutions with the lender on these subsidiaries' debts.

Please refer to Note 16 to our audited consolidated financial statements for the year ended December 31, 2017 for further information regarding interest rates, maturities and other terms and conditions for our bank debts.

#### ***Future Liquidity***

We expect that there will be acquisitions of businesses or commitments to projects in the future. To achieve the long-term goals of expanding our assets and earnings, including through acquisitions, capital resources will be required. Depending on the size of a transaction, the capital resources that will be required can be substantial. The necessary resources will be generated from cash flows from operations, cash on hand, borrowings against our assets, sales of proprietary investments or the issuance of securities.

### Foreign Currency

Our consolidated financial results are subject to foreign currency exchange rate fluctuations.

Our presentation currency is the Canadian dollar. We translate subsidiaries' assets and liabilities into Canadian dollars at the rate of exchange on the balance sheet date. Revenues and expenses are translated at exchange rates approximating those at the date of the transactions or, for practical reasons, the average exchange rates for the applicable periods, when they approximate the exchange rate as at the dates of the transactions. As a substantial amount of revenues is generated in Euros, the financial position for any given period, when reported in Canadian dollars, can be significantly affected by the exchange rates for these currencies prevailing during that period. In addition, we also have exposure to the Chinese yuan and the United States dollar.

In 2017, we reported a net \$4.3 million currency translation adjustment loss under other comprehensive loss within equity. This compared to a net loss of \$14.6 million in 2016. This currency translation adjustment did not affect our profit and loss statement. The loss in 2017 was primarily a result of the weakening of the Canadian dollar against the Euro and the United States dollar from 2016.

### Contractual Obligations

The following table sets out our contractual obligations and commitments from continuing operations as at December 31, 2017 in connection with our long-term liabilities.

	Payments Due by Period <sup>(1)</sup>				
	(In thousands)				
<u>Contractual Obligations</u> <sup>(2)</sup>	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years	Total
Long-term debt obligations, including interest	\$ 45,363	\$ —	\$ —	\$ —	\$ 45,363
Operating lease obligations	988	548	19	—	1,555
Purchase obligations	67	—	—	—	67
Other long-term liabilities	—	—	—	—	—
Total	\$ 46,418	\$ 548	\$ 19	\$ —	\$ 46,985

#### Notes:

(1) Undiscounted.

(2) This table does not include non-financial instrument liabilities, guarantees and liabilities relating to assets held for sale.

### Risk Management

Risk is an inherent part of our business and operating activities. The extent to which we properly and effectively identify, assess, monitor and manage each of the various types of risk involved in our activities is critical to our financial soundness and profitability. We seek to identify, assess, monitor and manage the following principal risks involved in our business activities: market, credit, liquidity, operational, legal and compliance, new business, reputational and other. Risk management is a multi-faceted process that requires communication, judgment and knowledge of financial products and markets. Our management takes an active role in the risk management process and requires specific administrative and business functions to assist in the identification, assessment and control of various risks. Our risk management policies, procedures and methodologies are fluid in nature and are subject to ongoing review and modification.

### Inflation

We do not believe that inflation has had a material impact on our revenues or income over the past two fiscal years. However, increases in inflation could result in increases in our expenses, which may not be readily recoverable in the price of goods or services provided to our clients. To the extent that inflation results in rising interest rates and has other adverse effects on capital markets, it could adversely affect our financial position and profitability.

### Summary of Quarterly Results

The following tables provide selected unaudited financial information for the most recent eight quarters:

	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
(In thousands, except per share amounts)				
Gross revenues	\$ 38,353	\$ 57,256	\$ 67,801	\$ 110,625
Net loss <sup>(1)</sup>	(33,895) <sup>(2)</sup>	(7,211)	(4,654)	(2,095)
Loss, per share				
Basic	(2.70)	(0.58)	(0.37)	(0.17)
Diluted	(2.70)	(0.58)	(0.37)	(0.17)

#### Notes:

- (1) Attributable to our shareholders.  
(2) Includes a net non-cash reversal of \$8.9 million in connection with prior impairments of our remaining hydrocarbon properties, credit losses (net of recoveries) of \$17.7 million and losses of \$10.4 million on the disposition of subsidiaries.

	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
(In thousands, except per share amounts)				
Gross revenues	\$ 186,719	\$ 257,421	\$ 329,935	\$ 357,582
Net loss from continuing operations <sup>(1)</sup>	(16,696) <sup>(2)</sup>	(7,968)	(636)	(61)
Loss from continuing operations, per share				
Basic	(1.32)	(0.63)	(0.05)	(0.01)
Diluted	(1.32)	(0.63)	(0.05)	(0.01)
Net loss <sup>(1)</sup>	(16,696) <sup>(2)</sup>	(7,968)	(636)	(61)
Loss, per share				
Basic	(1.32)	(0.63)	(0.05)	(0.01)
Diluted	(1.32)	(0.63)	(0.05)	(0.01)

#### Notes:

- (1) Attributable to our shareholders.  
(2) Includes a net non-cash reversal of \$8.6 million in connection with prior impairments on our hydrocarbon properties, credit losses (net of recoveries) of \$16.0 million and a gain of \$2.6 million on the disposition of subsidiaries.

### Application of Critical Accounting Policies

The preparation of financial statements in conformity with IFRS requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

Our management routinely makes judgments and estimates about the effects of matters that are inherently uncertain. As the number of variables and assumptions affecting the probable future resolution of the uncertainties increase, these judgments become even more subjective and complex. We have identified certain accounting policies that are the most important to the portrayal of our current financial condition and results of operations. Please refer to Note 2 to our audited consolidated financial statements included in this annual report on Form 20-F for a discussion of the significant accounting policies.

The following accounting policies are the most important to our ongoing financial condition and results of operations from continuing operations:

#### Allowance for Credit Losses

We apply credit risk assessment and valuation methods to our trade and other receivables. Credit losses arise primarily from receivables but may also relate to other credit instruments issued by or on our behalf, such as guarantees and letters of credit. An allowance for credit losses is increased by provisions which are charged to income and reduced by write-offs net of any recoveries.

Provisions are established on an individual receivable basis as well as on gross customer exposures. A country risk provision may be made based on exposures in less developed countries and on our management's overall assessment of the underlying economic conditions in those countries.

Our allowance for credit losses is maintained at an amount considered adequate to absorb estimated credit-related losses. Such allowance reflects our management's best estimate of the losses in our receivables and judgments about economic conditions. The assessment of allowance for credit losses is a complex process, which involves a significant degree of judgment and a high level of estimation uncertainty. The input factors include our legal rights and obligations under all the contracts and the expected future cash flows from the receivables and their collateral, which include inventories, mortgages and other credit enhancement instruments. The major source of estimation uncertainty relates to the likelihood of the various scenarios under which different amounts are expected to be recovered through the security in place on the receivables. The expected future cash flows are projected under different scenarios and weighted by probability, which involves the exercise of significant judgment. Estimates and judgments could change in the near-term and could result in a significant change to a recognized allowance.

In addition, we also provide credit losses for our credit exposures arising from guarantees we issued. The loss assessment process, as well as the exercise of judgment and estimation uncertainty, is similar to the preceding paragraph.

### ***Classification of Assets Held for Sale***

We apply judgment to determine whether an asset (disposal group) is available for immediate sale in its present condition and its sale is highly probable and therefore should be classified as held for sale at the balance sheet date. In order to assess whether it is highly probable that the sale can be completed within one year or the extension period in certain circumstances, our management reviews the business and economic factors, both macro and micro, which include the industry trends and capital markets. It is also open to all forms of sales, including exchanges of non-current assets for other non-current assets when the exchange will have commercial substance in accordance with IAS 16, *Property, Plant and Equipment*.

### ***Non-Cash Impairment of Non-Financial Assets***

We assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, we estimate the recoverable amount of the asset. In assessing whether there is any indication that an asset may be impaired, we consider, as a minimum, the following indications:

#### External sources of information

- (a) during the period, the asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;
- (b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated;
- (c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially;
- (d) the carrying amount of the net assets of the entity is more than its market capitalization;

#### Internal sources of information

- (e) evidence is available of obsolescence or physical damage of an asset;
- (f) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date and reassessing the useful life of an asset as finite rather than indefinite; and
- (g) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

### ***Income Taxes***

Management believes that it has adequately provided for income taxes based on all of the information that is currently available. The calculation of income taxes in many cases, however, requires significant judgment in interpreting tax rules and regulations, which are constantly changing.

Our tax filings are also subject to audits, which could materially change the amount of current and deferred income tax assets and liabilities. Any change would be recorded as a charge or a credit to income tax expense. Any cash payment or receipt would be included in cash from operating activities.

We currently have deferred income tax assets, which are comprised primarily of tax loss carry-forwards and deductible temporary differences, both of which will reduce taxable income in the future. The amounts recorded for deferred income tax assets are based upon various judgments, assumptions and estimates. We assess the realization of these deferred income tax assets on a periodic basis to determine to what extent it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized. We determine whether it is probable that all or a portion of the deferred income tax assets will be realized, based on currently available information, including, but not limited to, the following:

- the history of the tax loss carry-forwards and their expiry dates;
- future reversals of temporary differences;
- our projected earnings; and
- tax planning opportunities.

On the reporting date, we also reassess unrecognized deferred income tax assets. We recognize a previously unrecognized deferred income tax asset to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

We provide for future liabilities in respect of uncertain tax positions where additional tax may become payable in future periods and such provisions are based on our management's assessment of exposures. We do not recognize the full deferred income tax liability on taxable temporary differences associated with investments in subsidiaries, joint ventures and associates where we are able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. We may change our investment decision in the normal course of our business, thus resulting in additional tax liability.

#### **New Standards and Interpretations Adopted and Not Yet Adopted**

IFRS 9, *Financial Instruments*, referred to as "IFRS 9", issued in July 2014 is the IASB's replacement of IAS 39, *Financial Instruments: Recognition and Measurement*, referred to as "IAS 39". IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The version of IFRS 9 issued in 2014 supersedes all previous versions and is mandatorily effective for periods beginning on or after January 1, 2018. Management completed its assessment of the impacts of IFRS 9 on our consolidated financial statements and does not expect that IFRS 9 will have significant impacts on our consolidated financial statements except for additional disclosures. Accumulated other comprehensive income of \$0.5 million on available-for-sale equity securities will be reclassified to opening deficit upon the initial adoption of IFRS 9. In accordance with the transition rules of IFRS 9, we will not restate our consolidated financial statements for prior periods but will recognize the difference between the previous carrying amount and the revised carrying amount on initial application of IFRS9 in opening deficit as at January 1, 2018.

IFRS 15, *Revenue from Contracts with Customers*, referred to as "IFRS 15", specifies how and when an entity will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018. Management completed its assessment of the impacts of IFRS 15 on our consolidated financial statements and does not expect that IFRS 15 will have significant impacts on our consolidated financial statements except for additional disclosures.

IFRS 16, *Leases*, referred to as "IFRS 16", issued in January 2016, introduces a single on-balance sheet model of accounting for leases by lessees that eliminates the distinction between operating and finance leases. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17, *Leases*, and related interpretations and is effective for annual reporting periods beginning on or after January 1, 2019, with earlier application permitted if IFRS 15 has also been applied. Management will adopt IFRS 16 in 2019 and is currently assessing the impacts of IFRS 16 on our consolidated financial statements.

## Trend Information

For a discussion of trends relating to revenues derived from our royalty interest, please see “*Item 4: Information on the Company – B. Business Overview – Business Segments – Merchant Banking*”.

## Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

In the normal course of our merchant banking activities, we issue guarantees to our trade and financing partners in order to secure financing facilities. Upon the use or drawdown of the underlying financing facilities, the financing facilities are recorded as liabilities on the consolidated statement of financial position such as short-term bank borrowings or debt. Accordingly, the issued guarantees relating to such financing facilities that are used or drawn are not considered contingent liabilities or off-balance sheet transactions. As at December 31, 2017, we had no unrecorded contingent liabilities relating to outstanding guarantees issued to our trade and financing partners in the normal course of our merchant banking activities.

## Safe Harbor

The safe harbor provided in Section 27A of the *Securities Act of 1933*, as amended, and Section 21E of the *Securities Exchange Act of 1934*, as amended, applies to forward-looking information provided under “*Off-Balance Sheet Arrangements*” and “*Liquidity and Capital Resources – Contractual Obligations*”.

## ITEM 6: DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. Directors and Senior Management

We have no arrangement or understanding with major shareholders, customers, suppliers or others pursuant to which any of our directors or officers was selected as a director or officer. Each director holds office until the next annual general meeting of our shareholders or until his or her successor is elected or appointed unless such office is earlier vacated in accordance with our memorandum and articles of association, referred to as the “Articles”, or with the provisions of the Cayman Act. The following table sets forth the names of each of our directors and executive officers as at the date hereof:

Name (Age)	Present Position	Date of Commencement of Office with our Company
Michael J. Smith (69)	Chairman, Managing Director, President, Chief Executive Officer and Director	2017
Samuel Morrow (33) <sup>(1)</sup>	Deputy Chief Executive Officer and Chief Financial Officer	2017
Gerardo Cortina (62)	Director and former President and Chief Executive Officer	2017
Dr. Shuming Zhao (66) <sup>(2)(3)(4)</sup>	Director	2017
Indrajit Chatterjee (72) <sup>(3)(4)</sup>	Director	2017
Silke S. Stenger (49) <sup>(2)(3)(4)</sup>	Director	2017
Friedrich Hondl (57) <sup>(1)(2)</sup>	Director	2017
Jochen Dümmler (63) <sup>(1)(2)(3)</sup>	Director	2017

#### Notes:

- (1) Member of the Risk Committee.
- (2) Member of the Audit Committee.
- (3) Member of the Compensation Committee.
- (4) Member of the Nominating and Corporate Governance Committee.

*Michael J. Smith – Managing Director, President and Chief Executive Officer*

Mr. Smith is the Managing Director, President and Chief Executive Officer of the Company and has held such positions since June 2017. Mr. Smith was a director of Old MFC since 1986 and was appointed Chairman in March 2016. He was also Old MFC's Chairman from 2003 to March 2014, Chief Financial Officer from 2010 to March 2014 and President and Chief Executive Officer between 1996 and 2000 and 2010 and May 2014. Mr. Smith has experience in corporate finance and restructuring.

*Samuel Morrow – Deputy Chief Executive Officer and Chief Financial Officer*

Mr. Morrow has been our Deputy Chief Executive Officer and Chief Financial Officer since June 2017. Prior to the completion of the Arrangement, Mr. Morrow was appointed Deputy Chief Executive Officer in May 2014 and was appointed Chief Financial Officer of Old MFC in June 2014. Mr. Morrow is a Chartered Financial Analyst and was most recently a Vice President of MFC in Vienna, Austria. Before joining MFC, Mr. Morrow was Vice President of Tanaka Capital Management and Treasurer, Chief Financial Officer and Chief Operating Officer of the Tanaka Growth Fund. Mr. Morrow is a graduate of St. Lawrence University.

*Gerardo Cortina – Director and Former President and Chief Executive Officer*

Mr. Cortina was the Chief Executive Officer, President, and a Director of Old MFC from 2014 to 2017. He is currently the President of Possehl Mexico S.A. de C.V., referred to as "Possehl", and was the managing director of Possehl from 1986 until June 2014.

*Dr. Shuming Zhao – Director*

Dr. Zhao is the Senior Distinguished Professor and Honorary Dean of the School of Business, Nanjing University, the People's Republic of China. He serves as President of the International Association of Chinese Management Research (IACMR, Third Term), Vice President of Chinese Society of Management Modernization, President for Jiangsu Provincial Association of Human Resource Management, and Vice President of Jiangsu Provincial Association of Business Management and Entrepreneurs. Since 1994, Dr. Zhao has acted as management consultant for several Chinese and international firms. Dr. Zhao is also a director of Daqo New Energy Corp. (China) and JSTI Group (China) Ltd. Dr. Zhao has successfully organized and held nine international symposia on multinational business management. Since 1997, Dr. Zhao has been a visiting professor at the Marshall School of Business, University of Southern California, USA, the College of Business, University of Missouri-St. Louis, USA and Drucker Graduate School of Management, Claremont Graduate University, USA. Dr. Zhao has lectured in countries including the United States, Canada, Japan, Singapore, South Korea, the United Kingdom, Germany, the Netherlands, Portugal and Australia. He was a director of Old MFC from 2004 to 2013 and 2014 to 2017.

*Indrajit Chatterjee – Director*

Mr. Chatterjee is a retired businessman and formerly was responsible for marketing with the Transportation Systems Division of General Electric for India. Mr. Chatterjee is experienced in dealing with Indian governmental issues. He was previously a director of Old MFC from 2005 to 2017.

*Silke S. Stenger – Director*

Ms. Stenger is an independent business consultant and business leadership coach. She was a former director of Old MFC when it was KHD Humboldt Wedag International Ltd. and has been a director of KHD Humboldt Wedag International AG. Ms. Stenger was the Chief Financial Officer of Management One Human Capital Consultants Limited. She is a certified controller (German Chamber of Commerce IHK) and IFRS accountant, specializing in corporate governance and *Sarbanes-Oxley Act of 2002* compliance. Furthermore, she is a business coach by training. Ms. Stenger was a director of Old MFC from 2013 to 2017.

*Friedrich Hondl – Director*

Mr. Hondl has over 30 years of management experience in the European banking industry and has held several management positions with international banks, including Erste Group Bank, UniCredit and Deutsche Bank, where he was responsible for the international relationship business. From 2013 to 2015, he was the head of Erste Group Bank AG's Large Corporate International Division and from 2009 to 2012 he was the head of International Corporate Relationship Management of UniCredit Bank Austria AG. He

also served as chairman of the supervisory board of Intermarket Bank AG from 2014 to 2015 and from 2010 to 2012 was a member of the supervisory board of Oesterreichische Kontrollbank AG (OeKB). OeKB acts as Austria's Export Credit Agency (ECA) on behalf of the Austrian government and specifically the Federal Ministry of Finance. It is a public and a private export insurer and financial institution. Within this group is the Austrian development bank. As an ECA, OeKB supports corporations financially in their export businesses and protects the business activities of Austrian companies abroad by means of export guarantees, investment guarantees and loan guarantees. Mr. Hondl has also served as a board member of a private foundation since 2007. He was a director of Old MFC from 2015 to 2017.

#### *Jochen Dümmler – Director*

Mr. Dümmler was the President and Chief Executive Officer of Euler Hermes North America from 2010 to 2015. From 2002 to 2010, Mr. Dümmler was a member of the Board of Management of Euler Hermes Kreditversicherung AG and, from 1995 to 2002, he was a member of the Board of Management of PRISMA Kreditversicherung AG. Mr. Dümmler is a member of the German-American Chamber of Commerce (New York City), a member of the German Executive Roundtable (Washington, D.C.) and a board member of the German-American Partnership Program. He was a director of Old MFC from 2016 to 2017.

#### *Family Relationships*

There are no family relationships among any of our directors and executive officers.

#### **B. Compensation**

During the fiscal year ended December 31, 2017, we paid an aggregate of approximately \$1.8 million in cash compensation to our directors and officers, excluding directors' fees. No other funds were set aside or accrued by our company during the fiscal year ended December 31, 2017 to provide pension, retirement or similar benefits for our directors or officers pursuant to any existing plan provided or contributed to by us.

#### *Executive Officers*

The following table provides a summary of compensation paid by us during the fiscal year ended December 31, 2017 to executive officers:

Name and Principal Position	Salary (\$)	Share-based awards (\$)	Option-based awards (\$)	Non-equity incentive compensation plan compensation (\$) <sup>(1)</sup>		Pension value (\$)	All other compensation (\$)	Total compensation (\$)
				Annual incentive plans	Long-term incentive plans			
Michael J. Smith Chairman, Managing Director, President and Chief Executive Officer <sup>(2)</sup>	592,412	—	67,200	—	—	—	281,736 <sup>(3)</sup>	941,348
Samuel Morrow <sup>(4)</sup> Chief Financial Officer and Deputy Chief Executive Officer	340,421	—	322,560	—	—	—	110,867 <sup>(5)</sup>	773,848
Gerardo Cortina <sup>(6)</sup> Former President and Chief Executive Officer	451,706	—	—	—	—	—	—	451,706

#### **Notes:**

- (1) All awards under MFC's non-equity incentive compensation plans are paid during the financial year they were earned.
- (2) Mr. Smith was appointed our Managing Director, Chairman, President and Chief Executive Officer in June 2017. He was previously appointed Old MFC's Managing Director in May 2014 and as Chairman in March 2016. Mr. Smith was appointed Old MFC's President and Chief Executive Officer in March 2017 to fill the vacancy created by Mr. Cortina's resignation.
- (3) Consists of housing allowances and expenses.
- (4) Mr. Morrow was appointed our Chief Financial Officer and Deputy Chief Executive Officer in June 2017. He was previously appointed as Old MFC's Deputy Chief Executive Officer in May 2014 and as Chief Financial Officer in June 2014.
- (5) Consists of medical and other customary perquisites.
- (6) Mr. Cortina resigned as Old MFC's President and Chief Executive Officer in March 2017.

For the purposes of the above table, compensation amounts were translated to Canadian dollars at the applicable exchange rate at the date of the transaction or, for practical reasons, the average exchange rates for the applicable periods, when they approximate the exchange rates as at the date of the transactions.

**Directors' Compensation**

The following table provides a summary of compensation paid by us to, or earned by, the directors of our company during the fiscal year ended December 31, 2017.

**Director Compensation Table**

Name	Fees Earned (\$)	Share- based awards (\$)	Option- based awards (\$)	Non-equity incentive plan compensation (\$)	Pension value (\$)	All other compensation (\$)	Total (\$)
Michael J. Smith <sup>(1)</sup>	—	—	—	—	—	—	—
Gerardo Cortina <sup>(2)</sup>	—	—	—	—	—	—	—
Dr. Shuming Zhao	106,937	—	64,512	—	—	—	171,449
Indrajit Chatterjee	100,696	—	64,512	—	—	—	165,208
Silke S. Stenger	158,108	—	64,512	—	—	—	222,620
Friedrich Hondl	89,443	—	64,512	—	—	—	153,955
Jochen Dümmler	120,707	—	64,512	—	—	—	185,219

**Notes:**

- (1) Compensation provided to Mr. Smith, in his capacity as managing director is disclosed in the table above under the heading “*Executive Officers*”.
- (2) Compensation provided to Mr. Cortina, in his former capacity as Chief Executive Officer of Old MFC is disclosed in the table above under the heading “*Executive Officers*”.

A total of \$0.6 million (excluding non-cash option-based awards) was paid to our directors for services rendered as directors (including as directors of our subsidiaries), or for committee participation or assignments, during our most recently completed financial year. Our directors are each paid an annual fee of US\$25,000 and US\$2,500 for each director's meeting attended as well as additional fees, as applicable, for their respective participation on our committees. We also reimburse our directors and officers for expenses incurred in connection with their services as directors and officers.

**Pension Plan Benefits**

As of December 31, 2017, we did not have any defined benefit, defined contribution or deferred compensation plans for any of our senior officers or directors.

**C. Board Practices****Board of Directors**

Our Articles provide that the number of directors shall be the greater of three and the number most recently established by the directors. Our directors have currently fixed the size of our board at seven directors.

Pursuant to our Articles, each of our directors holds office until the expiration of his term and until his successor has been elected or qualified. At every annual general meeting of our shareholders, shareholders entitled to vote for the election of directors must, by ordinary resolution, elect the directors. There is no mandatory retirement age for our directors and our directors are not required to own securities of our company in order to serve as directors.

Our Articles do not restrict a director's power to vote on a proposal, arrangement or contract in which the director is materially interested, vote on compensation to themselves or any other members of their body in the absence of an independent quorum or exercise borrowing powers.

Our board is comprised of Michael J. Smith, Gerardo Cortina, Indrajit Chatterjee, Shuming Zhao, Silke S. Stenger, Friedrich Hondl and Jochen Dümmler.

Other than as discussed elsewhere herein, there are no service contracts between our company and any of our directors providing for benefits upon termination of employment.

***Committees of the Board of Directors***

Our board of directors has established an Audit Committee. Our Audit Committee currently consists of Silke S. Stenger, Dr. Shuming Zhao, Friedrich Hondl and Jochen Dümmler. The Audit Committee operates pursuant to a charter adopted by our board of directors on July 12, 2017, a copy of which is available online at our website at [www.mfcbancorpltd.com](http://www.mfcbancorpltd.com). The Audit Committee is appointed by and generally acts on behalf of the board of directors. The Audit Committee is responsible primarily for monitoring: (i) the integrity of our financial statements; (ii) compliance with legal and regulatory requirements; (iii) the independence, qualifications and performance of our independent auditors; and (iv) the performance and structure of our internal audit function. The Audit Committee also reviews and approves our hiring policies, establishes our procedures for dealing with complaints, oversees our financial reporting processes and consults with management and our independent auditors on matters related to our annual audit and internal controls, published financial statements, risk assessment and risk management, accounting principles and auditing procedures being applied.

Our board of directors has established a Compensation Committee. Our Compensation Committee currently consists of Indrajit Chatterjee, Silke S. Stenger, Dr. Shuming Zhao and Jochen Dümmler. Our Compensation Committee operates pursuant to a charter adopted by our board of directors on July 12, 2017, a copy of which is available online at our website at [www.mfcbancorpltd.com](http://www.mfcbancorpltd.com). The Compensation Committee is appointed and generally acts on behalf of the board of directors. The Compensation Committee is responsible for reviewing our board compensation practices and our selection, retention and remuneration arrangements for our executive officers and employees and reviewing and approving our Chief Executive Officer's compensation in light of our corporate goals and objectives. Except for plans that are, in accordance with their terms or as required by law, administered by our board of directors or another particularly designated group, the Compensation Committee also administers and implements all of our incentive compensation plans and equity – based compensation plans. The Compensation Committee also recommends changes or additions to those plans, monitors our succession planning processes and reports to our board of directors on other compensation matters. Our Chief Executive Officer does not vote upon or participate in the deliberations regarding his compensation.

Our board of directors has established a Nominating and Corporate Governance Committee. Our Nominating and Corporate Governance Committee currently consists of Indrajit Chatterjee, Silke S. Stenger and Dr. Shuming Zhao. Our Nominating and Corporate Governance Committee operates pursuant to a charter adopted by our board of directors on July 12, 2017, a copy of which is available online at our website at [www.mfcbancorpltd.com](http://www.mfcbancorpltd.com). The primary function of the Nominating and Corporate Governance Committee is to assist our board of directors in developing our Corporate Governance Guidelines and monitor the board and management's performance against the defined approach. The Nominating and Corporate Governance Committee is also responsible for evaluating the board and board committees' structure and size and the independence of existing and prospective directors, identifying and reporting on candidates to be nominated to our board of directors, reporting on the board's annual performance and overseeing our process for providing information to the board.

Our board of directors has established a Risk Committee. Our Risk Committee currently consists of Jochen Dümmler, Friedrich Hondl and Samuel Morrow. The Risk Committee reviews and reports to our board of directors respecting our business risks and risk mitigation strategies.

**D. Employees**

At December 31, 2017, 2016 and 2015, we employed approximately 230, 448 and 651 people, respectively. Included in the 230 employees at December 31, 2017 were 89 employees at a metals processing subsidiary which we acquired in the fourth quarter of 2017. The decrease in 2017 was as a result of our strategy to exit certain product lines and geographies.

## E. Share Ownership

There were 12,534,801 Common Shares, 575,000 stock options and no share purchase warrants issued and outstanding as of April 6, 2018. Of the Common Shares and stock options issued and outstanding on that date, our directors and senior officers, who served in such positions at any time during the fiscal year ended December 31, 2017, beneficially owned the following Common Shares and held the following stock options:

Name and principal position	Common Shares beneficially owned (#)	Percentage of total Common Shares outstanding (%)	Stock options held (#)
Michael J. Smith Chairman, Managing Director, President and Chief Executive Officer and Director	109,067	0.9%	12,500 <sup>(1)</sup>
Dr. Shuming Zhao Director	—	—	12,000 <sup>(1)</sup>
Indrajit Chatterjee Director	—	—	12,000 <sup>(1)</sup>
Silke S. Stenger Director	—	—	12,000 <sup>(1)</sup>
Friedrich Hondl Director	—	—	12,000 <sup>(1)</sup>
Jochen Dümmler Director	—	—	12,000 <sup>(1)</sup>
Gerardo Cortina Director and former President and Chief Executive Officer	21,964	0.2%	—
Samuel Morrow Deputy Chief Executive Officer and Chief Financial Officer	8,478	—*	80,000 <sup>(2)</sup>

**Note:**

(1) The options are exercisable at a price of US\$8.76 per Common Share and expire on December 1, 2027.

(2) 60,000 of such options are exercisable at a price of US\$8.76 per Common Share and expire on December 1, 2027 and 20,000 of such options are exercisable at US\$40.05 per Common Share and expire on April 2, 2019.

\* Less than 0.1%.

### 2017 Equity Incentive Plan

The 2017 Equity Incentive Plan, referred to as the “Incentive Plan”, was adopted by the Company on July 14, 2017.

Pursuant to the terms of the Incentive Plan, our board of directors, our Compensation Committee or such other committee as is appointed by our board of directors to administer the Incentive Plan, may grant stock options, restricted stock rights, restricted stock, performance share awards, performance share units and stock appreciation rights under the Incentive Plan, establish the terms and conditions for those awards, construe and interpret the Incentive Plan and establish the rules for the Incentive Plan’s administration. Such awards may be granted to employees, non-employee directors, officers or consultants of ours or any affiliate or any person to whom an offer of employment with us or any affiliate is extended. Such committee has the authority to determine which employees, non-employee directors, officers, consultants and prospective employees should receive such awards.

Subject to adjustment for changes in capitalization, the total number of Common Shares subject to all awards under the Incentive Plan is 575,403 Common Shares.

The maximum number of Common Shares which may be issued as incentive stock options (being stock options intended to meet the requirements of an “incentive stock option” under the U.S. Internal Revenue Code) under the Incentive Plan is limited to 400,000. Further, the maximum number of Common Shares that may be granted to any one participant in the Incentive Plan, who is a Covered Employee (as defined in the Incentive Plan) during the fiscal year where such participant’s employment commences, shall be 80,000 and 70,000 for all other fiscal years.

In addition, the aggregate fair value of Awards (as defined in the Incentive Plan) granted to any one non-employee director cannot exceed \$100,000 in any one year, and the aggregate number of securities issuable to all non-employee directors cannot exceed 1% of the Company's issued and outstanding Common Shares.

In connection with the Arrangement, 40,000 options were issued under the Incentive Plan. In December 2017, the Company issued 535,000 options to directors, officers, employees and consultants with an exercise price of US\$8.76 per Common Share and an expiry date of December 1, 2027.

As at December 31, 2017 and the date hereof, 575,000 awards were outstanding under the Incentive Plan.

## ITEM 7: MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### A. Major Shareholders

There were 12,534,801 Common Shares issued and outstanding as of April 6, 2018. The following table sets forth, as of the date hereof, persons known to us to be the beneficial owner of more than five percent (5%) of our Common Shares:

Name	Amount Owned	Percent of Class <sup>(1)</sup>
Peter Kellogg, group <sup>(2)</sup>	4,132,480	33.0%
Lloyd Miller, III <sup>(3)</sup>	2,042,766	16.3%

#### Notes:

- (1) Based on 12,534,801 Common Shares issued and outstanding on April 6, 2018.
- (2) Mr. Kellogg controls 2,681,000 of our Common Shares through IAT Reinsurance Company Ltd., referred to as "IAT". In his public filings, Mr. Kellogg disclaims beneficial ownership of all of the shares, or approximately 21.4% of the issued and outstanding Common Shares, owned by IAT. In addition, in his public filings, Mr. Kellogg disclaims beneficial ownership of 240,000 Common Shares owned by his wife, Cynthia Kellogg.
- (3) As disclosed in a Schedule 13G dated January 23, 2018, Neil Subin succeeded to the position of President and Manager of Milfam, LLC which serves as manager, general partner or investment advisor of a number of entities formerly managed by the late Lloyd Miller, III. He also serves as trustee of a number of Miller family trusts, controls such shares through a number of trusts and wholly-owned corporations. In his public filings, Mr. Subin discloses that he exercises sole dispositive and voting control over 1,911,231 of such shares and shared dispositive and voting control over 131,535 of such shares.

As of April 6, 2018, there were 12,534,801 Common Shares issued and outstanding held by 286 registered shareholders. Of those Common Shares issued and outstanding, 12,530,166 Common Shares were registered in the United States (271 registered shareholders).

The voting rights of our major shareholders do not differ from the voting rights of holders of our shares who are not major shareholders.

Peter Kellogg may be considered to control our company as a result of, among other things, his ownership of approximately 33.0% of our Common Shares.

There are no arrangements known to us, the operation of which may at a subsequent date result in a change in the control of our company.

### B. Related Party Transactions

Other than as disclosed herein, to the best of our knowledge, in the year ended December 31, 2017, there were no material transactions or loans between our company and: (a) enterprises that directly or indirectly through one or more intermediaries control or are controlled by, or are under common control with, our company; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of our company that gives them significant influence over our company, and close members of any such individual's family; (d) key management personnel of our company, including directors and senior management of our company and close members of such individuals' families; or (e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence.

In the normal course of operations, we enter into transactions with related parties, which include, among others, affiliates whereby we have a significant equity interest (10% or more) in the affiliates or have the ability to influence the affiliates' or our operating and financing policies through significant shareholding, representation on the board of directors, corporate charter and/or bylaws. The affiliates also include certain of our directors, President and Chief Executive Officer, Chief Financial Officer, Treasurer, Chief Operating Officer and their close family members.

In 2017, in connection with our previously announced strategy to re-allocate capital and resources and exit certain products and geographies, we sold the shares of a non-core Latin America focused commodities trading subsidiary to a company controlled by our former President. Under the transaction, we received total consideration approximately equal to net asset value, including 90,000 Common Shares on a post-Arrangement basis at a price per share of US\$9.20 and the release of any further obligations to issue shares in connection with a prior share purchase agreement between the parties.

### C. Interests of Experts and Counsel

Not applicable.

## ITEM 8: FINANCIAL INFORMATION

### A. Consolidated Statements and Other Financial Information

Our consolidated financial statements have been prepared in compliance with IFRS. Please see “*Item 18: Financial Statements*”.

#### *Legal Proceedings*

We are subject to routine litigation incidental to our business and are named from time to time as a defendant in various legal actions arising in connection with our activities, certain of which may include large claims for punitive damages. Further, due to the size, complexity and nature of our operations, various legal and tax matters are outstanding from time to time, including audits and reassessments including relating to our former affiliates, and litigation related thereto. Currently, based upon information available to us, we do not believe any such matters would have a material adverse effect upon our financial condition or results of operations. However, due to the inherent uncertainty of litigation, we cannot provide certainty as to their outcome. If our current assessments are materially incorrect or if we are unable to resolve any of these matters favorably, there may be a material adverse impact on our financial performance, cash flows or results of operations. Please see Note 14 to our audited consolidated financial statements for the year ended December 31, 2017 for further information.

#### *Dividend Distributions*

We did not declare or pay any dividends to our shareholders in 2017. The actual timing, payment and amount of dividends paid on our Common Shares is determined by our board of directors, based upon things such as our cash flow, results of operations and financial condition, the need for funds to finance ongoing operations and such other business considerations as our board of directors considers relevant.

### B. Significant Changes

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

## ITEM 9: THE OFFER AND LISTING

### A. Offer and Listing Details

Since June 18, 2007, our Common Shares have been quoted on the New York Stock Exchange, referred to as the “NYSE”, currently under the symbol “MFCB”. The following table sets forth the high and low quoted prices of our Common Shares on the NYSE for the periods indicated.

	High (US\$) <sup>(1)</sup>	Low (US\$) <sup>(1)</sup>
<b>Annual Highs and Lows</b>		
2017	11.35	7.11
2016	12.50	7.80
2015	35.55	7.50
2014	41.25	26.00
2013	51.95	36.25

	High (US\$) <sup>(1)</sup>	Low (US\$) <sup>(1)</sup>
<b>Quarterly Highs and Lows</b>		
<b>2018</b>		
First Quarter	8.00	5.69
<b>2017</b>		
Fourth Quarter	9.50	7.11
Third Quarter	9.62	1.70
Second Quarter	1.82	1.43
First Quarter	2.27	1.60
<b>2016</b>		
Fourth Quarter	2.26	1.98
Third Quarter	2.43	1.66
Second Quarter	2.34	1.56
First Quarter	2.50	1.71
<b>Monthly Highs and Lows</b>		
March 2018	6.42	5.90
February 2018	6.90	5.69
January 2018	8.00	6.76
December 2017	8.80	7.11
November 2017	9.32	8.58
October 2017	9.50	8.91

**Note:**

(1) Adjusted for the Share Consolidation/Split.

