

SECURITIES AND EXCHANGE COMMISSION

FORM 20-F

Annual and transition report of foreign private issuers pursuant to sections 13 or 15(d)

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FILER

MFC BANCORP LTD.

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**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, 2016**

Commission file number 001-04192



MFC BANCORP LTD.

(Exact name of Registrant as specified in its charter)

British Columbia, Canada

(Jurisdiction of incorporation or organization)

Suite 1860 - 400 Burrard Street, Vancouver, British Columbia, Canada V6C 3A6

(Address of principal executive office)

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(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	Name of each exchange on which registered
Common Shares	New York Stock Exchange

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 63,142,272 common shares, without par value, issued and outstanding as of December 31, 2016.

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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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



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MFC BANCORP LTD.

DEAR FELLOW SHAREHOLDERS AND BUSINESS PARTNERS:

Today, MFC Bancorp Ltd. (the “Company” or “MFC”) reported its 2016 financial results and announced a proposed plan of arrangement that is designed to improve our corporate structure, reduce expenses and increase our global exposure.

Review of 2016

The beginning of 2016 presented significant challenges. In February 2016, one of our customers filed for insolvency, which was an adjusting subsequent event under IAS 10, *Events after the Reporting Period*. This resulted in our first late filing as a public company and our recognition of credit losses of more than \$50 million in our 2015 financial statements.

But since then we have made progress on our goal to refocus the Company by exiting product lines and geographies with unsatisfactory margins in order to reallocate capital to operations that present higher returns.

To this end, we have:

- *reduced our inventories by \$213.4 million in 2016 to \$32.0 million, representing a reduction of approximately 87%;*
- *reduced \$99.7 million of debt and borrowings in 2016;*
- *sold our ferrosilicon production facility and interest in quartz quarries to Elkem AS. The cash consideration received under the transaction was approximately equal to net asset value and was utilized to repay the debt which was incurred to refinance our initial acquisition;*
- *exited unprofitable businesses which were generating unsatisfactory returns in multiple jurisdictions, including Germany, Luxembourg, certain eastern European countries and the United States;*
- *substantially reduced our head count and overhead, with the number of employees worldwide down from 650 to under 450 at the end of 2016. To date, more than 50 employees have been given notice of termination of their employment contracts in 2017;*
- *allocated resources for the expansion of our merchant banking business; and*
- *in the first quarter of 2017, completed the sale of a non-core commodities trading business that was focused on Latin America. Pursuant to the transaction, we received total consideration approximately equal to book value, including 450,000 of our common shares at a deemed price of \$1.84 per share.*

We will use the proceeds and expected savings from these actions to reduce our debt and borrowings and reallocate capital to more lucrative projects with the ultimate goal of generating an adequate return on our shareholders' equity.

Inventory Reduction

In 2016, we reduced our inventories by \$213.4 million, from \$245.3 million as at December 31, 2015 to \$32.0 million as at December 31, 2016. This was a result of exiting certain product lines and geographical markets.

The following table highlights the reduction in inventories as at December 31, 2015 and March 31, June 30, September 30 and December 31, 2016:

INVENTORIES (In thousands)	December 31, 2015	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016
Inventories	\$ 245,345	\$ 197,406	\$ 154,703	\$ 129,454	\$ 31,954

Letter to Shareholders
(i)

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Financial Highlights

The following table highlights selected figures on our financial position as at December 31, 2016 and December 31, 2015:

FINANCIAL POSITION (In thousands, except ratios and per share amounts)	December 31, 2016	December 31, 2015
Cash and cash equivalents	\$ 120,676	\$ 197,519
Short-term securities	5,018	170
Trade receivables	135,962	151,229
Tax receivables	11,743	11,705
Other receivables	35,251	14,727
Inventories	31,954	245,345
Total current assets	400,954	785,850
Total current liabilities	214,676	414,562
Working capital	186,278	371,288
Current ratio ⁽¹⁾	1.87	1.90
Acid-test ratio ⁽²⁾	1.68	1.17
Short-term bank borrowings	95,416	52,864
Total assets	650,338	977,351
Total long-term debt	116,813	259,038
Long-term debt-to-equity ⁽¹⁾	0.25	0.47
Total liabilities	320,908	608,151
Shareholders' equity	327,520	367,192
Net book value per share	5.19	5.82

Notes:

- (1) The current ratio is calculated as current assets divided by current liabilities and the long-term debt-to-equity ratio is calculated as long-term debt, less current portion, divided by shareholders' equity.
- (2) The acid-test ratio is calculated as cash plus account receivables plus short-term securities, divided by current liabilities (excluding liabilities related to assets held for sale).

Operating EBITDA

Operating EBITDA from continuing operations is defined as earnings from continuing operations 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.

For the year ended December 31, 2016, our Operating EBITDA from continuing operations increased to \$10.8 million from a loss of \$26.1 million for the same period of 2015 and our loss from continuing operations decreased to \$23.7 million for the year ended December 31, 2016 from a loss of \$244.6 million for the same period of 2015.

The following is a reconciliation of our net loss from continuing operations to Operating EBITDA (loss) from continuing operations for the years ended December 31, 2016 and 2015:

OPERATING EBITDA (loss) from continuing operations (In thousands)	Years Ended December 31,	
	2016	2015
Net loss from continuing operations ⁽¹⁾	\$ (23,720)	\$ (244,607) ⁽²⁾
(Reversal) recognition of impairment losses on resource properties	(8,966)	235,875
Income tax expense (recovery)	7,014	(46,193)
Finance costs	24,102	22,329
Amortization, depreciation and depletion	11,951	6,450
Operating EBITDA (loss) from continuing operations	\$ 10,781	\$ (26,141)

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, \$9.9 million on long-term off-take agreements entered into by a subsidiary acquired in 2014, which have since been terminated.

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Proposed Plan of Arrangement

We announced today a plan of arrangement (the “Plan”) that is designed to improve our corporate structure, reduce expenses and increase our global exposure. MFC Bancorp Ltd., a Canadian company will not change, just the ultimate parent company. As part of the Plan:

- *Share Capital.* MFC’s stated shareholders’ capital will be reduced by an amount equal to our retained deficit which, as of December 31, 2016, was \$88.9 million and in large part resulted from our discontinued operations and impairments of assets.
- *Share Consolidation/Split.* MFC common shares will be consolidated on a 100 for 1 basis, with any resulting fractional shares being eliminated and the holders of the same being paid therefor in cash based upon the weighted average price of the common shares over the ten trading days immediately prior to the Plan becoming effective and thereafter such MFC common shares will be split on a 1 for 20 basis. This will reduce the number of share outstanding though each shareholder’s proportional ownership will not change and there will be cost savings from reduced administration expenses.
- *Share Exchange.* MFC’s common shares will be exchanged on a one-for-one basis for common shares of a new parent company, which, upon completion of the Plan, will be renamed “MFC Bancorp Ltd.” (“New MFC”) and MFC will become a wholly-owned subsidiary of New MFC. New MFC will be incorporated in the Cayman Islands, where other significant companies such as *Alibaba* are also incorporated. Our existing shareholders will become shareholders of New MFC.
- Our New York Stock Exchange (NYSE) listing under the existing symbol (MFCB) will be continuous without interruptions or changes.

Under applicable corporate law, the Plan will require, among other things, court approval and the approval of 66 2/3% of the votes cast at the meeting. Shareholders would also be entitled to exercise dissent rights in connection with the Plan. A shareholder who dissents from the Plan will be entitled, when the Plan becomes effective, to be paid in cash the fair value of their common shares, subject to MFC’s right to terminate the Plan in the event that such dissent rights are exercised with respect to more than a certain percentage of MFC common shares.

The Company believes that the benefits of the plan are, among other things:

- *Stable and Respected Jurisdiction.* The Cayman Islands is a desirable jurisdiction for New MFC as it has enjoyed a long history of political and economic stability and is a well-developed international business and financial center, with a large number of public companies organized there.
- *More Flexible Corporate Structure.* The separation of the public parent company from its operating businesses will facilitate future strategic transactions, such as spin-offs and corporate reorganizations as well as provide additional options for future financing structures.
- *Additional Fiscal Flexibility.* By being located in an international financial center with advantageous tax laws, New MFC will have enhanced flexibility with respect to fiscal and tax planning and will be able to take advantage of the favourable treatment accorded to non-resident exempted companies under Cayman Islands law. Currently, the Cayman Islands has no corporate income, dividends or capital gains taxes and no withholding taxes on distributions to shareholders.
- *Reduced Compliance Expenses and Cash Proceeds for Odd Lot Interest Shareholders.* We believe the Plan will reduce our ongoing administrative costs and allow fractional shareholders to receive cash for their fractional shares without incurring brokerage commissions or expenses.
- *Enhanced Global Exposure.* We are a global company, with operations spanning internationally and New MFC’s jurisdiction of incorporation of the Cayman Islands, a recognized international financial center, is more reflective of the international nature of its operations. New MFC would also consider a secondary listing of its shares on a second stock exchange after completion of the Plan to obtain additional global exposure and liquidity.