The transfer of our Common Shares is managed by our transfer agent, Computershare, 480 Washington Boulevard, Jersey City, NJ 07310 (Tel: 201-680-5258; Fax: 201-680-4604).

**B. Plan of Distribution**

Not applicable.

**C. Markets**

Our Common Shares are quoted on the NYSE under the symbol “MFCB”.

**D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

**ITEM 10: ADDITIONAL INFORMATION****A. Share Capital**

Not applicable.

**B. Memorandum and Articles of Association**

We are an exempted company organized under the Cayman Act. Our registered office is located at 4<sup>th</sup> Floor, Harbour Place, 103 South Church Street, Grand Cayman, Cayman Islands. Pursuant to Section 4 of our Articles, the objects for which our company is established are unrestricted and we have full power and authority to carry out any object not prohibited by the Cayman Act, as amended from time to time, or any other law of the Cayman Islands.

The following are summaries of material provisions of our Articles insofar as they relate to our Common Shares.

### ***Board of Directors***

Please see “*Item 6.C. Directors, Senior Management and Employees – Board Practices*”.

### ***Common Shares***

*General.* Our authorized capital consists of US\$450,000 divided into 300,000,000 Common Shares of US\$0.001 par value each and 150,000,000 preference shares divided into US\$0.001 par value each. No preference shares were issued and outstanding as of the date hereof. There are no limitations imposed by our Articles on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares. In addition, there are no provisions in our Articles governing the ownership threshold above which shareholder ownership must be disclosed.

*Dividends.* Holders of our Common Shares may receive dividends when, as and if declared by our board of directors, subject to the preferential rights of any preference shares. Under the Cayman Act, dividends may be declared and paid only out of funds legally available therefor, namely out of either profit or our share premium account, and provided further that a dividend may not be paid if it would result in our company being unable to pay its debts as they fall due in the ordinary course of business. Our Articles provide that our directors may declare and pay a distribution in money or by distribution of specific assets.

*Voting.* Holders of our Common Shares are entitled to receive notice of and to attend all general meetings of shareholders or separate meetings of holders of Common Shares and are entitled to one vote per share at any such meeting.

A quorum required for a general meeting of shareholders consists of at least two shareholders present or by proxy, representing not less than 20% of the total voting power entitled to vote on the resolutions to be considered at a meeting, unless only one shareholder is entitled to vote on such resolutions in which case the quorum required shall be only the one shareholder.

An ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of the votes cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting. Holders of our Common Shares may, among other things, divide or consolidate their shares by ordinary resolution. In general and subject to applicable law, all matters will be determined by a majority of votes cast other than fundamental changes with respect to our company. Various extraordinary corporate transactions including any merger, amalgamation, continuance to another jurisdiction, voluntary winding – up by the court, amendment to the Articles, change of company name or removal of a director must be approved by the shareholders by way of a special resolution. A special resolution is a resolution passed by a majority of not less than two – thirds of such shareholders who, being entitled to do so, vote in person or by proxy at a general meeting of the Company, or approved in writing by all of the shareholders entitled to vote at a general meeting of the Company. Under the Cayman Act, there is no specific requirement to obtain shareholder approval in connection with the sale, lease or exchange of all, or substantially all, of a corporation’s property.

*General Meetings of Shareholders and Shareholder Proposals.* Our Articles provide that we may hold an annual general meeting in each year and shall specify the meeting as such with notices calling it, and the annual general meeting shall be held at such time and place as may be determined by our directors. Our directors may convene a meeting of our shareholders with at least 10 days prior notice.

Cayman Islands exempted companies are not required by the Cayman Act to call annual general meetings of shareholders. Our Articles provide that so long as the Company’s shares are listed on the NYSE, we shall hold annual general meetings as required under the applicable rules and regulations of the NYSE.

Cayman Islands law provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company’s articles of association. Our Articles allow shareholders representing in aggregate 20% or more of the voting rights in respect of the matter for which the meeting is requisitioned, to be held within four months of receipt of the requisition. As an exempted Cayman Islands company, we are not obliged under the Cayman Act to call shareholders’ annual general meetings. Under our Articles, directors may be removed by special resolution of our shareholders.

*Directors' Power to Issue Shares* . Our Articles authorize our board of directors to issue additional Common Shares from time to time as our board shall determine, to the extent of available authorized but unissued shares. Our board of directors may also issue preference shares from time to time in one or more classes or series, each of such class or series to have such voting powers (full or limited or without voting powers) designations, preferences and relative, participating, optional or other special rights and qualifications, limitations or restrictions thereof as are stated and expressed, or in any resolution providing for the issue of such class or series adopted by our board.

Our board of directors may also approve the issuance of options, rights or warrants that are exercisable into our shares for such consideration and on such terms as the board may determine.

*Variation of Rights*. The rights attached to any class or series of our shares (unless otherwise provided by the terms of issue of the shares of that class or series), whether or not our company is being wound – up, may only be varied with the consent in writing of the holders of a majority of the issued shares of that class or series or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class or series.

*Liquidation*. The holders of our Common Shares have the right on the winding up, liquidation or dissolution of the Company to participate in the surplus assets of the Company, subject to the rights of any issued and outstanding preference shares.

*Redemption, Repurchase and Surrender*. We may issue shares on terms that such shares are subject to redemption, at our option or at the option of the holders thereof, on such terms and in such manner as may be determined, before the issue of such shares, by our board of directors or by a special resolution of our shareholders. We may also repurchase any of our shares provided that the manner and terms of such purchase have been approved by our board of directors or are otherwise authorized by our Articles. Under the Cayman Act, the redemption or purchase of any of our shares may be paid out of our profits or out of the proceeds of a fresh issue of shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account and capital redemption reserve) if we can, immediately following such payment, pay our debts as they fall due in the ordinary course of business. In addition, under the Cayman Act, no such share may be redeemed or repurchased: (a) unless it is fully paid up; (b) if such redemption or repurchase would result in there being no shares outstanding; or (c) if the Company has commenced liquidation.

*Anti-Takeover Provisions* . Our Articles contain certain provisions that would have an effect of delaying, deferring or preventing a change in control of our company, including provisions that:

- authorize our directors to issue preference shares in one or more classes or series and to designate the price, rights, preferences, rights and restrictions of such preference shares without any further vote or action by our shareholders;
- limit the ability of shareholders to requisition and convene general meetings of shareholders; and
- restrict the nomination of directors without advance notice. In the case of an annual meeting, notice must be given to us not less than 30 nor more than 65 days prior to the date of such meeting; provided that if the meeting is to be held on a date that is less than 50 days after the date on which the first public announcement of the date of such meeting was made, notice may be given no later than the close of business on the 10<sup>th</sup> day following such announcement. In the case of a special meeting called for the purpose of electing directors that is not also an annual meeting, notice must be provided to us no later than the close of business on the 15<sup>th</sup> day following the day on which the first public announcement of the date of such special meeting was made. Additionally, our Articles contain a provision requiring a minimum threshold to requisition a special meeting. Such restrictions may make it more difficult to effect changes to our management.

However, under the Cayman Act and applicable Cayman laws, our directors may only exercise the rights and powers granted to them under our Articles for a proper purpose and for what they believe in good faith to be in the best interests of our company.

*Calls on Shares*. Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares. The shares that have been called upon and remain unpaid are subject to forfeiture. All of our Common Shares are fully paid.

*Exempted Company.* We are an exempted company with limited liability under the Cayman Act. The Cayman Act distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. Unlike ordinary resident companies, among other things, an exempted company does not have to file an annual return of its shareholders with the Registrar of Companies, is not required to have its register of members open to inspection, does not have to hold an annual general meeting, may issue no par value, negotiable or bearer shares and may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands.

### **C. Material Contracts**

There have been no material contracts outside of the ordinary course of business to which we were a party in the last two years.

### **D. Exchange Controls**

There are no exchange control regulations or currency restrictions in the Cayman Islands. Under Cayman Islands law, there are currently no restrictions on the export or import of capital, including foreign exchange controls or restrictions that affect the remittance of dividends, interest or other payments to non-resident holders of our Common Shares. Please see “*E. Taxation – Cayman Islands Taxation*” for further information.

The Bank is subject to regulations and restrictions imposed in Europe, Malta and other jurisdictions. Please see “*Item 3: Key Information – D. Risk Factors – Risk Factors Relating to Our Business – Risks Relating to Continuing Operations*” for further information.

### **E. Taxation**

The following is a general summary of certain Cayman Islands and United States federal income tax consequences relevant to an investment in our Common Shares. The discussion is not intended to be, nor should it be construed as, legal or tax advice to any particular prospective purchaser. The discussion is based on laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change or different interpretations, possibly with retroactive effect. The discussion does not address U.S. state or local tax laws, or tax laws of jurisdictions other than the Cayman Islands and the United States. You should consult your own tax advisors with respect to the consequences of acquisition, ownership and disposition of our Common Shares.

#### ***Cayman Islands Taxation***

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty or withholding tax applicable to us or to any holder of our Common Shares. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or after execution brought within, the jurisdiction of the Cayman Islands. No stamp duty is payable in the Cayman Islands on the issue of shares by, or any transfers of shares of, Cayman Islands companies (except those which hold interests in land in the Cayman Islands). The Cayman Islands is not party to any double tax treaties that are applicable to any payments made to or by our company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Payments of dividends and capital in respect of our Common Shares will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of a dividend or capital to any holder of our Common Shares, as the case may be, nor will gains derived from the disposal of our Common Shares be subject to Cayman Islands income or corporation tax.

#### ***Material United States Federal Income Tax Consequences***

The following is a discussion of certain United States federal income tax matters under current law, generally applicable to a U.S. Holder (as defined below) of our Common Shares who holds such shares as capital assets. This discussion does not address all aspects of United States federal income tax matters and does not address consequences particular to persons subject to certain special provisions of United States federal income tax law such as those described below. In addition, this discussion does not cover any state, local or foreign tax consequences.

The following discussion is based upon the *Internal Revenue Code of 1986*, as amended, referred to as the “Code”, Treasury Regulations published by the Internal Revenue Service, referred to as the “IRS”, rulings, published administrative positions of the IRS and court decisions that are currently applicable, any or all of which could be materially and adversely changed, possibly on a retroactive basis, at any time. In addition, this discussion does not consider the potential effects, both adverse and beneficial, of any recently proposed legislation that, if enacted, could be applied, possibly on a retroactive basis, at any time. No assurance can be given that the IRS will agree with the statements and conclusions herein, or will not take, or that a court will not adopt, a position contrary to any position taken herein.

**The following discussion is for general information only and is not intended to be, nor should it be construed to be, legal, business or tax advice to any holder or prospective holder of our Common Shares and no opinion or representation with respect to the United States federal income tax consequences to any such holder or prospective holder is hereby made. Accordingly, holders and prospective holders of Common Shares are urged to consult their own tax advisors with respect to United States federal, state and local tax consequences of purchasing, owning and disposing of our Common Shares.**

#### *U.S. Holders*

As used in this section, a “U.S. Holder” includes: (i) a holder of our Common Shares who is a citizen or resident of the United States; (ii) a corporation created or organized in or under the laws of the United States or of any political subdivision thereof, or any entity which is taxable as a United States corporation for United States tax purposes; (iii) an estate, the income of which is subject to United States federal income tax without regard to its source; or (iv) a trust if (1) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) the trust has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

This summary does not purport to address all material United States federal income tax consequences that may be relevant to a U.S. Holder and does not take into account the specific circumstances of any particular investors, some of which (such as tax-exempt entities, banks or other financial institutions, insurance companies, broker-dealers, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, regulated investment companies, real estate investment trusts, U.S. expatriates, investors liable for the alternative minimum tax, partnerships and other pass-through entities, investors that own or are treated as owning 10% or more of our Common Shares, investors that hold the Common Shares as part of a straddle, hedge, conversion or constructive sale transaction or other integrated transaction, and U.S. holders whose functional currency is not the United States dollar) may be subject to special tax rules. This summary does not address shareholders who acquired their shares through the exercise of employee stock options or otherwise as compensation.

#### *Distributions*

The gross amount of a distribution paid to a U.S. Holder (including amounts withheld in respect of Canadian taxes) in respect of the Common Shares will be subject to United States federal income taxation as ordinary income to the extent paid out of our current or accumulated earnings and profits, as determined under United States federal income tax principles. Such dividends will not be eligible for the dividends received deduction allowed to corporations. Distributions that are taxable dividends and that meet certain requirements will be “qualified dividend income” and will generally be taxed to U.S. Holders who are individuals at a maximum United States federal income tax rate of 20% (subject to the “Passive Foreign Investment Corporation” rules discussed below). Distributions in excess of our current and accumulated earnings and profits will be treated first as a tax-free return of capital to the extent of the U.S. Holder’s tax basis in the Common Shares and, to the extent in excess of such tax basis, will be treated as a gain from a sale or exchange of such shares.

#### *Capital Gains*

In general, upon a sale, exchange or other disposition of Common Shares, a U.S. Holder will generally recognize a capital gain or loss for United States federal income tax purposes in an amount equal to the difference between the amount realized on the sale or other distribution and the U.S. Holder’s adjusted tax basis in such shares. Such gain or loss will be a United States source gain or loss and will be treated as a

long-term capital gain or loss if the U.S. Holder's holding period of the shares exceeds one year. If the U.S. Holder is an individual, any capital gain will generally be subject to United States federal income tax at preferential rates if specified minimum holding periods are met. The deductibility of capital losses is subject to significant limitations.

#### *Foreign Tax Credit*

Dividends paid by us generally will constitute income from non-U.S. sources and will be subject to various classification rules and other limitations for U.S. foreign tax credit purposes. Subject to generally applicable limitations under United States federal income tax law, withholding tax imposed on such dividends, if any, will be treated as a foreign income tax eligible for credit against a U.S. Holder's United States federal income tax liability (or at a U.S. Holder's election if it does not elect to claim a foreign tax credit for any foreign taxes paid during the taxable year, all foreign income taxes paid may instead be deducted in computing such U.S. Holder's taxable income). Generally, it will be more advantageous to claim a credit because a credit reduces United States federal income taxes on a dollar-for-dollar basis, while a deduction merely reduces the taxpayer's income subject to tax. There are significant and complex limitations which apply to the tax credit, among which are an ownership period requirement and the general limitation that the credit cannot exceed the proportionate share of the U.S. Holder's United States federal income tax liability that the U.S. Holder's foreign source income bears to his or its worldwide taxable income. In determining the application of this limitation, the various items of income and deduction must be classified into foreign and United States sources. Complex rules govern this classification process. In general, special rules will apply to the calculation of foreign tax credits in respect of dividend income that is subject to preferential rates of United States federal income tax. The availability of the foreign tax credit and the application of these complex limitations on the tax credit are fact specific and holders and prospective holders of our Common Shares should consult their own tax advisors regarding their individual circumstances.

#### *Passive Foreign Investment Corporation*

We do not believe that we are currently a passive foreign investment corporation, referred to as a "PFIC". However, since PFIC status depends upon the composition of a corporation's income and assets and the market value of its assets and shares from time to time, there is no assurance that we will not be considered a PFIC for any taxable year. If we were treated as a PFIC for any taxable year during which a U.S. Holder held shares, certain adverse United States federal income tax consequences could apply to the U.S. Holder.

If we are treated as a PFIC for any taxable year, gains recognized by a U.S. Holder on a sale or other disposition of shares would be allocated ratably over the U.S. Holder's holding period for the shares. The amount allocated to the taxable year of the sale or other exchange and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as applicable, and an interest charge would be imposed on the amount allocated to such taxable year. Further, any distribution in respect of shares in excess of 125% of the average of the annual distributions on shares received by the U.S. Holder during the preceding three years or the U.S. Holder's holding period, whichever is shorter, would be subject to United States federal income taxation as described above. Certain elections might be available to U.S. Holders that may mitigate some of the adverse consequences resulting from PFIC status. However, regardless of whether such elections are made, dividends paid by a PFIC will not be "qualified dividend income" and will generally be taxed at the higher rates applicable to other items of ordinary income.

**U.S. Holders and prospective holders should consult their own tax advisors regarding the potential application of the PFIC rules to their ownership of our Common Shares.**

#### *Medicare Tax*

A U.S. Holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, will be subject to a 3.8% tax on the lesser of (1) the U.S. Holder's "net investment income" (or undistributed "net investment income" in the case of estates and trusts) for the relevant taxable year and (2) the excess of the U.S. Holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals will be between US\$125,000 and US\$250,000, depending on the individual's circumstances). A holder's net investment income will generally include its interest income and its net gains from the disposition of securities, unless such interest income or net gains are

derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a U.S. Holder that is an individual, estate or trust, you are urged to consult your own tax advisor regarding the applicability of this Medicare tax.

#### *Information Reporting and Backup Withholding*

Under United States federal income tax law and the Treasury Regulations, certain categories of U.S. Holders must file information returns with respect to their investment in, or involvement in, a foreign corporation. For example, certain United States federal income tax return disclosure obligations (and related penalties) are generally imposed on U.S. Holders that hold certain specified foreign financial assets in excess of US\$50,000. The definition of specified foreign financial assets includes not only financial accounts maintained in foreign financial institutions, but also, unless held in accounts maintained by a financial institution, any stock or security issued by a non-U.S. person, any financial instrument or contract held for investment that has an issuer or counterparty other than a U.S. person and any interest in a foreign entity. U.S. Holders may be subject to these reporting requirements unless their Common Shares are held in an account at a domestic financial institution. Penalties for failure to file certain of these information returns are substantial. U.S. Holders should consult with their own tax advisers regarding the requirements of filing information returns and, if applicable, filing obligations relating to the PFIC rules.

Dividends paid on, and proceeds from the sale or other taxable disposition of, our Common Shares to a U.S. Holder generally may be subject to United States federal information reporting requirements and may be subject to backup withholding (currently at the rate of 24%) unless the U.S. Holder provides an accurate taxpayer identification number or otherwise demonstrates that it is exempt. The amount of any backup withholding collected from a payment to a U.S. Holder will generally be allowed as a credit against the U.S. Holder's United States federal income tax liability and may entitle the U.S. Holder to a refund, provided that certain required information is timely submitted to the IRS. A non-U.S. holder generally will be exempt from these information reporting requirements and backup withholding tax but may be required to comply with certain certification and identification procedures in order to establish its eligibility for exemption.

#### **F. Dividends and Paying Agents**

Not applicable.

#### **G. Statement by Experts**

Not applicable.

#### **H. Documents on Display**

Documents and agreements concerning our company may be inspected at 2-4 Merrion Row, Dublin, Ireland.

#### **I. Subsidiary Information**

For a list of our significant wholly-owned direct and indirect subsidiaries and significant non-wholly-owned subsidiaries, please see “*Item 4: Information on the Company – C. Organizational Structure*”.

### **ITEM 11: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to various market risks from changes in interest rates, foreign currency exchange rates and equity prices that may affect our results of operations and financial condition and, consequently, our fair value. Generally, our management believes that our current financial assets and financial liabilities, due to their short-term nature, do not pose significant financial risks. We use various financial instruments to manage our exposure to various financial risks. The policies for controlling the risks associated with financial instruments include, but are not limited to, standardized company procedures and policies on matters such as hedging of risk exposures, avoidance of undue concentration of risk and requirements for collateral (including letters of credit) to mitigate credit risk. We have risk managers to perform audits and checking functions to ensure that company procedures and policies are complied with.

We use derivative instruments to manage certain exposures to commodity price and currency exchange rate risks. The use of derivative instruments depends on our management's perception of future economic events and developments. These types of derivatives are often very volatile, as they are highly leveraged, given that margin requirements are relatively low in proportion to their notional amounts.

Many of our strategies, including the use of derivative instruments and the types of derivative instruments selected by us, are based on historical trading patterns and correlations and our management's expectations of future events. However, these strategies may not be fully effective in all market environments or against all types of risks. Unexpected market developments may affect our risk management strategies during this time, and unanticipated developments could impact our risk management strategies in the future. If any of the variety of instruments and strategies we utilize are not effective, we may incur losses.

Please refer to Note 29 of our annual consolidated financial statements for the years ended December 31, 2017 and 2016 for a qualitative and quantitative discussion of our exposure to market risks and the sensitivity analysis of interest rate, currency and other price risks at December 31, 2017.

## **ITEM 12: DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

## **PART II**

## **ITEM 13: DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

As at December 31, 2017, we classified all remaining long-term debt under current liabilities after the lender thereunder notified our subsidiary that it had been accelerated and called due in 2018. Please see “*Item 5: Operating and Financial Review and Prospects – Liquidity and Capital Resources*” for further information.

## **ITEM 14: MATERIAL MODIFICATIONS TO RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

### **A. Modifications to Rights of Security Holders**

Old MFC previously adopted an advance notice policy on November 18, 2013, which, among other things, fixed a deadline by which director nominations must be submitted to us prior to our meetings of shareholders and sets forth the information that must be included in such notice in order for such nominee to be eligible for election. Such provisions are incorporated in the Articles of New MFC. In the case of an annual meeting, notice must be given to us not less than 30 nor more than 65 days prior to the date of such meeting; provided that if the meeting is to be held on a date that is less than 50 days after the date on which the first public announcement of the date of such meeting was made, notice may be given no later than the close of business on the 10th day following such announcement. In the case of a special meeting called for the purpose of electing directors that is not also an annual meeting, notice must be provided to us no later than the close of business on the 15th day following the day on which the first public announcement of the date of such special meeting was made.

## **ITEM 15: CONTROLS AND PROCEDURES**

### ***Evaluation of Disclosure Controls and Procedures***

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our company's reports filed or submitted under the *Securities Exchange Act of 1934* is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our company's reports filed under the *Securities Exchange Act of 1934* is accumulated and communicated to management, including our company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15 under the *Securities Exchange Act of 1934*, we have carried out an evaluation of the effectiveness of the design and operation of our company's disclosure controls and procedures as of the end of the period covered by this annual report on Form 20-F, being December 31, 2017. This evaluation was carried out by our Chief Executive Officer (being our principal executive officer) and Chief Financial Officer (being our principal financial officer). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

***Report of Management on Internal Control over Financial Reporting***

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) or 13d-15(f) under the *Securities Exchange Act of 1934*, as amended. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. Our internal control over financial reporting includes those policies and procedures that:

1. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets and our consolidated entities;
2. provide reasonable assurance that transactions are recorded as necessary to permit preparation of the consolidated financial statements in accordance with IFRS and that receipts and expenditures of our company are being made only in accordance with authorizations of management and our directors; and
3. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the consolidated financial statements.

Management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2017. In conducting this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework (2013)*.

Based on this evaluation, management concluded that, as of December 31, 2017, our internal control over financial reporting was effective.

***Changes in Internal Control over Financial Reporting***

There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

***Inherent Limitations on Effectiveness of Controls***

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements will not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

**ITEM 16: [RESERVED]****ITEM 16A: AUDIT COMMITTEE FINANCIAL EXPERT**

Silke Stenger was appointed Chair of our Audit Committee with effect from July 14, 2017. Our board of directors had determined that Ms. Stenger qualified as an “audit committee financial expert” and was “independent”, as such terms are used in Section 303A.02 of the NYSE Listed Company Manual.

**ITEM 16B: CODE OF ETHICS*****Code of Ethics and Code of Conduct***

Our board of directors encourages and promotes a culture of ethical business conduct through the adoption and monitoring of our codes of ethics and conduct, the insider trading policy and such other policies as may be adopted from time to time.

Our board of directors adopted a written Code of Business Conduct and Ethics and Insider Trading Policy on July 12, 2017, referred to as the “Code of Ethics”. Since such adoption, our board of directors has conducted an assessment of its performance, including the extent to which the board and each director comply therewith. It is intended that such assessment will be conducted annually.

A copy of our Code of Ethics is available online at our website at [www.mfcbancorpltd.com](http://www.mfcbancorpltd.com). A copy of the Code of Ethics is filed as Exhibit 11.1 to this Annual Report on Form 20-F.

We will provide a copy of the Code of Ethics to any person without charge, upon request. Requests can be sent by mail to: MFC Bancorp Ltd., 2-4 Merrion Row, Dublin 2, Ireland.

## **ITEM 16C: PRINCIPAL ACCOUNTANT FEES AND SERVICES**

### ***Audit Fees***

The aggregate fees for audit services rendered for the audit of our annual financial statements for the year ended December 31, 2017 by Moore Stephens LLP were \$797,603 (before goods and services tax). The aggregate fees for audit services rendered for the audit of our annual financial statements for the fiscal year ended December 31, 2016 by PricewaterhouseCoopers LLP were \$1,706,000 (before goods and services tax).

### ***Audit-Related Fees***

\$0 was billed by Moore Stephens LLP during the year ended December 31, 2017 for services that were not reported under the category “Audit Fees” above. \$21,300 was billed by PricewaterhouseCoopers LLP during the year ended December 31, 2016 for assurance or related services that were reasonably related to the performance of the audit of our financial statements and that were not reported under the category “Audit Fees” above.

### ***Tax Fees***

During the fiscal year ended December 31, 2017, no fees were billed by Moore Stephens LLP for tax compliance, tax advice and tax planning. For the fiscal year ended December 31, 2016, the aggregate fees for tax compliance, tax advice and tax planning by PricewaterhouseCoopers LLP were \$47,000 (before goods and services tax).

### ***All Other Fees***

During the fiscal year ended December 31, 2017, no fees were billed by Moore Stephens LLP for services not related to audit or tax. For the fiscal year ended December 31, 2016, the aggregate fees billed by PricewaterhouseCoopers LLP for all services not related to audit or tax were \$3,400 (before goods and services tax), which related to certain financial due diligence matters.

### ***Audit Committee Pre-approval Policies and Procedures***

The Audit Committee pre-approves all services provided by our independent auditors. All of the services and fees described under the categories of “Audit-Related Fees”, “Tax Fees” and “All Other Fees” were reviewed and approved by the Audit Committee before the respective services were rendered and none of such services were approved by the Audit Committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

The Audit Committee has considered the nature and amount of the fees billed for the fiscal years ended December 31, 2017 and 2016 by Moore Stephens LLP and by our former auditors, PricewaterhouseCoopers LLP, and believes that the provision of the services for activities unrelated to the audit is compatible with maintaining the independence of such auditors.

## **ITEM 16D: EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

## **ITEM 16E: PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

In 2017, neither we nor any affiliated purchaser (as defined in the *Securities Exchange Act of 1934*) purchased any of our Common Shares.

**ITEM 16F: CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT**

Effective November 11, 2017, the Company’s former auditors resigned and the Company appointed Moore Stephens LLP as the successor auditor. In connection therewith, the Company provides that during the Company’s fiscal years ended December 31, 2016 and 2015 and through the subsequent interim period on or prior to the resignation of the former auditors: (a) there were no disagreements between the Company and the former auditors on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreement, if not resolved to the satisfaction of the former accountant, would have caused it to make reference to the subject matter of the disagreement in connection with its report; and (b) no reportable events as set forth in Item 16F(a)(1)(v)(A) through (D) of Form 20-F have occurred.

**ITEM 16G: CORPORATE GOVERNANCE**

Our Common Shares are listed on the NYSE. Summarized below are the significant differences between our corporate governance rules and the corporate governance rules applicable to U.S. domestic issuers under the listing standards of the NYSE:

- Section 303A.03 of the NYSE’s Listed Company Manual requires the non-management directors of a listed company to meet at regularly scheduled executive sessions without management.

While our independent directors (all of whom are non-management directors) meet regularly for committee meetings at which they are all present without non-independent directors or management in attendance, they do not generally hold other regularly scheduled meetings at which non-independent directors and members of management are not in attendance.

- Section 303A.08 of the NYSE’s Listed Company Manual requires shareholder approval of all equity compensation plans and material revisions to such plans.

Our current stock option and the 2014 Plan have been approved by our shareholders. However, while our 2014 Plan provides that amendments may be submitted for shareholder approval by our board of directors to the extent that it deems it necessary or advisable, our plans do not specifically require shareholder approval of material revisions.

**ITEM 16H: MINE SAFETY DISCLOSURE**

Not applicable.

**ITEM 17: FINANCIAL STATEMENTS**

Not applicable. Please see “*Item 18: Financial Statements*”.

**ITEM 18: FINANCIAL STATEMENTS**

The following attached audit reports and financial statements are incorporated herein:

<a href="#"><u>1. Report of Independent Auditors, Moore Stephens LLP, dated April 11, 2018 on the consolidated financial statements of our company for the year ended December 31, 2017</u></a>	<a href="#"><u>54</u></a>
<a href="#"><u>2. Report of Independent Auditors, PricewaterhouseCoopers LLP, dated March 31, 2017 on the consolidated financial statements of our company for the year ended December 31, 2016</u></a>	<a href="#"><u>55</u></a>
<a href="#"><u>3. Consolidated statements of financial position as of December 31, 2017 and 2016</u></a>	<a href="#"><u>56</u></a>
<a href="#"><u>4. Consolidated statements of operations for the years ended December 31, 2017, 2016 and 2015</u></a>	<a href="#"><u>57</u></a>
<a href="#"><u>5. Consolidated statements of comprehensive loss for the years ended December 31, 2017, 2016 and 2015</u></a>	<a href="#"><u>58</u></a>
<a href="#"><u>6. Consolidated statements of changes in equity for the years ended December 31, 2017, 2016 and 2015</u></a>	<a href="#"><u>59</u></a>
<a href="#"><u>7. Consolidated statements of cash flows for the years ended December 31, 2017, 2016 and 2015</u></a>	<a href="#"><u>61</u></a>
<a href="#"><u>8. Notes to consolidated financial statements as of December 31, 2017</u></a>	<a href="#"><u>62</u></a>

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the shareholders and the board of directors of MFC Bancorp Ltd

**Opinion on the financial statements**

We have audited the accompanying consolidated statement of financial position of MFC Bancorp Ltd and its subsidiaries (collectively the “Company”) as of December 31, 2017, the related consolidated statements of operations, comprehensive (loss)/income, changes in equity and cash flows for the year ended December 31, 2017, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for the year ended December 31, 2017, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

**Basis for opinion**

The consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting 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.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Moore Stephens LLP,

Chartered Accountants

We have served as the Company’s auditor since 2017.

150 Aldersgate Street

London

EC1A 4AB

United Kingdom

April 10, 2018

## **Report of Independent Registered Public Accounting Firm**

### **To the Shareholders of MFC Bancorp Ltd.**

We have completed an audit of MFC Bancorp Ltd. and its subsidiaries' prior years consolidated financial statements. Our opinion, based on our audit is presented below.

### **Report on the consolidated financial statements**

We have audited the accompanying consolidated financial statements of MFC Bancorp Ltd. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2016 and the consolidated statements of operations, comprehensive loss, changes in equity and cash flows for each of the two years in the period ended December 31, 2016, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the consolidated financial statements**

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

### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and 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 consolidated financial statements are free from material misstatement. Canadian generally accepted auditing standards also require that we comply with ethical requirements.

An audit involves performing procedures to obtain audit evidence, on a test basis, about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting principles and policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of MFC Bancorp Ltd. and its subsidiaries as at December 31, 2016 and their financial performance and their cash flows for each of the two years in the period ended December 31, 2016 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### **Other matter**

We were not engaged to audit, review, or apply any procedures to the adjustments and disclosures to retrospectively reflect the share consolidation and subsequent share split described in Note 1. Accordingly, we do not express an opinion or any other form of assurance about whether such adjustments and disclosures are appropriate and have been properly applied. Those adjustments and disclosures were audited by other auditors.

/s/ PricewaterhouseCoopers LLP

### **Chartered Professional Accountants**

Vancouver, Canada  
March 31, 2017

## MFC BANCORP LTD.

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**(Canadian Dollars in Thousands)**

	Notes	December 31, 2017	December 31, 2016
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents		\$ 74,870	\$ 120,676
Short-term cash deposits		194	182
Securities		5,127	5,018
Securities – derivatives		190	1,240
Trade receivables	7	34,259	135,962
Tax receivables		747	11,743
Other receivables	8	21,690	35,251
Inventories	9	9,826	31,954
Real estate held for sale		—	1,066
Deposits, prepaid and other	10	2,378	12,195
Assets held for sale	5	—	45,667
Total current assets		149,281	400,954
Non-current Assets			
Securities		771	561
Securities – derivatives		56	—
Real estate held for sale		13,803	13,035
Investment property	11	37,660	35,663
Property, plant and equipment	12	83,954	99,443
Interests in resource properties	13	92,551	79,147
Deferred income tax assets	14	16,694	16,647
Other		2,132	4,072
Other, restricted		45	816
Total non-current assets		247,666	249,384
		<u>\$ 396,947</u>	<u>\$ 650,338</u>
<b>LIABILITIES AND EQUITY</b>			
Current Liabilities			
Short-term bank borrowings	15	\$ 2,074	\$ 95,416
Debt, current portion	16	43,733	36,249
Account payables and accrued expenses	17	44,750	45,114
Financial liabilities – derivatives		302	5,514
Income tax liabilities		1,910	2,486
Liabilities relating to assets held for sale	5	—	29,897
Total current liabilities		92,769	214,676
Long-term Liabilities			
Debt, less current portion	16	—	80,564
Financial liabilities – derivatives		—	940
Accrued pension obligations, net	18	—	3,259
Decommissioning obligations	19	13,699	13,219
Deferred income tax liabilities	14	10,303	7,353
Other		227	897
Total long-term liabilities		24,229	106,232
Total liabilities		116,998	320,908
Equity			
Capital stock, fully paid	20	16	419,916
Additional paid-in capital		312,132	—
Treasury stock	20	(2,643)	(61,085)
Contributed surplus		16,666	15,417
Deficit		(87,183)	(88,920)
Accumulated other comprehensive income		38,792	42,192
Shareholders' equity		277,780	327,520
Non-controlling interests		2,169	1,910
Total equity		279,949	329,430
		<u>\$ 396,947</u>	<u>\$ 650,338</u>

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

## MFC BANCORP LTD.

**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For the Years Ended December 31, 2017, 2016 and 2015**  
**(Canadian Dollars in Thousands, Except per Share Amounts)**

	Notes	2017	2016	2015
Gross revenues	21	\$ 274,035	\$ 1,131,657	\$ 1,629,100
Costs and expenses:				
Costs of sales and services	21	263,586	1,061,052	1,573,868
Selling, general and administrative		45,472	79,164	86,648
Share-based compensation – selling, general and administrative	22	2,876	—	—
Finance costs		8,415	24,102	22,329
Impairment of available-for-sale securities		—	91	245
(Reversal of) impairment of hydrocarbon and resource properties		(8,945)	(8,566)	235,875
Exchange differences on foreign currency transactions, net loss (gain)		1,038	(7,480)	930
		<u>312,442</u>	<u>1,148,363</u>	<u>1,919,895</u>
Loss from operations before income taxes		(38,407)	(16,706)	(290,795)
Income tax (expense) recovery:				
Income taxes		(6,885)	(5,994)	46,518
Resource revenue taxes		(1,773)	(1,020)	(325)
	23	<u>(8,658)</u>	<u>(7,014)</u>	<u>46,193</u>
Loss from continuing operations		(47,065)	(23,720)	(244,602)
Loss from discontinued operations	5	—	—	(241,402)
Net loss for the year		(47,065)	(23,720)	(486,004)
Net income attributable to non-controlling interests		(790)	(1,641)	(1,626)
Net loss attributable to owners of the parent company		<u>\$ (47,855)</u>	<u>\$ (25,361)</u>	<u>\$ (487,630)</u>
Basic loss per share:				
Continuing operations	24	\$ (3.81)	\$ (2.01)	\$ (19.50)
Discontinued operations	24	—	—	(19.11)
		<u>\$ (3.81)</u>	<u>\$ (2.01)</u>	<u>\$ (38.61)</u>
Diluted loss per share:				
Continuing operations	24	\$ (3.81)	\$ (2.01)	\$ (19.50)
Discontinued operations	24	—	—	(19.11)
		<u>\$ (3.81)</u>	<u>\$ (2.01)</u>	<u>\$ (38.61)</u>
Weighted average number of common shares outstanding				
– basic	24	12,544,141	12,628,454	12,628,454
– diluted	24	12,544,141	12,628,454	12,628,454

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

## MFC BANCORP LTD.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**For the Years Ended December 31, 2017, 2016 and 2015**  
**(Canadian Dollars in Thousands)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net loss for the year	\$ (47,065)	\$ (23,720)	\$ (486,004)
Other comprehensive (loss) income, net of income taxes:			
Items that will be reclassified subsequently to profit or loss			
Exchange differences arising from translating financial statements of foreign operations	7,002	(14,067)	79,355
Reclassification adjustment for exchange differences to statements of operations for subsidiaries disposed of	<u>(11,306)</u>	<u>(560)</u>	<u>143</u>
Net exchange difference	(4,304)	(14,627)	79,498
Fair value gain (loss) on available-for-sale securities	542	(73)	(293)
Reclassification of fair value (gain) loss on available-for-sale securities to statements of operations for securities disposed of or impaired	<u>(52)</u>	<u>141</u>	<u>245</u>
Net fair value gain (loss) on available-for-sale securities	490	68	(48)
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of net defined benefit liabilities	<u>219</u>	<u>192</u>	<u>(298)</u>
	<u>(3,595)</u>	<u>(14,367)</u>	<u>79,152</u>
Total comprehensive loss for the year	(50,660)	(38,087)	(406,852)
Comprehensive income attributable to non-controlling interests	<u>(683)</u>	<u>(1,585)</u>	<u>(2,028)</u>
Comprehensive loss attributable to owners of the parent company	<u>\$ (51,343)</u>	<u>\$ (39,672)</u>	<u>\$ (408,880)</u>
Consisting of: Continuing operations	\$ (51,343)	\$ (39,672)	\$ (167,478)
Discontinued operations	<u>—</u>	<u>—</u>	<u>(241,402)</u>
	<u>\$ (51,343)</u>	<u>\$ (39,672)</u>	<u>\$ (408,880)</u>

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

## MFC BANCORP LTD.

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**For the Years Ended December 31, 2017, 2016 and 2015**  
**(Canadian Dollars in Thousands)**

	Capital Stock		Treasury Stock		Contributed Surplus		Accumulated Other Comprehensive Income (Loss)					Share-holders' Equity	Non-controlling Interests	Total Equity
	Number of Shares	Amount	Number of Shares	Amount	Share-based Compensation	Contingently Issuable Shares	Retained Earnings (Deficit)	Available-for-sale Securities	Defined Benefit Obligations	Currency Translation Adjustment				
Balance at December 31, 2014	17,305,673	\$ 419,655	(4,687,218)	\$ (61,085)	\$ 13,790	\$ 1,830	\$ 424,129	\$ (49)	\$ 1,444	\$ (21,997)	\$ 777,717	\$ 1,216	\$ 778,933	
Net (loss) income	—	—	—	—	—	—	(487,630)	—	—	—	(487,630)	1,626	(486,004)	
Disposition of a subsidiary	—	—	—	—	—	—	—	—	(1,645)	—	(1,645)	—	(1,645)	
Issuance of contingently issuable shares	10,000	261	—	—	—	(203)	(58)	—	—	—	—	—	—	
Dividends paid	—	—	—	—	—	—	—	—	—	—	—	(1,236)	(1,236)	
Net fair value loss	—	—	—	—	—	—	—	(48)	—	—	(48)	—	(48)	
Net loss on remeasurements	—	—	—	—	—	—	—	—	(298)	—	(298)	—	(298)	
Net exchange differences	—	—	—	—	—	—	—	—	—	79,096	79,096	402	79,498	
Balance at December 31, 2015	17,315,673	419,916	(4,687,218)	(61,085)	13,790	1,627	(63,559)	(97)	(499)	57,099	367,192	2,008	369,200	
Net (loss) income	—	—	—	—	—	—	(25,361)	—	—	—	(25,361)	1,641	(23,720)	
Dividends paid	—	—	—	—	—	—	—	—	—	—	—	(1,683)	(1,683)	
Net fair value gain	—	—	—	—	—	—	—	68	—	—	68	—	68	
Net gain on remeasurements	—	—	—	—	—	—	—	—	192	—	192	—	192	
Net exchange differences	—	—	—	—	—	—	—	—	—	(14,571)	(14,571)	(56)	(14,627)	
Balance at December 31, 2016	17,315,673	419,916	(4,687,218)	(61,085)	13,790	1,627	(88,920)	(29)	(307)	42,528	327,520	1,910	329,430	
Repurchase and cancellation of shares and equity instruments	(90,000)	(2,856)	—	—	—	(1,627)	3,165	—	—	—	(1,318)	—	(1,318)	
Plan of arrangement – purchase of fractional shares	(3,654)	(41)	—	—	—	—	—	—	—	—	(41)	—	(41)	
Plan of arrangement – cash distributions	—	(2)	—	—	—	—	—	—	—	—	(2)	—	(2)	
Plan of arrangement – offsetting deficit	—	(87,850)	—	—	—	—	87,850	—	—	—	—	—	—	
Plan of arrangement – share capital restructuring	(4,621,571)	(17,019)	4,621,571	58,442	—	—	(41,423)	—	—	—	—	—	—	
Shares issued to non-controlling interests, net of subscription receivables	—	—	—	—	—	—	—	—	—	—	—	1,177	1,177	
Net loss	—	—	—	—	—	—	(47,855)	—	—	—	(47,855)	790	(47,065)	
Dividends paid	—	—	—	—	—	—	—	—	—	—	—	(1,601)	(1,601)	
Share based compensation	—	—	—	—	2,876	—	—	—	—	—	2,876	—	2,876	
Net fair value gain	—	—	—	—	—	—	—	490	—	—	490	—	490	
Net gain on remeasurements	—	—	—	—	—	—	—	—	219	—	219	—	219	
Disposition of subsidiaries	—	—	—	—	—	—	—	—	88	—	88	—	88	
Net exchange differences	—	—	—	—	—	—	—	—	—	(4,197)	(4,197)	(107)	(4,304)	
Balance at December 31, 2017	12,600,448	\$ 312,148	(65,647)	\$ (2,643)	\$ 16,666	\$ —	\$ (87,183)	\$ 461	\$ —	\$ 38,331	\$ 277,780	\$ 2,169	\$ 279,949	

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

## MFC BANCORP LTD.

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)**  
**For the Years Ended December 31, 2017, 2016 and 2015**  
**(Canadian Dollars in Thousands)**

<b>Total Comprehensive (Loss) Income for the Years ended December 31,</b>	<b>Owners of the Parent Company</b>	<b>Non- controlling Interests</b>	<b>Total</b>
2015	\$ (408,880)	\$ 2,028	\$ (406,852)
2016	(39,672)	1,585	(38,087)
2017	(51,343)	683	(50,660)

<b>Components of Capital Stock</b>	<b>Common Shares</b>		<b>Preferred Shares*</b>		<b>Total Capital Stock</b>	
	<b>Number of Shares</b>	<b>Amount</b>	<b>Number of Shares</b>	<b>Amount</b>	<b>Number of Shares</b>	<b>Amount</b>
Balance at December 31, 2014	12,684,102	\$ 402,636	4,621,571	\$ 17,019	17,305,673	\$ 419,655
Issuance of contingently issuable shares	10,000	261	—	—	10,000	261
Balance at December 31, 2015 and 2016	12,694,102	402,897	4,621,571	17,019	17,315,673	419,916
Issuance of contingently issuable shares	(90,000)	(2,856)	—	—	(90,000)	(2,856)
Plan of arrangement	(3,654)	(87,893)	(4,621,571)	(17,019)	(4,625,225)	(104,912)
Balance at December 31, 2017	<u>12,600,448</u>	<u>\$ 312,148</u>	<u>—</u>	<u>\$ —</u>	<u>12,600,448</u>	<u>\$ 312,148</u>

\* All Preferred Shares were held by the Group as Treasury Stock

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

## MFC BANCORP LTD.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2017, 2016 and 2015**  
**(Canadian Dollars in Thousands)**

	2017	2016	2015
Cash flows from continuing operating activities:			
Net loss for the year	\$ (47,065)	\$ (23,720)	\$ (244,602)
Adjustments for:			
Amortization, depreciation and depletion	6,732	11,951	6,450
Exchange differences on foreign currency transactions	1,038	(7,480)	930
Loss on short-term securities	1	66	84
Loss (gain) on dispositions of subsidiaries	10,219	(2,585)	—
Impairment of available-for-sale securities	—	91	245
(Reversal of) impairment of hydrocarbon and resource properties	(8,945)	(8,566)	235,875
Share-based compensation	2,876	—	—
Deferred income taxes	3,141	1,454	(50,800)
Market value (increase) decrease on commodity inventories	(400)	4,273	1,910
Interest accretion	412	471	148
Credit losses	23,923	18,277	54,528
Write-offs of payables	(3,779)	—	—
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:			
Short-term cash deposits	—	39	(33)
Short-term securities	—	3,997	80
Restricted cash	—	624	60
Receivables	30,188	(16,869)	57,608
Inventories	19,588	184,944	15,650
Deposits, prepaid and other	8,361	24,661	(8,596)
Assets held for sale	12,636	—	—
Short-term bank borrowings	(34,513)	34,707	(137,621)
Account payables and accrued expenses	(26,513)	(124,528)	(18,555)
Income tax liabilities	21	(1,576)	(975)
Accrued pension assets, net of obligations	(54)	43	(760)
Other	(1,064)	(407)	(6,674)
Cash flows (used in) provided by continuing operating activities	(3,197)	99,867	(95,048)
Cash flows from continuing investing activities:			
Dispositions (purchases) of property, plant and equipment, net	4,783	(198)	(8,045)
Acquisition of intangible assets	(765)	—	—
Proceeds from sales of investments, net	526	10,138	—
Increase in loan receivables	(590)	(366)	(2)
Decrease in loan receivables	725	693	429
Acquisitions of subsidiaries, net of cash acquired	(44)	(23,926)	—
Dispositions of subsidiaries, net of cash and cash equivalents disposed of	(8,384)	48,796	—
Other	255	345	(943)
Cash flows (used in) provided by continuing investing activities	(3,494)	35,482	(8,561)
Cash flows from continuing financing activities:			
Debt repayment	(42,253)	(186,286)	(68,707)
Debt borrowing	—	20,694	5,662
Cash paid under the plan of arrangement	(43)	—	—
Shares issued to non-controlling interests	1,177	—	—
Dividends paid to shareholders	—	—	(4,388)
Dividends paid to non-controlling interests	(1,601)	(1,683)	(1,236)
Cash flows used in continuing financing activities	(42,720)	(167,275)	(68,669)
Cash flows used in discontinued operating activities	—	—	(7,004)
Cash flows used in discontinued investing activities	—	—	(1,395)
Exchange rate effect on cash and cash equivalents	3,605	(37,540)	35,619
Decrease in cash and cash equivalents	(45,806)	(69,466)	(145,058)
Cash and cash equivalents, beginning of year	120,676	197,519	344,891
Cash and cash equivalents included in assets held for sale, net	—	(7,377)	(2,314)
Cash and cash equivalents, end of year	\$ 74,870	\$ 120,676	\$ 197,519
Cash and cash equivalents at end of year consisted of:			
Cash	\$ 74,870	\$ 113,591	\$ 120,805
Money market and highly liquid funds	—	7,085	76,714
	\$ 74,870	\$ 120,676	\$ 197,519
Supplemental cash flows disclosure (see Note 27)			
Interest received	\$ 1,079	\$ 3,632	\$ 4,233
Dividends received	—	6	7
Interest paid	(4,575)	(14,533)	(15,273)
Income taxes paid	(1,704)	(3,317)	(5,345)

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

**MFC BANCORP LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**Note 1. Nature of Business**

On July 14, 2017, MFC Bancorp Ltd. (“Old MFC”), a corporation under the laws of British Columbia and MFC Bancorp Ltd. (“New MFC”), a corporation under the laws of the Cayman Islands, completed a plan of arrangement (the “Arrangement”) under the *Business Corporations Act* (British Columbia). Pursuant to the Arrangement, among other things: (i) The common shares of Old MFC (the “Old MFC Shares”) were consolidated on a 100 for 1 basis, with any resulting fractional shares being eliminated and, thereafter, such Old MFC Shares were split on a 1 for 20 basis (the “Share Consolidation/Split”); (ii) Old MFC’s stated shareholders’ capital was reduced by an amount equal to its retained deficit; and (iii) each Old MFC Share outstanding after the completion of the Share Consolidation/Split was exchanged for one common share of U.S. \$0.001 par value each of New MFC and US\$0.0001 per share in cash. In these consolidated financial statements, the numbers of shares and the earnings per share in the prior periods have been restated to reflect the Share Consolidation/Split.

As a result of the Arrangement, New MFC became a successor issuer to Old MFC for financial reporting purposes. The Arrangement was not a business combination, but an internal capital reorganization. Upon completion of the Arrangement, New MFC controls and operates the same assets and business as Old MFC. The Arrangement did not involve any change in the beneficial ownership of the group nor any change to the nature and scale of its operations, save for changing the place of incorporation of the holding company of the Group from Canada to the Cayman Islands. Accordingly, the consolidated financial statements of New MFC is a continuation of Old MFC’s existing and on-going activities with assets and liabilities at book values, and include Old MFC’s full results for the year, including comparatives. Unless the context otherwise indicates, references to the “Company” or “MFC Bancorp” are to New MFC.

MFC Bancorp and the entities it controls are collectively known as the “Group” in these consolidated financial statements. The Group is a merchant bank that provides financial services and facilitates structured trade for corporations and institutions. The Group commits its own capital to promising enterprises and invests and otherwise captures investment opportunities for its own account. The Group seeks to invest in businesses or assets whose intrinsic value is not properly reflected. The Group’s investing activities are generally not passive. The Group actively seeks investments where its financial expertise and management can add or unlock value.

**Note 2. Basis of Presentation and Summary of Significant Accounting Policies**

**A. Basis of Presentation**

**Basis of Accounting**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (the “IASB”). MFC Bancorp complies with all the requirements of IFRS.

These consolidated financial statements were prepared using going concern, accrual (except for cash flow information) and historical cost (except for investment property and certain inventories, financial assets and financial liabilities which are measured at fair value and certain assets that are measured at fair value less costs to sell or of disposal) bases.

The presentation currency of these consolidated financial statements is the Canadian dollar (\$), rounded to the nearest thousand (except per share amounts).

**Principles of Consolidation**

These consolidated financial statements include the accounts of MFC Bancorp and entities it controls. The Company controls an investee if and only if it has all the following: (a) power over the investee; (b) exposure, or rights, to variable returns from its involvement with the investee; and (c) the ability to use its power over the investee to affect the amount of its returns. When the Group holds, directly or indirectly, more than 50% of the voting power of the investee, it is presumed that the Group controls the investee, unless it can be clearly demonstrated that this is not the case. Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until

**MFC BANCORP LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**Note 2. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

the date that such control ceases. All intercompany balances and transactions, including unrealized profits arising from intragroup transactions, have been eliminated in full. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

On the acquisition date, a non-controlling interest is measured at either its fair value or its proportionate share in the recognized amounts of the subsidiary's identifiable net assets, on a transaction-by-transaction basis. Subsequently, non-controlling interest increases or decreases for its share of changes in equity since the acquisition date.

After initial consolidation of a subsidiary, when the proportion of equity held by non-controlling interests changes, the Group adjusts the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in the subsidiary. The Group recognizes directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received and attributes such difference to the owners of MFC Bancorp.

When the Group loses control of a subsidiary it: (a) derecognizes (i) the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost and (ii) the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them); (b) recognizes (i) the fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control, (ii) if the transaction, event or circumstances that resulted in the loss of control involves a distribution of shares of the subsidiary to owners in their capacity as owners, that distribution and (iii) any investment retained in the former subsidiary at its fair value at the date when control is lost; (c) reclassifies to profit or loss, or transfers directly to retained earnings if required by IFRS, the amounts recognized in other comprehensive income in relation to the subsidiary; and (d) recognizes any resulting difference as a gain or loss in profit or loss attributable to the owners of MFC Bancorp.

The financial statements of MFC Bancorp and its subsidiaries used in the preparation of the consolidated financial statements are prepared as of the same date, using uniform accounting policies for like transactions and other events in similar circumstances.

**Foreign Currency Translation**

The presentation currency of the Group's consolidated financial statements is the Canadian dollar.

MFC Bancorp conducts its business throughout the world through its foreign operations. Foreign operations are entities that are subsidiaries, associates, joint arrangements or branches, the activities of which are based or conducted in countries or currencies other than those of MFC Bancorp. Functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity primarily generates and expends cash. Foreign currency is a currency other than the functional currency of the entity. The functional currencies of the Company and its subsidiaries and branches primarily comprise the Canadian dollar, Euro ("EUR" or "€") and the United States dollar ("US\$").

**Reporting foreign currency transactions in the functional currency**

A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency. A foreign currency transaction is recorded, on initial recognition in an entity's functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. At the end of each reporting period: (a) foreign currency monetary items are translated using the closing rate; (b) non-monetary items denominated in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction; and (c) foreign currency non-monetary items that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

**MFC BANCORP LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 2. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous periods are recognized in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation which are initially recorded in other comprehensive income in the consolidated financial statements and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

Use of a presentation currency other than the functional currency

When an entity presents its financial statements in a currency that differs from its functional currency, the results and financial position of the entity are translated into the presentation currency using the following procedures: (a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position; (b) income and expenses for each statement of operations presented are translated at exchange rates at the dates of the transactions or, for practical reasons, the average exchange rates for the periods when they approximate the exchange rates at the dates of the transactions; (c) individual items within equity are translated at either the historical exchange rates when practical or at the closing exchange rates at the date of the statement of financial position; and (d) all resulting exchange differences are recognized in other comprehensive income.

The following table sets out exchange rates for the translation of the Euro and U.S. dollar, which represented the major trading currencies of the Group, into the Canadian dollar:

	EUR	US\$
Closing rate at December 31, 2017	1.5052	1.2545
Average rate for the year 2017	1.4650	1.2986
Closing rate at December 31, 2016	1.4169	1.3427
Average rate for the year 2016	1.4660	1.3248
Closing rate at December 31, 2015	1.5029	1.3840
Average rate for the year 2015	1.4182	1.2787

**Fair Value Measurement**

Certain assets and liabilities of the Group are measured at fair value (see Note 2B. Significant Accounting Policies).

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement is for a particular asset or liability. Therefore, when measuring fair value, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- (a) in the principal market for the asset or liability; or
- (b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Group measures the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

**MFC BANCORP LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**Note 2. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. IFRS 13, *Fair Value Measurement* (“IFRS 13”), establishes a fair value hierarchy that categorizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

**Non-current Assets Held for Sale**

A non-current asset (or disposal group) is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such asset (or disposal group), the appropriate level of management must be committed to a plan to sell the asset (or disposal group) and an active program to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value and the sale is highly probable to complete within one year from the date of classification, except as permitted under certain events and circumstances. If the aforesaid criteria are no longer met, the Group ceases to classify the asset (or disposal group) as held for sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. The Group does not depreciate or amortize a non-current asset while it is classified as held for sale.

When the criteria for non-current assets held for sale are no longer met, the Group ceases to classify the asset (or disposal group) as held for sale. The Group measures a non-current asset (or disposal group) that ceases to be classified as held for sale at the lower of: (a) its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset (or disposal group) not been classified as held for sale; and (b) its recoverable amount at the date of the subsequent decision not to sell.

**Use of Estimates and Assumptions and Measurement Uncertainty**

The timely preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management’s best estimates are based on the facts and circumstances available at the time estimates are made, historical experience, general economic conditions and trends and management’s assessment of probable future outcomes of these matters. Actual results could differ from these estimates and such differences could be material. For critical judgments in applying accounting policies and major sources of estimation uncertainty (see Notes 2C and 2D).

**B. Significant Accounting Policies**

**(i) Financial Instruments**

All financial assets and financial liabilities are classified by characteristic and/or management intent. Except for certain financial instruments which are excluded from the scope, all financial assets are classified into one of four categories: (a) at fair value through profit or loss; (b) held-to-maturity; (c) loans and receivables; and (d) available-for-sale, and all financial liabilities are classified into one of two categories: (a) at fair value through profit or loss; and (b) at amortized cost.

**MFC BANCORP LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 2. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

A financial asset or financial liability at fair value through profit or loss is a financial asset or financial liability that meets either of the following conditions: (a) it is classified as held for trading if it is (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term, (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking, or (iii) a derivative, except for a derivative that is a designated and effective hedging instrument; or (b) it is designated by the Group upon initial recognition as at fair value through profit or loss when certain conditions are met. Generally, a financial instrument cannot be reclassified out of the fair value through profit or loss category while it is held or issued, except in rare circumstances.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale, or that are not classified as loans and receivables, held-to-maturity investments, or at fair value through profit or loss.

Non-derivative financial liabilities are classified as financial liabilities measured at amortized cost.

When a financial asset or financial liability is recognized initially, the Group measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs related to the acquisition or issue of a financial asset or financial liability at fair value through profit or loss are expensed as incurred. The subsequent measurement of a financial instrument and the recognition of associated gains and losses are determined by the financial instrument classification.

After initial recognition, the Group measures financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for the following financial assets: (a) held-to-maturity investments which are measured at amortized cost using the effective interest method; (b) loans and receivables which are measured at amortized cost using the effective interest method; and (c) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments which are measured at cost. All financial assets except those measured at fair value through profit or loss are subject to review for impairment.

After initial recognition, the Group measures all financial liabilities at amortized cost using the effective interest method, except for financial liabilities at fair value through profit or loss (including derivatives that are liabilities), which are measured at their fair values (except for derivative liabilities that are linked to and must be settled by delivery of unquoted equity instruments whose fair value cannot be reliably measured, which should be measured at cost).

Regular way purchases and sales of financial assets are accounted for at the settlement date.

A gain or loss on a financial asset or financial liability classified as at fair value through profit or loss is recognized in profit or loss for the period in which it arises. A gain or loss on an available-for-sale financial asset is recognized in other comprehensive income, except for impairment losses, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in accumulated other comprehensive income is recognized in profit or loss for the period. For financial assets and financial liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or financial liability is derecognized or impaired and through the amortization process.

Whenever quoted market prices are available, bid prices are used for the measurement of fair value of financial assets while ask prices are used for financial liabilities. When the market for a financial instrument is not active, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available; reference to the current fair value of another financial instrument that is substantially the same; discounted cash flow analysis; option pricing models; and other valuation techniques commonly used by market participants to price the financial instrument.

**MFC BANCORP LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 2. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

**(ii) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, cash at banks and highly liquid investments (e.g. money market funds) readily convertible to a known amount of cash and subject to an insignificant risk of change in value. They have maturities of three months or less from the date of acquisition and are generally interest-bearing.

**(iii) Securities**

Securities are classified as at fair value through profit or loss (i.e. held for trading) or short-term or long-term available-for-sale securities.

Publicly-traded securities (debt and equity) which are acquired principally for the purpose of selling in the near term are classified as held for trading. Securities held for trading are measured at their bid prices on the reporting date.

Available-for-sale securities consist of publicly-traded securities and unlisted equity securities which are not held for trading and not held to maturity. Long-term available-for-sale securities are purchased with the intention to hold until market conditions render alternative investments more attractive. Short-term available-for-sale securities are held with the intention of management to sell within the current operating cycle but do not meet the definition of trading securities.

When a decline in the fair value of an available-for-sale security has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the security has not been derecognized. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is an objective evidence of impairment. The Group considers a decline in excess of 25 percent generally as significant and a decline in a quoted market price that persists for 15 months as prolonged. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available for sale shall not be reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

Gains and losses on sales of securities are calculated on the average cost basis.

**(iv) Securities and Financial Liabilities – Derivatives**

A derivative is a financial instrument or other contract with all three of the following characteristics: (a) its value changes in response to the change in a specified interest rate, financial instrument price, product price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable; (b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and (c) it is settled at a future date. A derivative financial instrument is either exchange-traded or negotiated. A derivative financial instrument is included in the consolidated statement of financial position as a security (i.e. financial asset) or a financial liability and measured at fair value. The recognition and measurement of a derivative financial instrument under IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"), does not apply to a contract that is entered into and continues to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements.

Derivatives embedded in other financial instruments or other host contracts are separated from the host contracts and accounted for separately as derivatives in the consolidated statement of financial position when their risks and characteristics are not closely related to those of the host contract.

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Where the Group has both the legal right and intent to settle derivative assets and liabilities simultaneously with the counterparty, the net fair value of the derivative financial instruments is reported as an asset or liability, as appropriate.

Changes in the fair values of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss as they arise.

**(v) Receivables**

Receivables are classified as loans and receivables and are measured at amortized cost.

Receivables are net of an allowance for credit losses, if any. The Group performs ongoing credit evaluations of its customers and adjusts the allowance accounts for specific customer risks and credit factors. Receivables are considered past due on an individual basis based on the terms of the contracts.

**(vi) Allowance for Credit Losses**

The Group applies credit risk assessment and valuation methods to its trade and other receivables. The Group's allowance for credit losses is maintained at an amount considered adequate to absorb estimated credit-related losses. Such allowance reflects management's best estimate of the losses in the Group's receivables and judgments about economic conditions. Estimates and judgments could change in the near term, and could result in a significant change to a recognized allowance. Credit losses arise primarily from receivables but may also relate to other credit instruments issued by or on behalf of the Group, such as guarantees and letters of credit. An allowance for credit losses is increased by provisions, which are recognized in profit or loss and reduced by write-offs net of any recoveries.

Specific provisions are established on an individual receivable basis. Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and there is no realistic prospect of recovery.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease is related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed either directly or by adjusting the allowance account.

**(vii) Inventories**

Inventories principally consist of raw materials, work-in-progress, and finished goods. Inventories, other than products acquired in commodity activities, are recorded at the lower of cost and net realizable value. Cost, where appropriate, includes an allocation of manufacturing overheads incurred in bringing inventories to their present location and condition and is assigned by using the first-in, first-out or weighted average cost formula, depending on the class of inventories. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The reversal of a write-down of inventories arising from an increase in net realizable value is recognized as a reduction in the amount of costs of sales and services in the period in which the reversal occurs.

Commodity products acquired by the Group as a broker-trader in the Group's merchant banking activities with the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin are measured at fair value less costs to sell.

**(viii) Real Estate Held for Sale**

Real estate held for sale is real estate intended for sale in the ordinary course of business or in the process of construction or development for such sale.

Real estate held for sale is accounted for as inventories measured at the lower of cost (on a specific item basis) and net realizable value. Net realizable value is estimated by reference to sale proceeds of similar properties sold in the ordinary course of business less all estimated selling expenses around the reporting

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date, or by management estimates based on prevailing market conditions. The amount of any write-down of properties to net realizable value is recognized as an expense in the period the write-down occurs. The reversal of a write-down arising from an increase in net realizable value is recognized in the period in which the reversal occurs.

All of the Group's real estate held for sale is located in Europe.

**(ix) Investment Property**

Investment property is property that is held for generating rental income or for capital appreciation or both, rather than for: (a) use in the production or supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business. The Group's investment property comprises freehold land and buildings. Investment property is initially recognized at cost including related transaction costs. After initial recognition, investment property is measured at fair value, with changes in fair value recognized in profit or loss in the period in which they arise.

The Group determines fair value without any deduction for transaction costs it may incur on sale or other disposal. Fair value of the Group's investment property is based on valuations prepared annually by external evaluators in accordance with guidance issued by the International Valuation Standard Committee and reviewed by the Group, or these valuations are updated by management when there are no significant changes in the inputs to the valuation prepared by external evaluators in the preceding year, in accordance with guidance on fair value in IFRS 13.

**(x) Property, Plant and Equipment**

Property, plant and equipment are carried at cost, net of accumulated depreciation and, if any, accumulated impairment losses. The initial cost of an item of property, plant and equipment comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning obligation, if any, and, for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Where an item of property, plant and equipment or part of the item that was separately depreciated is replaced and it is probable that future economic benefits associated with the replacement item will flow to the Group, the cost of the replacement item is capitalized and the carrying amount of the replaced asset is derecognized. All other replacement expenditures are recognized in profit or loss when incurred.

Inspection costs associated with major maintenance programs are capitalized and amortized over the period to the next inspection. All other maintenance costs are expensed as incurred.

The depreciable amounts of the Group's property, plant, and equipment (i.e. the costs of the assets less their residual values) are depreciated according to the following estimated useful lives and methods:

	<b>Lives</b>	<b>Method</b>
Buildings	20 years	straight-line
Processing plant and equipment	5 to 20 years	straight-line
Refinery and power plants	20 to 30 years	straight-line
Office equipment and other	3 to 10 years	straight-line

Depreciation expense is included in costs of sales and services or selling, general and administrative expense, whichever is appropriate.

The residual value and the useful life of an asset are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes, if any, are accounted for as a change in an accounting estimate in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The depreciation method applied to an asset is reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method is changed to reflect the changed pattern.

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The carrying amount of an item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognized.

**(xi) Interests in Resource Properties**

The Group's interests in resource properties comprise exploration and evaluation assets (comprising hydrocarbon probable reserves and hydrocarbon unproved lands), hydrocarbon development and production assets and an interest in an iron ore mine.

**(a) Exploration and evaluation assets**

Exploration and evaluation costs, including the costs of acquiring undeveloped land and drilling costs are initially capitalized until the drilling of the well is complete and the results have been evaluated in order to determine the technical feasibility and commercial viability of the asset. Technical feasibility and commercial viability are considered to be determinable when proved and/or probable reserves are determined to exist. When proved and/or probable reserves are found, the drilling costs and the costs of associated hydrocarbon unproved lands are reclassified to hydrocarbon development and production assets or from hydrocarbon unproved lands to hydrocarbon probable reserves. The cost of hydrocarbon undeveloped land that expires or any impairment recognized during a period is charged to profit or loss. Pre-license costs are recognized in profit or loss as incurred.

**(b) Hydrocarbon development and production assets and an interest in an iron ore mine**

The Group's interests in resource properties include an interest in an iron ore mine and hydrocarbon development and production assets.

**(1) Recognition and measurement**

Interests in resource properties are initially measured at cost and subsequently carried at cost less accumulated depletion and, if any, accumulated impairment losses.

The cost of an interest in resource property includes the initial purchase price and directly attributable expenditures to find, develop, construct and complete the asset. This cost includes reclassifications from exploration and evaluation assets, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells. Any costs directly attributable to bringing the asset to the location and condition necessary to operate as intended by management and result in an identifiable future benefit are also capitalized. These costs include an estimate of decommissioning obligations and, for qualifying assets, capitalized borrowing costs.

**(2) Subsequent costs**

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. Such capitalized costs generally represent costs incurred in developing proved reserves and bringing in, or enhancing production from, such reserves and are accumulated on a field or geotechnical area basis. All other expenditures are recognized in profit or loss as incurred. The costs of periodic servicing of the properties are recognized in costs of sales and services as incurred.

The carrying amount of any replaced or sold component is derecognized.

**(3) Depletion**

The carrying amount of an interest in a resource property is depleted using the unit of production method by reference to the ratio of production in the period to the related reserves.

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For interests in hydrocarbon development and production assets, depletion is calculated based on proved producing reserves, taking into account estimated future development costs necessary to bring those reserves into production and the estimated salvage values of the assets at the end of their estimated useful lives. Future development costs are estimated taking into account the level of development required to continue to produce the reserves. Reserves for hydrocarbon development and production assets are estimated annually by independent qualified reserve evaluators and represent the estimated quantities of natural gas, natural gas liquids and crude oil which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. For depletion purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

For the royalty interest in an iron ore mine, depletion is calculated based on proved and probable reserves. The estimate of the reserves of iron ore is reviewed whenever significant new information about the reserve is available, or at least at each financial year-end.

**(xii) Impairment of Non-financial Assets**

The Group reviews the carrying amounts of its non-financial assets at each reporting date to determine whether there is any indication of impairment. If any such indication exists, an asset's recoverable amount is estimated.

The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Where an individual asset does not generate separately identifiable cash flows, an impairment test is performed at the cash-generating unit ("CGU") level. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Where the carrying amount of an asset (or CGU) exceeds its recoverable amount, the asset (or CGU) is considered impaired and written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, an appropriate valuation model is used. These calculations are corroborated by external valuation metrics or other available fair value indicators wherever possible.

An assessment is made at the end of each reporting period whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, an estimate of the assets (or CGU's) recoverable amount is reviewed. A previously recognized impairment loss is reversed to the extent that the events or circumstances that triggered the original impairment have changed. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, depletion and amortization, had no impairment loss been recognized for the asset in prior periods. A reversal of an impairment loss for a CGU is allocated to the assets of the CGU pro-rata with the carrying amounts of those assets.

Hydrocarbon probable reserves are tested for impairment when they are reclassified to hydrocarbon development and production assets or when indicators exist that suggest the carrying amount may exceed the recoverable amount. For purposes of impairment testing, hydrocarbon probable reserves are grouped with related producing resource properties as a CGU with common geography and geological characteristics.

Unproved lands are evaluated for indicators separately from hydrocarbon development and production assets and hydrocarbon probable reserves. Impairment is assessed by comparing the carrying amount of unproved lands to values determined by an independent land evaluator based on recent market transactions. Management also takes into account future plans for those properties, the remaining terms of the leases and any other factors that may be indicators of potential impairment.

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**Note 2. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

**(xiii) Defined Benefit Pension Plan**

Prior to October 1, 2017, the Group had defined benefit pension plans.

The Group recognizes an accrued pension obligation, which represents the deficit of a defined benefit pension plan and is calculated by deducting the fair value of plan assets from the present value of the defined benefit obligations, in the consolidated statement of financial position. When the Group has a surplus in a defined benefit plan, it measures the net defined benefit asset at the lower of: (a) the surplus in the defined benefit plan; and (b) the asset ceiling. The Group accounts not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the Group's informal practices. An asset relating to one plan is not offset against a liability relating to another plan.

The Group uses the projected unit credit method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. Actuarial assumptions are unbiased and mutually compatible and comprise demographic and financial assumptions.

Past service cost, which is the change in the present value of the defined benefit obligation for employee service in prior periods resulting from a plan amendment or curtailment, is recognized as an expense at the earlier of when the amendment/curtailment occurs or when the Group recognizes related restructuring or termination costs. The gain or loss on a settlement, which is the difference between the present value of the defined benefit obligation being settled and the settlement price, is recognized in profit or loss when the settlement occurs.

Current service cost and net interest on the accrued pension obligation are recognized in profit or loss.

Remeasurements of the accrued pension obligation, which comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)), are recognized in other comprehensive income and are not reclassified to profit or loss in a subsequent period.

**(xiv) Provisions and Contingencies**

Provisions are recognized when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date. Where appropriate, the future cash flow estimates are adjusted to reflect risks specific to the liability. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recorded as accretion and included in finance costs.

Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the Group. Contingent liabilities, other than those assumed in connection with business combinations which are measured at fair value at the acquisition date, are not recognized in the consolidated financial statements but are disclosed unless the possibility of an outflow of economic resources is considered remote. Legal costs in connection with a loss contingency are recognized in profit or loss when incurred.

The Group does not recognize a contingent or reimbursement asset unless it is virtually certain that the contingent or reimbursement asset will be received.

**(xv) Puttable Instrument Financial Liabilities**

A puttable financial instrument represents a contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset on exercise of the put. Puttable instruments held by non-controlling interests in a subsidiary are classified as a financial liability, which is recognized at an

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amount equal to the present value of the amount that could be required to be paid to the counterparties. Changes in the measurement of the obligation due to the unwinding of the discount or changes in the amount that the Group could be required to pay are recognized in profit or loss.

The financial liability is reclassified to equity when all the features of and conditions for classification as equity are met. At such time, equity is measured at the carrying amount of the financial liability at the date of reclassification.

**(xvi) Decommissioning Obligations**

The Group provides for decommissioning, restoration and similar liabilities (collectively, decommissioning obligations) on its resource properties, facilities, production platforms, pipelines and other facilities based on estimates established by current legislation and industry practices. The decommissioning obligation is initially measured at fair value and capitalized to interests in resource properties or property, plant and equipment as an asset retirement cost. The liability is estimated by discounting expected future cash flows required to settle the liability using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The estimated future asset retirement costs are adjusted for risks such as project, physical, regulatory and timing. The estimates are reviewed periodically. Changes in the provision as a result of changes in the estimated future costs or discount rates are added to or deducted from the asset retirement cost in the period of the change. The liability accretes for the effect of time value of money until it is settled. The capitalized asset retirement cost is amortized through depreciation, depletion and amortization over the estimated useful life of the related asset. Actual asset retirement expenditures are recorded against the obligation when incurred. Any difference between the accrued liability and the actual expenditures incurred is recorded as a gain or loss in the settlement period.