The Plan is expected to be completed in 2017 and is subject to finalization and requisite court, shareholder and board approvals. Further information regarding the Plan will be included in materials to be mailed to the Company’s shareholders in connection with the shareholder meeting to be held to approve the Plan.

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Update on Management change

In March 2017, we announced that Michael Smith, our Managing Director, was appointed as the Company's President and Chief Executive Officer. Mr. Smith replaced Gerardo Cortina, who resigned as President and Chief Executive Officer of the Company in order to pursue outside opportunities. Mr. Cortina will continue with the Company as a director and on a part-time basis as Vice-President in order to assist with the transition.

Credit Lines and Facilities

We established, utilized and maintain 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 merchant banking business. The amounts drawn under such facilities fluctuate with the type and level of transactions being undertaken.

As at December 31, 2016, we had credit facilities aggregating \$430.0 million as follows: (i) we had unsecured revolving credit facilities aggregating \$141.2 million from banks. The banks generally charge an interest rate at inter-bank rate plus an interest margin; (ii) we also had revolving credit facilities aggregating \$64.6 million from banks for structured solutions, a special trade financing. The margin is negotiable when the facility is used; (iii) we had a specially structured non-recourse factoring arrangement with a bank up to a credit limit of \$198.4 million for our merchant banking activities. We factor certain of our trade receivables upon invoicing, at inter-bank rate plus a margin; and (iv) we had foreign exchange credit facilities of \$25.9 million with banks.

All of these facilities are either renewable on a yearly basis or usable until further notice. Many of our credit facilities are denominated in Euros and, accordingly, such amounts may fluctuate when reported in Canadian dollars.

During 2016, we reduced and eliminated certain customer-specific credit facilities for customers with whom we no longer commercially transact, as well as certain credit facilities which were underutilized or in jurisdictions which we are exiting. 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 overall liquidity.

Our Future

Going forward we will expand our merchant banking activities. Our plan to exit unsatisfactory product lines and geographies, significantly reducing our inventories and receivables and reallocating the capital to more profitable business units is proceeding well. We believe these actions and the announcement of the Plan will help reduce expenses and ultimately result in an adequate return on our equity.

Stakeholder's Communication

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

- Stakeholders are encouraged to read our entire audited financial statements and management's discussion and analysis for the year ended December 31, 2016 as set forth in this annual report on Form 20-F 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 of our senior management. Questions may also be emailed to Rene Randall at rrandall@bmgmt.com.

Respectfully submitted,



Michael J. Smith
President and Chief Executive Officer

Letter to Shareholders
(iv)

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Corporate information

BOARD OF DIRECTORS

Michael J. Smith
Chairman
Director since 1987

Indrajit Chatterjee
Director since 2005

Silke S. Stenger*
Director since 2013

Dr. Shuming Zhao*
Director since 2014

Gerardo Cortina
Director since 2014

Friedrich Hondl*
Director since 2015

Jochen P. Dümmler*
Director since 2016

* *Member of the Audit Committee*

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MFC BANCORP LTD.

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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.

As used in this annual report, the terms “we”, “us” and “our” mean MFC Bancorp Ltd. and our subsidiaries, unless otherwise indicated.

CURRENCY

Unless otherwise indicated, 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.

The following table sets out exchange rates, based on the Bank of Canada daily noon exchange rate, referred to as the “Noon Rate”, for the translation of United States dollars and Euros to Canadian dollars in effect at the end of the following periods, the average exchange rates during these periods (based on daily Noon Rates) and the range of high and low exchange rates for these periods:

<u>2016</u>	
End of period	1.3427
High for period	1.2544
Low for period	1.4589
Average for period	1.3248
End of period	1.4169
High for period	1.3875
Low for period	1.5928
Average for period	1.4660

On March 30, 2017, the Noon Rate for the translation of United States dollars and Euros to Canadian dollars were US\$1.00 = \$1.3279 and €1.00 = \$1.4244, 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 measure “Operating EBITDA from continuing operations”.

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 from continuing operations 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 from continuing operations eliminates the non-cash impact.

Operating EBITDA from continuing operations is used by investors and analysts for the purpose of valuing an issuer. The intent of Operating EBITDA from continuing operations 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 from continuing operations differently. For a reconciliation of net income from continuing operations to Operating EBITDA from continuing operations, 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, 2016. 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 in the three-year period ended December 31, 2014 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*”.

The results of discontinued operations have been re-presented for prior periods and certain prior period results have been reclassified to conform to current presentation. Please see “*Item 5: Operating and Financial Review and Prospects – General – Reclassifications and Prior Periods*” for further information.

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

	2016	2015	2014	2013	2012
		(Re-presented ⁽¹⁾)	(Re-presented ⁽¹⁾)	(Re-presented ⁽¹⁾)	(Re-presented ⁽¹⁾)
Gross revenues	\$ 1,131,657	\$ 1,629,100	\$ 1,405,330	\$ 719,156	\$ 424,726
(Loss) earnings from continuing operations ⁽²⁾	(25,361) ⁽³⁾	(246,228) ⁽⁴⁾	17,840 ⁽⁵⁾	22,782	(16,170) ⁽⁶⁾
Net (loss) income from continuing operations per share					
Basic	)0.40	) (3.90)	0.28	0.36	) (0.26)
Diluted	)0.40	) (3.90)	0.28	0.36	) (0.26)
Net (loss) income from discontinued operations ⁽²⁾	—	(241,402) ⁽⁷⁾	18,522 ⁽⁸⁾	13,050 ⁽⁹⁾	212,754 ⁽¹⁰⁾
(Loss) earnings per share from discontinued operations:					
Basic	—	) (3.82)	) (0.29)	) (0.20)	3.40
Diluted	—	) (3.82)	) (0.29)	) (0.20)	3.40
Net (loss) income ⁽²⁾	(25,361)	(487,630)	36,362 ⁽⁵⁾⁽⁸⁾	35,832 ⁽⁹⁾	196,584 ⁽¹⁰⁾
Net (loss) income per share:					
Basic	)0.40	) (7.72)	) (0.01)	0.16	3.14
Diluted	)0.40	) (7.72)	) (0.01)	0.16	3.14
Total assets	650,338	977,351	1,692,219	1,402,460	1,353,684
Net assets	329,430	369,200	778,933	744,245	733,018
Long-term debt, less current portion	80,564	174,333	297,157	201,947	31,012
Shareholders' equity	327,520	367,192	777,717	744,063	726,862
Capital stock, net of treasury stock	358,831	358,831	358,570	357,322	357,322
Weighted average number of common stock outstanding, diluted	63,142	63,142	62,957	62,757	62,555
Cash dividends paid to shareholders	—	4,388	12,486	15,353	13,789

Notes:

- (1) In connection with the reclassification of our mining interest and hydrocarbon properties to continuing operations in 2016, revenues, costs and expenses and income taxes have been re-presented for these periods.
- (2) Attributable to our shareholders.
- (3) Includes a net non-cash reversal of \$8.6 million in connection with prior impairments on our remaining hydrocarbon properties.
- (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 a total non-cash impairment loss and write-down of \$48.0 million (net of income tax recovery) on a subsidiary in India, which was subsequently sold in 2013.

- (7) 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.
- (8) Includes total non-cash impairment losses of \$30.4 million, before a deferred income tax recovery of \$8.4 million, on our hydrocarbon properties.

- (9) Includes a non-cash impairment loss on our hydrocarbon properties of \$6.5 million, before an income tax recovery of \$1.7 million.
- (10) Includes a bargain purchase of \$212.5 million, primarily in connection with our acquisition of certain hydrocarbon operations. The bargain purchase arose as the consideration under the transaction was less than the fair value of the net identifiable assets acquired.

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 regulations 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 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. We have experienced price competition in some of our trading business.

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, 2016, 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 have grown and 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.



Acquisitions also frequently result in the recording of goodwill and other intangible assets, which are subject to potential non-cash impairments in the future that could have a material adverse effect on our operating results. Furthermore, the costs of integrating acquired businesses (including restructuring charges associated with the acquisitions, as well as other related costs, such as accounting, legal and investment banking 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.

The operations of our Bank are exposed to risks faced by other financial institutions.

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 rumours 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 favourable 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 favourable. 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 businesses.

Liquidity, or ready access to funds, is essential to companies engaged in our businesses. 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 under securities or other laws for materially false or misleading statements made in connection with securities and other transactions, 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 and 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.

In late October 2014, the operator of the mine underlying our royalty interest announced that it would be closing the mine and, in 2015, commenced proceedings under the *Companies' Creditors Arrangement Act* (Canada), referred to as the "CCAA", which are ongoing. 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.

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 and adverse effect on our profitability, results of operations and financial condition.

In addition, we have no or very limited access to technical and geological data relating to the mine, including data as to reserves, nor have we received a Canadian National Instrument 43-101 compliant technical report in respect of the mine. Accordingly, we can provide no assurances as to the level of mineralization or reserves at the mine.

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. While such third-party arrangements may provide for committed expenditures and/or drilling activities, our ability to convert such undeveloped reserves within the required timeframe may be subject to operating decisions of such operators and the results of development activities conducted by such third-parties, which 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 our tax liabilities. 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.

We may incur losses as a result of unforeseen or catastrophic events, including the emergence of a pandemic, terrorist attacks or natural disasters.

The occurrence of unforeseen or catastrophic events, including the emergence of a pandemic or other widespread health emergency (or concerns over the possibility of such an emergency), terrorist attacks or natural disasters, could create economic and financial disruptions, lead to operational difficulties (including travel limitations) that could impair our ability to manage our business or expose our insurance subsidiaries to significant losses.

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, Class A common shares and Class A 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.

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 and the corporate legislation which govern us may discourage, delay or prevent a change of control or changes in our management that shareholders may consider favourable. Such provisions include authorizing the issuance by our board of directors of preferred stock in series, limiting the persons who may call special meetings of shareholders and the adoption of an advance notice policy. In addition, the *Investment Canada Act* imposes certain limitations on the rights of non-Canadians to acquire our common shares, although it is highly unlikely that this will apply. If a change of control or change in management is delayed or prevented, the market price of our common shares could decline.

ITEM 4: INFORMATION ON THE COMPANY

A. History and Development of the Company

Corporate Information

We are a corporation organized under the laws of the Province of British Columbia, Canada. We were originally incorporated in June 1951 by letters patent issued pursuant to the *Companies Act of 1934* (Canada). We were continued under the *Canada Business Corporations Act* in March 1980, under the *Business Corporations Act* (Yukon) in August 1996 and under the *Business Corporations Act* (British Columbia) in November 2004. On February 16, 2016, in order to better reflect our current activities, we changed our name from “MFC Industrial Ltd.” to “MFC Bancorp Ltd.”

Our principal executive office is located at Suite 1860 - 400 Burrard Street, Vancouver, British Columbia, Canada V6C 3A6 and its telephone number is +1 604-683-8286. Our registered office is located at Suite 1000 – 925 West Georgia Street, Vancouver, British Columbia, Canada, V6C 3L2.

General

We are a 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

The following is a summary of selected recent developments for our business.

Reallocation of Resources to More Profitable Operations

In 2016 and into the first quarter of 2017, we continued to advance our plan to focus our resources on our merchant banking activities, including exiting product lines and geographies with unsatisfactory margins in order to reallocate capital to higher return operations. To this end, we have, among other things:

- reduced our inventories by 87% from \$245.3 million at December 31, 2015 to \$32.0 million at December 31, 2016;
- in the fourth quarter of 2016, completed the sale of our ferrosilicon production facility and interest in quartz quarries to Elkem AS, referred to as “Elkem”, as more fully described below;
- exited unprofitable businesses which were generating unsatisfactory returns in several jurisdictions, including Germany, Luxembourg, certain eastern European countries and the United States;
- in the first quarter of 2017, completed the sale of a non-core commodities trading business that was focused on Latin America;
- substantially reduced our headcount, which resulted in a 31% decrease by the end of 2016, with further reductions currently expected in 2017; and
- allocated resources for the expansion of our merchant banking business.

Acquisition of Licensed European Bank

As an integral part of our long-term strategy and focus on merchant banking, on February 1, 2016, we completed the acquisition of the Bank, a licensed Western European bank, for total consideration of \$142.4 million. The consideration under the transaction equaled the fair value of the identifiable assets acquired and the liabilities assumed on the closing date. Subsequent to the completion of the acquisition, the Bank was renamed “MFC Merchant Bank Limited”.

Sale of Ferrosilicon Plant

In the fourth quarter of 2016, we completed the sale of our interests in FESIL Rana Metall AS, referred to as “FESIL Rana”, our former subsidiary that owned a ferrosilicon production facility in Norway, and Nor-Kvarts (Spanish quartz quarries), referred to as “Nor-Kvarts”, to Elkem for cash consideration approximately equal to net asset value, subject to certain adjustments related to the profitability of FESIL Rana before closing. Elkem is one of the world’s leading companies for environmentally responsible production of materials such as silicon, ferrosilicon, foundry alloys, carbon materials and microsilica. In connection with the transaction, Elkem also purchased all FESIL Rana ferrosilicon inventory held by our other subsidiaries for fair market value at closing.

Sale of Latin American Trading Operations

In the first quarter of 2017, we completed the sale of a non-core commodities trading business that was focused on Latin America to a company controlled by Gerardo Cortina, our former President and Chief Executive Officer. Pursuant to the transaction, we received total consideration approximately equal to book value, including 450,000 of our common shares at a deemed price of \$1.84 per share and a release granted by Mr. Cortina to us of any further obligations to issue common shares to him in connection with the prior share purchase agreement between the parties. We do not expect to recognize any gain or loss in connection with this transaction.

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 a 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.

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 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, documentary bank guarantees/stand-by letters of credit, bills of exchange, bills



of lading, promissory notes and forwarders' certificate of receipt facilities; with and without recourse factoring; forfaiting; discounting of bills of exchange and promissory notes; purchase financing collateralized by the product; inventory financing collateralized by inventory; structured trade finance, including advisory services, in conjunction with export credit agencies; and merchant banking products and services.

We also provide supply chain services, logistics and other trade and structured finance services to producers and consumers. These activities provide cost effective and efficient transportation, as well as payment terms accommodating working capital requirements for our customers and partners. Our operations often utilize strategies and structures to facilitate the working capital needs of our clients. We engage in purchases and sales with producers who are unable to effectively realize sales due to their specific circumstances.

Often, producers and end consumers work with us to better manage their internal supply chain, distribution risk and currency and capital requirements. In such operations, we try to capture various product, financing and currency spreads. Through our operational history, we have been able to develop long-standing relationships with producers, end customers and financiers and integrate them into our activities, allowing us to leverage our marketing and financial experience and relationships to provide services to our customers.

In 2016, we commenced our plan to focus on our core merchant banking activities. Since 2015, we have exited various products and geographies, including disposing of a Latin America-focused commodities trading business, our interest in a ferrosilicon production facility and 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.

Our merchant banking business employs personnel worldwide and our main business office is located in Vienna, Austria. We also maintain offices in Canada, Malta, Argentina, China, Serbia, 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 relatively 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 purchase and sell a client's products, or 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 \$13.2 million as at December 31, 2016.

C. Organizational Structure

The following table describes our direct and indirect material subsidiaries as at March 30, 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.

<u>Subsidiaries</u>	<u>Country of Incorporation</u>	<u>Proportion of Voting Interest⁽¹⁾</u>
MFC Commodities GmbH	Austria	%100
MFC Metal Trading GmbH	Austria	%100
Kasese Cobalt Company Limited	Uganda	% 75
MFC (A) Ltd	Marshall Islands	%100
MFC (D) Ltd	Marshall Islands	%100
M Financial Corp.	Barbados	%100
MFC Corporate Services AG	Switzerland	%100
MFC Power Limited Partnership	Canada	%100
MFC Energy Finance Inc.	Canada	%100
F.J. Elsner GmbH	Austria	%100
FESIL Sales GmbH	Germany	%100
MFC Merchant Bank Limited	Malta	%100
Sino Medical Technology Co. Ltd.	Marshall Islands	%100

Note:

- (1) Percentages rounded to nearest whole number. Our proportional voting interests are identical to our proportional beneficial interests, except for a non-wholly owned subsidiary in Africa from which we derive a 100% beneficial interest resulting from our shareholder loan.

Please see Note 31 to our audited consolidated financial statements for the year ended December 31, 2016 for further information.

D. Property, Plants and Equipment

Our principal office is located at Suite 1860 – 400 Burrard Street, Vancouver, British Columbia V6C 3A6, Canada. We also maintain offices globally, with our main marketing office located in Vienna, Austria.



We believe that our existing facilities are adequate for our needs through the end of the year ending December 31, 2016. 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 Wabush, Newfoundland and Labrador, Canada, which commenced in 1956 and expires in 2055. In late 2014, the mine operator announced the closure of the mine and, in 2015, commenced proceedings under the CCAA. These proceedings are ongoing.

In the fourth quarter of 2015, we disposed of certain hydrocarbon interests that were classified as held for sale. As a result, our hydrocarbon interests currently only include interests in West Central Alberta, Canada. As at December 31, 2016, these hydrocarbon interests comprised of approximately 91 producing and 87 non-producing natural gas wells and approximately 6 producing and 18 non-producing oil wells and an average 70.3% working interest in approximately 86,500 gross acres of land.

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, 2016 and 2015 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.

Our net book value declined by \$39.7 million to \$327.5 million as at December 31, 2016, compared to December 31, 2015, due to foreign exchange fluctuations and a net loss in 2016.

Reclassifications and Prior Periods

On December 31, 2016, we reclassified assets of \$45.7 million and associated liabilities of \$29.9 million, relating to a non-core Latin America focused commodities trading business, as held for sale. This business was sold in the first quarter of 2017. Please see “*Item 4: Information on the Company – B. Business Overview*” and Note 5 to our audited consolidated financial statements for the year ended December 31, 2016 for further information.

On June 30, 2016 and September 30, 2016, we ceased to classify our interest as lessor under a mining sub-lease of the lands upon which an iron ore mine is situated and our remaining hydrocarbon properties, respectively, as assets held for sale as the criteria for assets classified as assets held for sale were no longer



met. Accordingly, the results of operations of these assets for 2015 and 2014 have been reclassified to continuing operations and revenues, costs and expenses, income taxes and cash flows have been re-presented for prior periods. Please see Note 5 to our audited consolidated financial statements for the year ended December 31, 2016 for further information.