**(xvii) Own Equity Instruments**

The Group's holdings of its own equity instruments, including common stock and preferred stock, are presented as "treasury stock" and deducted from shareholders' equity at cost and in the determination of the number of equity shares outstanding. No gain or loss is recognized in profit or loss on the purchase, sale, re-issue or cancellation of the Group's own equity instruments.

**(xviii) Revenue Recognition**

Revenues include proceeds from sales of merchant banking products and services, real estate properties, medical instruments and supplies, rental income on investment property, interest and dividend income and net gains on securities. In an agency relationship, revenue is the amount of commission earned.

Revenue from the sale of goods is recognized when: (a) the Group has transferred to the buyer the significant risks and rewards of ownership of the goods (which generally coincides with the time when the goods are delivered to the buyer and title has passed); (b) the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (c) the amount of revenue can be measured reliably; (d) it is probable that the economic benefits associated with the transaction will flow to the Group; and (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from the rendering of services is recognized when: (a) the amount of revenue can be measured reliably; (b) it is probable that the economic benefits associated with the transaction will flow to the Group; (c) the stage of completion of the transaction at the reporting date can be measured reliably; and (d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, customs duties and sales taxes. When the Group charges shipping and handling fees to customers, such fees are included in sales revenue. Where the Group acts as an agent on behalf of a third party to procure or market goods, any associated fee income is recognized and no purchase or sale is recorded.

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Interest, royalty and dividend income are recognized when it is probable that economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is recognized using the effective interest method. Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreements. Dividend income is recognized when the Group's right as a shareholder to receive payment is established.

**(xix) Costs of Sales and Services**

Costs of sales and services include the costs of goods (merchant banking products and services, real estate properties, medical instruments and supplies) sold. The costs of goods sold include both the direct cost of materials and indirect costs, freight charges, purchasing and receiving costs, inspection costs, distribution costs and a provision for warranty when applicable.

Costs of sales and services also include write-downs of inventories, net loss on securities, credit losses on loans and receivables and fair value gain and loss on investment property, commodity inventories and derivative contracts.

The reversal of write-downs of inventories and allowance for credit losses reduces the costs of sales and services.

**(xx) Employee Benefits**

Wages, salaries, bonuses, social security contributions, paid annual leave and sick leave are accrued in the period in which the associated services are rendered by employees of the Group. The employee benefits are included in costs of sales and services or selling, general and administrative expenses, as applicable.

**(xxi) Leases**

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of the leased asset. Operating lease payments are expensed in profit or loss over the term of the lease on a straight line basis.

**(xxii) Share-Based Compensation**

The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments on the date at which the equity instruments are granted and is recognized as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by using an appropriate valuation model. At each reporting date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous reporting date is recognized in profit or loss, with a corresponding amount in equity.

When the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognized over the original vesting period. In addition, an expense is recognized over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognized if this difference is negative. When an equity-settled award is cancelled other than by forfeiture when the vesting conditions are not satisfied, it is treated as if it had vested on the date of cancellation and any cost not yet recognized in profit or loss for the award is expensed immediately.

Share-based compensation expenses are included in selling, general and administrative expenses. When stock options are exercised, the exercise price proceeds together with the amount initially recorded in contributed surplus are credited to capital stock.

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**(xxiii) Finance Costs**

Finance costs comprise interest expense on borrowings, accretion of the discount on provisions, decommissioning obligations and other liabilities and charges and fees relating to factoring transactions.

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other finance costs are recognized in profit or loss in the period in which they are incurred.

Capital stock and debt are recorded at the amount of proceeds received, net of direct issue costs (transaction costs). The transaction costs attributable to debt issued are amortized over the debt term using the effective interest method.

**(xxiv) Income Taxes**

Income tax expense (recovery) comprises current income tax expense (recovery) and deferred income tax expense (recovery) and includes all domestic and foreign taxes which are based on taxable profits. The current income tax provision is based on the taxable profits for the period. Taxable profit differs from income before income taxes as reported in the statements of operations because it excludes items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. The Group's liability for current income tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date. Deferred income tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the consolidated statement of financial position.

Deferred income tax liabilities are recognized for all taxable temporary differences:

- except where the deferred income tax liability arises on goodwill that is not tax deductible or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- in respect of taxable temporary differences associated with investments in subsidiaries and branches, except where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized:

- except where the deferred income tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- in respect of deductible temporary differences associated with investments in subsidiaries and branches, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future.

On the reporting date, management reviews the Group's deferred income tax assets to determine whether it is probable that the benefits associated with these assets will be realized. The Group also reassesses unrecognized deferred income tax assets. The review and assessment involve evaluating both positive and negative evidence. The Group recognizes a previously unrecognized deferred income tax asset to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Tax relating to items recognized in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss.

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Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current income tax assets against current income tax liabilities, and when they relate to income tax levied by the same taxation authority and the Group intends to settle its current income tax assets and liabilities on a net basis.

Withholding taxes (which include withholding taxes payable by a subsidiary on distributions to the Group) are treated as income taxes when they have the characteristics of an income tax. This is considered to be the case when they are imposed under government authority and the amount payable is calculated by reference to revenue derived.

The Group includes interest charges and penalties on current income tax liabilities as a component of interest expense.

**(xxv) Earnings Per Share**

Basic earnings per share is determined by dividing net income attributable to ordinary equity holders of MFC Bancorp by the weighted average number of common shares outstanding during the period, net of treasury stock.

Diluted earnings per share is determined using the same method as basic earnings per share, except that the weighted average number of common shares outstanding includes the effect of dilutive potential ordinary shares. For the purpose of calculating diluted earnings per share, the Group assumes the exercise of its dilutive options with the assumed proceeds from these instruments regarded as having been received from the issue of common shares at the average market price of common shares during the period. The difference between the number of common shares issued and the number of common shares that would have been issued at the average market price of common shares during the period is treated as an issue of common shares for no consideration and added to the weighted average number of common shares outstanding. The amount of the dilution is the average market price of common shares during the period minus the issue price and the issue price includes the fair value of services to be supplied to the Group in the future under the share-based payment arrangement. Potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

When share-based payments are granted during the period, the shares issuable are weighted to reflect the portion of the period during which the payments are outstanding. The shares issuable are also weighted to reflect forfeitures occurring during the period. When stock options are exercised during the period, shares issuable are weighted to reflect the portion of the period prior to the exercise date and actual shares issued are included in the weighted average number of shares outstanding from the exercise date.

**(xxvi) Business Combinations**

The Group accounts for each business combination by applying the acquisition method. Pursuant to the acquisition method, the Group, when a business combination occurs and it is identified as the acquirer, determines the acquisition date (on which the Group legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree), recognizes and measures the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree, and recognizes and measures goodwill or a gain from a bargain purchase (i.e. negative goodwill). The identifiable assets acquired and the liabilities assumed are measured at their acquisition-date fair values. A non-controlling interest is measured at either its fair value or its proportionate share in the recognized amounts of the subsidiary's identifiable net assets, on a transaction-by-transaction basis.

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, the liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group.

In a business combination achieved in stages, the Group remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognizes the resulting gain or loss, if any, in profit or loss.

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**Note 2. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group retrospectively adjusts the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the Group also recognizes additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Group receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period does not exceed one year from the acquisition date.

Acquisition-related costs are costs the Group incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. The Group accounts for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, except for the costs to issue debt or equity securities (see Significant Accounting Policy Item (xxiii) above).

**C. Critical Judgments in Applying Accounting Policies**

In the process of applying the Group's accounting policies, management makes various judgments, apart from those involving estimations under Note 2D below, that can significantly affect the amounts it recognizes in the consolidated financial statements. The following are the critical judgments that management has made in the process of applying the Group's accounting policies and that have the most significant effects on the amounts recognized in the consolidated financial statements:

**(i) Identification of Cash-generating Units**

The Group's assets are aggregated into CGUs, for the purpose of assessing and calculating impairment, based on their ability to generate largely independent cash flows. The determination of CGUs requires judgment in defining the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs have been determined based on similar geological structure, shared infrastructure, geographical proximity, product type and similar exposure to market risks. In the event facts and circumstances surrounding factors used to determine the Group's CGUs change, the Group will re-determine the groupings of CGUs.

**(ii) Assets Held for Sale and Discontinued Operations**

The Group applies judgment to determine whether an asset (or disposal group) is available for immediate sale in its present condition and that its sale is highly probable and therefore should be classified as held for sale at the balance sheet date. In order to assess whether it is highly probable that the sale can be completed within one year, or the extension period in certain circumstances, management reviews the business and economic factors, both macro and micro, which include the industry trends and capital markets, and the progress towards a sale transaction. It is also open to all forms of sales, including exchanges of non-current assets for other non-current assets when the exchange will have commercial substance in accordance with IAS 16, *Property, Plant and Equipment*.

A discontinued operation is a component of an entity (which comprises operations and cash flows that can be clearly distinguished, operationally and, for financial reporting purposes, from the rest of the entity) that either has been disposed of or is classified as held for sale. While a component of the entity has distinguished financial data, judgments must be exercised on the presentation of inter-company transactions between components that are presented as discontinued operations and those that are presented as continuing operations. Furthermore, the allocation of income tax expense (recovery) also involves the exercise of judgments as the tax position of continuing operations may have an impact on the tax position of discontinued operations, or vice versa.

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**Note 2. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

**(iii) Consolidation**

Judgment is required when assessing whether the Group controls and therefore consolidates an entity, particularly an entity with complex share capital, management/decision-making or financing structures. Judgment is required to determine whether the Group has decision-making power over the key relevant activities of an investee, whether the Group has exposure or rights to variable returns from its involvement with the investee and whether the Group has the ability to use that power to affect its returns.

**(iv) Purchase Price Allocations**

For each business combination, the Group measures the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values. The determination of fair value requires the Group to make assumptions, estimates and judgments regarding future events, including the profit forecast of the new subsidiary in the future. The allocation process is inherently subjective and impacts the amounts assigned to individual identifiable assets and liabilities, including the fair value of long-lived assets, the recognition and measurement of any unrecorded intangible assets and/or contingencies and the final determination of the amount of goodwill or bargain purchase. The inputs to the exercise of judgments include legal, contractual, business and economic factors. As a result, the purchase price allocation impacts the Group's reported assets and liabilities and future net earnings due to the impact on future depreciation, depletion and amortization and impairment tests.

**(v) Impairment of Receivables**

A receivable is considered impaired when there is objective evidence that there has been a deterioration of credit quality subsequent to the initial recognition of the receivable to the extent the Group no longer has reasonable assurance as to the timely collection of the full amount of principal and interest. The Group assesses receivables for objective evidence of impairment individually for receivables that are individually significant, and collectively for receivables that are not individually significant. Management exercises judgment as to the timing of designating a receivable as impaired, the amount of the allowance required and the amount that will be recovered by taking into consideration collateral that is directly linked to the receivable.

**D. Major Sources of Estimation Uncertainty**

The timely preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

The major assumptions about the future and other major sources of estimation uncertainty at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. These items require management's most difficult, subjective or complex estimates. Actual results may differ materially from these estimates.

**(i) Interests in Resource Properties and Reserve Estimates**

The Group had interests in resource properties with an aggregate carrying amount of \$92,551 as at December 31, 2017.

Estimation of reported recoverable quantities of proved and probable reserves include judgmental assumptions regarding production profile, prices of products produced, exchange rates, remediation costs, timing and amount of future development costs and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in anticipated recoveries. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying amounts of the Group's interests in resource properties and/or property, plant and equipment, the recognition of impairment losses and reversal of impairment losses, the calculation of depletion and depreciation, the provision for

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**Note 2. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

decommissioning obligations and the recognition of deferred income tax assets or liabilities due to changes in expected future cash flows. The recoverable quantities of reserves and estimated cash flows from the Group's hydrocarbon interests are independently evaluated by reserve engineers at least annually.

The Group's hydrocarbon reserves represent the estimated quantities of petroleum, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be economically recoverable in future years from known reservoirs and which are considered commercially producible. Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon: (a) a reasonable assessment of the future economics of such production; (b) a reasonable expectation that there is a market for all or substantially all the expected hydrocarbon production; and (c) evidence that the necessary production, transmission and transportation facilities are available or can be made available. Reserves may only be considered proven and probable if producibility is supported by either production or conclusive formation tests.

Included in interests in resource properties as at December 31, 2017, were exploration and evaluation assets with an aggregate carrying amount of \$21,702. Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount and upon reclassification to hydrocarbon development and production assets. If such indicators exist, impairment, if any, is determined by comparing the carrying amounts to the recoverable amounts. The measurement of the recoverable amount involves a number of assumptions, including the timing, likelihood and amount of commercial production, further resource assessment plans and future revenue and costs expected from the asset, if any.

**(ii) Impairment of Other Non-financial Assets**

The Group had property, plant and equipment aggregating \$83,954 as at December 31, 2017, consisting mainly of two power plants and a natural gas processing facility. Impairment of the Group's non-financial assets is evaluated at the CGU level. In testing for impairment, the recoverable amounts of the Company's CGUs are determined as the higher of their values in use and fair values less costs of disposal. In the absence of quoted market prices, the recoverable amount is based on estimates of future production rates, future product selling prices and costs, discount rates and other relevant assumptions. Increases in future costs and/or decreases in estimates of future production rates and product selling prices may result in a write-down of the Group's property, plant and equipment.

**(iii) Taxation**

The Group is subject to tax in a number of jurisdictions and judgment is required in determining the worldwide provision for income taxes. Deferred income taxes are recognized for temporary differences using the liability method, with deferred income tax liabilities generally being provided for in full (except for taxable temporary differences associated with investments in subsidiaries, branches and associates and interests in joint arrangements where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future) and deferred income tax assets being recognized to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized.

The operations and organization structures of the Group are complex, and related tax interpretations, regulations and legislation are continually changing. As a result, there are usually some tax matters in question that result in uncertain tax positions. The Group only recognizes the income tax benefit of an uncertain tax position when it is probable that the ultimate determination of the tax treatment of the position will result in that benefit being realized.

The Group companies' income tax filings are subject to audit by taxation authorities in numerous jurisdictions. There are audits in progress and items under review, some of which may increase the Group's income tax liabilities. In addition, the companies have filed appeals and have disputed certain issues. While the results of these items cannot be ascertained at this time, the Group believes that the Group has an adequate provision for income taxes based on available information.

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**Note 2. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

The Group recognized deferred income tax assets of \$16,694 as at December 31, 2017. In assessing the realizability of deferred income tax assets, management considers whether it is probable that some portion or all of the deferred income tax assets will be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible or before tax loss and tax credit carry-forwards expire. Management considers the future reversals of existing taxable temporary differences, projected future taxable income, taxable income in prior years and tax planning strategies in making this assessment. Unrecognized deferred income tax assets are reassessed at the end of each reporting period.

The Group provides for future income tax liabilities in respect of uncertain tax positions where additional income tax may become payable in future periods and such provisions are based on management's assessment of exposure. The Group did not recognize the full deferred tax liability on taxable temporary differences associated with investments in subsidiaries and branches where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. The Group may change its investment decision in its normal course of business, thus resulting in additional income tax liabilities.

**(iv) Contingencies**

Pursuant to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, the Group does not recognize a contingent liability. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events. If it becomes probable that an outflow of future economic benefits will be required for an item previously accounted for as a contingent liability, an accrual or a provision is recognized in the consolidated financial statements of the period in which the change in probability occurs. See Note 26 for further disclosures on contingencies.

**(v) Allowance for Credit Losses**

The Group applies credit risk assessment and valuation methods to its trade and other receivables (see Note 2B(vi)). In February 2016, a customer of the Group filed for insolvency, which was an adjusting subsequent event in 2015 under IAS 10, and, as a result, the Group had to determine an allowance for credit losses against the trade receivables due from the customer and its affiliates, the provisions under certain guarantees which the Group had issued and the potential recoveries as at December 31, 2015. The recognition and measurement of these provisions was a complex process, involving a significant degree of judgment and a high level of estimation uncertainty. The factors considered include the Group's legal rights and obligations under all the contracts and collateral which include inventories, mortgages and other credit enhancement instruments. After the recognition of impairment losses, the Group had net trade receivables of \$21,375 due from the customer and its affiliates as at December 31, 2017 (see Note 7).

**E. Accounting Changes**

**Future Accounting Changes**

IFRS 9, *Financial Instruments*, ("IFRS 9"), issued in July 2014, is the IASB's replacement for IAS 39. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The version of IFRS 9 issued in 2014 supersedes all previous versions and is mandatorily effective for annual reporting periods beginning on or after January 1, 2018. Management completed its assessment of the impacts of IFRS 9 on the Group's consolidated financial statements and does not expect that IFRS 9 will have significant impacts on the Group's consolidated financial statements except for additional disclosures. Accumulated other comprehensive income of \$526 on available-for-sale equity securities will be reclassified to opening deficit upon the initial adoption of IFRS 9. In accordance with the transition rules of IFRS 9, the Group will not restate its consolidated financial statements for prior periods but will recognize the difference between the previous carrying amount and the revised carrying amount on initial application of IFRS9 in opening deficit as at January 1, 2018.

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**Note 2. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

IFRS 15, *Revenue from Contracts with Customers* (“IFRS 15”), specifies how and when an entity will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018. Management completed its assessment of the impacts of IFRS 15 on the Group’s consolidated financial statements and does not expect that IFRS 15 will have significant impacts on the Group’s consolidated financial statements except for additional disclosures.

IFRS 16, *Leases* (“IFRS 16”), issued in January 2016, introduces a single on-balance sheet model of accounting for leases by lessees that eliminates the distinction between operating and finance leases. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17, *Leases*, and related interpretations and is effective for annual reporting periods beginning on or after January 1, 2019, with earlier application permitted if IFRS 15 has also been applied. Management will adopt IFRS 16 in 2019 and is currently assessing the impacts of IFRS 16 on the Group’s consolidated financial statements.

**Note 3. Capital Disclosure on the Group’s Objectives, Policies and Processes for Managing Its Capital Structure**

The Group’s objectives when managing capital are to: (a) safeguard the entity’s ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; (b) provide an adequate return to shareholders by pricing products and services commensurately with the level of risk; and (c) maintain a flexible capital structure which optimizes the cost of capital at acceptable risk.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the merchant banking industry, the Group monitors capital on the basis of the debt-to-adjusted capital ratio and long-term debt-to-equity ratio. The debt-to-adjusted capital ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total debt less cash and cash equivalents. Adjusted capital comprises all components of shareholders’ equity. The long-term debt-to-equity ratio is calculated as long-term debt divided by shareholders’ equity. Debt does not include short-term bank borrowings.

<b>As at December 31:</b>	<b>2017</b>	<b>2016</b>
Total debt	\$ 43,733	\$ 116,813
Less: cash and cash equivalents	(74,870)	(120,676)
Net debt	Not applicable	Not applicable
Shareholders’ equity	277,780	327,520
Debt-to-adjusted capital ratio	Not applicable	Not applicable
<b>As at December 31:</b>	<b>2017</b>	<b>2016</b>
Long-term debt	\$ —	\$ 80,564
Shareholders’ equity	277,780	327,520
Long-term debt-to-equity ratio	Not applicable	0.25

During 2017, the Group’s strategy, which was unchanged from 2016, was to maintain the debt-to-adjusted capital ratio and the long-term debt-to-equity ratio at a manageable level. The decrease in the ratios in 2017 (i.e. not applicable) reflects the reduction in debt. The terms and conditions of the Group’s debt agreements include, and future debt agreements may include, covenants and restrictions of a customary nature for such agreements.

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**Note 4. Acquisitions of Consolidated Entities**

**Year 2017**

Effective October 1, 2017, the Group completed the acquisition of a metal processing company based in Europe. Pursuant to the transaction, the Group acquired the company which equaled the fair values of the identifiable assets acquired and the liabilities assumed on the closing date. Goodwill of \$502 was recognized upon the acquisition of the metal processing company. The amount of acquisition-related costs was nominal, which was included in selling, general and administrative expenses in profit or loss. This acquisition was not considered a material business combination and did not have material impact on the Group's financial position.

**Year 2016**

Effective February 1, 2016, the Group completed the acquisition of a western European bank, MFC Merchant Bank Ltd. (the "Bank"). Pursuant to the transaction, the Group acquired the Bank for total purchase consideration of \$142,419 which equaled the fair values of the identifiable assets acquired and the liabilities assumed on the closing date. There were no goodwill or intangible assets acquired. The amount of acquisition-related costs was nominal, which was included in selling, general and administrative expenses in profit or loss. This acquisition was not considered a material business combination and did not have material impact on the Group's financial position.

**Year 2015**

There were no business combinations in 2015.

**Note 5. Assets Classified as Held for Sale and Discontinued Operations**

In 2015, the Board of Directors of the Company approved a plan to sell all of the Group's resource properties. The assets of the disposal groups were classified as assets held for sale effective September 30, 2015 in compliance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*.

On June 30 and September 30, 2016, the Group ceased to classify the remaining disposal groups as held for sale as the criteria for assets classified as held for sale were no longer met. Accordingly, the results of operations of these disposal groups for the years ended December 31, 2015 have been reclassified to continuing operations.

On December 31, 2016, the Group reclassified the assets and liabilities of a commodities trading subsidiary as held for sale. The sale was completed in 2017.

The major assets and liabilities of the commodities trading subsidiary as at December 31, 2016 comprised the following:

Current assets	\$ 42,293
Non-current assets	3,374
Total assets held for sale	45,667
Debt	(20,140)
Other liabilities	(9,757)
Total liabilities relating to assets held for sale	(29,897)
Net assets held for sale	\$ 15,770

The Group's discontinued operations for the year ended December 31, 2015 comprised certain hydrocarbon properties and an iron ore interest, both of which were included in the Company's merchant banking reportable business segment.

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**Note 5. Assets Classified as Held for Sale and Discontinued Operations (continued)**

The following summarizes the results of the discontinued operations for the year ended December 31, 2015. The Group did not have discontinued operations in 2017 and 2016.

	<u>2015</u>	<u>2015</u>
	<u>Hydrocarbon properties</u>	<u>Iron ore interest</u>
Revenues	\$ 62,384	\$ —
Costs and expenses	(215,779)	(27,397)
Loss before income taxes	(153,395)	(27,397)
Income tax expense	(48,623)	—
Net loss from discontinued operations	(202,018)	(27,397)
Loss on disposal of assets	—	—
Income tax expense	(11,987)	—
Net loss on disposal of assets	(11,987)	—
Total loss from discontinued operations	<u>\$ (214,005)</u>	<u>\$ (27,397)</u>

All intercompany transactions with continuing operations, except for those that have continued subsequent to dispositions, have been eliminated. Costs and expenses for the years ended December 31, 2015 included the following non-cash impairment losses (before income taxes) on tangible assets and resource properties:

	<u>2015</u>
Hydrocarbon properties	\$148,877
Interest in an iron ore development project	27,397
Gross impairment	<u>\$176,274</u>

**Hydrocarbon properties**

In September 2015, the Group's realized pricing for natural gas, natural gas liquids and oil had declined since December 31, 2014. As such, as at September 30, 2015, the Group performed an impairment assessment on its hydrocarbon properties utilizing post-tax discount rates between 10% and 13% and recognized total non-cash impairment losses of \$143,609. As a result of the impairment charge, a previously recorded deferred tax asset of \$50,918 had to be written off. The non-cash impairment losses comprised \$46,715 allocated to development and production assets, \$16,108 to probable reserves, \$33,114 to property, plant and equipment and \$47,672 to the properties previously included in assets held for sale. Of the gross impairment losses of \$143,609, impairment losses of \$47,672 were included in continuing operations, with the remaining impairment losses of \$95,937 (before an associated deferred income tax expense of \$50,918) attributable to discontinued operations. In the fourth quarter of 2015, the Group recognized an additional impairment loss of \$52,940 in discontinued operations.

On December 30, 2015, the Group sold a 95% economic interest in certain hydrocarbon assets and the related liabilities to a third party for nominal and contingent consideration. Based on the terms of the transaction, the Group continued to be the registered holder of the entities holding these assets and liabilities but lost the power to direct the business activities of these entities. As such, effective December 30, 2015 the Group ceased consolidating these entities (the former subsidiaries). No gain or loss was recognized upon the disposition. However, a deferred income tax expense of \$11,987 was recognized resulting from the write-off of previously recognized deferred income tax assets. Furthermore, as a result of the deconsolidation of the former subsidiaries, a net receivable of \$11,600 due from the former subsidiaries was recognized as at December 31, 2015 as the amount was no longer eliminated within the Group and was included in assets held for sale. The remaining economic interest was recognized at a nominal value as at December 31, 2015.

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**Note 5. Assets Classified as Held for Sale and Discontinued Operations (continued)**

**Interest in an iron ore development project**

In the third quarter of 2015, the Group reviewed the cash flow projections for the iron ore development project located in the United States. Given the reduced viability of this project, high capital cost to complete requisite studies and management's business focus on trade finance banking activities, management determined that an impairment loss of \$27,397 was required, before a deferred income tax recovery of \$nil, as at September 30, 2015, to write down the carrying amount of its interest to a nominal amount. The impairment loss was included in the results of discontinued operations. The interest was sold during 2016.

**Note 6. Business Segment Information**

The Group is primarily in the merchant banking business, which includes marketing activities, captive supply assets, financial services and proprietary investing activities.

In reporting to management, the Group's operating results are categorized into the following operating segments: merchant banking and all other segments.

**Basis of Presentation**

In reporting segments, certain of the Group's business lines have been aggregated where they have similar economic characteristics and are similar in each of the following areas: (a) the nature of the products and services; (b) the methods of distribution; and (b) the types or classes of customers/clients for the products and services.

The Group's merchant banking segment includes its marketing activities, captive supply assets, structured solutions, financial services and proprietary investing activities. The Group is a merchant bank that provides financial services and facilitates structured trade for corporations and institutions. The Group specializes in markets that are not adequately addressed by traditional sources of supply and finance, with an emphasis on providing solutions for small and medium sized enterprises. The Group's merchant banking business operates in multiple geographies, and participates in industries including manufacturing and natural resources. The Group also seeks investments in many industries, emphasizing those business opportunities where the perceived intrinsic value is not properly recognized. The Group uses its financial and management expertise to add or unlock value within a relatively short time period.

The all other segment includes the Group's corporate and operating segments whose quantitative amounts do not exceed 10% of any of the Group's: (a) reported revenue; (b) net income; or (c) total assets. The Group's all other operating segment primarily includes business activities in medical equipment, instruments, supplies and services.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies in Note 2B. The chief operating decision maker evaluates performance on the basis of income or loss from operations before income taxes and does not consider acquisition accounting adjustments in assessing the performance of the Group's reporting segments. The segment information presented below is prepared according to the following methodologies: (a) revenues and expenses directly associated with each segment are included in determining pre-tax earnings; (b) intersegment sales and transfers are accounted for as if the sales or transfers were to third parties at current market prices; (c) certain selling, general and administrative expenses paid by corporate, particularly incentive compensation and share-based compensation, are not allocated to reporting segments; (d) all intercompany investments, receivables and payables are eliminated in the determination of each segment's assets and liabilities; and (e) deferred income tax assets and liabilities are not allocated.

All data and discussions on revenues, expenses, income and loss in this Note 6 relate to the Group's continuing operations only and do not include discontinued operations.

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**Note 6. Business Segment Information (continued)**

**Segment Operating Results**

	Year ended December 31, 2017		
	Merchant banking	All other	Total
Revenues from external customers	\$ 256,412	\$ 17,623	\$ 274,035
Intersegment sale	1,668	204	1,872
Interest expense	4,931	—	4,931
Loss before income taxes	(28,254)	(10,153)	(38,407)

  

	Year ended December 31, 2016		
	Merchant banking	All other	Total
Revenues from external customers	\$ 1,095,896	\$ 35,761	\$ 1,131,657
Intersegment sale	1,975	360	2,335
Interest expense	15,751	—	15,751
Loss before income taxes	(13,785)	(2,921)	(16,706)

  

	Year ended December 31, 2015		
	Merchant banking	All other	Total
Revenues from external customers	\$ 1,593,879	\$ 35,221	\$ 1,629,100
Intersegment sale	1,705	175	1,880
Interest expense	17,631	11	17,642
Loss before income taxes	(290,342)	(453)	(290,795)

  

	As at December 31, 2017		
	Merchant banking	All other	Total
Segment assets	\$ 343,649	\$ 53,298	\$ 396,947

  

	As at December 31, 2016		
	Merchant banking	All other	Total
Segment assets (recast)	\$ 589,017	\$ 61,321	\$ 650,338

  

	As at December 31, 2017		
	Merchant banking	All other	Total
Segment liabilities	\$ 106,713	\$ 10,285	\$ 116,998

  

	As at December 31, 2016		
	Merchant banking	All other	Total
Segment liabilities (recast)	\$ 306,206	\$ 14,702	\$ 320,908

**Geographic Information**

Due to the highly integrated nature of international products and services, merchant banking activities and markets, and a significant portion of the Group's activities requiring cross-border coordination in order to serve the Group's customers and clients, the methodology for allocating the Group's profitability to geographic regions is dependent on estimates and management judgment.

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**Note 6. Business Segment Information (continued)**

Geographic results are generally determined as follows:

<u>Segment</u>	<u>Basis for attributing revenues</u>
Merchant banking	Locations of external customers or the reporting units, whichever is appropriate
All other	Locations of the reporting units

Due to the nature of cross-border business, the Group presents its geographic information by geographic regions, instead of by countries. The following table presents revenues from external customers attributed to MFC Bancorp's country of domicile and all foreign geographic regions from which the Group derives revenues:

<u>Years ended December 31:</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cayman Islands (country of domicile since July 2017)	\$ —	\$ —	\$ —
Canada (country of domicile until July 2017)	19,595	28,328	77,199
Germany (country generating the largest revenues)	122,643	280,552	473,835
Africa	4,283	32,519	26,376
Americas	22,446	256,598	309,217
Asia	14,894	113,821	176,766
Europe	90,174	419,839	564,669
Other	—	—	1,038
	<u>\$ 274,035</u>	<u>\$ 1,131,657</u>	<u>\$ 1,629,100</u>

Except for the geographic concentrations as indicated in the above table, there were no other revenue concentrations in 2017, 2016 and 2015.

The following table presents non-current assets other than financial instruments, deferred income tax assets and other non-current assets by geographic area based upon the location of the assets. The table excludes assets classified as held for sale under IFRS 5.

<u>As at December 31:</u>	<u>2017</u>	<u>2016</u>
Canada (country having the largest non-current assets)	\$ 144,452	\$ 138,281
Africa	32,258	31,710
Americas	—	876
Asia	889	6,957
Europe	52,501	49,464
	<u>\$ 230,100</u>	<u>\$ 227,288</u>

**Note 7. Trade Receivables**

<u>As at December 31:</u>	<u>2017</u>	<u>2016</u>
Trade receivables, gross amount	\$ 43,207	\$ 194,450
Less: Allowance for credit losses	(8,948)	(58,488)
Trade receivables, net amount	<u>\$ 34,259</u>	<u>\$ 135,962</u>

Trade receivables primarily arise from merchant banking activities.

The Group has two non-recourse factoring arrangements with banks for trade receivables (see Note 15).

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**Note 7. Trade Receivables (continued)**

As at December 31, 2017, trade receivables of \$11,352 (2016: \$25,949) were past due but not impaired. The aging analyses of these trade receivables as at December 31, 2017 and 2016 are as follows:

<b>Past-due</b>	<b>2017</b>	<b>2016</b>
Below 30 days	\$ 7,322	\$ 6,767
Between 31 and 60 days	728	1,847
Between 61 and 90 days	1,175	799
Between 91 and 365 days	1,813	16,491
Over 365 days	314	45
	<u>\$ 11,352</u>	<u>\$ 25,949</u>

As at December 31, 2017, trade receivables of \$30,337 (2016: \$156,243) were impaired and an allowance for credit losses of \$8,948 (2016: \$58,488) has been provided. Not all past-due account balances are uncollectible as most of the accounts are covered by credit insurance or other collection procedures. Credit risk from trade account receivables is mitigated since they are credit insured, covered by letters of credit, bank guarantees and/or other credit enhancements (see Note 29).

The aging analyses of impaired trade receivables as at December 31, 2017 and 2016 are as follows:

<b>Past-due</b>	<b>2017</b>	<b>2016</b>
Below 30 days	\$ —	\$ 7,690
Between 31 and 60 days	—	489
Between 61 and 90 days	—	745
Between 91 and 365 days	—	131,946
Over 365 days	30,337	15,373
	<u>30,337</u>	<u>156,243</u>
Allowance for credit losses	<u>(8,948)</u>	<u>(58,488)</u>
Expected recoverable amount of impaired trade receivables <sup>(1)</sup>	<u>\$ 21,389</u>	<u>\$ 97,755</u>

(1) The recoverable amount of impaired trade receivables is covered by credit insurance, bank guarantees and/or other credit enhancements and, therefore, management of the Group believes this entire net amount to be collectible in the ordinary course of business.

The Group considers credit mitigation instruments when measuring credit impairment and determining the allowance for credit losses. The movements in the allowance for credit losses during the years ended December 31, 2017 and 2016 were as follows:

	<b>2017</b>	<b>2016</b>
Balance, beginning of the year	\$ 58,488	\$ 21,210
Additions	12,213	46,601
Reversals	(1,541)	(1,185)
Write-offs	(7,726)	(1,529)
Disposition of subsidiaries	(33,999)	—
Other	(21,099)	(5,123)
Currency translation adjustment	2,612	(1,486)
Balance, end of the year	<u>\$ 8,948</u>	<u>\$ 58,488</u>

In February 2016, a customer of the Group filed for insolvency. This was an adjusting subsequent event under IAS 10 and, as a result, the Group had to determine an allowance for credit losses against the Group's trade receivables due from this customer and its affiliates (the "customer group") as at

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**Note 7. Trade Receivables (continued)**

December 31, 2015. As at December 31, 2015, the Group had gross trade receivables of \$103,300 due from the customer group as well as other contracts with such customer. The Group conducted an extensive assessment of impairment losses on these trade receivables. This assessment involved a number of judgments and a high level of estimation uncertainty. The factors considered in these estimates include the Group's legal rights and obligations under all related contracts and collateral, which include inventories, mortgages, insurance of collateral and other credit enhancement instruments. The Group recognized an allowance for credit losses of \$10,705 in connection with the customer group as at December 31, 2015. After the recognition of such impairment losses, the Group had net trade receivables of \$92,595 due from the customer group as at December 31, 2015.

During the year ended December 31, 2016, the Group received proceeds of \$39,149 from risk mitigation assets, of which \$35,121 was credited to profit or loss through a recovery of credit losses and the remainder was credited to trade receivables.

As at December 31, 2016, management of the Group reviewed the underlying contracts, legal documents, credit enhancement instruments and collateral to assess the recoverability of the outstanding amounts. This assessment required management to make certain assumptions regarding possible future outcomes and carries a degree of estimation uncertainty. While management of the Group believes that these receivables are collectable, a wide range of possible outcomes were considered in its analysis, which resulted in a probability-weighted valuation below the gross carrying amount. Therefore, management of the Group recognized a cumulative allowance for credit losses of \$43,943 in connection with this former customer group as at December 31, 2016, including an additional provision of \$33,301 which was recognized during the second quarter of 2016. The resulting carrying amount was most sensitive to the assumptions regarding the likelihood of recovering amounts based on the various sources of collateral. The timing of the resolution of the uncertainty related to the recoverability of these receivables was dependent on the legal processes being followed to recovering these amounts. After the recognition of such impairment losses, the Group had net trade receivables of \$100,008 due from this former customer group as at December 31, 2016.

During 2017, management of the Group continued to monitor and assess the collectability of the receivables. As a result of such reviews, the Group reversed and credited an allowance of \$1,541 to profit or loss in the third quarter. During the fourth quarter, the Group disposed of certain subsidiaries which had trade receivables due from this former customer group (see Note 27). Furthermore, the Group increased the valuation allowance by \$224 based on its revision of expected future cash flows. As such, the Group had net trade receivables of \$21,375 due from this former customer group as at December 31, 2017.

**Note 8. Other Receivables**

<u>As at December 31:</u>	<u>2017</u>	<u>2016</u>
Royalty income	\$ 4,525	\$ 4,000
Receivables from insurance company/supplier	—	2,110
Suppliers with debit balance	293	9,670
Loans	321	7,763
Other	16,551	11,708
	<u>\$21,690</u>	<u>\$35,251</u>

Other receivables primarily arise in the normal course of business and are expected to be collected within one year from the reporting date.