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.

Ongoing economic conditions and uncertainties, including slower economic growth in China and continuing economic uncertainty in Europe, continued to impact markets and cause significant volatility in commodity prices in 2016. During 2016, intensifying over the second half of the year and into 2017, significant events in the global political landscape have introduced macroeconomic and political risks that are difficult to quantify and could have far-reaching implications for the global economy. These events increased the uncertainty surrounding the probable future direction of interest rates, inflation, foreign exchange rates, trade volumes and fiscal and monetary policy. As a result, the evolution of the global economy and regional economies is increasingly difficult to predict.

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.

As at December 31, 2016, the Canadian dollar had strengthened by 6% against the Euro from the end of 2015. Such strengthening negatively impacted our asset values (net of liabilities) reported in Canadian dollars as at December 31, 2016. As a result, we recognized a net \$14.6 million currency translation adjustment loss accumulated under other comprehensive income within equity in 2016, compared to a net \$79.5 million currency translation adjustment gain in 2015.

Results of Operations

The following table sets forth certain selected operating results and other financial information for each of the years ended December 31, 2016, 2015 and 2014:

	Years Ended December 31,		
	2016	2015 (Re-presented) ⁽¹⁾	2014 (Re-presented) ⁽¹⁾
	(In thousands, except per share amounts)		
Gross revenues	\$ 1,131,657	\$ 1,629,100	\$ 1,405,330
Costs and expenses	1,148,363	1,919,895	1,376,016
Costs of sales and services	1,061,052	1,573,868	1,266,430
Selling, general and administrative expense	79,164	86,648	83,862
Finance costs	24,102	22,329	15,967
Share-based compensation – selling, general and administrative	—	—	423
Impairment of available-for-sale securities	91	245	341
(Reversal) recognition of impairment losses on resource properties	(8,566)	235,875	2,813
(Loss) earnings from continuing operations ⁽²⁾	(25,881)	(246,228)	(7,840)
Net loss from discontinued operations ⁽²⁾	—	(241,402)	(18,522)
Net loss ⁽²⁾	(25,881)	(487,630)	(26,362)
Loss per share:			
Basic	) (0.40	) (7.72	) (0.01

Diluted

) (0.40

) (7.72

) (0.01

Notes:

- (1) In connection with the reclassification of our mining interest and hydrocarbon properties to continuing operations in 2016, revenues, costs and expenses and income taxes have been re-presented for these periods.
- (2) Attributable to our shareholders.
- (3) Includes a net non-cash reversal of \$8.6 million in connection with prior impairments on our remaining hydrocarbon properties.
- (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 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 a non-cash impairment loss of \$30.4 million, before a deferred income tax recovery of \$8.4 million, on our hydrocarbon properties.

The following table provides a breakdown of our total revenues from continuing operations for each of the years ended December 31, 2016, 2015 and 2014:

	Years Ended December 31,		
	2016	2015 (Re-presented) ⁽¹⁾	2014 (Re-presented) ⁽¹⁾
	(In thousands)		
Merchant banking products and services	\$ 1,078,745	\$ 1,580,935	\$ 1,360,979
Gain on securities, net	—	—	333
Interest	3,056	4,237	4,542
Dividends	6	7	8
Other	49,850	43,921	39,468
Total revenues	<u>\$ 1,131,657</u>	<u>\$ 1,629,100</u>	<u>\$ 1,405,330</u>

Note:

- (1) In connection with the reclassification of our mining interest and hydrocarbon properties to continuing operations in 2016, revenues have been re-presented for these periods.

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:

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

Note:

- (1) In connection with the reclassification of our mining interest and hydrocarbon properties to continuing operations in 2016, revenues have been re-presented for this period.

In 2016, 62% of our revenues were from Europe, 25% were from the Americas and 13% were from Asia and other regions.

In 2016, our proportionate revenues by product were: (i) 21% from metals; (ii) 28% from steel products; (iii) 45% from minerals, chemicals and alloys; and (iv) 6% from other.

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:

	Years Ended December 31,	
	2016	2015
	(Re-presented) ⁽¹⁾	
	(In thousands)	
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
Fair value gain on government environmental emission refund	—	(4,157)
Fair value loss on investment property	44	—
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
Other	11,448	11,434
Total costs of sales and services	\$ 1,061,052	\$ 1,573,868

Notes:

- (1) In connection with the reclassification of our mining interest and hydrocarbon properties to continuing operations in 2016, costs of sales and services have been re-presented for this period.
- (2) Includes a gain on dispositions of subsidiaries totaling \$2.6 million. Please see Note 31 to our audited consolidated financial statements for the year ended December 31, 2016 for further information.

In 2016, we recognized a credit loss of \$11.3 million on receivables due from a formerly consolidated subsidiary.

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, which financed 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 property 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 property revenue taxes, during 2016 was \$2.8 million, compared to \$5.0 million in 2015. We also recognized resource property 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 property 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 property 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 \$0.40 per share on a basic and diluted basis, compared to \$487.6 million, or \$7.72 per share on a basic and diluted basis, in 2015, which included a loss from discontinued operations of \$241.4 million, or \$3.82 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.

	<u>Years Ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
	(In thousands)	
Operating EBITDA (loss) from continuing operations		
Net loss from continuing operations ⁽¹⁾	\$ (23,720)	\$ (244,602) ⁽²⁾
(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
Operating EBITDA (loss) from continuing operations	<u>\$ 10,781</u>	<u>\$ (26,141)</u>

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, \$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.

Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014

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

	Years Ended December 31,	
	2015	2014
	(Re-presented) ⁽¹⁾	(Re-presented) ⁽¹⁾
	(In thousands)	
Gross Revenues:		
Merchant banking	\$ 1,593,879	\$ 1,375,526
All other	35,221	29,804
	<u>\$ 1,629,100</u>	<u>\$ 1,405,330</u>

Note:

(1) In connection with the reclassification of our mining interest and hydrocarbon properties to continuing operations in 2016, revenues have been re-presented for these periods.

In 2015, our proportionate revenues by product were: (i) 20% steel products; (ii) 44% minerals, chemicals and alloys; (iii) 16% metals; (iv) 14% wood products; and (v) 6% other. In 2015, 64% of our revenues were from Europe, 24% were from the Americas and 12% were from Asia and other regions.

Based upon the average exchange rates for 2015, the Canadian dollar strengthened by approximately 3% and weakened by approximately 14% in value against the Euro and the United States dollar, respectively, compared to the average exchange rates for 2014.

Revenues for 2015 increased to \$1,629.1 million from \$1,405.3 million in 2014, primarily as a result of the consolidation of our acquisitions in the second quarter of 2014 and an increase in our finance and supply chain volumes, partially offset by the exiting of certain product lines and the negative impact of the marginally stronger Canadian dollar against the Euro in 2015. As a substantial portion of our revenues are generated in Euros, the marginal strengthening of the Canadian dollar against the Euro slightly negatively impacted our revenues in 2015 when such Euro-denominated revenues were translated to Canadian dollars.

Revenues for our merchant banking business were \$1,593.9 million for 2015, compared to \$1,375.5 million for 2014, primarily as a result of the consolidation of our acquisitions in the second quarter of 2014 and an increase in our finance and supply chain volumes, partially offset by the exiting of certain product lines and the impact of the marginally stronger Canadian dollar against the Euro.

Revenues for our all other segment were \$35.2 million for 2015, compared to \$29.8 million for 2014.

Costs of sales and services increased to \$1,573.9 million during 2015 from \$1,266.4 million during 2014, primarily as a result of the consolidation of our acquisitions in the second quarter of 2014 and increased credit losses on loans and receivables and guarantees as a result of the insolvency of a customer subsequent to December 31, 2015 (see below), partially offset by the exiting of certain product lines and the impact of the marginally stronger Canadian dollar against the Euro.

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

	Years Ended December 31,	
	2015	2014
	(Re-presented) ⁽¹⁾	(Re-presented) ⁽¹⁾
	(In thousands)	
Merchant banking products and services	\$ 1,512,970	\$ 1,269,324
Credit losses on loans and receivables and guarantees, net of recoveries	54,540	4,346
Fair value gain on government environmental emission refund	Ø4,157	—
Fair value loss on investment property	—	134
Market value decrease (increase) on commodities inventories	1,910	Ø4,172
Gain on derivative contracts, net	Ø2,913	(10,189)
Write-off of inventories, net	—	165
Loss on trading securities, net	84	—
Other	11,434	6,822
Total costs of sales and services	<u>\$ 1,573,868</u>	<u>\$ 1,266,430</u>

Note:

- (1) In connection with the reclassification of our mining interest and hydrocarbon properties to continuing operations in 2016, costs of sales and services have been re-presented for these periods.

The gain on derivative instruments stemmed from commodity and currency derivatives.

In the fourth quarter of 2015, one of our customers in the wood products market experienced financial difficulties and, subsequent to year end, filed for insolvency. Please see “*Year Ended December 31, 2016 Compared to Year Ended December 31, 2015*” for further information.