Royalty income receivables included \$5,300 due from the former operator of the Wabush mine which commenced Companies' Creditors Arrangement Act (Canada) (the "CCAA") proceedings in 2015. In July 2017, the former operator sold the mine assets to a new operator. The new operator mine has disclosed its intention to re-commence mining operations and has remitted the quarterly minimum payments since the second quarter of 2017 to the Group. Future minimum payments by the new operator are not subject to the CCAA Proceedings. Management of the Group reviewed the facts relating to the royalty receivable due

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**Note 8. Other Receivables (continued)**

from the former operator with its legal advisors and determined that there was a high probability of recovery as the payments were held in trust in accordance with a court order and the Group's assessment that the former operator's application was without merit. However, the court issued a judgment in March 2018, which was not in favor of the Group and the Group is in the process of appealing the same. As a result of such initial court judgment, the Group has provided \$1,425 as a valuation allowance for the royalty income receivables.

In addition, during the year ended December 31, 2017, other receivables of \$10,324, mainly relating to finance and loan receivables from a former hydrocarbon subsidiary, (2016: \$11,296) were written off.

**Note 9. Inventories**

<u>As at December 31:</u>	<u>2017</u>	<u>2016</u>
Raw materials	\$3,632	\$ 5,404
Work-in-progress	3,444	289
Finished goods	1,440	10,488
Commodity inventories	1,310	15,184
Other	—	589
	<u>\$9,826</u>	<u>\$31,954</u>
Comprising:		
Inventories contracted at fixed prices or hedged	\$1,475	\$21,071
Inventories – other	8,351	10,883
	<u>\$9,826</u>	<u>\$31,954</u>

**Note 10. Deposits, Prepaid and Other**

<u>As at December 31:</u>	<u>2017</u>	<u>2016</u>
Prepayments and deposits for inventories	\$ 303	\$ 11,117
Other	2,075	1,078
	<u>\$ 2,378</u>	<u>\$ 12,195</u>

**Note 11. Investment Property**

All of the Group's investment property is located in Europe.

<u>Changes in investment property included in non-current assets:</u>	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 35,663	\$ 37,873
Change in fair value during the year	(26)	(39)
Disposals	(194)	—
Currency translation adjustments	2,217	(2,171)
Balance, end of year	<u>\$ 37,660</u>	<u>\$ 35,663</u>

The amounts recognized in profit or loss in relation to investment property during the years ended December 31, 2017, 2016 and 2015 are as follows:

<u>Years ended December 31:</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Rental income	\$ 1,510	\$ 1,511	\$ 1,474
Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the year	256	226	279

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**Note 12. Property, Plant and Equipment**

The following changes in property, plant and equipment were recorded during the year ended December 31, 2017:

Costs	Opening balance	Additions	Disposals	Dispositions of subsidiaries*	Reclassified from inventories	Impairments	Currency translation adjustments	Ending balance
Land and buildings	\$ 944	\$ 26	\$ —	\$(1,221)	\$ —	\$ —	\$ 251	\$ —
Refinery and power plants	91,392	—	—	—	3,786	—	(2,744)	92,434
Processing plant and equipment	18,880	987	(8,678)	57	—	(7,863)	320	3,703
Office equipment	5,189	300	(1,343)	(3,163)	—	—	152	1,135
	<u>\$116,405</u>	<u>\$1,313</u>	<u>\$(10,021)</u>	<u>\$(4,327)</u>	<u>\$3,786</u>	<u>\$(7,863)</u>	<u>\$(2,021)</u>	<u>\$97,272</u>

\* Net of acquisition of a subsidiary

Accumulated depreciation	Opening balance	Additions	Disposals	Dispositions of subsidiaries	Impairments	Currency translation adjustments	Ending balance
Land and buildings	\$ 208	\$ 344	\$ —	\$ (598)	\$ —	\$ 46	\$ —
Refinery and power plants	9,308	2,267	—	—	—	(528)	11,047
Processing plant and equipment	3,545	1,377	(2,294)	(27)	(1,223)	248	1,626
Office equipment	3,901	384	(1,118)	(2,639)	—	117	645
	<u>16,962</u>	<u>\$ 4,372</u>	<u>\$(3,412)</u>	<u>\$ (3,264)</u>	<u>\$ (1,223)</u>	<u>\$(117)</u>	<u>13,318</u>
Carrying amount	<u>\$99,443</u>						<u>\$83,954</u>

The following changes in property, plant and equipment were recorded during the year ended December 31, 2016:

Costs	Opening balance	Additions	Disposals	Dispositions of subsidiaries*	Reclassified from assets held for sale	Reclassified to assets held for sale	Reclassified from resource properties	Currency translation adjustments	Ending balance
Land and buildings	\$ 5,890	\$ 119	\$ —	\$ (324)	\$ —	\$ (4,745)	\$ —	\$ 4	\$ 944
Refinery and power plants	67,336	—	—	—	20,255	—	5,000	(1,199)	91,392
Processing plant and equipment	34,548	3,194	(262)	(25,340)	8,128	(646)	—	(742)	18,880
Office equipment	8,515	770	(22)	(2,918)	—	(237)	—	(919)	5,189
	<u>\$116,289</u>	<u>\$4,083</u>	<u>\$(284)</u>	<u>\$(28,582)</u>	<u>\$28,383</u>	<u>\$ (5,628)</u>	<u>\$ 5,000</u>	<u>\$(2,856)</u>	<u>\$116,405</u>

\* Net of acquisition of a subsidiary

Accumulated depreciation	Opening balance	Additions	Disposals	Dispositions of subsidiaries	Reclassified to assets held for sale	Currency translation adjustments	Ending balance
Land and buildings	\$ 1,600	\$ 367	\$ —	\$ (139)	\$ (1,663)	\$ 43	\$ 208
Refinery and power plants	6,860	2,641	—	—	—	(193)	9,308
Processing plant and equipment	8,392	5,403	—	(9,283)	(421)	(546)	3,545
Office equipment	3,692	880	—	(727)	(170)	226	3,901
	<u>20,544</u>	<u>\$ 9,291</u>	<u>\$ —</u>	<u>\$ (10,149)</u>	<u>\$ (2,254)</u>	<u>\$(470)</u>	<u>16,962</u>
Carrying amount	<u>\$95,745</u>						<u>\$99,443</u>

A power plant with a carrying amount of \$26,412 was temporarily idle as of December 31, 2017. Subsequent to the year end, the power plant was vandalized and incurred damage. The Group expects to recover all restoration expenditures through insurance, except the deductible amount of \$350, which will be capitalized and included in the carrying amount of the power plant when incurred.

During the year ended December 31, 2017, 2016 and 2015 respectively, \$nil, \$nil and \$3,948 of expenditures were recognized in the carrying amounts of items of property, plant and equipment in the course of their construction.

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**Note 13. Interests in Resource Properties**

The Group's interests in resource properties as at December 31, 2017 and 2016 comprised the following:

	2017	2016
Interest in an iron ore mine	\$ 30,000	\$ 30,000
Hydrocarbon development and production assets	40,849	29,692
Exploration and evaluation assets – hydrocarbon probable reserves	12,367	9,416
Exploration and evaluation assets – hydrocarbon unproved lands	9,335	10,039
	<u>\$ 92,551</u>	<u>\$ 79,147</u>

The movements in the interest in the iron ore mine and hydrocarbon development and production assets included in non-current assets during the year ended December 31, 2017 were as follows:

<u>Costs</u>	<u>Opening balance</u>	<u>Decommissioning obligations</u>	<u>Reversal of impairment losses</u>	<u>Ending balance</u>
Interest in an iron ore mine	\$ 30,000	\$ —	\$ —	\$ 30,000
Hydrocarbon development and production assets	32,353	254	13,264	45,871
	<u>\$ 62,353</u>	<u>\$ 254</u>	<u>\$ 13,264</u>	<u>\$ 75,871</u>

<u>Accumulated depreciation</u>	<u>Opening balance</u>	<u>Additions</u>	<u>Reversal of impairment losses</u>	<u>Ending balance</u>
Interest in an iron ore mine	\$ —	\$ —	\$ —	\$ —
Hydrocarbon development and production assets	2,661	2,361	—	5,022
	<u>2,661</u>	<u>\$ 2,361</u>	<u>\$ —</u>	<u>5,022</u>
Carrying amount	<u>\$ 59,692</u>			<u>\$ 70,849</u>

The movements in the interest in the iron ore mine and hydrocarbon development and production assets included in non-current assets during the year ended December 31, 2016 were as follows:

<u>Costs</u>	<u>Opening balance</u>	<u>Decommissioning obligations</u>	<u>Reclassification to refinery and power plants</u>	<u>Reclassified from assets held for sale</u>	<u>Reversal of impairment losses</u>	<u>Ending balance</u>
Interest in an iron ore mine	\$ —	\$ —	\$ —	\$ 30,000	\$ —	\$ 30,000
Hydrocarbon development and production assets	—	(4,988)	(5,000)	34,669	7,672	32,353
	<u>\$ —</u>	<u>\$ (4,988)</u>	<u>\$ (5,000)</u>	<u>\$ 64,669</u>	<u>\$ 7,672</u>	<u>\$ 62,353</u>

<u>Accumulated depreciation</u>	<u>Opening balance</u>	<u>Additions</u>	<u>Reclassification</u>	<u>Reclassified from assets held for sale</u>	<u>Reversal of impairment losses</u>	<u>Ending balance</u>
Interest in an iron ore mine	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Hydrocarbon development and production assets	—	2,661	—	—	—	2,661
	<u>—</u>	<u>\$ 2,661</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>2,661</u>
Carrying amount	<u>\$ —</u>					<u>\$ 59,692</u>

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**Note 13. Interests in Resource Properties (continued)**

The movements in exploration and evaluation assets included in hydrocarbon probable reserves and unproved lands, respectively, during the year ended December 31, 2017 and 2016 were as follows:

	2017		2016	
	Probable reserves	Unproved lands	Probable reserves	Unproved lands
Balance, beginning of year	\$ 9,416	\$ 10,039	\$ —	\$ —
Additions	—	—	—	790
Disposal	—	(74)	—	—
Reclassifications from assets held for sale	—	—	7,732	10,039
Reversal (recognition) of impairment (losses)	2,951	(630)	1,684	(790)
Balance, end of year	<u>\$ 12,367</u>	<u>\$ 9,335</u>	<u>\$ 9,416</u>	<u>\$ 10,039</u>

Interest in an iron ore mine

The Group's lease of the Canadian iron ore mine expires in 2055. The iron ore deposit is currently sub-leased to a third-party entity under certain lease agreements which will also expire in 2055. Pursuant and subject to the terms of the lease agreements, the Group collects royalty payments directly from a third-party operator based on a pre-determined formula, with a minimum payment not to be less than \$3,250 per year.

In the first quarter of 2015, the former operator of the mine commenced proceedings under the Companies' Creditors Arrangement Act (Canada) (the "CCAA") with respect to its Canadian operations and publicly disclosed that its assets comprising the mine would be included in any sales process.

In the third quarter of 2015, the long-term price curve of iron ore continued to deteriorate. Management of the Group reviewed the underlying legal documents and performed a sensitivity analysis on the expected future cash flows from its royalty interest. Consideration was given to reasonably possible scenarios, including the Group exercising its step-in rights and re-taking the mine. The primary factors which impact the recoverable amount, among others, are the number of years of production, iron ore pricing and/or production costs. Each possible scenario was assigned a probability. Based on the cash flows projections, management determined that total non-cash impairment losses of \$218,203 were required, before a deferred income tax recovery of \$54,305, as at September 30, 2015, to write down the carrying amount of the Group's interest to a nominal amount. In the fourth quarter of 2015, the Group reversed the previously recognized impairment losses by \$30,000 and recognized a related deferred tax liability of \$7,800. Such reversal of the previously recognized impairment losses reflected the improvements in the expected future cash flows under possible scenarios, using a pre-tax discount rate of 9% and taking into consideration events that occurred subsequent to the third quarter of 2015.

In 2017, a third party (the new operator) acquired the mine out of CCAA proceedings.

There were no impairment losses on the Group's interest in the iron ore mine for the years ended December 31, 2017 and 2016.

Hydrocarbon properties

The Group owns hydrocarbon properties in western Canada. The majority of such operations are located in the Deep Basin fairway of the Western Canada Sedimentary Basin. The Group's hydrocarbon development and production assets include producing natural gas wells, non-producing natural gas wells, producing oil wells and non-producing oil wells, but do not include a land position that includes net working interests in undeveloped acreage and properties containing probable reserves only, both of which are included in exploration and evaluation assets.

The recoverable amounts of the Group's hydrocarbon CGUs are determined whenever facts and circumstances provide impairment indicators. CGU's are mainly determined based upon the geographical region of the Group's producing properties. The recoverable amounts of each CGU are based on the future

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**Note 13. Interests in Resource Properties (continued)**

post-tax cash flows expected to be derived from the Group's hydrocarbon properties using a fair value less costs of disposal methodology (Level 3 fair value hierarchy). The post-tax cash flow projections incorporate management's best estimates of future natural gas prices, production based on current estimates of recoverable reserves and resources, exploration potential, future operating costs, non-expansionary capital expenditures and inflation. Natural gas pricing included in the cash flow projections beyond five years is based on historical volatility and consensus analyst pricing. Projected cash flows are discounted using a post-tax discount rate which reflects current market assessments of the time value of money and the risks specific to the hydrocarbon properties for which the future cash flow estimates have not been adjusted.

On December 31, 2016, the Group performed an impairment assessment on its hydrocarbon properties utilizing a post-tax discount rate of 10% and recognized a net non-cash reversal of impairment losses of \$8,566, of which \$7,672 were allocated to development and production assets and \$1,684 to probable reserves and an impairment loss of \$790 was allocated to unproved lands. The related deferred income tax expense for 2016 was \$2,526. The impairment losses recognized and included in continuing operations for the year ended December 2015 were \$47,672, with related deferred income taxes of \$nil (see Note 5).

On December 31, 2017, the Group performed an impairment assessment on its hydrocarbon properties utilizing a post-tax discount rate of 11% and recognized a net non-cash reversal of impairment losses of \$15,585, of which \$13,264 were allocated to development and production assets and \$2,951 to probable reserves and an impairment loss of \$630 was allocated to unproved lands.

**Note 14. Deferred Income Tax Assets and Liabilities**

The tax effect of temporary differences and tax loss carry-forwards that give rise to significant components of the Group's deferred income tax assets and liabilities are as follows:

<u>As at December 31:</u>	<u>2017</u>	<u>2016</u>
Non-capital tax loss carry-forwards	\$ 18,450	\$ 24,308
Interests in resource properties	(10,536)	(10,370)
Other assets	2,237	5,304
Other liabilities	(3,760)	(9,948)
	<u>\$ 6,391</u>	<u>\$ 9,294</u>
Presented on the consolidated statements of financial position as follows:		
Deferred income tax assets	\$ 16,694	\$ 16,647
Deferred income tax liabilities	(10,303)	(7,353)
Net	<u>\$ 6,391</u>	<u>\$ 9,294</u>

As at December 31, 2017, the Group had estimated accumulated non-capital losses, which expire in the following countries as follows. Management is of the opinion that not all of these non-capital losses are probable to be utilized in the future.

<u>Country</u>	<u>Gross amount</u>	<u>Amount for which no deferred income tax asset is recognized</u>	<u>Expiration dates</u>
Canada	\$ 24,075	\$ —	2033-2036
Germany	2,554	—	Indefinite
Austria	340,600	340,600	Indefinite
Uganda	51,563	46,253	Indefinite
Malta	98,354	70,056	Indefinite

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**Note 14. Deferred Income Tax Assets and Liabilities (continued)**

The utilization of the deferred tax assets is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences and the Group companies have suffered losses in either the current or preceding period(s) in the tax jurisdictions to which the deferred tax assets relate.

As previously disclosed, a former affiliate received notices of tax reassessments from taxation authorities relating to prior periods, which denied certain deductions, losses and credits in the computation of income taxes payable. The former affiliate objected to such reassessment notices and appealed the federal assessment in court. Based on, among other things, the Group's consultation with its advisors and review of the reassessments, the material facts related thereto and the subject transactions, management determined that the probability of the reassessments being successful in court was remote. Accordingly, the Group did not record any liability in prior years in connection with such reassessments. While the Group is not a party to these proceedings, there can be no assurance that the former affiliate will be successful and, if unsuccessful, that there will not be potential claims made against the Group in relation thereto.

The Group companies' income tax and payroll tax filings are also subject to audit by taxation authorities in numerous jurisdictions. There are audits in progress and items under review, some of which may increase the Group's income tax and payroll tax liability. In the event that management's estimate of the future resolution of these matters changes, the Group will recognize the effects of the changes in its consolidated financial statements in the appropriate period relative to when such changes occur.

**Note 15. Short-term Bank Borrowings**

Short-term bank borrowings are repayable within a year from the borrowing date. They are used to finance the Group's day-to-day merchant banking business.

<b>As at December 31:</b>	<b>2017</b>	<b>2016</b>
Credit facilities from banks	<u>\$2,074</u>	<u>\$95,416</u>

As at December 31, 2017, the Group had credit facilities aggregating \$29,000 as follows: (a) non-recourse factoring lines for receivables financing of \$19,600; (b) a refinancing line at the Group's bank subsidiary of \$7,500; and (c) a commodity hedging credit facility of \$1,900 which allows management to hedge industrial metals and products for the Group's production subsidiaries. All these facilities are renewable on a yearly basis or usable until further notice.

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**Note 16. Debt**

Certain of the Group's subsidiaries have entered into long-term debt agreements with numerous banks and financial institutions. These agreements, which include customary terms and conditions in accordance with industry standards for unsecured facilities, include:

<b>As at December 31:</b>	<b>2017</b>	<b>2016</b>
Due to a bank, US\$19,430 and US\$19,428 at December 31, 2017 and 2016, respectively, fixed interest plus an interest margin and backup guarantee fee on US\$19,428 (5.05% at December 31, 2017) and payable quarterly, secured by intercompany loan receivables and due in equal annual repayments with final repayment in September 2022	\$ 24,374	\$ 26,085
Due to a bank, €nil and €16,414 at December 31, 2017 and 2016, respectively	—	23,257
Due to banks, €nil and €8,000 at December 31, 2017 and 2016,	—	11,335
Due to a bank €nil and €25,900 at December 31, 2017 and 2016, respectively	—	36,699
Due to a bank, €13,605 and €14,642 at December 31, 2017 and 2016, respectively, €13,404 at a fixed interest rate (2.7% at December 31, 2017) and the remainder at EURIBOR plus an interest margin (1.55% at December 31, 2017) and payable quarterly, due in semi-annual repayments with final payment in May 2025. Repayments totaling \$1,559 were past-due at December 31, 2017.	19,359	19,437
	<u>\$ 43,733</u>	<u>\$ 116,813</u>
Current portion	\$ 43,733	\$ 36,249
Long-term portion	—	80,564
	<u>\$ 43,733</u>	<u>\$ 116,813</u>

For additional information, see Note 27.

All long-term debt was classified to current liabilities as at December 31, 2017 as the lender notified the subsidiary borrowers that the debt had been accelerated and called due in 2018. The Group is in the process of negotiating an extension or other resolution with the lender on these subsidiaries' debts.

Interest expense of \$nil, \$nil and \$608 was capitalized and included in property, plant and equipment during the year ended December 31, 2017, 2016 and 2015, respectively.

**Note 17. Account Payables and Accrued Expenses**

<b>As at December 31:</b>	<b>2017</b>	<b>2016</b>
Trade and account payables	\$ 39,528	\$ 27,053
Value-added, goods and services and other taxes (other than income taxes)	2,559	3,610
Compensation	392	1,837
Contract liabilities	769	535
Deposits from customers	—	1,471
Acquisition price payables	—	1,716
Sale of shares on behalf of other	—	3,067
Provision for guarantee	1,502	—
Other	—	5,825
	<u>\$ 44,750</u>	<u>\$ 45,114</u>

Trade payables arise from the Group's day-to-day trading activities. The Group's expenses for services and other operational expenses are included in account payables. Generally, these payables and accrual accounts do not bear interest and have a maturity of less than one year.

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**Note 18. Accrued Pension Obligations**

At December 31, 2016, the Group had post-retirement defined benefit plans for its employees in Austria and Germany. During the fourth quarter of 2017, the aforesaid subsidiaries were disposed of and the Group deconsolidated the defined benefit obligations and the related plan assets, which had net accrued pension obligations of \$2,593 at the time of the disposals. As at December 31, 2017, the Group did not have any post-retirement defined benefit plans and its defined benefit obligations and their fair value of the related plan assets were both \$nil.

As at December 31, 2016, the Group had net accrued pension obligations of \$3,259, consisting of fair value of plan assets of \$1,453 and defined benefit obligations of \$4,712. The balance of the fair value of plan assets of the Group as at January 1, 2016 was \$11,838. During the year ended December 31, 2016, changes to the fair value of plan assets comprised of decreases of \$10,394 and \$1,386 from dispositions of subsidiaries and payment of benefits, respectively, and increases of \$957, \$215 and \$223 from the return on plan assets, employer contributions and currency translation adjustments, respectively. The balance of defined benefit obligations as at January 1, 2016 was \$15,899. During the year ended December 31, 2016, changes in the defined benefit obligations of the Group comprised of decreases of \$10,581, \$445, \$1,386 and \$381 from dispositions of subsidiaries, reclassifications of assets held for sale, benefits paid and currency translation adjustments, respectively and increases of \$190, \$392, \$196 and \$828 from net current service cost, obligation interest cost, actuarial losses from changes in demographic assumptions and experience and actuarial losses from changes in financial assumptions, respectively.

**Note 19. Decommissioning Obligations**

All of the Group's decommissioning obligations as at December 31, 2015 were included in liabilities relating to assets held for sale in current liabilities (see Note 5). The decommissioning obligations relating to hydrocarbon properties and property, plant and equipment that ceased to be classified as held for sale effective September 30, 2016 were reclassified to long-term liabilities on the same effective date. Changes in the carrying amount of the Group's decommissioning obligations included in long-term liabilities during the year ended December 31, 2017 and 2016, respectively, are as follows:

	2017	2016
Decommissioning obligations, beginning of year	\$ 13,219	\$ —
Reclassifications from liabilities relating to assets held for sale	—	17,923
Changes in estimates	255	(4,988)
Accretion	225	284
Decommissioning obligations, end of year	<u>\$ 13,699</u>	<u>\$ 13,219</u>

Decommissioning obligations represented the present value of estimated remediation and reclamation costs associated with hydrocarbon properties and property, plant and equipment. As at December 31, 2017, management revised its estimates of the expected decommissioning obligations related to its hydrocarbon production and processing assets. The Group discounted the decommissioning obligations using an average discount rate of 1.98% (2016: 1.73%), which is the risk free rate in Canada for blended government securities.

The Group will fund the decommissioning obligations from future cash flows from operations.

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**Note 20. Shareholders' Equity**

**Capital Stock**

The authorized share capital of MFC Bancorp is US\$450,000 divided into 300,000,000 common shares of US\$0.001 par value each and 150,000,000 preference shares divided into US\$0.001 par value each.

Holders of common shares may receive dividends declared by the Company in accordance with the Company's memorandum and articles of association, subject to any preferential dividend rights of any other classes or series of preference shares issued and outstanding. Holders of common shares are entitled to one vote per share at any general or special meeting of shareholders. The holders of common shares have the right on the winding up or dissolution of the Company to participate in the surplus assets of the Company in accordance with the provisions of the memorandum and articles of association of the Company, subject to the rights of any issued and outstanding preference shares.

All of the Company's issued capital stock is fully paid. The Company did not issue any preference shares under the Arrangement in exchange for the outstanding preferred shares of Old MFC, which were held by subsidiaries of Old MFC prior to completion of the Arrangement.

**Treasury Stock**

<b>As at December 31:</b>	<b>2017</b>	<b>2016</b>
Common shares	65,647	65,647
Preferred shares	—	4,621,571
Total number of treasury stock	<u>65,647</u>	<u>4,687,218</u>
Total carrying amount of treasury stock	<u>\$ 2,643</u>	<u>\$ 61,085</u>

All of the Company's treasury stock is held by wholly-owned subsidiaries.

**Note 21. Consolidated Statements of Operations**

**Revenues**

The Group's gross revenues comprised:

<b>Years ended December 31:</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Merchant banking products and services	\$ 249,581	\$ 1,078,745	\$ 1,580,935
Interest	973	3,056	4,237
Dividends	—	6	7
Other	23,481	49,850	43,921
Gross revenues	<u>\$ 274,035</u>	<u>\$ 1,131,657</u>	<u>\$ 1,629,100</u>

The revenues of \$249,581 from merchant banking products and services for the year ended December 31, 2017 comprised metals of \$143,572, plastics of \$98, steel products of \$23,898, minerals, chemicals and alloys of \$57,768, natural gas of \$8,931, royalties of \$8,868, power and electricity of \$4,215 and fees of \$2,231.

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**Note 21. Consolidated Statements of Operations (continued)**

**Expenses**

The Group's costs of sales and services comprised:

<b>Years Ended December 31:</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Merchant banking products and services	\$ 223,049	\$ 1,027,627	\$ 1,512,970
Credit losses on loans and receivables and guarantees, net of recoveries	23,923*	17,023*	54,540
Market value (increase) decrease on commodity inventories	(400)	4,273	1,910
(Gain) loss on derivative contracts, net	(1,934)	521	(2,913)
Loss on securities, net	619	116	84
Dispositions of subsidiaries	10,219	(2,585)	—
Write-offs of payables	(3,779)	—	—
Other	11,889	14,077	7,277
<b>Total costs of sales and services</b>	<b>\$ 263,586</b>	<b>\$ 1,061,052</b>	<b>\$ 1,573,868</b>

\* Includes credit losses of \$8,585 on receivables due from a former consolidated entity in the year ended December 31, 2017 (2016: \$11,296).

The Group's revenues include the revenues of the metals processing acquisition from October 1, 2017 and MFC Merchant Bank Ltd. from February 1, 2016 in its merchant banking segment.

In December 2016, the Group disposed of certain non-core commodities subsidiaries. Effective January 31, 2017, the Group completed the sale of a non-core commodities trading subsidiary which focused on Latin America. Effective October 1, 2017, the Group disposed of certain subsidiaries, including certain commodities trading subsidiaries in Europe.

During the year ended December 31, 2017, the Group recognized \$5,619 for the underpayment of resource property royalties from prior years, which was included in revenues from merchant banking products and services.

During the year ended December 31, 2017, the disposition of subsidiaries resulted in a reclassification of cumulative currency translation adjustment gain of \$11,306 from accumulated other comprehensive income within equity to profit or loss.

The Group included the following items in costs of sales and services:

<b>Years ended December 31:</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Inventories as costs of goods sold (including depreciation, amortization and depletion expenses allocated to costs of goods sold)	\$ 206,644	\$ 974,497	\$ 1,464,925

**Additional information on the nature of expenses incurred in continuing operations**

<b>Years Ended December 31:</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Depreciation, amortization and depletion	\$ 6,732	\$ 11,951	\$ 6,450
Employee benefits expenses	21,016	31,890	37,951

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**Note 22. Share-Based Compensation**

The 2017 Equity Incentive Plan, referred to as the “2017 Plan”, was adopted by the Company on July 14, 2017 in connection with the Arrangement and was on substantially similar terms as the 2014 Equity Incentive Plan of Old MFC. Prior to the completion of the Arrangement, Old MFC had the 2014 Equity Incentive Plan (the “2014 Plan”), which replaced its 1997 Stock Option Plan (the “1997 Plan”) and its 2008 Equity Incentive Plan (the “2008 Plan”).

Pursuant to the terms of the 2017 Plan, the board of directors, the Compensation Committee or such other committee as is appointed by the board of directors to administer the Incentive Plan, may grant stock options, restricted stock rights, restricted stock, performance share awards, performance share units and stock appreciation rights under the 2017 Plan, establish the terms and conditions for those awards, construe and interpret the 2017 Plan and establish the rules for the 2017 Plan’s administration. Such awards may be granted to employees, non-employee directors, officers or consultants of ours or any affiliate or any person to whom an offer of employment with us or any affiliate is extended. Such committee has the authority to determine which employees, non-employee directors, officers, consultants and prospective employees should receive such awards.

Subject to adjustment for changes in capitalization, the total number of Common Shares subject to all awards under the 2017 Plan is 575,403 Common Shares.

Pursuant to the Arrangement, 40,000 options were issued under the 2017 Plan in exchange for options issued and outstanding under Old MFC’s 2008 Plan. The terms of such issued options were the same as those of Old MFC, subject to adjustment for the Share Consolidation/Split.

In December 2017, the Company issued 535,000 options to directors, officers, employees and consultants with an exercise price of US\$8.76 per Common Share and an expiry date of December 1, 2027.

The following table is a summary of the changes in stock options granted under the plans:

	<u>2017 Plan</u>	<u>2017 Plan</u>	<u>2008 Plan</u>	<u>2008 Plan</u>	<u>1997 Plan</u>	<u>1997 Plan</u>
	Number of options	Weighted average exercise price per share (US\$)	Number of options	Weighted average exercise price per share (US\$)	Number of options	Weighted average exercise price per share (US\$)
Outstanding as at December 31, 2014	—	—	172,000	39.15	293,000	39.05
Expired	—	—	—	—	(18,500)	39.05
Outstanding as at December 31, 2015	—	—	172,000	39.15	274,500	39.05
Expired	—	—	(132,000)	39.05	(274,500)	39.05
Outstanding as at December 31, 2016	—	—	40,000	40.05	—	—
Exchanged under the Arrangement	40,000	40.05	(40,000)	40.05	—	—
Granted	535,000	8.76	—	—	—	—
Outstanding as at December 31, 2017	<u>575,000</u>	10.94	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
As at December 31, 2017:						
Options exercisable	<u>575,000</u>	10.94	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Options available for granting in future periods	<u>403</u>		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

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**Note 22. Share-Based Compensation (continued)**

The following table summarizes information about stock options outstanding and exercisable as at December 31, 2017:

<u>Exercise Price per Share (US\$)</u>	<u>Options Outstanding and Exercisable</u>	
	<u>Number outstanding</u>	<u>Weighted average remaining contractual life (in years)</u>
\$40.05	40,000	1.25
\$8.76	535,000	9.92
	<u>575,000</u>	9.31

The following table summarizes the share-based compensation expenses recognized by the Group:

<u>Years ended December 31:</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Share-based compensation expenses arising from stock options granted by the Company	<u>\$ 2,876</u>	<u>\$ —</u>	<u>\$ —</u>

On December 1, 2017, the Company granted to certain employees options to purchase 535,000 MFC Bancorp common shares in aggregate at an exercise price of US\$8.76 per share. The options vested immediately and expire on December 1, 2027.

The weighted average assumptions and inputs used in calculating the fair value of the stock options granted on December 1, 2017 using the Black-Scholes-Merton formula are as follows:

Number of options granted	535,000
Vesting requirements	Immediately
Contractual life	10 years
Method of settlement	In equity
Exercise price per share	US\$8.76
Market price per share on grant date	US\$8.40
Expected volatility	37.74%
Expected option life	10 years
Expected dividends	0.00%
Risk-free interest rate	2.38%
Fair value of option granted (per option)	\$5.38(US\$4.22)

The expected volatility was determined based on the historical price movement over the expected option life, with adjustments for underlying businesses. The stock option holders are not entitled to dividends or dividend equivalents until the options are exercised.

The aggregate fair value of options granted was \$2,876 which was recognized as share-based compensation expense in the Group's consolidated statement of operations for the year ended December 31, 2017.

**Note 23. Income Taxes**

Income (loss) from continuing operations before income taxes comprised:

<u>Years ended December 31:</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Canada	\$ 7,360	\$ 380	\$ (238,545)
Outside Canada	(45,767)	(17,086)	(52,250)
	<u>\$ (38,407)</u>	<u>\$ (16,706)</u>	<u>\$ (290,795)</u>

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**Note 23. Income Taxes (continued)**

The components of income tax (expense) recovery comprised:

<b>Years ended December 31:</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Current taxes	\$ (3,744)	\$ (4,540)	\$ (4,282)
Deferred taxes	(3,141)	(1,454)	50,800
Resource revenues taxes	(1,773)	(1,020)	(325)
	<u>\$ (8,658)</u>	<u>\$ (7,014)</u>	<u>\$ 46,193</u>

A reconciliation of the loss before income taxes to the (provision for) recovery of income taxes in the consolidated statements of operations is as follows:

<b>Years ended December 31:</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Loss before income taxes	<u>\$ (38,407)</u>	<u>\$ (16,706)</u>	<u>\$ (290,795)</u>
Computed recovery of income taxes	\$ 9,792	\$ 4,344	\$ 75,607
Decrease (increase) in income taxes resulting from:			
Subsidiaries' tax rate differences	—	714	(1,107)
Other non-taxable income	7	6,057	2,774
Revisions to prior years	4,650	(112)	227
Taxable capital gains on dispositions, net	(3,150)	(3,543)	13
Resource property revenue taxes	(1,311)	(755)	(241)
Unrecognized losses in current year	(20,916)	(15,623)	(30,469)
Previously unrecognized deferred income tax assets, net	2,877	5,747	1,449
Deferred income tax asset on a purchased asset	—	—	1,339
Permanent differences	(363)	(1,448)	(3,865)
Change in future tax rate	—	—	11
Other, net	(244)	(2,395)	455
(Provision for) recovery of income taxes	<u>\$ (8,658)</u>	<u>\$ (7,014)</u>	<u>\$ 46,193</u>

For the year ended December 31, 2016 and 2015, the income tax recovery was computed at Old MFC's statutory tax rate of 26%. For the year ended December 31, 2017, the income tax recovery was computed at the domestic tax rates applicable to the country concerned, as New MFC is a corporation under the laws of the Cayman Islands which has a zero tax rate for the exempted companies.

In addition, the aggregate current and deferred income tax relating to items that are charged directly to other comprehensive income or loss was an expense of \$nil, \$nil and \$109 for the year ended December 31, 2017, 2016 and 2015, respectively, relating to the changes in fair values of available-for-sale securities and the remeasurements of defined benefit pension plans.

**Note 24. Earnings Per Share**

Earnings per share from continuing operations data for the years ended December 31, 2017, 2016 and 2015 are summarized as follows:

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Basic loss available to holders of common shares	\$ (47,855)	\$ (25,361)	\$ (246,228)
Effect of dilutive securities:	—	—	—
Diluted loss	<u>\$ (47,855)</u>	<u>\$ (25,361)</u>	<u>\$ (246,228)</u>

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**Note 24. Earnings Per Share (continued)**

	Number of Shares		
	2017	2016	2015
Weighted average number of common shares outstanding – basic	12,544,141	12,628,454	12,628,454
Effect of dilutive securities:			
Options	—	—	—
Weighted average number of common shares outstanding – diluted	<u>12,544,141</u>	<u>12,628,454</u>	<u>12,628,454</u>

In 2017, 2016 and 2015, the Group's potential ordinary shares include stock options outstanding. In 2016 and 2015, the potential ordinary shares also included contingently issuable shares pursuant to a share purchase agreement.

As at December 31, 2017, 2016 and 2015, there were 575,000, 40,000 and 446,500 stock options, respectively, outstanding that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they were antidilutive for the year ended December 31, 2017, 2016 and 2015.

Pursuant to a share purchase agreement (as amended), 10,000 common shares of MFC Bancorp would be issued to a put holder for each year from 2014 to 2024 if Possehl Mexico S.A. de C.V. ("Possehl") achieves an annual net income milestone as computed under IFRS for the year (see Note 28). The net income milestone for 2015 was not achieved. The net income milestone for 2016 was achieved, subject to an audit. However, the 10,000 additional common shares of MFC Bancorp were not included in the calculation of diluted earnings per share for the year ended December 31, 2016 because they were antidilutive. The milestone agreement was terminated in 2017 (see Note 28).

**Note 25. Dividends Paid**

The Company did not declare dividends in 2017, 2016 and 2015. The last and final 2014 quarterly dividends of \$4,388 (or US\$0.06 per common share on a pre-Share Consolidation/Split basis) were paid on January 5, 2015 to shareholders of record on December 29, 2014, which was disclosed in the consolidated cash flows statement for the year ended December 31, 2015.

**Note 26. Commitments and Contingencies****Leases as lessors**

The Group leases out land and buildings and equipment under non-cancellable operating lease agreements. The leases have varying terms, subject to the customary practices in the particular regions.

Future minimum rentals under long-term non-cancellable operating leases are as follows:

<u>Years ending December 31:</u>	<u>Amount</u>
2018	\$ 1,765
2019	655
2020	555
2021	449
2022	390
Thereafter	26
	<u>\$ 3,840</u>

The Group recognized rental and lease income of \$6,026, \$15,470 and \$5,345 for the years ended December 31, 2017, 2016 and 2015, respectively.

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**Note 26. Commitments and Contingencies (continued)**

**Leases as lessees**

Future minimum commitments under long-term non-cancellable operating leases are as follows:

<b><u>Years ending December 31:</u></b>	<b><u>Amount</u></b>
2018	\$ 988
2019	487
2020	61
2021	19
2022	—
Thereafter	—
	<b><u>\$ 1,555</u></b>

The leases, which principally comprise office space, have varying terms, subject to the customary practices in the local regions. Minimum lease payments recognized as expenses were \$3,120 (including contingent rents of \$115), \$2,565 (including sublease of \$734 and contingent rents of \$20) and \$3,569 (including sublease of \$875) for the years ended December 31, 2017, 2016 and 2015, respectively.

**Litigation**

The Group is subject to routine litigation incidental to its business and is named from time to time as a defendant and is a plaintiff from time to time in various legal actions arising in connection with its activities, certain of which may include large claims for punitive damages. Further, due to the size, complexity and nature of the Group's operations, various legal and tax matters are outstanding from time to time, including periodic audit by various tax authorities and litigation relating to the insolvency filing of a former customer in February 2016. Currently, based upon information available, management does not believe any such matters would have a material adverse effect upon the Group's financial condition or results of operations as at December 31, 2017. However, due to the inherent uncertainty of litigation, there cannot be certainty as to the eventual outcome of any case. If management's current assessments are incorrect or if management is unable to resolve any of these matters favorably, there may be a material adverse impact on the Group's financial performance, cash flows or results of operations.

**Guarantees**

Guarantees are accounted for as contingent liabilities unless it becomes probable that the Group will be required to make a payment under the guarantee.

In the normal course of its merchant banking activities, the Group issues guarantees to its trade and financing partners in order to secure financing facilities. Upon the use or drawdown of the underlying financing facilities, the financing facilities are recorded as liabilities on the consolidated statement of financial position such as short-term bank borrowings or debt. Accordingly, the issued guarantees relating to such financing facilities that are used or drawn are not considered contingent liabilities or off-balance sheet transactions. As at December 31, 2017, the Group did not have unrecorded contingent liabilities relating to outstanding guarantees issued to its trade and financing partners in the normal course of its merchant banking activities (see Note 29).

**Rights to Subscribe to Shares in Subsidiaries**

During 2017, two subsidiaries of the Group entered into agreements with third party employee incentive corporations whereby the latter were granted the rights to buy up to 10% of the share capital of the subsidiaries on a diluted basis at a price to be no less or more than the then existing net tangible asset value. The rights expire in 10 years.

**Purchase Obligations**

As at December 31, 2017, the Group had open purchase contracts aggregating \$67 due in 2018. None of these contracts have been recognized on the consolidated statement of financial position as at December 31, 2017.

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**Note 27. Consolidated Statements of Cash Flows – Supplemental Disclosure**

Interest paid and received, dividends received and income taxes paid are classified as operating activities. Dividends paid are classified as financing activities.

The Group establishes, utilizes and maintains various kinds of credit lines and facilities with banks and insurers. Most of these facilities are short term. These facilities are used in our day-to-day supply chain business and structured solutions activities. The amounts drawn under such facilities fluctuate with the kind and level of transactions being undertaken. As a result, management considers short-term bank borrowings to be a part of its operating activities and that it is most appropriate to include the changes in short-term bank borrowings within operating activities in the consolidated statements of cash flows.

There are no circumstances in which cash and cash equivalents held by an entity are not available for use by the Group.

**Consolidated cash flows statement – reconciliation of liabilities arising from financing activities**

<b>Year ended December 31, 2017:</b>	<b>Debt</b>
Opening balance	\$ 116,813
Cash flows	(42,253)
Non-cash changes:	
Disposition of subsidiaries	(34,996)
Accretion	187
Cumulative transaction adjustments	3,982
Ending balance	<u>\$ 43,733</u>

**Non-cash transactions**

Non-cash transactions during the year ended December 31, 2017: (1) sale of the shares of a non-core Latin America focused commodities trading subsidiary to a company controlled by the former President of the Company (see Note 28); (2) disposition of subsidiaries (see Note 31); (3) offsetting of a payable of \$12,264 due to a former subsidiary against a receivable due from the same entity; (4) redemption of preferred shares of \$52,299 in a subsidiary held by the former subsidiary in an exchange of trade receivables with a fair value of \$52,299; and (5) offsetting of long-term deposit liabilities of \$545 against finance lease receivables.

Non-cash transactions during the year ended December 31, 2016: (1) purchase of certain unproved lands from a former subsidiary for \$790 at their fair value in exchange for a reduction of the Group's loan receivables due from the former subsidiary; and (2) settlement of a trade receivable of \$1,343 by the customer undertaking to deliver physical commodity goods of equal value to the Group in the future.

Non-cash transactions during the year ended December 31, 2015: (1) recognition of a non-cash gain of \$1,194 on the reversal of a decommissioning obligation (which was included in costs of sales and services); (2) issuance of 10,000 common shares of MFC Bancorp to a director pursuant to a share purchase agreement executed in 2014 (see Note 28); and (3) the Group sold a 95% participating interest in certain hydrocarbon assets and related liabilities, resulting in a post-tax loss of \$11,987 on disposition which was included in the results of discontinued operations and a net receivable of \$11,600 due from the former subsidiaries (see Note 5).

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**Note 28. Related Party Transactions**

In the normal course of operations, the Group enters into transactions with related parties, which include affiliates in which the Group has a significant equity interest (10% or more) or has the ability to influence their operating and financing policies through significant shareholding, representation on the board of directors, corporate charter and/or bylaws. The related parties also include MFC Bancorp's directors, President, Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and their close family members, as well as any person or entity which has significant influence over MFC Bancorp. In addition to transactions disclosed elsewhere in these consolidated financial statements, the Group had the following transactions with its related parties:

<u>Years ended December 31:</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Sales of goods	\$ —	\$ —	\$ 3,349

**Puttable instrument financial liability**

In connection with the acquisition of Possehl in November 2012, the Group entered into call and put agreements with the non-controlling interest, which allowed or required the Group to acquire up to 100% of the entity. As a result of the put options (i.e. puttable instrument), the non-controlling interest was classified as financial liability.

In April 2014, the Group entered into a share purchase agreement with the holder of the puttable instrument (the "Put Holder") whereby the Group acquired from the Put Holder his 40% equity shares in Possehl. Upon the execution of the agreement, the puttable instrument was terminated. In May 2014, the Put Holder was appointed by the Board of Directors as the President and Chief Executive Officer of MFC Bancorp. The share purchase agreement was amended in June 2014 which included a contingent purchase price whereby 10,000 common shares of MFC Bancorp would be issued to the Put Holder for each year from 2014 to 2024 if Possehl achieves an annual net income milestone as computed under IFRS for the year.

In June 2015, the Company issued 10,000 common shares of MFC Bancorp to the Put Holder as the 2014 annual net income milestone of Possehl was achieved.

In January 2017, in connection with its previously announced strategy to re-allocate capital and resources and exit certain products and geographies, the Group sold the shares of a non-core Latin America focused commodities trading subsidiary to a company controlled by the Put Holder. Under the transaction, the Group received total consideration of \$14,413, including 90,000 common shares of MFC Bancorp and the release of any further obligations to issue shares in connection with a prior share purchase agreement between the parties. The Group recognized a gain of \$57 from the disposition of the subsidiary and its immediate parent company. In March 2017, the Put Holder resigned as the President and Chief Executive Officer of MFC Bancorp.

**Key management personnel**

The Group's key management personnel comprise the members of its Board of Directors, President, Chief Executive Officer and Chief Financial Officer. The remuneration of key management personnel of the Group was as follows:

<u>Years ended December 31:</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Short-term employee benefits	\$ 1,777	\$ 2,296	\$ 2,719
Directors' fees	576	634	479
Share-based compensation	713	—	—
Total	<u>\$ 3,066</u>	<u>\$ 2,930</u>	<u>\$ 3,198</u>

The share-based compensation for the year ended December 31, 2017 comprised \$323 and \$390, respectively, on the stock options granted to directors and other key management personnel (see Note 22).

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**Note 29. Financial Instruments**

The disclosures and analyses in this note do not include the financial instruments classified as assets held for sale and their related revenues and expenses presented (or re-presented) in discontinued operations.

The fair values of the Group's financial instruments as at December 31, 2017 and 2016, other than those with carrying amounts that approximate their fair values due to their short-term nature, are summarized as follows:

<u>As at December 31:</u>	<u>2017</u>		<u>2016</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
<u>Financial Assets :</u>				
<i>Fair value through profit or loss:</i>				
Short-term securities	\$ 6	\$ 6	\$ 7	\$ 7
Derivative assets	246	246	1,240	1,240
<i>Loans and receivables:</i>				
Long-term loan receivables (including current portion)	—	—	9,392	9,392
<i>Available-for-sale instruments:</i>				
Securities, at fair value	5,892	5,892	5,572	5,572
Securities (including restricted non-current assets – securities), at cost	—	—	232	232
<u>Financial Liabilities :</u>				
<i>Financial liabilities measured at amortized cost:</i>				
Debt	\$43,733	\$43,733	\$116,813	\$118,015
<i>Fair value through profit or loss:</i>				
Derivative liabilities	302	302	6,454	6,454

Fair value of a financial instrument represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using a valuation technique. The price for a transaction which takes place under duress or the seller is forced to accept the price in the transaction might not represent the fair value of an asset or a liability. The best evidence of fair value is published price quotations in an active market. When the market for a financial asset or financial liability is not active, the Group establishes fair value by using a valuation technique. The valuation technique used maximizes the use of inputs observed in active markets, and minimizes the use of inputs generated by the Group. Internally generated inputs take into account factors that market participants would consider when pricing the financial instruments, such as liquidity and credit risks. Use of judgment is significantly involved in estimating fair value of financial instruments in inactive markets and actual results could materially differ from the estimates. To value longer-term transactions and transactions in less active markets for which pricing information is not generally available, unobservable inputs may be used.

The fair values of short-term trading securities are based on quoted market prices (Level 1 fair value hierarchy). The fair values of available-for-sale securities are based on quoted market prices, except for those which are not quoted in an active market which are estimated using an appropriate valuation method (Level 3 fair value hierarchy). Investments in equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured are measured at cost. The carrying amounts of cash and cash equivalents, short-term cash deposits, short-term receivables, short-term borrowings and account payables and accrued expenses, due to their short-term nature and normal trade credit terms, approximate their fair values. The fair values of long-term receivables, long-term debt and other long-term liabilities are determined using discounted cash flows at prevailing market rates of interest for similar instruments with similar credit ratings (Level 2 fair value hierarchy).

**MFC BANCORP LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 29. Financial Instruments (continued)**

The fair values of derivative financial instruments are based on quoted market prices when possible; and if not available, estimates from third-party brokers. These broker estimates are corroborated with multiple sources and/or other observable market data utilizing assumptions that market participants would use when pricing the asset or liability, including assumptions about risk and market liquidity (Level 2 fair value hierarchy). Inputs may be readily observable or market-corroborated.

The following tables present the Group's financial instruments measured at fair value on the consolidated statements of financial position classified by level of the fair value hierarchy as at December 31, 2017 and 2016, respectively:

<u>As at December 31, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Financial Assets :</b>				
Fair value through profit or loss:				
Short-term securities	\$ 6	\$ —	\$ —	\$ 6
Derivative assets	—	246	—	246
Available-for-sale:				
Securities	5,892	—	—	5,892
Total	<u>\$5,898</u>	<u>\$ 246</u>	<u>\$ —</u>	<u>\$6,144</u>
<b>Financial Liabilities :</b>				
Fair value through profit or loss:				
Derivative liabilities	<u>\$ —</u>	<u>\$ 302</u>	<u>\$ —</u>	<u>\$ 302</u>
 <u>As at December 31, 2016</u>				
<b>Financial Assets :</b>				
Fair value through profit or loss:				
Short-term securities	\$ 7	\$ —	\$ —	\$ 7
Derivative assets	—	1,240	—	1,240
Available-for-sale:				
Securities	5,572	—	—	5,572
Total	<u>\$5,579</u>	<u>\$1,240</u>	<u>\$ —</u>	<u>\$6,819</u>
<b>Financial Liabilities :</b>				
Fair value through profit or loss:				
Derivative liabilities	<u>\$ —</u>	<u>\$6,454</u>	<u>\$ —</u>	<u>\$6,454</u>

Generally, management of the Group believes that current financial assets and financial liabilities, due to their short-term nature, do not pose significant financial risks. The Group uses various financial instruments to manage its exposure to various financial risks. The policies for controlling the risks associated with financial instruments include, but are not limited to, standardized company procedures and policies on matters such as hedging of risk exposure, avoidance of undue concentration of risk and requirements for collateral (including letters of credit and bank guarantees) to mitigate credit risk. The Group has risk managers and other personnel to perform checking functions and risk assessments so as to ensure that the Group's procedures and policies are complied with.

Many of the Group's strategies, including the use of derivative instruments and the types of derivative instruments selected by the Group, are based on historical trading patterns and correlations and the Group's management's expectations of future events. However, these strategies may not be fully effective in all market environments or against all types of risks. Unexpected market developments may affect the Group's risk management strategies during the period, and unanticipated developments could impact the Group's risk management strategies in the future. If any of the variety of instruments and strategies the Group utilizes is not effective, the Group may incur losses.

**MFC BANCORP LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 29. Financial Instruments (continued)**

The Group does not trade in financial instruments, including derivative financial instruments, for speculative purposes.

The nature of the risks that the Group's financial instruments are subject to as at December 31, 2017 is set out in the following table:

Financial instrument	Risks				
	Credit	Liquidity	Market risks		
			Currency	Interest rate	Other price
Cash and cash equivalents and short-term cash deposits	X		X	X	
Short-term securities			X		X
Long-term securities			X		X
Derivative securities and financial liabilities	X	X	X		X
Receivables	X		X		
Short-term bank borrowings		X	X		
Account payables and accrued expenses		X	X		
Debt		X	X	X	

A sensitivity analysis for each type of market risk to which the Group is exposed on its financial instruments at the end of the reporting period is provided, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date. These ranges of parameters are estimated by management, which are based on the facts and circumstances available at the time estimates are made, and an assumption of stable socio-economic and geopolitical states. No unusual nor exceptional events, for example, natural disasters or human-made crises and calamities, are taken into consideration when the sensitivity analysis is prepared. Actual occurrence could differ from these assumptions and such differences could be material.

**Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments which potentially subject the Group to credit risk consist of cash and cash equivalents, short-term cash deposits, derivative financial instruments and credit exposure (including outstanding receivables and committed transactions). The Group has deposited cash and cash equivalents and short-term cash deposits and entered into derivative financial instrument contracts with reputable financial institutions with high credit ratings and management believes the risk of loss from these counterparties to be remote.

Most of the Group's credit exposure is with counterparties in the merchant banking segment and are subject to normal industry credit risk. The Group has receivables from various entities including, primarily, trade customers. Credit risk from trade receivables is mitigated since they are credit insured, covered by letters of credit, bank guarantees and/or other credit enhancements. The Group routinely monitors credit risk exposure, including sector, geographic and corporate concentrations of credit and set and regularly review counterparties' credit limits based on rating agency credit ratings and/or internal assessments of the customers and industry analysis. The Group also uses factoring and credit insurances to manage credit risk. Management believes that these measures minimize the Group's overall credit risk; however, there can be no assurance that these processes will protect the Group against all losses from non-performance.

The average contractual credit period for trade receivables is 60-65 days and up to 180 days for certain sales. With the use of factoring facilities, the average cash collection period is reduced to approximately 15 days. For the aging analysis of past-due receivables, see Note 7.

**MFC BANCORP LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 29. Financial Instruments (continued)**

The maximum credit risk exposure as at December 31, 2017 is as follows:

Cash and cash equivalents and short-term cash deposits	\$ 75,064
Derivative assets	246
Receivables	55,949
Amounts recognized in the consolidated statement of financial position	131,259
Guarantees (see Note 26)	—
Maximum credit risk exposure	<u>\$131,259</u>

In February 2016, certain guarantees related to a customer filing for insolvency were called and the Group met its obligations under these amounts. Since these guarantees were no longer contingent, but instead were probable, they were recognized as provisions of \$40,677 as at December 31, 2015, which were paid during the year ended December 31, 2016. During the year ended December 31, 2016, the Group received proceeds of \$39,149 from risk mitigation assets related to these guarantees, of which \$35,121 was credited to profit or loss through a recovery of credit loss and the remainder was credited to trade receivables. During 2017, a net reversal of credit loss of \$1,317 was credited to profit or loss (see Note 7).

In 2018, the calling of a guarantee resulted in a provision for credit loss of \$1,502 as at December 31, 2017 (see Note 17).

Please see sub-heading of “Concentration risk” in this note on credit risk concentration.

**Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group requires liquidity specifically to fund capital requirements, satisfy financial obligations as they become due, and to operate its merchant banking business. The Group puts in place an actively managed production and capital expenditure budgeting process for major capital programs. The Group’s approach to managing liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when they fall due, under normal and stress conditions, without incurring unacceptable losses. The Group maintains an adequate level of liquidity, with a portion of its assets held in cash and cash equivalents. The Group also maintains adequate banking facilities, including factoring arrangements. It is the Group’s policy to invest cash in highly liquid, diversified money market funds or bank deposits for a period of less than three months. The Group may also invest in cash deposits with an original maturity date of more than three months so as to earn higher interest income.

Generally, trade payables are due within 90 days and other payables and accrued expenses are due within one year. All short-term bank borrowings are renewable on a yearly basis. All long-term debt was classified to current liabilities as at December 31, 2017 as the lender notified the subsidiary borrowers that the debt had been accelerated and called due. The schedule of future payments is based on the Group’s historical payment patterns and management’s interpretation of contractual arrangements. The actual cash outflows might occur significantly earlier than indicated in the schedule or be for significantly different amounts from those indicated in the schedule.

**Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk does not arise from financial instruments that are non-monetary items or from financial instruments denominated in the functional currency. The Group operates internationally and is exposed to risks from changes in foreign currency exchange rates, particularly the Euro, Canadian dollar and U.S. dollar. Currency risk arises principally from future trading transactions, and recognized assets and liabilities. In order to reduce the Group’s exposure to foreign currency risk on material contracts (including intercompany loans) denominated in foreign currencies (other than the functional currencies of the Group companies), the Group may use foreign currency forward contracts and options to protect its financial

**MFC BANCORP LTD.**  
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**Note 29. Financial Instruments (continued)**

positions. As at December 31, 2017, in its continuing operations, the Group had foreign currency derivative financial instruments (foreign currency forward contracts and options) with aggregate notional amounts of \$14,766 (2016: \$196,089) and a net unrealized fair value gain of \$75 (2016: net loss of \$2,416).

The Group does not have any material exposure to highly inflationary foreign currencies.

Sensitivity analysis:

At December 31, 2017, if the U.S. dollar had weakened 10% against the Group companies' functional currencies with all other variables held constant, loss from continuing operations for the year ended December 31, 2017 would have been \$1,180 higher. Conversely, if the U.S. dollar had strengthened 10% against the Group companies' functional currencies with all other variables held constant, loss from continuing operations for the year ended December 31, 2017 would have been \$1,180 lower. The reason for such change is mainly due to certain U.S. dollar denominated financial instrument assets (net of liabilities) held by entities whose functional currencies were not the U.S. dollar. There would have been no material impact arising from financial instruments on other comprehensive income in either case.

At December 31, 2017, if the Euro had weakened 10% against the Group companies' functional currencies with all other variables held constant, loss from continuing operations for the year ended December 31, 2017 would have been \$1,038 lower. Conversely, if the Euro had strengthened 10% against the Group companies' functional currencies with all other variables held constant, loss from continuing operations for the year ended December 31, 2017 would have been \$1,038 higher. The reason for such change is mainly due to certain Euro denominated financial instrument liabilities (net of assets) owed by entities whose functional currencies were not the Euro. There would have been no impact arising from financial instruments on other comprehensive income in either case.

At December 31, 2017, if the Canadian dollar had weakened 10% against the Group companies' functional currencies with all other variables held constant, loss from continuing operations for the year ended December 31, 2017 would have been \$9,911 lower. Conversely, if the Canadian dollar had strengthened 10% against the Group companies' functional currencies with all other variables held constant, loss from continuing operations for the year ended December 31, 2017 would have been \$9,911 higher. The reason for such change is mainly due to certain Canadian dollar-denominated financial instrument liabilities (net of assets) owed by an entity whose functional currencies were not the Canadian dollar. There would have been no impact arising from financial instruments on other comprehensive income in either case.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Short-term financial assets and financial liabilities are generally not exposed to significant interest rate risk, because of their short-term nature. As at December 31, 2017, the Group did not have any long-term debt due after more than one year.

Sensitivity analysis:

At December 31, 2017, if benchmark interest rates (such as EURIBOR, LIBOR or prime rates) at that date had been 100 basis points (1.00%) per annum lower with all other variables held constant, loss from continuing operations for the year ended December 31, 2017 would have been \$84 lower, arising mainly as a result of lower net interest expense. Conversely, if benchmark interest rates at that date had been 100 basis points (1.00%) per annum higher with all other variables held constant, loss from continuing operations for the year ended December 31, 2017 would have been \$84 higher, arising mainly as a result of higher net interest expense. There would have been no impact arising from financial instruments on the Group's other comprehensive income.

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**Note 29. Financial Instruments (continued)**

**Other price risk**

Other price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Group's other price risk includes equity price risk whereby the Group's investments in equities of other entities that are classified as held for trading or available for sale are subject to market price fluctuations. The Group did not hold any asset-backed securities.

**Sensitivity analysis:**

At December 31, 2017, if equity prices in general had weakened 10% with all other variables held constant, loss and other comprehensive loss from continuing operations for the year ended December 31, 2017 would have been \$1 higher and \$77 higher, respectively. Conversely, if equity prices in general had strengthened 10% with all other variables held constant, loss and other comprehensive loss from continuing operations for the year ended December 31, 2017 would have been \$1 lower and \$77 lower, respectively.

In addition, the Group buys and sells futures contracts on the London Metal Exchange and enters into financial derivative contracts (e.g. futures and swaps) with banks, customers and brokers. Management uses the financial derivative contracts to manage the price fluctuations for its own account or for customers. As at December 31, 2017, in its continuing operations, the Group had outstanding derivative financial instruments with an aggregate notional amount of \$8,690 (2016: \$37,324), respectively, primarily to hedge against the long position in inventories and the usage of energy, which resulted in a net unrealized fair value loss of \$131 (2016: \$2,798).

**Sensitivity analysis:**

At December 31, 2017, if the underlying prices in the financial instrument contracts in general had weakened 10% with all other variables held constant, loss from continuing operations for the year ended December 31, 2017 would have been \$5 higher. Conversely, if the underlying prices in the financial instrument contracts in general had strengthened 10% with all other variables held constant, loss from continuing operations for the year ended December 31, 2017 would have been \$5 lower. There would have been no impact arising from financial instruments on other comprehensive income in either case.

The Group executes contracts with third parties for the sale and physical delivery of inventory so as to achieve a targeted price. Such contracts are not typically financial instruments and therefore are excluded from the fair value disclosures and sensitivity analyses.

**Concentration risk**

Management determines the concentration risk threshold amount as any single financial asset (or liability) exceeding 10% of total financial assets (or liabilities) in the Group's consolidated statement of financial position.

The Group regularly maintains cash balances in financial institutions in excess of insured limits. The Group has deposited cash and cash equivalents, short-term cash deposits and restricted cash with reputable financial institutions with high credit ratings, and management believes the risk of loss to be remote. As at December 31, 2017, the Group had cash and cash equivalents aggregating \$2,412 with a banking group in Europe. The Group also owed \$45,721 in aggregate short-term banking borrowings and debt to the European banking group and had derivative contracts with an aggregate notional amount of \$14,766 with the European banking group. A customer filed for insolvency in 2016. As of December 31, 2017, the Group recognized trade receivables of \$21,375 (2016: \$100,008) due from the customer and its affiliates, net of allowance for credit losses.

**Offsetting a financial asset and financial liabilities**

In December 2016, the Group and a financial institution reached a legally enforceable agreement whereby the Group would set off its cash account with the financial institution against its debt and payables owing to the same financial institution. The realization of the cash account and the settlement of liabilities were

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 29. Financial Instruments (continued)**

simultaneously completed on January 2, 2017. As a result, the financial assets were set off against the financial liabilities as at December 31, 2016 as follows:

<u>Recognized asset and liabilities</u>	<u>Gross amount</u>	<u>Amount set off</u>	<u>Net amount*</u>
Cash and cash equivalents	\$ 201,866	\$ (81,190)	\$ 120,676
Debt, current portion	114,228	(77,979)	36,249
Accounts payables and accrued expenses	48,325	(3,211)	45,114

\* Amounts presented in the consolidated statement of financial position.

**Additional disclosure**

In addition to information disclosed elsewhere in these consolidated financial statements, the Group had significant items of income, expense, and gains and losses resulting from financial assets and financial liabilities which were included in profit or loss from continuing operations for the years ended December 31, 2017, 2016 and 2015 as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Interest income on financial assets not at fair value through profit or loss	\$ 434	\$ 605	\$ 743
Interest income on financial assets classified at fair value through profit or loss	539	2,451	3,494
Total interest income	<u>\$ 973</u>	<u>\$ 3,056</u>	<u>\$ 4,237</u>
Interest expense on financial liabilities not at fair value through profit or loss	\$ 3,509	\$ 7,747	\$ 3,701
Interest expense on financial liabilities classified at fair value through profit or loss	1,195	7,720	13,793
Total interest expense	<u>\$ 4,704</u>	<u>\$ 15,467</u>	<u>\$ 17,494</u>
Dividend income on financial assets at fair value through profit or loss	\$ —	\$ —	\$ —
Dividend income on financial assets classified as available for sale, other	—	6	7
Net gain on financial assets at fair value through profit or loss	6,825	1,240	2,829

**Note 30. Fair Value Disclosure for Non-financial Assets**

The fair values of the Group's financial instrument assets and liabilities which are measured at fair value on the consolidated statements of financial position are discussed in Note 29. The following tables present non-financial assets which are measured at fair value in the consolidated statements of financial position, classified by level of the fair value hierarchy:

Assets measured at fair value on a recurring basis as at December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Inventories	\$ 1,039	\$ 271	\$ —
Investment property	—	37,660	—
Total	<u>\$ 1,039</u>	<u>\$ 37,931</u>	<u>\$ —</u>

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**Note 30. Fair Value Disclosure for Non-financial Assets (continued)**

Assets measured at fair value on a recurring basis as at December 31, 2016:

	Level 1	Level 2	Level 3
Inventories	\$ 1,655	\$ 13,529	\$ —
Investment property	—	35,663	—
Total	\$ 1,655	\$ 49,192	\$ —

Commodity inventories are measured at fair value less costs to sell. The fair values are determined by reference to their contractual selling prices or quoted prices in marketplaces in the absence of a contract (level 1 fair value hierarchy). An average of past sale prices is used when there are no observable market prices or current contracts but there have been recent past sales of such goods and there are no indications that the market prices have been materially impacted (level 2 fair value hierarchy).

The fair values of investment property are measured using an income approach which includes the following inputs: land value, realized basic rents, operating costs, discount rates and damages and defects (level 2 fair value hierarchy). The valuation approach was consistent for both 2017 and 2016. Both the 2017 and 2016 valuations were performed by an independent external valuator who is an authorized expert for the valuation of developed and undeveloped land in Germany and holds recognized and relevant professional qualifications and has recent experience in the location and category of the investment property being valued.

**Note 31. MFC Bancorp and its Significant Subsidiaries**

MFC Bancorp, through a subsidiary, has an executive office at 2-4 Merrion Row, Dublin 2, Ireland.

A subsidiary is an entity that is controlled by MFC Bancorp. The following table shows the Company's direct and indirect significant subsidiaries as at December 31, 2017. The table excludes subsidiaries which only hold intercompany assets and liabilities and do not have an active business as well as subsidiaries whose results and net assets did not materially impact the consolidated results and net assets of the Group.

Subsidiaries	Country of Incorporation	Proportion of Interest
Kasese Cobalt Company Limited	Uganda	75%
MFC (A) Ltd	Marshall Islands	99.72%
MFC (D) Ltd	Marshall Islands	99.72%
M Financial Corp.	Barbados	100%
Merchants Financial Corp	Marshall Islands	99.96%
MFC Merchant Bank Limited	Malta	100%
Sino Medical Technology Co. Ltd	Marshall Islands	99.54%

As at December 31, 2017, the Group controlled entities in which the Group held more than 50% of the voting rights and did not control any entities in which the Group held 50% or less of the voting rights. The Group's proportional voting interests in the subsidiaries are identical to its proportional beneficial interests, except for: (i) a non-wholly-owned subsidiary in Africa from which the Group derives a 100% beneficial interest resulting from holding a shareholder loan; and (ii) MFC (A) Ltd. and MFC (B) Ltd., in each of which the Group holds a 99.68% proportional beneficial interest. In addition, the Group consolidated certain structured entities as at December 31, 2017.

As at December 31, 2017, none of the non-controlling interests are material to the Group. During the year ended December 31, 2017, two subsidiaries, pursuant to the terms of respective option deeds, issued shares to the non-controlling interests. These share issuances were accounted for as equity transactions and were credited to non-controlling interests directly.

As at December 31, 2017, there were no significant restrictions (statutory, contractual and regulatory restrictions, including protective rights of non-controlling interests) on MFC Bancorp's ability to access or use the assets and settle the liabilities of the Group.

**MFC BANCORP LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 31. MFC Bancorp and its Significant Subsidiaries (continued)**

During the year ended December 31, 2017, the Group sold the shares of a non-core Latin America focused commodities trading subsidiary, resulting in a gain of \$57 (see Note 28). The Group also disposed of several other subsidiaries which resulted in a net loss of \$10,276, which were included in the consolidated statement of operations.

During the year ended December 31, 2016, the Group disposed of several merchant banking subsidiaries resulting in a gain of \$3,590. The Group also recognized a total loss of \$1,005 on the dispositions of other merchant banking subsidiaries. These gain and losses on the dispositions of the subsidiaries were included in the consolidated statement of operations.

During the year ended December 31, 2015, the Group sold a 95% economic interest in certain hydrocarbon assets and the related liabilities to a third party for nominal and contingent consideration and derecognized the former subsidiaries holding these assets and liabilities. As a result, the Group recognized a non-cash post-tax loss of \$11,987 in discontinued operations upon the deconsolidation (see Note 5).

**Note 32. Approval of Consolidated Financial Statements**

These consolidated financial statements were approved by the Board of Directors and authorized for issue on April 10, 2018.

**ITEM 19: EXHIBITS****Exhibits Required by Form 20-F**

<b>Exhibit Number</b>	<b>Description</b>
<a href="#"><u>1.1</u></a>	<a href="#"><u>Amended and Restated Memorandum and Articles of Association adopted on July 12, 2017. Incorporated by reference from our Form 6-K dated July 14, 2017.</u></a>
<a href="#"><u>4.1</u></a>	<a href="#"><u>2017 Equity Incentive Plan.</u></a>
<a href="#"><u>4.2</u></a>	<a href="#"><u>Amended and Restated Arrangement Agreement dated June 7, 2017 among MFC Bancorp Ltd., MFC Bancorp Ltd. and MFC 2017 II Ltd. Incorporated by reference from our Form 6-K dated June 14, 2017.</u></a>
<a href="#"><u>8.1</u></a>	<a href="#"><u>List of significant subsidiaries of MFC Bancorp Ltd. as at December 31, 2017.</u></a>
<a href="#"><u>11.1</u></a>	<a href="#"><u>Code of Business Conduct and Ethics and Insider Trading Policy.</u></a>
<a href="#"><u>12.1</u></a>	<a href="#"><u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
<a href="#"><u>12.2</u></a>	<a href="#"><u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
<a href="#"><u>13.1</u></a>	<a href="#"><u>Certification of Chief Executive Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
<a href="#"><u>13.2</u></a>	<a href="#"><u>Certification of Chief Financial Officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
101*	eXtensible Business Reporting Language (XBRL).

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**Note:**

\* To be filed by amendment.

### SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: April 10, 2018

**MFC BANCORP LTD.**

*/s/ Michael J. Smith*

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Michael J. Smith  
President and Chief Executive Officer

**MFC BANCORP LTD. EQUITY INCENTIVE PLAN****MFC BANCORP LTD.  
(FORMERLY, MFC 2017 LTD.)****2017 Equity Incentive Plan****ARTICLE 1****ESTABLISHMENT, PURPOSE, EFFECTIVE DATE AND EXPIRATION DATE**

1.1 **Establishment** . MFC Bancorp Ltd., a company organized under the laws of the Cayman Islands (the "Company"), has established this 2017 Equity Incentive Plan (the "Plan"), which permits the grant of Options, Restricted Stock Rights, Restricted Stock, Performance Shares, Performance Share Units and Stock Appreciation Rights.

1.2 **Purpose** . The purpose of the Plan is to promote the long-term success of the Company and the creation of shareholder value by (a) encouraging Employees, Officers, Consultants and non-Employee Directors to focus on critical long-range objectives, (b) encouraging the attraction and retention of qualified Employees, Officers, Consultants and non-Employee Directors and (c) linking such person directly to shareholder interests through increased stock ownership. The Plan is further intended to provide flexibility to the Company in its ability to attract, retain and motivate individuals upon whose judgment, interest and special effort the successful conduct of the Company's operation is largely dependent.

1.3 **Effective Date** . The Plan is effective as of July 14, 2017 (the "Effective Date").

1.4 **Expiration Date** . The Plan will expire on, and no Award may be granted under the Plan after, the tenth (10<sup>th</sup>) anniversary of the Effective Date unless holders of the Shares vote to approve an extension of the Plan prior to such expiration date. Any Awards outstanding on the tenth (10<sup>th</sup>) anniversary of the Effective Date (or such later expiration date as approved by the Company's shareholders) shall remain in force according to the terms of the Plan and the applicable Award Agreement.

**ARTICLE 2  
DEFINITIONS**

2.1 **Definitions** . When a word or phrase appears in this Plan with the initial letter capitalized, and the word or phrase does not commence a sentence, the word or phrase will generally be given the meaning ascribed to it in this Section 2.1 unless a clearly different meaning is required by the context. The following words and phrases will have the following meanings:

- (a) "*Affiliate* " means a corporation or other entity that, directly or through one or more intermediaries, controls, is controlled by or is under common control with, the Company.
-

- (b) " *Annual Meeting* " means the regular annual general meeting of the Company's shareholders.
- (c) " *Award* " means any right granted under the Plan, including an Option, Restricted Stock Right, Restricted Stock, Performance Share, Performance Share Unit or Stock Appreciation Right granted pursuant to the Plan.
- (d) " *Award Agreement* " means a written agreement, contract, certificate or other instrument or document evidencing the terms and conditions of an Award granted under the Plan which may, in the discretion of the Company, be transmitted electronically to any Participant. Each Award Agreement shall be subject to the terms and conditions of the Plan.
- (e) " *Board* " means the Board of Directors of the Company, as constituted from time to time.
- (f) " *Cause* " means a determination by the Committee that a Participant (i) has been convicted of, or entered a plea of *nolo contendere* to, a crime that constitutes a felony (or equivalent) under federal, state or provincial law, (ii) has engaged in willful gross misconduct in the performance of a Participant's duties to the Company or an Affiliate, (iii) has committed a material breach of any written agreement with the Company or any Affiliate with respect to confidentiality, noncompetition, non-solicitation or similar restrictive covenant, or (iv) has engaged in any other conduct which would constitute "cause" under any applicable laws, provided that, in the event that a Participant is a party to an employment agreement with the Company or any Affiliate that defines a termination on account of "Cause" (or a term having similar meaning), such definition shall apply as the definition of a termination on account of "Cause" for such Participant for the purposes hereof.
- (g) " *Change in Control* " has the meaning set forth in Section 11.1 hereof.
- (h) " *Code* " means the Internal Revenue Code of 1986, as amended. All references to the Code shall be interpreted to include a reference to any applicable regulations, rulings or other official guidance promulgated pursuant to such section of the Code.
- (i) " *Committee* " means the Company's Compensation Committee or any such committee as may be designated by the Board to administer the Plan, provided that at all times the membership of such committee shall not be less than two (2) members of the Board and each Committee member must be: (i) a "non-employee director" (as defined in Rule 16b-3 under the Exchange Act) if required to meet the conditions of exemption for the Awards under the Plan from Section 16(b) of the Exchange Act; (ii) an "outside director" as defined in Section 162(m) of the Code and the regulations issued thereunder, to the extent such section is applicable to the Company; and (iii) an "independent director" as defined by the New York Stock Exchange (or any successor or replacement thereof) so long as the Company's Shares are quoted or listed thereon.