In 2015, we recognized losses of \$9.9 million in connection with long-term off-take agreements, which were terminated in 2016. Such long-term off-take agreements were entered into by a subsidiary we acquired in 2014, which produced and sold ferro-alloy and other related products, and resulted in losses being incurred as ferrosilicon prices generally declined in 2015.

Selling, general and administrative expenses, excluding share-based compensation, increased to \$86.6 million in 2015 from \$83.9 million in 2014, primarily as a result of an increase in professional fees relating to restructuring activities, an arbitration settlement of \$2.0 million with the vendor of a subsidiary acquired in 2014, the payment of certain restructuring and severance expenses in 2014 and the consolidation of our acquisitions in the second quarter of 2014, partially offset by the impact of the marginally stronger Canadian dollar against the Euro.

In 2015, finance costs increased to \$22.3 million from \$16.0 million in 2014, primarily as a result of higher debt levels and factoring charges in relation to an increase in business volume.

In 2015, we recognized a net foreign currency transaction loss of \$0.9 million, compared to \$6.0 million in 2014, in the consolidated statement of operations. The loss in 2014 was primarily non-cash and relates to the settlement of certain intercompany accounts of subsidiaries with different functional currencies in pursuit of fiscally responsible strategies. The foreign currency transaction gain and loss represent 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 financial statements.

We recognized an income tax recovery of \$46.2 million in 2015, compared to an income tax expense of \$10.1 million in 2014. Our statutory tax rate was 26% in each of 2015 and 2014. The income tax paid in cash during 2015 was \$5.0 million, compared to \$4.8 million in 2014.

In 2015, our net loss attributable to shareholders from continuing operations was \$246.2 million, or \$3.90 per share on a basic and diluted basis, compared to net income attributable to shareholders from continuing operations of \$17.8 million, or \$0.28 per share on a basic and diluted basis, in 2014.

Our net loss attributable to shareholders from continuing operations for 2015 included credit losses of \$51.4 million in connection with a customer filing for insolvency in the first quarter of 2016 and losses of \$9.9 million incurred in connection with long-term off-take agreements (see above).

Our revenues from discontinued operations were \$62.4 million for 2015, compared to \$99.7 million for 2014. The decrease was primarily the result of a decrease in natural gas prices and volumes, compared to 2014. Our costs and expenses for discontinued operations were \$243.2 million in 2015, which included non-cash impairments of \$176.3 million, before income taxes, on our hydrocarbon properties and iron ore interests, compared to \$126.5 million in 2014, which included a non-cash impairment of \$30.4 million on our hydrocarbon properties.

In connection with the sale of a 95% economic interest in certain of our hydrocarbon assets in the fourth quarter of 2015, we recognized a deferred tax expense of \$12.0 million in 2015 resulting from the write-off of previously recognized deferred tax assets.

In 2015, our loss from discontinued operations was \$241.4 million, or \$3.82 per share on a basic and diluted basis, which includes non-cash impairments of \$148.9 million, or \$2.36 per share on a basic and diluted basis, and \$27.4 million, or \$0.43 per share on a basic and diluted basis, before income taxes, respectively, on our hydrocarbon properties and iron ore interests, compared to a net loss of \$18.5 million, or \$0.29 per share, for 2014, which included a non-cash impairment of \$30.4 million, or \$0.48 per share on a basic and diluted basis, before income taxes, on our hydrocarbon properties. Please see Note 5 to our audited consolidated financial statements for the year ended December 31, 2016 for further information.

For 2015, our net loss attributable to shareholders was \$487.6 million, or \$7.72 per share on a basic and diluted basis, which includes non-cash impairments of \$196.5 million, or \$3.11 per share on a basic and diluted basis, and \$215.6 million, or \$3.41 per share on a basic and diluted basis, before income taxes, respectively, on our hydrocarbon properties and iron ore interests, compared to a net loss attributable to shareholders of \$0.7 million, or \$0.01 per share on a basic and diluted basis, in 2014, which included a



non-cash impairment of \$33.2 million, or \$0.53 per share on a basic and diluted basis, before income taxes, on our hydrocarbon properties.

For 2015, our Operating EBITDA from continuing operations decreased to an Operating EBITDA loss of \$26.1 million from Operating EBITDA from continuing operations of \$56.7 million for 2014.

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

	Years Ended December 31,	
	2015	2014
	(In thousands)	
Operating EBITDA (loss) from continuing operations		
Net (loss) income from continuing operations ⁽¹⁾	\$ (244,602) ⁽²⁾	\$ 19,198
Impairment of hydrocarbon and resource properties	235,875	2,813
Income tax (recovery) expense	(46,193)	10,116
Finance costs	22,329	15,967
Amortization, depreciation and depletion	6,450	8,557
Operating EBITDA (loss) from continuing operations	<u>\$ (26,141)</u>	<u>\$ 56,651</u>

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, \$9.9 million on long-term off-take agreements entered into by a subsidiary acquired in 2014.

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 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 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,		
	2016	2015	2014
	(In thousands, except ratio amounts)		
Total debt	\$ 116,813	\$ 259,038	\$ 363,255
Less: cash and cash equivalents	(120,676)	(197,519)	(344,89)
Net debt	Not applicable	61,519	18,364
Shareholders’ equity	327,520	367,192	777,717
Net debt-to-equity ratio	Not applicable	0.17	0.02

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, 2016, 2015 and 2014. Our net debt-to-equity ratio as at December 31, 2016 was not applicable as we had a net cash and cash equivalents balance and, as at December 31, 2015 and 2014 was 0.17 and 0.02, respectively.

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

	December 31,		
	2016	2015	2014
	(In thousands, except ratio amounts)		
Long-term debt, less current portion	\$ 80,564	\$ 174,333	\$ 297,157
Shareholders' equity	327,520	367,192	777,717
Long-term debt-to-equity ratio	0.25	0.47	0.38

During 2016, our strategy, which remained unchanged from 2015 and 2014, was to maintain our net debt-to-equity ratio and long-term debt-to-equity ratio at manageable levels. Our long-term debt-to-equity ratio was 0.25, 0.47 and 0.38 as at December 31, 2016, 2015 and 2014, respectively.

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, credit facility amounts 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,		
	2016	2015	2014
		(Re-presented) ⁽¹⁾	(Re-presented) ⁽¹⁾
	(In thousands)		
Cash flows provided by (used in) continuing operating activities	\$ 99,867	\$ (95,048)	\$ (16,083)
Cash flows provided by (used in) continuing investing activities	\$ 35,482	\$ (8,661)	\$ (107,115)
Cash flows (used in) provided by continuing financing activities	\$(167,275)	\$ (68,669)	\$ 71,066
Exchange rate effect on cash and cash equivalents	\$ (37,540)	\$ 35,619	\$ 36,387
Decrease in cash and cash equivalents	\$ (69,466)	\$ (145,058)	\$ (8,408)

Note:

- (1) In connection with the reclassification of our mining interest and hydrocarbon properties to continuing operations in 2016, cash flows from operating, investing and financing activities have been re-presented for this period.

Cash Flows from Continuing Operating Activities

Operating activities provided cash of \$99.9 million in 2016, compared to using cash of \$95.0 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 account payables and accrued expenses (including derivative liabilities) used cash of \$124.5 million in 2016,

compared to \$18.6 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. A decrease in deposits, prepaid and other provided cash of \$24.7 million in 2016, compared to an increase in deposits, prepaid and other using cash of \$8.6 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. A decrease in short-term securities provided cash of \$4.0 million in 2016, compared to \$80,000 in 2015.

Operating activities used cash of \$95.0 million in 2015, compared to \$16.1 million in 2014. In 2015, a decrease in short-term bank borrowings used cash of \$137.6 million, compared to \$103.0 million in 2014. A decrease in receivables (including derivative assets) provided cash of \$57.6 million in 2015, compared to \$9.5 million in 2014, primarily as a result of collections of trade receivables. A decrease in account payables and accrued expenses (including derivative liabilities) used cash of \$18.6 million in 2015, compared to an increase in account payables and accrued expenses providing cash of \$16.1 million in 2014. A decrease in inventories provided cash of \$15.7 million in 2015, compared to an increase in inventories using cash of \$32.0 million in 2014. An increase in deposits, pre-paid and other, used cash of \$8.6 million in 2015, compared to a decrease in deposits, pre-paid and other, providing cash of \$41.7 million in 2014. The increase in deposits, pre-paid and other, was primarily a result of an increase in prepaid inventories.

Cash Flows from Continuing Investing Activities

Investing activities provided cash of \$35.5 million in 2016, compared to using cash of \$8.6 million in 2015. The increase was primarily due to our acquisition of the Bank, net of cash and cash equivalents acquired, and sales of subsidiaries, which provided cash totaling \$24.9 million in 2016. In 2016, proceeds from the sale of our equity method investee and investments other than trading securities provided cash of \$10.1 million, compared to \$nil in 2015.

Investing activities used cash of \$8.6 million in 2015, compared to \$107.1 million in 2014, primarily in connection with our acquisitions in 2014. Purchases of property, plant and equipment, net of proceeds from dispositions, used cash of \$8.0 million in 2015, compared to \$29.6 million in 2014.