- (j) " *Company* " means MFC Bancorp Ltd., or any successor thereof, as provided in Section 18.10.
- (k) " *Constructive Termination* " means the Termination of Employment by a Participant within sixty (60) days following the occurrence of any one or more of the following events without the Participant's written consent: (i) any one or more of a reduction in position, title (for Vice Presidents or above), overall responsibilities, level of authority, level of reporting (for Vice Presidents or above), base compensation, annual incentive compensation opportunity, aggregate employee benefits, or (ii) a requirement that the Participant's location of employment be relocated by more than one hundred (100) kilometers: provided that, in the event that a Participant is a party to an employment agreement with the Company or any Affiliate (or a successor entity) that defines a termination on account of "Constructive Termination", "Good Reason" or "Breach of Agreement" (or a term having a similar meaning), such definition shall apply as the definition of "Constructive Termination" for purposes of this Plan in respect of such Participant only. A Constructive Termination shall be communicated by written notice to the Committee, and shall be deemed to occur on the date such notice is delivered to the Committee, unless the circumstances giving rise to the Constructive Termination are cured within five (5) business days of such notice.
- (l) " *Consultant* " means a consultant or adviser who provides services to the Company or an Affiliate as an independent contractor and not as an Employee; provided however that a Consultant may become a Participant pursuant to this Plan only if he or she (i) is a natural person and (ii) provides bona fide services to the Company or an Affiliate.
- (m) " *Covered Employee* " means, if applicable to the Company, an Employee who is, or could be, a "covered employee" as defined by Section 162(m) of the Code, as interpreted by *Internal Revenue Service Notice 2007-49*.
- (n) " *Director* " means a member of the Board.
- (o) " *Disability* " means that the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment; provided, however, for purposes of determining the term of an Incentive Stock Option pursuant to Section 6.2(c)(iii) hereof, the term Disability shall have the meaning ascribed to it under Section 22(e)(3) of the Code. The determination of whether an individual has a Disability shall be determined under procedures established by the Committee. Except in situations where the Committee is determining Disability for purposes of the term of an Incentive Stock Option pursuant to Section 6.2(c)(iii) hereof within the meaning of Section 22(e)(3) of the Code, the Committee may rely on any determination that a Participant is disabled for purposes of benefits under any long-term disability plan maintained by the Company or any Affiliate in which a Participant participates.
- (p) " *Effective Date* " has the meaning set forth in Section 1.3 hereof.

- (q) " *Employee* " means any person, including an Officer or Director, employed by the Company or an Affiliate; provided, that, for purposes of determining eligibility to receive Incentive Stock Options, an Employee shall mean an employee of the Company or a parent or subsidiary corporation within the meaning of Section 424 of the Code. Mere service as a Director or payment of a director's fee by the Company or an Affiliate shall not be sufficient to constitute "employment" by the Company or an Affiliate .
- (r) " *Exchange Act* " means the United States Securities Exchange Act of 1934, as amended.
- (s) " *Fair Market Value* " means the market price of one Share, determined by the Committee as follows:
- (i) If the Share was traded on the New York Stock Exchange, then the Fair Market Value shall be equal to the closing price reported for such date by the New York Stock Exchange;
  - (ii) If the Share was traded on a United States or Canadian stock exchange, but was not traded on the New York Stock Exchange, on the date in question, then the Fair Market Value shall be equal to the closing price reported for such date by the applicable composite-transactions report;
  - (iii) If the Share was traded over-the-counter on the date in question, then the Fair Market Value shall be equal to the last transaction price quoted for such date by the OTC Bulletin Board or, if not so quoted, shall be equal to the mean between the last reported representative bid and asked prices quoted for such date by the principal automated inter-dealer quotation system on which the Share is quoted or, if the Share is not quoted on any such system, by the "Pink Sheets" published by the National Quotation Bureau, Inc.; or
  - (iv) If none of the foregoing provisions is applicable, then the Fair Market Value shall be determined by the Committee in good faith on such basis as it deems appropriate.
- In all cases, the determination of Fair Market Value by the Committee shall be conclusive and binding on all persons.
- (t) " *Grant Date* " means the date the Committee approves the Award or a date in the future on which the Committee determines the Award will become effective.
- (u) " *Incentive Stock Option* " means an Option that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.
- (v) " *Non-Qualified Stock Option* " means an Option that by its terms does not qualify or is not intended to qualify as an Incentive Stock Option.

- (w) " *Officer* " means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.
- (x) " *Option* " means an Incentive Stock Option or a Non-Qualified Stock Option.
- (y) " *Optionee* " means an individual or estate which holds an Option or SAR.
- (z) " *Participant* " means an individual who, as an Employee, Officer or non-Employee Director of, or Consultant to, the Company or any Affiliate, has been granted an Award under the Plan.
- (aa) " *Performance-Based Award* " means an Award granted to select Covered Employees pursuant to Articles 7, 8 and 9 that is subject to the terms and conditions set forth in Article 10. All Performance-Based Awards are intended to qualify as "performance-based compensation" exempt from the deduction limitations imposed by Section 162(m) of the Code, if applicable.
- (bb) " *Performance Criteria* " means the criteria, or any combination of criteria, that the Committee selects for the purposes of establishing the Performance Goal or Performance Goals for a Participant during a Performance Period. The Performance Criteria that will be used to establish Performance Goals are limited to the following: (a) net earnings or net income (before or after taxes); (b) basic or diluted earnings per share (before or after taxes); (c) net revenue or net revenue growth; (d) gross revenue; (e) gross profit or gross profit growth; (f) net operating profit (before or after taxes); (g) return on assets, capital, invested capital, equity, or sales; (h) cash flow (including, but not limited to, operating cash flow, free cash flow, and cash flow return on capital); (i) earnings before or after taxes, interest, depreciation and/or amortization; (j) gross or operating margins; (k) improvements in capital structure; (l) budget and expense management; (m) productivity ratios; (n) economic value added or other value added measurements; (o) share price (including, but not limited to, growth measures and total shareholder return); (p) expense targets; (q) operating efficiency; (r) cost containment or reduction; (s) working capital targets; (t) enterprise or book value; (u) safety record; (v) completion of acquisitions or business expansion; (w) project milestones; (x) strategic plan development; and (y) implementation and achievement of synergy targets.
- (cc) " *Performance Goals* " means the goal or goals established in writing by the Committee for a Performance Period based on the Performance Criteria. Depending on the Performance Criteria used to establish Performance Goals, the Performance Goals may be expressed in terms of overall Company performance, or the performance of a division, Affiliate, or an individual. The Performance Goals may be stated in terms of absolute levels or relative to another company or companies or to an index or indices.
- (dd) " *Performance Period* " means one or more periods of time, which may be of varying and overlapping durations, as the Committee may select, over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Participant's right to, and the payment of, a Performance-Based Award.

- (ee) " *Performance Share* " means a right granted to a Participant to receive a payment in the form of Shares, the payment of which is contingent upon achieving certain Performance Goals established by the Committee.
- (ff) " *Performance Share Unit* " means a right granted to a Participant to receive a payment in the form of Shares, cash, or a combination thereof, the payment of which is contingent upon achieving certain Performance Goals established by the Committee.
- (gg) " *Plan* " means this MFC Bancorp Ltd. 2017 Equity Incentive Plan.
- (hh) " *Restricted Period* " means the period during which Restricted Stock, Restricted Stock Rights, Performance Shares, or Performance Share Units are subject to restrictions pursuant to the provisions of the Plan or an Award Agreement.
- (ii) " *Restricted Stock* " means Shares granted to a Participant pursuant to Article 7 that is subject to certain restrictions and to the risk of forfeiture.
- (jj) " *Restricted Stock Agreement* " means the agreement between the Company and the recipient of Restricted Stock which contains the terms, conditions and restrictions pertaining to such Restricted Stock.
- (kk) " *Restricted Stock Award* " means an award of Restricted Stock.
- (ll) " *Restricted Stock Right* " means the right granted to a Participant pursuant to Article 7 to receive cash or Stock in the future, the payment of which is subject to certain restrictions and to the risk of forfeiture.
- (mm) " *Securities Act* " means the United States Securities Act of 1933, as amended.
- (nn) " *Separation from Service* " means either: (i) the termination of a Participant's employment with the Company and all Affiliates due to death, retirement or other reasons; or (ii) a permanent reduction in the level of bona fide services the Participant provides to the Company and all Affiliates to an amount that is 20% or less of the average level of bona fide services the Participant provided to the Company and all Affiliates in the immediately preceding 36 months, with the level of bona fide service calculated in accordance with Treasury Regulation Section 1.409A-1(h)(1)(ii).

Solely for purposes of determining whether a Participant has a "Separation from Service", a Participant's employment relationship is treated as continuing while the Participant is on sick leave, or other bona fide leave of absence (if the period of such leave does not exceed six months, or if longer, so long as the Participant's right to reemployment with the Company or an Affiliate is provided either by statute or contract).

If the Participant's period of leave exceeds six months and the Participant's right to reemployment is not provided either by statute or by contract, the employment relationship is deemed to terminate on the first day immediately following the expiration of such six-month period. Whether a Termination of Employment has occurred will be determined based on all of the facts and circumstances and in accordance with regulations issued by the United States Treasury Department pursuant to Section 409A of the Code.

In the case of a non-Employee Director, Separation from Service means that such Director has ceased to be a member of the Board.

- (oo) " *Shares* " means the common shares of US\$0.001 par value each in the capital of the Company and such other securities or property as may become the subject of Awards under the Plan, or may become subject to such Awards, pursuant to an adjustment made under Section 5.3 hereof.
- (pp) " *Stock Appreciation Right* " or " *SAR* " means the right to receive a payment equal to the excess of the Fair Market Value of one Share on the date of exercise of the SAR over the grant price of the SAR as determined pursuant to Article 9 and the applicable Award Agreement.
- (qq) " *Termination of Employment* " means: (i) in the context of an Award that is subject to the requirements of Section 409A of the Code, a "Separation from Service"; and (ii) in the case of any other Award, "Termination of Employment" will be given its natural meaning.
- (rr) " *Triggering Event* " means (i) the Termination of Employment of a Participant by the Company or an Affiliate (or any successor thereof) other than on account of death, Disability or Cause, (ii) the occurrence of a Constructive Termination or (iii) any failure by the Company (or a successor entity) to assume, replace, convert or otherwise continue any Award in connection with a Change in Control (or another corporate transaction or other change effecting the Shares) on the same terms and conditions as applied immediately prior to such transaction, except for equitable adjustments to reflect changes in Shares pursuant to Section 5.3 of this Plan.

2.2 **Gender and Number** . Except when otherwise indicated by the context, words in the masculine gender when used in this Plan document will include the feminine gender, the singular includes the plural, and the plural includes the singular.

### ARTICLE 3 ELIGIBILITY AND PARTICIPATION

3.1 **General Eligibility** . Awards may be made only to those Participants who, on the Grant Date of the Award, are (i) Employees, Officers or non-Employee Directors of the Company or one of its Affiliates on the Grant Date of the Award or (ii) Consultants who render or have rendered bona fide services (other than services in connection with the offering or sale of securities of the Company or one of its Affiliates in a capital-raising transaction or as a market maker or promoter of securities of the Company or one of its Affiliates) to the Company or one of its Affiliates and who are elected to participate in the Plan by the Committee; provided, however, that a person who is otherwise an Eligible Person under clause (ii) above may participate in this Plan only if such participation would not adversely affect either the Company's eligibility to use Form S-8 to register under the Securities Act the offering and sale of Shares issuable under this Plan by the Company or the Company's compliance with any other applicable laws. A Participant may, if otherwise eligible, be granted additional awards if the Committee shall so determine.

3.2 **Actual Participation** . Subject to the provisions of the Plan, the Committee may, from time to time, select from among all eligible individuals, those to whom Awards will be granted and will determine the nature and amount of each Award.

#### **ARTICLE 4 ADMINISTRATION**

4.1 **Administration by the Committee** . The Committee shall be responsible for the administration of the Plan. The Committee, by majority action thereof, is authorized to interpret the Plan, to prescribe, amend, and rescind rules and regulations relating to the Plan, to provide for conditions and assurances deemed necessary or advisable to protect the interests of the Company, and to make all other determinations necessary for the administration of the Plan, but only to the extent not contrary to the express provisions of the Plan. Determinations, interpretations, or other actions made or taken by the Committee in good faith pursuant to the provisions of the Plan shall be final, binding and conclusive for all purposes of the Plan.

4.2 **Authority of the Committee** . The Committee shall have the authority, in its sole discretion, to determine the Participants who: (i) are entitled to receive Awards under the Plan; (ii) the types of Awards; (iii) the times when Awards shall be granted; (iv) the number of Awards; (v) the purchase price or exercise price, if any; (vi) the period(s) during which such Awards shall be exercisable (whether in whole or in part); (vii) the restrictions applicable to Awards; (viii) the form of each Award Agreement, which need not be the same for each Participant; (ix) the other terms and provisions of any Award (which need not be identical); and (x) the schedule for lapse of forfeiture restrictions or restrictions in exercisability of an Award and accelerations or waivers thereof, based in each case on such considerations as the Committee in its sole discretion determines. The Committee shall have the authority to modify existing Awards, subject to Article 15 of this Plan. Notwithstanding the foregoing, the Committee will not have the authority to accelerate the vesting or waive the forfeiture of any Performance-Based Awards other than as provided in an Award Agreement or to reprice any previously granted Option.

4.3 **Award Agreement** . Each Award shall be evidenced by an Award Agreement that shall specify the type of Award granted and such other provisions and restrictions applicable to such Award as the Committee, in its discretion, shall determine.

4.4 **Decisions Binding** . The Committee shall have the authority to interpret the Plan and, subject to the provisions of the Plan, any Award Agreement, and all decisions and determinations by the Committee with respect to the Plan are final, binding and conclusive on all parties. No member of the Committee shall be liable for any act, omission, interpretation, construction or determination made in good faith with respect to the Plan or any Award granted under the Plan and all such persons shall be entitled to indemnification and reimbursement by the Company in respect of any claim, loss, damage or expense (including, without limitation, attorney's fees) arising or resulting therefrom to the fullest extent permitted by law and/or under any directors and officers liability insurance coverage that may be in effect from time to time .

4.5 **Reliance on Experts** . In making any determination or in taking or not taking any action under this Plan, the Committee may obtain and may rely upon the advice of experts, including Employees and professional advisors to the Company. No Director, Officer or agent of the Corporation or any of its Affiliates shall be liable for any such action or determination taken or made or omitted in good faith.

4.6 **Delegation** . The Committee may delegate ministerial, non-discretionary functions to individuals who are Officers or Employees of the Company or any of its Affiliates or to third parties.

## **ARTICLE 5**

### **SHARES SUBJECT TO THE PLAN**

5.1 **Number of Shares** . Subject to adjustment provided in Section 5.3, the total number of Shares subject to all Awards under the Plan shall be five hundred and seventy-five thousand four hundred and three (575,403). Notwithstanding the above, the maximum number of Shares that may be issued as Incentive Stock Options under the Plan shall be four hundred thousand (400,000). The Shares to be delivered under the Plan may consist, in whole or in part, of authorized but unissued Shares or Shares purchased on the open market or treasury Shares not reserved for any other purpose.

5.2 **Availability of Shares for Grant** . Subject to the express provisions of the Plan, if any Award granted under the Plan terminates, expires, lapses for any reason, or is paid in cash, any Shares subject to or surrendered for such Award will again be Shares available for the grant of an Award. The exercise of a stock-settled SAR or broker-assisted "cashless" exercise of an Option (or a portion thereof) will reduce the number of Shares available for issuance pursuant to Section 5.1 by the entire number of Shares subject to that SAR or Option (or applicable portion thereof), even though a smaller number of Shares will be issued upon such an exercise. Also, Shares tendered to pay the exercise price of an Option or tendered or withheld to satisfy a tax withholding obligation arising in connection with an Award will not become available for grant or sale under the Plan.

5.3 **Adjustment in Capitalization** . In the event of any change in the outstanding Shares by reason of a stock dividend (other than in the ordinary course) or split, recapitalization, merger, consolidation, combination, reorganization, exchange of shares, or other similar corporate change, the aggregate number of Shares available under the Plan and subject to each outstanding Award, and the stated exercise prices and the basis upon which the Awards are measured, shall be adjusted appropriately by the Committee, whose determination shall be conclusive; provided, however, that fractional Shares shall be rounded to the nearest whole Share. Moreover, in the event of such transaction or event, the Committee, in its sole discretion, may provide in substitution for any or all outstanding Awards under the Plan such alternative consideration (including cash) as it, in good faith, may determine to be equitable under the circumstances and may require in connection therewith the surrender of all Awards so replaced. Any adjustment to an Incentive Stock Option shall be made consistent with the requirements of Section 424 of the Code. Further, with respect to any Option or Stock Appreciation Right that otherwise satisfies the requirements of the stock rights exception to Section 409A of the Code, any adjustment pursuant to this Section 5.3 shall be made consistent with the requirements of the final regulations promulgated pursuant to Section 409A of the Code.

5.4 **Limitations on Number of Shares Subject to Awards** . Notwithstanding any provision in this Plan document to the contrary, and subject to any applicable adjustment upon the occurrence of any of the events indicated in Section 5.3 :

(a) *Annual Limitations* .

- (i) the maximum number of Shares subject to Options and Stock Appreciation Rights that may be granted to any one Participant, who is a Covered Employee, during any of the Company's fiscal years shall be seventy thousand (70,000); and
- (ii) the maximum number of Shares that may be granted to any one Participant, who is a Covered Employee, during any of the Company's fiscal years with respect to one or more Awards shall be seventy thousand (70,000) except that grants to a Participant in the fiscal year in which his or her service first commences shall not relate to more than eighty thousand (80,000 ) Shares.

(b) *Additional Limitations for non-employee Directors* .

- (i) the aggregate fair value of Awards granted under all security-based compensation arrangements of the Company to any one (1) non-employee Director entitled to receive a benefit under the Plan, within any one (1) year period, cannot exceed US\$100,000, valued on a Black-Scholes basis and as determined by the Committee; and
- (ii) the aggregate number of securities issuable to all non-employee Directors entitled to receive a benefit under the Plan, under all security-based compensation arrangements of the Company, cannot exceed one percent (1%) of the Company's issued and outstanding Shares.

5.5 **Reservation of Shares; No Fractional Shares; Minimum Issue** . The Company shall at all times reserve a number of Shares sufficient to cover the Company's obligations and contingent obligations to deliver Shares with respect to Awards then outstanding under the Plan (exclusive of any dividend equivalent obligations to the extent the Company has the right to settle such rights in cash). No fractional Shares shall be delivered under the Plan. The Committee may pay cash in lieu of any fractional Shares in settlements of Awards under the Plan. The Committee may from time to time impose a limit (of not greater than 100 Shares) on the minimum number of Shares that may be purchased or exercised as to Awards granted under the Plan unless (as to any particular Award) the total number purchased or exercised is the total number at the time available for purchase or exercise under the Award.

**ARTICLE 6**  
**STOCK OPTIONS**

6.1 **Grant of Options** . Subject to the provisions of Article 5 and this Article 6, the Committee, at any time and from time to time, may grant Options to such Participants and in such amounts as it shall determine.

- (a) *Exercise Price*. No Option shall be granted at an exercise price that is less than the Fair Market Value of one Share on the Grant Date.
- (b) *Time and Conditions of Exercise* . The Committee shall determine the time or times at which an Option may be exercised in whole or in part provided that the term of any Option granted under the Plan shall not exceed ten (10) years. The Committee shall also determine the performance or other conditions, if any, that must be satisfied before all or part of an Option may be exercised.
- (c) *Payment* . The Committee shall determine the methods by which the exercise price of an Option may be paid, the form of payment, including, without limitation, cash, promissory note, Shares held for longer than six (6) months (through actual tender or by attestation), any net-issuance arrangement or other property acceptable to the Committee (including broker-assisted "cashless exercise" arrangements), and the methods by which Shares shall be delivered or deemed to be delivered to Participants.
- (d) *Evidence of Grant* . All Options shall be evidenced by a written Award Agreement. The Award Agreement shall reflect the Committee's determinations regarding the exercise price, time and conditions of exercise, forms of payment for the Option and such additional provisions as may be specified by the Committee.
- (e) *No Repricing of Options* . The Committee shall not reprice any Options previously granted under the Plan.

6.2 **Incentive Stock Options** . Incentive Stock Options shall be granted only to Participants who are Employees and the terms of any Incentive Stock Options granted pursuant to the Plan must comply with the following additional provisions of this Section 6.2 :

- (a) *Exercise Price*. Subject to Section 6.2(e), the exercise price per Share shall be set by the Committee, provided that the exercise price for any Incentive Stock Option may not be less than the Fair Market Value as of the date of the grant.
- (b) *Exercise* . In no event may any Incentive Stock Option be exercisable for more than ten (10) years from the date of its grant.

- (c) *Lapse of Option* . An Incentive Stock Option shall lapse in the following circumstances:
- (i) The Incentive Stock Option shall lapse ten (10) years from the date it is granted, unless an earlier time is set in the Award Agreement.
  - (ii) The Incentive Stock Option shall lapse ninety (90) days following the effective date of the Participant's Termination of Employment for any reason other than the Participant's death or Disability, unless otherwise provided in the Award Agreement.
  - (iii) If the Participant has a Termination of Employment on account of Disability or death before the Option lapses pursuant to paragraph (i) or (ii) above, the Incentive Stock Option shall lapse, unless it is previously exercised, on the earlier of (a) the scheduled expiration date of the Option; or (b) six (6) months after the date of the Participant's Termination of Employment on account of Disability or death. Upon the Participant's Disability or death, any Incentive Stock Options exercisable at the Participant's Disability or death may be exercised by the Participant's legal representative or representatives, by the person or persons entitled to do so pursuant to the Participant's last will and testament, or, if the Participant fails to make testamentary disposition of such Incentive Stock Option or dies intestate, by the person or persons entitled to receive the Incentive Stock Option pursuant to the applicable laws of descent and distribution.
- (d) *Individual Dollar Limitation* . The aggregate Fair Market Value (determined as of the time an Award is made) of all Shares with respect to which Incentive Stock Options are first exercisable by a Participant in any calendar year may not exceed US\$100,000 or such other limitation as imposed by Section 422(d) of the Code, or any successor provision. To the extent that Incentive Stock Options are first exercisable by a Participant in excess of such limitation, the excess shall be considered Non-Qualified Stock Options. In reducing the number of options treated as Incentive Stock Options to meet the US\$100,000 limit, the most recently granted Options shall be reduced first. To the extent a reduction of simultaneously granted Options is necessary to meet the US\$100,000 limit, the Committee may, in the manner and to the extent permitted by law, designate which Shares are to be treated as Shares acquired pursuant to the exercise of an Incentive Stock Option.
- (e) *Ten Percent Owners* . An Incentive Stock Option shall not be granted to any individual who, at the Grant Date, owns (or is deemed to own under Section 424(d) of the Code) outstanding Shares possessing more than ten percent of the total combined voting power of all classes of stock of the Company unless such Option is granted at a price that is not less than 110% of Fair Market Value on the Grant Date and the Option is exercisable for no more than five (5) years from the Grant Date.
- (f) *Right to Exercise* . Except as provided in Section 6.2(c)(iii), during a Participant's lifetime, an Incentive Stock Option may be exercised only by the Participant.

**ARTICLE 7**  
**RESTRICTED STOCK RIGHTS AND RESTRICTED STOCK**

7.1 **Grant of Restricted Stock Rights and Restricted Stock** . Subject to the provisions of Article 5 and this Article 7, the Committee, at any time and from time to time, may grant Restricted Stock Rights or Restricted Stock to such Participants and in such amounts as it shall determine.

7.2 **Restricted Stock Rights**

- (a) *Voting Rights*. During the Restricted Period, Participants holding the Restricted Stock Rights granted hereunder shall have no voting rights or rights to dividends with respect to the Shares subject to such Restricted Stock Rights prior to the issuance of such Shares pursuant to the Plan.
- (b) *Form and Timing of Payment* . Payment for any vested Restricted Stock Rights Award issued pursuant to this Article 7 shall be made in one lump sum payment of Shares, cash or a combination thereof, equal to the Fair Market Value (determined as of a specified date) of a specified number of Shares. As a general rule, the Shares payable under any Restricted Stock Award shall be made on or before March 15 of the calendar year following the calendar year in which the Restricted Stock Rights vest.

7.3 **Grant of Restricted Stock** .

- (a) *Issuance and Restrictions*. Restricted Stock shall be subject to such restrictions on transferability and other restrictions as the Committee may impose (including, without limitation, limitations on the right to vote, and dividends on, Restricted Stock). These restrictions may lapse separately or in combination at such times and pursuant to such circumstances, as the Committee determines at the time of the grant of the Award or thereafter.
- (b) *Restricted Stock Agreement* . Each grant of Restricted Stock under the Plan shall be evidenced by a Restricted Stock Agreement between the recipient and the Company. Such shares of Restricted Stock shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The provisions of the various Restricted Stock Agreements entered into under the Plan need not be identical.
- (c) *Payment for Awards* . Subject to the following sentence, Restricted Stock may be sold or awarded under the Plan for such consideration as the Committee may determine, including (without limitation) cash, cash equivalents, past services and future services. To the extent that an Award consists of newly issued shares of Restricted Stock, the Award recipient shall furnish consideration with a value not less than the par value (if any) of such Restricted Stock in the form of cash, cash equivalents, Shares or past services rendered to the Company (or an Affiliate), as the Committee may determine.

- (d) *Vesting* . Each Award of Restricted Stock may or may not be subject to vesting. Vesting shall occur, in full or in installments, upon satisfaction of the conditions specified in the Restricted Stock Agreement. A Restricted Stock Agreement may provide for accelerated vesting in the event of the Participant's death, Disability or retirement or other events. The Committee may determine, at the time of granting shares of Restricted Stock or thereafter, that all or part of such Restricted Stock shall become vested in the event of a Change in Control.
- (e) *Voting and Dividend Rights* . Subject to the terms and restrictions of any Restricted Stock Agreement, the holders of Restricted Stock awarded under the Plan shall have the same voting, dividend and other rights as the Company's other shareholders.
- (f) *Restrictions on Transfer of Restricted Stock* . Restricted Stock shall be subject to such rights of repurchase, rights of first refusal or other restrictions as the Committee may determine. Such restrictions shall be set forth in the applicable Restricted Stock Agreement and shall apply in addition to any general restrictions that may apply to all holders of Restricted Stock.
- (g) *Forfeiture*. Except as otherwise determined by the Committee at the time of the grant of the Restricted Stock Award in a Restricted Stock Agreement or thereafter, upon Termination of Employment or the failure to satisfy one or more Performance Criteria during the applicable Restriction Period, Restricted Stock that is at that time subject to restrictions shall be forfeited.
- (h) *Certificates for Restricted Stock*. Restricted Stock granted pursuant to the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing shares of Restricted Stock are registered in the name of the Participant, the certificates must bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, and the Company may, in its discretion, retain physical possession of the certificate until such time as all applicable restrictions lapse.

## **ARTICLE 8**

### **PERFORMANCE SHARES AND PERFORMANCE SHARE UNITS**

8.1 **Grant of Performance Shares or Performance Share Units** . Subject to the provisions of Article 5 and this Article 8, Performance Shares or Performance Share Units may be granted to Participants at any time and from time to time as shall be determined by the Committee. The Committee shall have complete discretion in determining the number of Performance Shares or Performance Share Units granted to each Participant.

8.2 **Value of Performance Shares or Performance Share Units** . Each Performance Share and each Performance Share Unit shall have a value determined by the Committee at the time of grant. The Committee shall set goals (including Performance Goals) for a particular period (including a Performance Period) in its discretion which, depending on the extent to which the goals are met, will determine the ultimate value of the Performance Share or Performance Share Units to the Participant.

8.3 **Form and Timing of Payment** . Payment for vested Performance Shares shall be made in Shares. Payments for vested Performance Share Units shall be made in cash, Shares or a combination thereof as determined by the Committee. All payments for Performance Shares and Performance Share Units shall be made in a lump sum. As a general rule, payment for Performance Shares or Performance Share Units shall be made on or before March 15 of the calendar year following the calendar year in which the right to the payment of the Performance Shares or Performance Share Units arises.

## **ARTICLE 9**

### **STOCK APPRECIATION RIGHTS**

9.1 **Grant of Stock Appreciation Rights** . Subject to the provisions of Article 5 and this Article 9, Stock Appreciation Rights may be granted to Participants at any time and from time to time as shall be determined by the Committee. SARs may be granted in connection with the grant of an Option, in which case the exercise of SARs will result in the surrender of the right to purchase the Shares under the Option as to which the SARs were exercised. When SARs are granted in connection with the grant of an Incentive Stock Option, the SARs shall have such terms and conditions as shall be required by Section 422 of the Code. Alternatively, SARs may be granted independently of Options.

9.2 **Exercisability of SARs** . SARs granted under the Plan shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, which need not be the same for all Participants; provided, however, that no SAR shall be exercisable later than ten (10) years from the Grant Date.

9.3 **Exercise of SARs** . Upon exercise of the SAR or at a fixed date after all or part of the SAR becomes exercisable, the Participant shall be entitled to receive payment of an amount determined by multiplying (a) the difference, if any, of the Fair Market Value of a Share on the date of exercise over the price of the SAR fixed by the Committee at the Grant Date, which shall not be less than the Fair Market Value of a Share at the Grant Date, by (b) the number of Shares with respect to which the SAR is exercised.

9.4 **Form and Timing of Payment** . Payment for SARs shall be made in Shares and/or cash, as determined by the Committee, and shall be payable at the time specified in the Award Agreement for such SARs.

## **ARTICLE 10**

### **PERFORMANCE-BASED AWARDS**

10.1 **Grant of Performance-Based Awards** . Options granted to any Covered Employees pursuant to Article 6 and SARs granted to Covered Employees pursuant to Article 9 should, by their terms, qualify for the "performance-based compensation" exception to the deduction limitations of Section 162(m) of the Code. The Committee, in the exercise of its complete discretion, also may choose to qualify some or all of the Restricted Stock Rights or Restricted Stock Awards granted to Covered Employees pursuant to Article 7 and/or some or all of the Performance Shares or Performance Share Units granted to Covered Employees pursuant to Article 8 for the "performance-based compensation" exception to the deduction limitations of Section 162(m) of the Code. If the Committee, in its discretion, decides that a particular Award to a Covered Employee should qualify as "performance-based compensation," the Committee will grant a Performance-Based Award to the Covered Employee and the provisions of this Article 10 shall supersede any contrary provision contained in Articles 7, 8 or 9. If the Committee concludes that a particular Award to a Covered Employee should not be qualified as "performance-based compensation," the Committee may grant the Award without satisfying the requirements of Section 162(m) of the Code and the provisions of this Article 10 shall not apply.

10.2 **Applicability** . This Article 10 shall apply only to Awards to those Covered Employees (if any) selected by the Committee to receive Performance-Based Awards and only if, and to the extent that, the Company is subject to Section 162(m) of the Code. The designation of a Covered Employee as a Participant for any Performance Period shall not in any manner entitle the Participant to receive a Performance-Based Award for such Performance Period. Moreover, designation of a Covered Employee as a Participant for a particular Performance Period shall not require designation of such Covered Employee as a Participant for any subsequent Performance Period.

10.3 **Committee Discretion with Respect to Performance-Based Awards** . With regard to a particular Performance Period, the Committee shall have full discretion to select the length of the Performance Period, the type of Performance-Based Awards to be issued, the kind and/or level of the Performance Goal or Goals and whether the Performance Goal or Goals apply to the Company, an Affiliate, or any division or business unit thereof or the Participant or any group of Participants.

10.4 **Establishment of Performance Goals** . The Performance Goals for any Performance-Based Award granted pursuant to this Article 10 shall be established by the Committee in writing not later than ninety (90) days after the commencement of the Performance Period for such Award; provided that (a) the outcome must be substantially uncertain at the time the Committee establishes the Performance Goals, and (b) in no event will the Committee establish the Performance Goals for any Performance-Based Award after twenty-five percent (25%) of the Performance Period for such Award has elapsed. For purposes of this Article 10, the applicable Performance Period may not be less than three (3) months or more than ten (10) years.

10.5 **Performance Evaluation; Adjustment of Goals** . At the time that a Performance-Based Award is first issued, the Committee, in the Award Agreement or in another written document, shall specify whether performance will be evaluated including or excluding the effect of any of the following events that occur during the Performance Period: (i) judgments entered or settlements reached in litigation; (ii) the write-down of assets; (iii) the impact of any reorganization or restructuring; (iv) the impact of changes in tax laws, accounting principles, regulatory actions or other laws affecting reported results; (v) extraordinary non-recurring items, as described under generally accepted accounting principles applicable to the Company and/or in management's discussion and analysis of financial condition and results of operations appearing in the Company's annual report to shareholders for the applicable year; (vi) the impact of any mergers, acquisitions, spin-offs or other divestitures; and (vii) foreign exchange gains and losses.

The inclusion or exclusion of the foregoing items shall be expressed in a form that satisfies the requirements of Section 162(m) of the Code. The Committee, in its discretion, also may, within the time prescribed by Section 162(m) of the Code, adjust or modify the calculation of Performance Goals for such Performance Period in order to prevent the dilution or enlargement of the rights of Participants: (i) in the event of, or in anticipation of, any unusual or extraordinary corporate item, transaction, event, or development; or (ii) in recognition of, or in anticipation of, any other unusual or nonrecurring events affecting the Company, or the financial statements of the Company, or in response to, or in anticipation of, changes in applicable laws, regulations, accounting principles, or business conditions.

10.6 **Adjustment of Performance-Based Awards** . The Committee shall have the sole discretion to adjust the determinations of the degree of attainment of the pre-established Performance Goals. Notwithstanding any provision herein to the contrary, the Committee may not make any adjustment or take any other action with respect to any Performance-Based Award that will increase the amount payable under any such Award. The Committee shall retain the sole discretion to adjust Performance-Based Awards downward or to otherwise reduce the amount payable with respect to any Performance-Based Award.

10.7 **Payment of Performance-Based Awards** . Unless otherwise provided in the relevant Award Agreement, a Participant must be an Employee of the Company or an Affiliate on the day a Performance-Based Award for such Performance Period is paid to the Participant. Furthermore, a Participant shall be eligible to receive payment pursuant to a Performance-Based Award for a Performance Period only if the Performance Goals for such Performance Period are achieved.

10.8 **Certification by Committee** . Notwithstanding any provisions to the contrary, the payment of a Performance-Based Award shall not occur until the Committee certifies, in writing, that the pre-established Performance Goals and any other material terms and conditions precedent to such payment have been satisfied.

10.9 **Maximum Award Payable** . In accordance with Section 5.4, the maximum Performance-Based Award payable to any one participant for a Performance Period shall not exceed the limitation set forth in such section.

## ARTICLE 11 CHANGE IN CONTROL

11.1 **Definition of Change in Control** . With respect to a particular Award granted under the Plan, a "Change in Control" shall be deemed to have occurred as of the first day, after the date of grant of the particular Award, that any one or more of the following conditions shall have been satisfied:

- (a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act (a "Person")) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 35% or more of either (1) the then-outstanding Shares of the Company (the "Outstanding Company Common Shares") or (2) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of Directors (the "Outstanding Company Voting Securities"); provided, however, that, for purposes of this definition, the following acquisitions shall not constitute a Change in Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Affiliate or a successor, or (iv) any acquisition by any entity pursuant to a transaction that complies with subsections (c)(1), (2) and (3) of this Section 11.1;

- (b) Individuals who, as of the Effective Date, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a Director subsequent to the Effective Date whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least two-thirds of the Directors then comprising the Incumbent Board (including for these purposes, the new members whose election or nomination was so approved, without counting the member and his predecessor twice) shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board;
- (c) Consummation of a reorganization, merger, statutory share exchange or consolidation or similar corporate transaction involving the Company or any of its Affiliates, a sale or other disposition of all or substantially all of the assets of the Company, or the acquisition of assets or stock of another entity by the Company or any of its Affiliates (each, a "Business Combination"), in each case unless, following such Business Combination, (1) all or substantially all of the individuals and entities that were the beneficial owners of the Outstanding Company Common Shares and the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than fifty percent (50%) of the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that, as a result of such transaction, owns the Company or all or substantially all of the Company's assets directly or through one or more subsidiaries (a "Resulting Parent")) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Shares and the Outstanding Company Voting Securities, as the case may be, (2) no person (excluding any entity resulting from such Business Combination or a Resulting Parent or any employee benefit plan (or related trust) of the Company or such entity resulting from such Business Combination or Resulting Parent) beneficially owns, directly or indirectly, thirty percent (35%) or more of, respectively, the then-outstanding shares of common stock of the entity resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such entity, except to the extent that the ownership in excess of 35% existed prior to the Business Combination, and (3) at least a majority of the members of the board of directors or trustees of the entity resulting from such Business Combination or a Resulting Parent were members of the Incumbent Board at the time of the execution of the initial agreement or of the action of the Board providing for such Business Combination; or

- (d) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company other than in the context of a transaction that does not constitute a Change in Control under clause (c) above.