Cash Flows from Continuing Financing Activities

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.

Net cash used by financing activities was \$68.7 million in 2015, compared to net cash provided by financing activities of \$71.1 million in 2014. A net decrease in debt used cash of \$63.0 million in 2015, compared to a net increase in debt providing \$107.9 million in 2014. 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, compared to \$12.5 million in 2014.

Cash Flows from Discontinued Operations

Discontinued operating activities used cash of \$7.0 million in 2015, compared to providing cash of \$19.0 million in 2014.

Discontinued investing activities used cash of \$1.4 million in 2015, compared to \$11.7 million in 2014.

Financial Position

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

	December 31,	
	2016	2015
	(In thousands)	
Cash and cash equivalents	\$ 120,676	\$ 197,519
Short-term cash deposits	182	233
Short-term securities	5,018	170
Securities – derivatives	1,240	5,555
Restricted cash	—	639
Trade receivables	135,962	151,229
Tax receivables	11,743	11,705
Other receivables	35,251	14,727
Inventories	31,954	245,345
Real estate held for sale	1,066	1,130
Deposits, prepaid and other	12,195	21,442
Assets held for sale	45,667	136,156
Total assets	650,338	977,351
Working capital	186,278	371,288
Short-term bank borrowings	95,416	52,864
Debt, current portion	36,249	84,705
Account payables and accrued expenses	45,114	182,051
Financial liabilities – derivatives	5,514	3,554
Income tax liabilities	2,486	3,809
Liabilities relating to assets held for sale	29,897	87,579
Long-term debt, less current portion	80,564	174,333
Decommissioning obligations	13,219	—
Shareholders' equity	327,520	367,192

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, 2016, cash and cash equivalents decreased to \$120.7 million from \$197.5 million as at December 31, 2015.

Trade receivables and other receivables were \$136.0 million and \$35.3 million, respectively, as at December 31, 2016, compared to \$151.2 million and \$14.7 million, respectively, as at December 31, 2015. The decrease in trade receivables was primarily as a result of an increase in allowance for credit losses of \$46.6 million primarily related to our former customer that filed for insolvency in February 2016 and the reclassification of certain trade receivables. The increase in other receivables was primarily as a result of the reclassification of a loan from assets held for sale and an increase in supplier accounts with debit balances. Credit risk from trade receivables is substantially mitigated through credit insurance, bank guarantees, letters of credit and other risk mitigation measures.

Our assets held for sale, consisting of assets related to our former Latin American-focused commodities trading business (subsequently sold in the first quarter of 2017), decreased to \$45.7 million as at December 31, 2016 from \$136.2 million as at December 31, 2015, which consisted of hydrocarbon and iron ore interests, which were reclassified to continuing operations in 2016. As at December 31, 2016, we had 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, compared to \$87.6 million as at December 31, 2015, which was comprised of \$59.3 million of debt, \$17.9 million of decommissioning obligations, \$1.9 million of short-term borrowings, \$0.7 million of other indebtedness and \$7.8 million of deferred tax liabilities. See “*General – Reclassifications and Prior Periods*” for further information.

Inventories decreased to \$32.0 million as at December 31, 2016, from \$245.3 million as at December 31, 2015, primarily as a result of the decision to rationalize certain product lines and geographies. \$21.1 million of our inventories were contracted at fixed prices or hedged as at December 31, 2016.

Deposits, prepaid and other assets were \$12.2 million as at December 31, 2016, compared to \$21.4 million as at December 31, 2015. The decrease was primarily a result of a decrease in prepayments and deposits for inventories.

Tax receivables, consisting primarily of refundable value-added taxes, were \$11.7 million as at both of December 31, 2016 and 2015.

We had short-term securities of \$5.0 million as at December 31, 2016, compared to \$0.2 million as at December 31, 2015. The increase was primarily as a result of government-issued securities held by our recently acquired Bank at the date of acquisition.

We had short-term financial assets relating to hedging derivatives of \$1.2 million as at December 31, 2016, compared to \$5.6 million as at December 31, 2015. We had current liabilities relating to hedging derivatives of \$5.5 million as at December 31, 2016, compared to \$3.6 million as at December 31, 2015. We had long-term liabilities relating to hedging derivatives of \$0.9 million as at December 31, 2016, compared to \$0.7 million as at December 31, 2015.

Account payables and accrued expenses were \$45.1 million as at December 31, 2016, compared to \$182.1 million as at December 31, 2015. The decrease was primarily due to payments, including the payment of \$40.7 million pursuant to guarantees for which we had recognized a provision of equal amount in 2015, and the deconsolidation of former subsidiaries, which were sold in 2016.

Our short-term bank borrowings increased to \$95.4 million as at December 31, 2016, from \$52.9 million as at December 31, 2015, primarily as a result of the decrease in trade payables.

Total long-term debt decreased to \$116.8 million as at December 31, 2016, from \$259.0 million as at December 31, 2015, primarily as a result of long-term debt repayments and the reclassification of liabilities related to assets held for sale.

As at December 31, 2016, we had decommissioning obligations of \$13.2 million relating to our remaining 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 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, 2016, we had credit facilities aggregating \$430.0 million comprised of: (i) unsecured revolving credit facilities aggregating \$141.2 million from banks. The banks generally charge an interest rate of inter-bank rates plus an interest margin; (ii) revolving credit facilities aggregating \$64.6 million from banks for structured solutions, a special trade financing. The margin is negotiable when the facility is used; (iii) a non-recourse specially structured factoring arrangement with a bank for up to a credit limit of \$198.4 million for our merchant banking activities. We may factor our receivable accounts upon invoicing at the inter-bank rate plus a margin; and (iv) foreign exchange credit facilities of \$25.9 million with banks. All of these facilities are either renewable on a yearly basis or usable until further notice. A substantial portion of our credit facilities are denominated in Euros and, accordingly, such amounts may fluctuate when reported in Canadian dollars.

In 2016, 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, 2016, 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>
	(In thousands)		
2017	\$ 36,249	\$ 4,134	\$ 40,383
2018	29,731	2,860	32,591
2019	17,761	1,852	19,613
2020	19,536	1,044	20,580
2021	4,778	408	5,186
Thereafter	8,758	455	9,213
	<u>\$ 116,813</u>	<u>\$ 10,753</u>	<u>\$ 127,566</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.

Please refer to Note 16 to our audited consolidated financial statements for the year ended December 31, 2016 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 2016, we reported a net \$14.6 million currency translation adjustment loss under other comprehensive loss within equity. This compared to a net gain of \$79.5 million in 2015. This currency translation adjustment did not affect our profit and loss statement. The loss in 2016 was primarily a result of the strengthening of the Canadian dollar against the Euro and the United States dollar from 2015.

Contractual Obligations

The following table sets out our contractual obligations and commitments from continuing operations as at December 31, 2016 in connection with our long-term liabilities.

Contractual Obligations ⁽²⁾	Payments Due by Period ⁽¹⁾				Total
	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years	
Long-term debt obligations, including interest	\$ 40,383	\$ 52,204	\$ 25,766	\$ 9,213	\$ 127,566
Operating lease obligations	1,079	948	79	—	2,106
Purchase obligations	13,747	—	—	—	13,747
Other long-term liabilities	1,911	619	258	93	2,881
Total	\$ 57,120	\$ 53,771	\$ 26,103	\$ 9,306	\$ 146,300

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, 2016	September 30, 2016	June 30, 2016	March 31, 2016
			(Re-presented) ⁽¹⁾	(Re-presented) ⁽¹⁾
	(In thousands, except per share amounts)			
Gross revenues	\$ 186,719	\$ 257,421	\$ 329,935	\$ 357,582
Net loss from continuing operations ⁽²⁾	(16,698)	(7,968)	(636)	(61)
Loss from continuing operations, per share				
Basic	0.26	0.13	0.01	—
Diluted	0.26	0.13	0.01	—
Net loss ⁽²⁾	(16,698)	(7,968)	(636)	(61)
Loss, per share				
Basic	0.26	0.13	0.01	—
Diluted	0.26	0.13	0.01	—

Notes:

- (1) In connection with the reclassification of our mining interest and hydrocarbon properties to continuing operations in 2016, revenues, costs and expenses and income taxes have been re-presented for these periods.
(2) Attributable to our shareholders.

- (3) Includes a net non-cash reversal of \$8.6 million in connection with prior impairments on our hydrocarbon properties.

	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
	(Re-presented) ⁽¹⁾	(Re-presented) ⁽¹⁾	(Re-presented) ⁽¹⁾	(Re-presented) ⁽¹⁾
(In thousands, except per share amounts)				
Gross revenues	\$ 414,598	\$ 417,024	\$ 431,764	\$ 349,557
Net (loss) income from continuing operations ⁽²⁾	(48,446) ⁽³⁾	(208,119) ⁽⁴⁾	4,586	5,398
(Loss) earnings from continuing operations, per share				
Basic	(0.77)	(3.30)	0.07	0.09
Diluted	(0.77)	(3.30)	0.07	0.09
Net (loss) income ⁽²⁾	(111,807) ⁽³⁾	(392,208) ⁽⁴⁾⁽⁵⁾	8,548	7,836
(Loss) earnings, per share				
Basic	(1.77)	(6.51)	0.14	0.12
Diluted	(1.77)	(6.51)	0.14	0.12

Notes:

- (1) In connection with the reclassification of our mining interest and hydrocarbon properties to continuing operations in 2016, revenues, costs and expenses and income taxes have been re-presented for these periods.
- (2) Attributable to our shareholders.
- (3) Includes losses of \$51.4 million related to a customer that filed for insolvency in February 2016 (please see “Results of Operations” for further information), \$9.9 million on long-term off-take agreements entered into by a subsidiary acquired in 2014, which have since been terminated, and the reversal of non-cash impairment losses of \$30.0 million and recognition of a deferred tax liability of \$7.8 million in connection with our mining interest.
- (4) Includes non-cash impairments of \$265.9 million, consisting of \$47.7 million and \$218.2 million on our hydrocarbon properties and mining interest, respectively, before an income tax recovery of \$54.3 million recognized on mining interest.
- (5) Includes a non-cash impairment of interests in resource properties of \$123.3 million before a reduction of deferred tax assets of \$50.9 million.

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 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, 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 expects to complete the assessment of IFRS 9 on our consolidated financial statements before the end of the third quarter of 2017.

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 was issued in May 2014. In September 2015, the IASB deferred the effective date of IFRS 15 to annual reporting periods beginning on or after January 1, 2018. Our management expects to complete the assessment of the impacts of IFRS 15 on our consolidated financial statements before the end of the third quarter of 2017.

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 under a single model 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 is currently assessing the impacts of IFRS 16 on our consolidated financial statements.

Amendments to IAS 7, *Statement of Cash Flows*, were issued in January 2016 and require that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. The IASB defines liabilities arising from financing activities as liabilities "for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities". The new disclosure requirements also relate to changes in financial assets if they meet

the same definition. Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities. The amendments are effective for annual periods beginning on or after January 1, 2017 on a prospective basis. Our management expects that additional disclosures will be required.

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, 2016, we had unrecorded contingent liabilities of \$28.8 million 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 Articles or with the provisions of the *Business Corporations Act* (British Columbia). The following table sets forth the names of each of our directors and officers as at the date hereof:

<u>Name (Age)</u>	<u>Present Position</u>	<u>Date of Commencement of Office with our Company</u>
Michael J. Smith (68) ⁽¹⁾	Chairman, Managing Director, President, Chief Executive Officer and Director	1986
Samuel Morrow (32)	Deputy Chief Executive Officer and Chief Financial Officer	2014
Ferdinand Steinbauer (60)	Treasurer	2014
Dr. Shuming Zhao (64) ⁽²⁾⁽³⁾⁽⁴⁾	Director	2014
Indrajit Chatterjee (71) ⁽²⁾⁽⁴⁾	Director	2005
Silke S. Stenger (48) ⁽²⁾⁽³⁾⁽⁴⁾	Director	2013
Gerardo Cortina (61) ⁽⁵⁾⁽⁶⁾	Vice President and Director	2014
Friedrich Hondl (56) ⁽³⁾⁽⁶⁾	Director	2015
Jochen Dümmler (62) ⁽²⁾⁽³⁾⁽⁶⁾⁽⁷⁾	Director	2016

Notes:

- (1) Mr. Smith was appointed Chairman in March 2016 and President and Chief Executive Officer in March 2017.
- (2) Member of our Compensation Committee.
- (3) Member of our Audit Committee.
- (4) Member of our Nominating and Corporate Governance Committee.
- (5) Mr. Cortina resigned as President and Chief Executive Officer in March 2017.
- (6) Member of our Risk Committee.
- (7) Mr. Dümmler was appointed a director in January 2016.

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

Mr. Smith has been a director of our company since 1986, was appointed Chairman in March 2016 and was appointed President and Chief Executive Officer in March 2017. Mr. Smith was appointed our Managing Director in May 2014, having served as our President and Chief Executive Officer from 1996 to 2000 and from 2010 to May 2014 and Chief Financial Officer from 2010 to March 2014. He was our Secretary until March 1, 2008. Mr. Smith was also previously the President, Chief Executive Officer, Secretary and a director of Mass Financial Corp. and has served as a director and officer of various public companies. Mr. Smith has experience in corporate finance and restructuring.

Samuel Morrow – Deputy Chief Executive Officer and Chief Financial Officer

Mr. Morrow was appointed Chief Financial Officer in June 2014 and was appointed Deputy Chief Executive Officer in May 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.

Ferdinand Steinbauer – Treasurer

Mr. Steinbauer was appointed Treasurer in March 2014. He is currently also a Managing Director of MFC Commodities GmbH and has held that position since 1998. Previously he served as Treasurer for 20 years with KNP Leykam Austria (later acquired by SAPPI). Mr. Steinbauer holds a degree from the Austrian Commercial Academy in Graz and has over 35 years of experience in banking, structured trade finance and risk management.

Dr. Shuming Zhao – Director

Dr. Zhao was a director of our company from 2004 until December 2013 and was re-appointed to the board of directors in March 2014. Dr. Zhao is the Chair Professor and Honorary Dean of the School of Business, Nanjing University in the People's Republic of China. He also serves as President of the International Association of Chinese Management Research (IACMR, Third Term), Vice-President of Chinese Society of Management Modernization, President of the Jiangsu Provincial Association of Human Resource Management and Vice-President of the Jiangsu Provincial Association of Business Management and Entrepreneurs. Since 1994, Dr. Zhao has acted as a management consultant for several Chinese and international firms. He has also served as a director of Daqo New Energy Corp. (China) since October 2011 and was a director of Little Swan Company, Ltd. (China) from 2009 to 2014. Dr. Zhao has successfully organized and held eight international symposia on multinational business management. Dr. Zhao worked as a visiting professor at Marshall School of Business, University of Southern California, U.S.A. in 1997 to 2003. Now he is the Distinguished Visiting Professor at the College of Business, University of Missouri-St. Louis, U.S.A. and the Distinguished Visiting Professor at the Katz Graduate School of Business, University of Pittsburgh, U.S.A. He has also lectured in various countries, including the United States, Canada, Japan, Singapore, South Korea, the United Kingdom, Germany, the Netherlands, Portugal and Australia.

Indrajit Chatterjee – Director

Mr. Chatterjee has been a director of our company since 2005. He is a retired businessman who was formerly responsible for marketing with the Transportation Systems Division of General Electric for India. Mr. Chatterjee is experienced in dealing with Indian governmental issues.

Silke S. Stenger – Director

Ms. Stenger has been a director of our company since August 2013. She is an independent business consultant and business leadership coach, was a director of our company when our company was KHD Humboldt Wedag International Ltd. from 2003 to 2010 and was a director of KHD Humboldt Wedag International AG from 2010 to 2012. Ms. Stenger was the Chief Financial Officer of Management One Human Capital Consultants Ltd. from 2006 to 2011. Ms. Stenger is a certified controller (German Chamber of Commerce IHK) and IFRS accountant, specializing in corporate governance and Sarbanes-Oxley compliance.

Gerardo Cortina – Vice President and Director

Mr. Cortina resigned as our President and Chief Executive Officer in March 2017, having served in such position since May 2014. Mr. Cortina was managing director of Possehl Mexico S.A. de C.V., referred to as "Possehl", from 1986 until June 2014. Possehl has been active in trading and distribution of metals, mineral products, chemicals and ferroalloys to the iron and steel, foundry, refractory, plastics, paints, animal feed and chemicals industries. Mr. Cortina has successfully developed export markets in Central America, the Caribbean and South America. Mr. Cortina has a Master of Business Administration from the Wharton School of Business at the University of Pennsylvania.

Friedrich Hondl – Director

Mr. Hondl has been a director of our company since October 2015. He is an experienced European banking executive and former member of the Supervisory Board of Oesterreichische Kontrollbank AG, the Austrian Export Credit Agency. From 2013 to 2015, Mr. Hondl was the head of Erste Group Bank AG's Large Corporates International Division and, from 2009 to 2012, he was the head of International Corporate Relationship Management of UniCredit Bank Austria AG. Mr. Hondl has also served as Chairman of the Supervisory Board of Intermarket Bank AG since 2014.

Jochen Dümler – Director

Mr. Dümler has been a director of our company since January 2016. He was the former President and Chief Executive Officer of Euler Hermes North America. From 2002 to 2010, Mr. Dümler 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. Dümler 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.



Family Relationships

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

B. Compensation

During the fiscal year ended December 31, 2016, we paid an aggregate of approximately \$3.1 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, 2016 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, 2016 to our President and Chief Executive Officer, Chief Financial Officer and each of our two most highly compensated executive officers (or persons acting in a similar capacity) whose total compensation for the fiscal year exceeded \$150,000:

Name and Principal Position	Salary (\$)	Share- based awards (\$)	Option- based awards (\$)	Non-equity incentive compensation plan compensation (\$) ⁽¹⁾		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 ⁽²⁾	609,593	—	—	—	—	—	(3) 290,055	899,648
Samuel Morrow Chief Financial Officer and Deputy Chief Executive Officer	377,801	—	—	—	—	—	(4) 15,468	393,269
Gerardo Cortina ⁽⁵⁾ Former President and Chief Executive Officer	859,842	—	—	—	—	—	(6) 142,866	1,002,708
Ferdinand Steinbauer Treasurer	578,475	—	—	—	—	—	—	578,475
Roland Schulien Senior Vice President Finance, Europe	221,187	—	—	—	—	—	—	221,187

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 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) Consists of medical and other customary perquisites.
- (5) Mr. Cortina resigned as our President and Chief Executive Officer in March 2017.
- (6) Consists of housing allowances and expenses.