11.2 **Effect of Change in Control** . Other than as otherwise expressly provided in an Award Agreement (in which case the terms of such Award Agreement will govern), notwithstanding any other term or provision of this Plan, if a Triggering Event shall occur within the 12-month period following a Change in Control, then, effective immediately prior to such Triggering Event, (i) each outstanding Option and Stock Appreciation Right, to the extent that it shall not otherwise have become vested and exercisable, shall automatically become fully and immediately vested and exercisable, without regard to any otherwise applicable vesting requirement, (ii) each share of Restricted Stock or Restricted Stock Right shall become fully and immediately vested and all forfeiture and transfer restrictions thereon shall lapse, and (iii) each outstanding Performance Share or Performance Share Unit shall become immediately payable.

11.3 **Board Discretion** . Except as otherwise provided in an Award Agreement, in this Plan or a Participant's employment or other agreement with the Company or an Affiliate, the Board has the sole and absolute discretion to fully or partially vest and make exercisable any outstanding Award upon the closing of a transaction that results in a Change in Control. In addition, in the event of a Change in Control, the Committee may in its discretion and upon at least ten (10) days' advance notice to the affected persons, cancel any outstanding Awards and pay to the holders thereof, in cash or Shares, or any combination thereof, the value of such Awards based upon the price per Share received or to be received by other shareholders of the Company in the event. In the case of any Option or Stock Appreciation Right with an exercise price that equals or exceeds the price paid for a Share in connection with the Change in Control, the Committee may cancel the Option or Stock Appreciation Right without the payment of consideration therefor.

## ARTICLE 12 NON-TRANSFERABILITY

12.1 **General** . Unless otherwise determined by the Committee, including as set forth in an Award Agreement, no Award granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution, until the termination of any Restricted Period or Performance Period as determined by the Committee.

12.2 **Beneficiary Designation** . Notwithstanding Section 12.1, a Participant may, in the manner determined by the Committee, designate a beneficiary to exercise the rights of the Participant and to receive any distribution with respect to any Award upon the Participant's death. A beneficiary, legal guardian, legal representative, or other person claiming any rights pursuant to the Plan is subject to all terms and conditions of the Plan and any Award Agreement applicable to the Participant, except to the extent the Plan and Award Agreement otherwise provide, and to any additional restrictions deemed necessary or appropriate by the Committee. If no beneficiary has been designated or survives the Participant, payment shall be made to the person entitled thereto pursuant to the Participant's will or the laws of descent and distribution. Subject to the foregoing, a beneficiary designation may be changed or revoked by a Participant at any time provided the change or revocation is provided to the Committee.

12.3 **Share Certificates** . Notwithstanding anything herein to the contrary, the Company shall not be required to issue or deliver any certificates evidencing Shares pursuant to the exercise of any Award, unless and until the Committee has determined, with advice of counsel, that the issuance and delivery of such certificates is in compliance with all applicable laws, regulations of governmental authorities and, if applicable, the requirements of any exchange or quotation system on which the Shares are listed, quoted or traded. All Share certificates delivered pursuant to the Plan are subject to any stop-transfer orders and other restrictions as the Committee deems necessary or advisable to comply with federal, state, provincial or foreign jurisdiction, securities or other laws, rules and regulations and the rules of any national securities exchange or automated quotation system on which the Shares are listed, quoted, or traded. The Committee may place legends on any Share certificate to reference restrictions applicable to the Shares. In addition to the terms and conditions provided herein, the Board may require that a Participant make such reasonable covenants, agreements, and representations as the Board, in its discretion, deems advisable in order to comply with any such laws, regulations, or requirements.

### **ARTICLE 13 FORFEITURE**

13.1 **Forfeiture Events** . The Committee will specify in an Award Agreement at the time of the Award that the Participant's rights, payments and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events shall include, but shall not be limited to, Termination of Employment for Cause, violation of material Company policies, fraud, breach of noncompetition, confidentiality or other restrictive covenants that may apply to the Participant or other conduct by the Participant that is detrimental to the business or reputation of the Company.

13.2 **Clawback** . Notwithstanding any other provisions in the Plan, any Award which is subject to recovery under any law, government regulation or stock exchange listing requirement, will be subject to such deductions and clawback as may be required to be made pursuant to such law, government regulation or stock exchange listing requirement (or any policy adopted by the Company pursuant to any such law, government regulation or stock exchange listing requirement).

13.3 **Termination Events** . Unless otherwise provided by the Committee and set forth in an Award Agreement, if a Participant's employment with the Company or any Affiliate shall be terminated for Cause, the Committee may, in its sole discretion, immediately terminate such Participant's right to any further payments, vesting or exercisability with respect to any Award in its entirety. The Committee shall have the power to determine whether the Participant has been terminated for Cause and the date upon which such termination for Cause occurs. Any such determination shall be final, conclusive and binding upon the Participant. In addition, if the Company shall reasonably determine that a Participant has committed or may have committed any act which could constitute the basis for a termination of such Participant's employment for Cause, the Committee may suspend the Participant's rights to exercise any option, receive any payment or vest in any right with respect to any Award pending a determination by the Committee of whether an act has been committed which could constitute the basis for the Termination of Employment for "Cause" as provided in this Section 13.3.

**ARTICLE 14**  
**SUBSTITUTION OF AWARDS**

14.1       **Substitution of Awards** . Any Award may be granted under this Plan in substitution for Awards held by any individual who is an employee of another corporation who is about to become an Employee as the result of a merger, consolidation or reorganization of the corporation with the Company, or the acquisition by the Company of the assets of the corporation, or the acquisition by the Company of stock of the corporation as the result of which such corporation becomes an Affiliate or a subsidiary of the Company. The terms and conditions of the Awards so granted may vary from the terms and conditions set forth in this Plan to such extent as the Committee at the time of granting the Award may deem appropriate to conform, in whole or in part, to the provisions of the Award in substitution for which they are granted. However, in the event that the Award for which a substitute Award is being granted is an Incentive Stock Option, no variation shall adversely affect the status of any substitute Award as an Incentive Stock Option under the Code. In addition, in the event that the award for which a substitute Award is being granted is a Non-Qualified Stock Option or a Stock Appreciation Right that otherwise satisfies the requirements of the "stock rights exception" to Section 409A of the Code, no variation shall adversely affect the status of any substitute Award under the stock rights exception to Section 409A of the Code.

**ARTICLE 15**  
**AMENDMENT, MODIFICATION, AND TERMINATION**

15.1       **Amendment, Modification and Termination** . The Board may at any time, and from time to time, terminate, amend or modify the Plan, in whole or in part; provided however, that any such action of the Board shall be subject to approval of the shareholders to the extent required by law, regulation, any stock exchange rule for any exchange on which Shares are listed or Section 15.2 hereof. Notwithstanding the above, to the extent permitted by law, the Board may delegate to the Committee the authority to approve non-substantive amendments to the Plan. No amendment, modification, or termination of the Plan or any Award under the Plan shall in any manner materially adversely affect any Award theretofore granted under the Plan without the consent of the holder thereof (unless such change is required in order to cause the benefits under the Plan to qualify as performance-based compensation within the meaning of Section 162(m) of the Code and applicable interpretive authority thereunder).

15.2 **Shareholder Approval Requirements** . Except as provided in Section 5.3, neither the Board nor the Committee may, without the approval of the shareholders,

- (a) reduce the purchase price or exercise price of any outstanding Award, including any Option or SAR (or the cancellation and re-grant of an Award resulting in a lower exercise price or purchase price);
- (b) extend the expiry date of any outstanding Option or SAR except as permitted under Section 6.1(b) and Section 9.2, as applicable;
- (c) amend the Plan to remove or to exceed the participation limits described in Section 5.4, including but not limited to those applicable to non-Employee Directors;
- (d) increase the number of Shares available under the Plan (other than any adjustment as provided in Section 5.3);
- (e) grant Options with an exercise price that is below Fair Market Value on the Grant Date;
- (f) cancel any Option or SAR in exchange for cash or any other Award or in exchange for any Option or SAR with an exercise price that is less than the exercise price of the original Option or SAR; or
- (g) amend this Article 15 other than amendments of a clerical nature.

## **ARTICLE 16 TAX WITHHOLDING**

16.1 **Tax Withholding** . The Company shall have the power to withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, provincial and local withholding tax requirements on any Award under the Plan. To the extent that alternative methods of withholding are available under applicable tax laws, the Company shall have the power to choose among such methods.

16.2 **Form of Payment** . To the extent permissible under applicable tax, securities, and other laws, the Company may, in its sole discretion, permit the Participant to satisfy a tax withholding requirement by (a) using already owned Shares that have been held by the Participant for at least six (6) months; (b) a broker-assisted "cashless" transaction; (c) directing the Company to apply Shares to which the Participant is entitled pursuant to the Award to satisfy the required minimum statutory withholding amount; or (d) a personal check or other cash equivalent acceptable to the Company.

## **ARTICLE 17 INDEMNIFICATION**

17.1 **Indemnification** . Each person who is or shall have been a member of the Committee or of the Board shall be indemnified and held harmless by the Company against and from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him in connection with or resulting from any claim, action, suit, or proceeding to which he may be a party or in which he may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him in settlement thereof, with the Company's approval, or paid by him in satisfaction of any judgment in any such action, suit, or proceeding against him, provided he shall give the Company an opportunity, at its own expense, to handle and defend the same before he undertakes to handle and defend it on his own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such person may be entitled under the Company's articles of incorporation, bylaws, resolution or agreement, as a matter of law, or otherwise, or any power that the Company may have to indemnify him or hold him harmless.

**ARTICLE 18**  
**GENERAL PROVISIONS**

18.1 **No Right to Continued Employment/No Additional Rights/Participants** . Nothing in the Plan, in the grant of any Award or in any Award Agreement shall confer upon any Participant any right to continue employment or a contractual relationship with the Company or any of its Affiliates, or interfere in any way with the right of the Company or any of its Affiliates to terminate the Participant's employment or other service relationship for any reason at any time. The grant of an Award under the Plan shall not confer any rights upon the Participant holding such Award other than such terms, and subject to such conditions, as are specified in the Plan as being applicable to such type of Award (or to all Awards) or as are expressly set forth in the Award Agreement.

18.2 **No Rights to Awards** . No Participant, Employee, or other person shall have any claim to be granted any Award pursuant to the Plan, and neither the Company nor the Committee is obligated to treat Participants, Employees, and other persons uniformly.

18.3 **Funding** . The Company shall not be required to segregate any of its assets to ensure the payment of any Award under the Plan. Neither the Participant nor any other persons shall have any interest in any fund or in any specific asset or assets of the Company or any other entity by reason of any Award, except to the extent expressly provided hereunder. The interests of each Participant and former Participant hereunder are unsecured and shall be subject to the general creditors of the Company. The Plan is not intended to be subject to the Employee Retirement Security Act of 1974, as amended.

18.4 **Requirements of Law** . The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules, and regulations, including without limitation Canadian securities laws and United States federal and state securities laws, and to such approvals by any governmental agencies or national securities exchanges as may be required. The Committee may impose such restrictions and/or conditions on any Shares as it may deem advisable, including without limitation restrictions under the Securities Act, under the requirements of any exchange upon which such Shares are then listed, under any blue sky or other securities laws applicable to such Shares. The Company shall be under no obligation to register pursuant to the Securities Act or applicable Canadian securities laws any of the Shares paid pursuant to the Plan. If the Shares paid pursuant to the Plan may in certain circumstances be exempt from registration pursuant to the Securities Act or applicable Canadian securities laws, the Company may restrict the transfer of such Shares in such manner as it deems advisable to ensure the availability of any such exemption. With respect to any Participant who is, on the relevant date, obligated to file reports pursuant to Section 16 of the Exchange Act, transactions pursuant to this Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors pursuant to the Exchange Act. Notwithstanding any other provision of the Plan, the Committee may impose such conditions on the exercise of any Award as may be required to satisfy the requirements of Rule 16b-3 or its successors pursuant to the Exchange Act. To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be void to the extent permitted by law and voidable as deemed advisable by the Committee.

18.5 **Governing Law** . The Plan and all agreements into which the Company and any Participant enter pursuant to the Plan shall be construed in accordance with and governed by the laws of the Cayman Islands.

18.6 **No Shareholders Rights** . No Award gives the Participant any of the rights of a shareholder of the Company unless and until Shares are in fact issued to such person in connection with such Award.

18.7 **Adoption of Other Plans** . The adoption of the Plan shall not preclude the Company from establishing any other forms of share incentive or other compensation or benefit program for Employees, Officers, non-Employee Directors and Consultants of the Company or any Affiliate.

18.8 **No Corporate Action Restriction** . The existence of the Plan, the Award Agreements and the Awards granted hereunder shall not limit, affect or restrict in any way the right or power of the Board or the shareholders of the Company to make or authorize: (a) any adjustment, recapitalization, reorganization or other change in the capital structure or business of the Company or any Affiliate, (b) any merger, amalgamation, consolidation or change in the ownership of the Company or any Affiliate, (c) any issue of bonds, debentures, capital, preferred or prior preference stock ahead of or affecting the capital stock (or the rights thereof) of the Company or any Affiliate, (d) any dissolution or liquidation of the Company or any Affiliate, (e) any sale or transfer of all or any part of the assets or business of the Company or any Affiliate, or (f) any other corporate act or proceeding by the Company or any Affiliate. No Participant, beneficiary or any other person shall have any claim under any Award or Award Agreement against any member of the Board or the Committee, or the Company or any Employees, Officers or agents of the Company or any Affiliate, as a result of any such action.

18.9 **Titles and Headings** . The titles and headings of the Articles in the Plan are for convenience of reference only and, in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

18.10 **Successors and Assigns** . The Plan shall be binding upon and inure to the benefit of the successors and permitted assigns of the Company, including without limitation, whether by way of merger, consolidation, operation of law, assignment, purchase, or other acquisition of substantially all of the assets or business of the Company, and any and all such successors and assigns shall absolutely and unconditionally assume all of the Company's obligations under the Plan.

18.11 **Severability** . If any provision of the Plan or any Award Agreement shall be determined to be illegal or unenforceable by any court of law in any jurisdiction, the remaining provisions hereof and thereof shall be severable and enforceable in accordance with their terms, and all provisions shall remain enforceable in any other jurisdiction.

18.12 **Survival of Provisions** . The rights, remedies, agreements, obligations and covenants contained in or made pursuant to this Plan, any agreement and any notices or agreements made in connection with this Plan shall survive the execution and delivery of such notices and agreements and the delivery and receipt of such Shares if required by Section 12.3, shall remain in full force and effect.

## **ARTICLE 19 EXECUTION**

19.1 To record the adoption of the Plan by the Board on July 14, 2017, the Company has caused its authorized officer and/or director to execute the same.

### **MFC BANCORP LTD.**

By: /s/ Michael Smith

Name: Michael Smith

Title: President and Chief Executive Officer

## MFC BANCORP LTD.

## LIST OF SIGNIFICANT SUBSIDIARIES AS AT DECEMBER 31, 2017

Subsidiaries	Country of Incorporation	Proportion of Voting Interest (1)
Kasese Cobalt Company Limited	Uganda	75%
MFC (A) Ltd	Marshall Islands	99.72%
MFC (D) Ltd	Marshall Islands	99.72%
M Financial Corp.	Barbados	100%
Merchants Financial Corp	Marshall Islands	99.96%
MFC Merchant Bank Limited	Malta	100%
Sino Medical Technology Co. Ltd	Marshall Islands	99.54%

Note:

- (1) Our proportional voting interests are identical to our proportional beneficial interests, except for: (i) a non-wholly owned subsidiary in Africa from which we derive a 100% beneficial interest resulting from our shareholder loan; and (ii) MFC (A) Ltd. and MFC (B) Ltd., in each of which we hold a 99.68% proportional beneficial interest.

**MFC BANCORP LTD.  
CODE OF BUSINESS CONDUCT AND ETHICS AND INSIDER TRADING POLICY**

(July 12, 2017)

The Board of Directors (the "Board") of MFC Bancorp Ltd. (the "Company") has adopted this Code of Business Conduct and Ethics (the "Code"). This Code applies to the directors, officers and employees of the Company (the "Covered Persons"), and, for purposes certain insider trading prohibitions, Restricted Persons (as defined below). This Code covers a wide range of business practices and procedures. It does not cover every issue that may arise, but it sets out basic principles to guide all Covered Persons. All Covered Persons should conduct themselves accordingly and seek to avoid the appearance of improper behavior in any way relating to the Company.

If a law conflicts with a policy in the Code, you must comply with the law. Any Covered Person who has any questions about the Code should consult with such person's supervisor, the Chief Executive Officer, the Board or the Company's audit committee (the "Audit Committee").

Those who violate the law or the standards in the Code will be subject to disciplinary action, up to and including immediate termination, and may be subject to substantial civil damages, criminal fines and prison terms. The Company may also face substantial fines and penalties and may incur damage to its reputation and standing in the community.

The Company has adopted the Code for the purpose of promoting honest and ethical behavior and conduct, including:

- ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- full, fair, accurate, timely and understandable disclosure in all reports and documents that the Company files with, or submits to, the Securities and Exchange Commission ("SEC"), the Canadian securities regulatory authorities and in other public communications made by the Company;
- compliance with applicable governmental laws, rules and regulations;
- prompt internal reporting of violations of this Code to an appropriate person or persons identified herein; and
- accountability for adherence to the Code.

The Code is a statement of certain fundamental principles, policies and guidelines that govern the Company's Covered Persons in the conduct of the Company's business. It is not intended to and does not create any rights in any employee, customer, supplier, competitor, shareholder, or any other person or entity.

#### **CONFLICTS OF INTEREST**

Each Covered Person must adhere to a high standard of business ethics and is expected to make decisions and take actions based on the best interests of the Company, as a whole, and not based on private relationships or benefits. A conflict situation can arise when a Covered Person takes actions or has interests that may make it difficult to perform his or her work for the company objectively and effectively.

Conflicts of interest also arise when a Covered Person or a member of his or her family receives improper personal benefits, including without limitation improper gifts, entertainment or other benefits, as a result of his or her position in the Company. "Members of his or her family" means a Covered Person's spouse, parents, children, siblings, grandparents, stepmother, stepfather, stepsisters, stepbrothers, stepchildren, uncles, aunts, nephews, nieces, cousins, in-laws within one of these categories, or any other person with whom you have a significant close personal relationship as determined by the Company. Loans by the Company to, or guarantees of obligations of, such Covered Person or members of his or her family are of special concern and could constitute improper personal benefits to the recipients of such loans or guarantees, depending on the facts and circumstances. Loans by the Company to, or guarantees by the Company of obligations of, any director or officer or their family members are expressly prohibited.

Conflicts of interest may not always be clear-cut. Any Covered Person who has any questions as to whether a conflict of interest exists should consult with such person's supervisor, the Company's Chief Executive Officer, the Board or the Audit Committee.

Examples of clear conflict of interest situations that should always be raised with the chairperson of the Audit Committee are listed below. These examples are not a comprehensive list of all possible conflicts of interest.

- any significant ownership interest in any supplier or customer;
- any consulting or employment relationship with any supplier, customer or competitor;
- any outside business activity that detracts from a Covered Person's ability to devote appropriate time and attention to his or her responsibilities within the Company;
- the receipt of not insignificant gifts from any company or person with which the Company have current or prospective business dealing;
- being in the position of supervising, reviewing or having any influence on the job evaluation, pay or benefit of any immediate family member of a Covered Person; and
- selling anything to or buying anything from the Company, except on the same terms and conditions as comparable officers or directors are permitted to buy or sell.

Business decisions and actions must be made in the best interests of the Company and should not be influenced by private considerations or relationships. Relationships with the Company's stakeholders, including suppliers, competitors and customers, should not in any way affect a Covered Person's responsibility and accountability to the Company.

Specifically, each Covered Person must:

1. act with integrity, including being honest and candid while still maintaining the confidentiality of information when required or consistent with the Company's policies;
2. avoid violations of the Code, including actual or apparent conflicts of interest with the Company in personal and professional relationships;
3. disclose to the Board or the Audit Committee any material transaction or relationship that could reasonably be expected to give rise to a breach of the Code, including actual or apparent conflicts of interest with the Company;
4. obtain approval from the Board or Audit Committee before making any decisions or taking any action that could reasonably be expected to involve a conflict of interest or the appearance of a conflict of interest;
5. observe both the form and spirit of laws and governmental rules and regulations, accounting standards and Company policies;
6. maintain a high standard of accuracy and completeness in the Company's financial records;
7. ensure full, fair, timely, accurate and understandable disclosure in the Company's periodic reports;

8. report any violations of the Code to the Board or Audit Committee;
9. proactively promote ethical behavior among peers in his or her work environment; and
10. maintain the skills appropriate and necessary for the performance of his or her duties.

In the event of a violation of the conflicts of interest law, a Covered Person may, under applicable state law, not be entitled to any indemnification payments by the Company. Further, insurance coverage for directors and officers may not be applicable due to a traditional exception with respect to any conduct in connection with a conflict of interest.

## **DISCLOSURE OF COMPANY INFORMATION**

As a result of the Company's status as a public company, it is required to file periodic and other reports with the SEC and Canadian securities regulatory authorities. The Company takes its public disclosure responsibility seriously to ensure that these reports furnish the marketplace with full, fair, accurate and timely disclosure regarding the financial and business condition of the Company. All disclosures contained in reports and documents filed with or submitted to the SEC, Canadian securities regulatory authorities, or other government agencies on behalf of the Company or contained in other public communications made by the Company must comply with applicable U.S. federal securities laws, applicable SEC rules and laws, applicable Canadian securities laws, rules, policies and instruments, and the requirements of stock exchanges applicable to the Company (collectively, the "Securities Laws") and must be complete and correct in all material respects. The Covered Persons, in relation to his or her area of responsibility, must be committed to providing timely, consistent and accurate information, in compliance with applicable Securities Laws. It is imperative that this disclosure be accomplished consistently during both good times and bad and that all parties in the marketplace have equal or similar access to this information.

Each Covered Person who contributes in any way to the preparation or verification of the Company's financial statements and other financial information must ensure that all of the Company's books, records, accounts and financial statements are accurately maintained in reasonable detail, must appropriately reflect the Company's transactions, and must conform both to applicable legal requirements and to the Company's system of internal controls. Unrecorded or "off the book" funds, assets or liabilities should not be maintained unless permitted by applicable law or regulation. Covered Persons involved in the preparation of the Company's financial statements must prepare those statements in accordance with the English language version of International Financial Reporting Standards as issued by the International Accounting Standards Board and applicable rules and regulations. Further, it is important that financial statements and related disclosures be free of material errors.

Specifically, each Covered Person who is involved in the Company's disclosure process must:

1. familiarize himself or herself with the disclosure requirements generally applicable to the Company including the Company's disclosure controls and procedures and its internal control over financial reporting;
2. not knowingly misrepresent, or cause others to misrepresent, facts about the Company to others, including the Company's independent auditors, governmental regulators, self-regulating organizations and other governmental officials;
3. to the extent that he or she participates in the creation of the Company's books and records, promote the accuracy, fairness and timeliness of those records;
4. in relation to his or her area of responsibility, properly review and critically analyse proposed disclosure for accuracy and completeness;
5. cooperate fully with the Company's accounting and internal audit departments, as well as the Company's independent public accountants and counsel; and

6. take all necessary steps to ensure that all filings with the SEC and the Canadian securities regulatory authorities and all other public communications about the financial and business condition of the Company provide full, fair, accurate, timely and understandable disclosure.

## **CONFIDENTIAL INFORMATION**

Covered Persons must maintain the confidentiality of confidential information entrusted to them by the Company or its customers, suppliers, joint venture partners, or others with whom the Company is considering a business or other transaction except when disclosure is authorized by the Board or an executive officer or required or mandated by laws or regulations. Confidential information includes, without limitation, all non-public information that might be useful or helpful to competitors, or harmful to the Company or its customers or suppliers, if disclosed. It also includes information that suppliers, customers and other parties have entrusted to the Company. The obligation to preserve confidential information continues even after employment ends.

Records containing personal data about employees or private information about customers and their employees are confidential. They are to be carefully safeguarded, kept current, relevant and accurate. They may be disclosed only to authorized personnel or as required by law.

All inquiries regarding the Company from non-employees, such as financial analysts and journalists, should be directed to the Chief Executive Officer or the Board. The Company's policy is to cooperate with every reasonable request of government investigators for information. At the same time, the Company is entitled to all the safeguards provided by law for the benefit of persons under investigation or accused of wrongdoing, including legal representation. If a representative of any government or government agency seeks an interview or requests access to data or documents for the purposes of an investigation, the Covered Person should refer the representative to the Chief Executive Officer, the Board or the Audit Committee. Covered Persons also should preserve all materials, including documents and e-mails that might relate to any pending or reasonably possible investigation.

## **COMPLIANCE WITH LAWS**

The Covered Persons must respect and obey all applicable foreign, federal, state and local laws, rules and regulations of the jurisdiction in which the Company operates. Although not all Covered Persons are expected to know the details of all such applicable laws, rules and regulations, it is important to know enough to determine when to seek advice from appropriate personnel. Questions about compliance should be addressed to the Covered Person's supervisor or the Company's Chief Executive Officer.

Securities Laws impose certain obligations upon public companies, such as the Company, to disclose material information. Persons who have knowledge of material nonpublic information relating to public companies are prohibited from trading in shares and other securities under several securities and criminal laws. All Covered Persons will comply with the requirements of applicable law relating to trading shares and other securities.

A Covered Person is prohibited from trading in the Company's securities if he or she possesses material non-public information or during a blackout period, as more fully described below. Furthermore, if, during the course of a Covered Person's service with the Company, he or she acquires material non-public information about another company, such as one of our customers or suppliers, or learns that the Company is planning a major transaction with another company (such as an acquisition), the Covered Person is restricted from trading in the securities of the other company if he or she possesses material non-public information regarding the affairs of such other company.

Information about an entity is "material":

- if a reasonable investor would consider it important in making a decision to buy, sell or hold the entity's securities; or
- if a reasonable investor would view the information as significantly altering the total mix of information in the marketplace about the issuer of the security.

The fact that information has been disclosed to a few members of the public does not make it public for insider trading purposes. To be "public" the information must have been disseminated in a manner designed to reach investors generally, and the investors must be given the opportunity to absorb the information. Even after public disclosure of information about the Company, a Covered Person must wait until the close of business on the second trading day after the information was publicly disclosed before he or she can treat the information as public.

Non-public information may include:

- information available to a select group of analysts or brokers or institutional investors;
- undisclosed facts that are the subject of rumors, even if the rumors are widely circulated; and
- information that has been entrusted to the Company on a confidential basis until a public announcement of the information has been made and enough time has elapsed for the market to respond to a public announcement of the information (normally two or three days).

Covered Persons who are not sure whether information is "material" or "non-public information" should consult with the Company's Chief Executive officer or legal counsel for guidance before engaging in a transaction or assume that the information is "non-public" and treat it as confidential.

Covered Persons also are prohibited from giving "tips" to other people on material non-public information, that is directly or indirectly disclosing such information to any other person, including family members, other relatives and friends, who may trade in shares of the Company's stock or other securities on the basis of such information. Securities Laws prohibit these "tips", in addition to any trades that may result.

Whether or not they are in possession of material non-public information, Covered Persons shall not trade in shares and other securities of the Company two trading days prior to the day of the announcement of the Company's quarterly and annual financial results, or during the two full trading days after the announcement is made. For example, if quarterly results are announced on a Wednesday prior to market opening, trading would be prohibited during the preceding Monday and Tuesday, and during Wednesday and Thursday, being two trading days after the announcement. During these periods, Covered Persons may possess, or be perceived as possessing, material non-public information and any trading in shares or securities of the Company may be, or may be perceived as being, improper. More stringent restrictions, including quarterly trading blackout periods, are applicable to the Company's directors, Chief Executive Officer, Chief Financial Officer, Principal Executive Officer, Principal Financial Officer, Principal Accounting Officer, Controller, persons performing similar functions within the Company (collectively, the "Executive Officers"), Vice Presidents, all other persons who report directly to the Executive Officers, and all other personnel with exposed and prominent functions in connection with the reports filed by the Company designated as a "Restricted Person" from time to time by an Executive Officer, a Vice President or director of the Company (collectively, "Restricted Persons").

Restricted Persons are prohibited from engaging in "transactions" in the Company's securities during four annual scheduled blackout periods. The blackout periods generally commence at the close of business on the last business day of a quarter, including year-end, and continue until the opening of trading on the third trading day following release of the Company's financial results to the news media. Blackout periods may also be prescribed from time to time as a result of special circumstances relating to the Company, such as negotiation of mergers, acquisitions or dispositions). If the Company imposes a special blackout period, it will notify the Restricted Persons affected.

"Transactions" include virtually all dealings in the Company's securities held by the Restricted Person. Therefore, routine transactions, such as purchases and sales of common shares of the Company and exercises of options, are all "transactions" prohibited during blackout periods. Transfers to trusts and other changes in the nature of the Restricted Person's ownership — for example, from direct to indirect — even if there is no net change — are also "transactions". Finally, Restricted Persons are reminded that a "transaction" includes not only the Restricted Persons' own personal transactions, but also transactions in the Company's securities beneficially owned by the Restricted Persons or over which the Restricted Persons exercise control or direction.

In Canada, Covered Persons or Restricted Persons who trade or inform in contravention of the above prohibitions against insider trading may be subject to criminal, civil and statutory penalties including fines of up to C\$5 million or four times the profit gained or loss avoided, imprisonment for up to ten years, and to civil liability to sellers or purchasers of shares or securities. Penalties in the U.S. for insider trading violations include fines up to US\$5 million and imprisonment for up to twenty years and to civil liability of up to three times the profit gained or loss avoided. In addition to these and other potential legal consequences, such persons would be accountable to the Company for any benefit or advantage received by them, and subject to disciplinary action, which may include immediate dismissal.

Directors, certain executive officers and other designated persons of the Company (the "Reporting Persons") are subject to the insider reporting requirements of applicable Canadian securities legislation and instruments. Under applicable Canadian securities legislation and instruments, Reporting Persons must file certain forms on the System for Electronic Disclosure by Insiders, commonly referred to as "SEDI", when they engage in transactions (including transactions involving a change beneficial ownership of, or control or direction over, whether direct or indirect, securities of the Company) in the Company's securities. Insider reports disclosing changes in a Reporting Person's security ownership must be initially filed within ten days following the date the person becomes a "reporting insider" and then five days following the date of any subsequent transaction. Reporting Persons must immediately notify the Company of sufficient details of the transaction to allow time to prepare and file the required reports within the required deadlines.

## **CORPORATE OPPORTUNITIES**

Covered Persons are prohibited from: (a) taking for themselves personally opportunities that are discovered through the use of corporate property, information or position; (b) using Company property, information or position for personal gain; and (c) competing with the Company. Covered Persons owe a duty to the Company to advance its legitimate interests when the opportunity to do so arises.

## **FAIR DEALING**

Each Covered Person should endeavor to deal fairly with the Company's customers, suppliers, competitors and employees. No Covered Person should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair dealing practice.

## **PROTECTION AND PROPER USE OF COMPANY ASSETS**

Covered Persons should protect the Company's assets and ensure their efficient use. Theft, carelessness and waste have a direct impact on the Company's profitability. All listed company assets should be used for legitimate business purposes. To ensure the protection and proper use of the Company's assets, each Covered Person should:

- exercise reasonable care to prevent theft, damage or misuse of Company property;
- report the actual or suspected theft, damage or misuse of Company property to a supervisor;
- use the Company's telephone system, other electronic communication services, written materials and other property primarily for business-related purposes;
- safeguard all electronic programs, data, communications and written materials from inadvertent access by others; and
- use Company property only for legitimate business purposes, as authorized in connection with such Covered Person's job responsibilities, or as otherwise permitted herein.

Company property includes all data and communications transmitted or received to or by, or contained in, the Company's electronic or telephonic systems. Company property also includes all written communications. Covered Persons and other users of this property should have no expectation of privacy with respect to these communications and data. To the extent permitted by law, the Company has the ability, and reserves the right, to monitor all electronic and telephonic communication. These communications may also be subject to disclosure to law enforcement or government officials.

## **REPORTING ACTUAL AND POTENTIAL VIOLATIONS OF THE CODE AND ACCOUNTABILITY FOR COMPLIANCE WITH THE CODE**

The Company, through the Board or the Audit Committee, is responsible for applying this Code to specific situations in which questions may arise and has the authority to interpret this Code in any particular situation. This Code is not intended to provide a comprehensive guideline for Covered Persons in relation to their business activities with the Company. Any Covered Person may seek clarification on the application of this Code from the Board or the Audit Committee.

Each Covered Person must:

1. notify the Audit Committee of any existing or potential violation of laws, rules, regulations or this Code by a director or executive officer and such Covered Person's supervisor or the Chief Executive Officer of any existing or potential violation of this Code, and failure to do so is itself a breach of the Code; and
2. not retaliate, directly or indirectly, or encourage others to do so, against any employee or Covered Person for reports, made in good faith, of any misconduct or violations of the Code solely because that employee or Covered Person raised a legitimate ethical issue.

The Board or the Audit Committee will take all action it considers appropriate to investigate any breach of the Code reported to it. All Covered Persons, directors and employees are required to cooperate fully with any such investigation and to provide truthful and accurate information. If the Board or the Audit Committee determines that a breach has occurred, it will take or authorize disciplinary or preventative action as it deems appropriate, after consultation with the Company's counsel if warranted, up to and including termination of employment. Where appropriate, the Company will not limit itself to disciplinary action but may pursue legal action against the offending Covered Person involved. In some cases, the Company may have a legal or ethical obligation to call violations to the attention of appropriate enforcement authorities.

Compliance with the Code may be monitored by audits performed by the Board, the Audit Committee, the Company's counsel and/or by the Company's outside auditors. All Covered Persons, directors and employees are required to cooperate fully with any such audits and to provide truthful and accurate information.

Any waiver of this Code for any Covered Person may be made only by the Board or the Audit Committee and will be promptly disclosed in accordance with applicable Securities Laws.

**This Code of Business Conduct and Ethics is not a contract of employment or a guarantee of continuing policy of the Company. The Company may amend, supplement or discontinue this Code of Business Conduct and Ethics or any part of it at any time in its sole discretion.**

## CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael J. Smith, certify that:

1. I have reviewed this annual report on Form 20-F of MFC Bancorp Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 10, 2018

By: /s/ Michael J. Smith

Michael J. Smith

Title: Chief Executive Officer

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## CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Samuel Morrow, certify that:

1. I have reviewed this annual report on Form 20-F of MFC Bancorp Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 10, 2018

By: /s/ Samuel Morrow

Samuel Morrow

Title: Chief Financial Officer

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**CERTIFICATION**

**PURSUANT TO**

**18 U.S.C. SECTION 1350,**

**AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of MFC Bancorp Ltd. (the "Company") on Form 20-F for the year ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Annual Report"), I, Michael J. Smith, as Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (i) the Annual Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 10, 2018

/s/ Michael J. Smith

By: Michael J. Smith

Title: Chief Executive Officer

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**CERTIFICATION**

**PURSUANT TO**

**18 U.S.C. SECTION 1350,**

**AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of MFC Bancorp Ltd. (the "Company") on Form 20-F for the year ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Annual Report"), I, Samuel Morrow, as Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (i) the Annual Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 10, 2018

/s/ Samuel Morrow

By: Samuel Morrow

Title: Chief Financial Officer

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