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, 2016.

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 ⁽¹⁾	—	—	—	—	—	—	—
Gerardo Cortina ⁽²⁾	—	—	—	—	—	—	—
Dr. Shuming Zhao	110,092	—	—	—	—	—	110,092
Indrajit Chatterjee	103,428	—	—	—	—	—	103,428
Silke S. Stenger	158,207	—	—	—	—	—	158,207
Friedrich Hondl	207,295	—	—	—	—	—	207,295
Jochen Dümler ⁽⁴⁾	146,390	—	—	—	—	—	146,390

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 is disclosed in the table above under the heading "Executive Officers".
- (3) Includes \$91,625 paid to, or earned by, Mr. Hondl during the year ended December 31, 2016 in connection with a retainer and meeting and committee fees relating to his acting as a director and board committee member for our regulated Bank subsidiary.
- (4) Mr. Dümler was appointed as a director in January 2016.

A total of \$0.7 million 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, 2016, we did not have any defined benefit, defined contribution or deferred compensation plans for any of our senior officers or directors.

C. Board Practices

Each of our directors now holds office until the close of 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 Articles or with the provisions of the *Business Corporations Act* (British Columbia).

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.

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 Dümler. The Audit Committee operates pursuant to a charter adopted by the board of directors on October 26, 2013, a copy of which is available online at our website at www.mfcbancoptd.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 Dümler. Our Compensation Committee operates pursuant to a charter adopted by the board of directors on October 26, 2013, a copy of which is available online at our website at 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 October 26, 2013, a copy of which is available online at our website at 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 Dümler, Friedrich Hondl and Gerardo Cortina. The Risk Committee reviews and reports to our board of directors respecting our business risks and risk mitigation strategies.

D. Employees

At December 31, 2016, 2015 and 2014, we employed approximately 448, 651 and 809 people, respectively. Included in the 448 employees as at December 31, 2016 were more than 50 employees who have been given notice of termination of their employment contracts.

E. Share Ownership

There were 62,692,272 common shares, 200,000 stock options and no share purchase warrants issued and outstanding as of March 30, 2017. 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, 2016, 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 ⁽¹⁾	545,337	0.9	—
Dr. Shuming Zhao Director	—	—	—
Indrajit Chatterjee Director	—	—	—
Silke S. Stenger Director	—	—	—
Friedrich Hondl Director	—	—	—
Jochen Dümler Director	—	—	—

Name and principal position	Common shares beneficially owned (#)	Percentage of total common shares outstanding (%)	Stock options held (#)
Gerardo Cortina Vice-President and Director and former President and Chief Executive Officer	109,820	0.2	—
Samuel Morrow Deputy Chief Executive Officer and Chief Financial Officer	42,390	—*	100,000 ⁽²⁾
Ferdinand Steinbauer Treasurer	306,726	0.5	—
Roland Schulien Senior Vice President Finance, Europe	—	—	—

Notes:

- (1) Mr. Smith was appointed Chairman in March 2016 and President and Chief Executive Officer in March 2017.
(2) The options are exercisable at a price of US\$8.01 per common share and expire on April 2, 2019.
* Less than 0.1%.

2014 Equity Incentive Plan

At our annual and special meeting of our shareholders held in November 2014, our shareholders passed a resolution approving our 2014 Plan to further align the interests of employees and directors with those of our shareholders by providing incentive compensation opportunities tied to the performance of our common shares and promoting increased ownership of our common shares by such individuals. The 2014 Plan replaced our 1997 Stock Option Plan and our 2008 Incentive Plan and any plans emanating or deriving therefrom, collectively referred to as the “Prior Plans”; provided, however, that each applicable Prior Plan will continue to govern prior awards granted under such Prior Plan until all awards granted under such Prior Plan prior to November 14, 2014 have been exercised, forfeited, cancelled, expired or otherwise terminated in accordance with the terms thereof.

Pursuant to the terms of the 2014 Plan, our board of directors, our Compensation Committee or such other committee as is appointed by our board of directors to administer the 2014 Plan, may grant stock options, restricted stock rights, restricted stock, performance share awards, performance share units and stock appreciation rights under the 2014 Plan, establish the terms and conditions for those awards, construe and interpret the 2014 Plan and establish the rules for the 2014 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.

The maximum number of our common shares that may be issuable pursuant to all awards granted under the 2014 Plan is 2,877,018 common shares, being 2,000,000 plus the number of common shares available for awards under the Prior Plans as of the effective date of the 2014 Plan. Notwithstanding the foregoing, the maximum number of shares that may be issued as incentive stock options under the 2014 Plan is 2,000,000. Forfeited, cancelled, returned and lapsed awards are not counted against the 2,000,000 common shares. Any awards granted under the 2014 Plan, or portions thereof, that are settled in cash and not by issuance of our common shares are not counted against the foregoing limits. No awards had been issued pursuant to the 2014 Plan as at December 31, 2016. There were no awards available for grant under the 2014 Plan as at December 31, 2016.

As at December 31, 2016, no awards were outstanding under our 1997 Stock Option Plan and 200,000 stock options were outstanding under our 2008 Incentive Plan.

ITEM 7: MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**A. Major Shareholders**

There were 62,692,272 common shares issued and outstanding as of March 30, 2017. 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:

<u>Name</u>	<u>Amount Owned</u>	<u>Percent of Class⁽¹⁾</u>
Peter Kellogg	20,662,400 ⁽²⁾	33.0
Lloyd I. Miller, III	8,016,640 ⁽³⁾	12.8

Notes:

- (1) Based on 62,692,272 common shares issued and outstanding on March 30, 2017.
- (2) Mr. Kellogg controls 13,405,000 of our common shares through 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 1,200,000 common shares of our company owned by his wife, Cynthia Kellogg.
- (3) Mr. Miller controls such shares through a number of trusts and wholly-owned corporations. In his public filings, Mr. Miller discloses that he exercises sole dispositive and voting control over 7,458,953 of such shares and shared dispositive and voting control over 557,687 of such shares.

As of March 30, 2017, there were 62,692,272 common shares issued and outstanding held by 371 registered shareholders. Of those common shares issued and outstanding, 62,665,564 common shares were registered in the United States (333 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, 2016, 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 April 2014, we entered into a share purchase agreement, referred to as the "SPA", with Gerardo Cortina, our former President and Chief Executive Officer, whereby we acquired from him his 40% minority interest in a commodities trading subsidiary in Mexico. The purchase price under the SPA consisted of 509,820 of our common shares (which would be delivered upon occurrence of an event (as defined in the agreement), the latest being in 2025) and a contingent purchase price whereby 50,000 of our common shares would be issued to Mr. Cortina for each year from 2014 to 2025 if the commodities trading subsidiary achieved an annual net income milestone as computed under IFRS for the year. In June 2014, the share purchase agreement was amended whereby the 509,820 of our common shares were released to Mr. Cortina following the approval of the New York Stock Exchange, referred to as the "NYSE", (which was received in June 2014) and the contingent purchase price was reduced to be payable for each year from 2014 to 2024. All other terms remained unchanged. Mr. Cortina was appointed to our board of directors and as our

President and Chief Executive Officer in May 2014. The annual target was achieved for 2014. As a result, we issued 50,000 common shares to Mr. Cortina in the first half of 2015. The SPA was terminated and Mr. Cortina resigned as our President and Chief Executive Officer in March 2017. In the first quarter of 2017, we also completed the sale of the aforementioned commodities trading subsidiary to a company controlled by Mr. Cortina. See “*Item 4: Information on the Company – B. Business Overview – Recent Developments*” for further information.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8: FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

Effective January 1, 2010, we adopted IFRS following approval from the Canadian Securities Administrators under National Instrument 52-107 – *Acceptable Accounting Principles and Auditing Standards*. The consolidated financial statements have been prepared in compliance with IFRS. 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 a currently ongoing audit by the Canadian taxation authority of our domestic and international transactions covering the years ended December 31, 2006 to April 19, 2013 and a provincial reassessment received by a predecessor company in November 2016. 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, 2016 for further information.

Dividend Distributions

We did not declare or pay any dividends to our shareholders in 2016. 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

Please refer to “*Item 4: Information on the Company – A. History and Development of the Company*” and Note 32 of our annual financial statements included herewith for a discussion of significant events that have occurred after December 31, 2016.

ITEM 9: THE OFFER AND LISTING**A. Offer and Listing Details**

Since June 18, 2007, our common shares have been quoted on 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.

	<u>High (US\$)</u>	<u>Low (US\$)</u>
Annual Highs and Lows		
2016	2.50	1.56
2015	7.11	1.50
2014	8.25	5.20
2013	10.39	7.25
2012	8.80	6.65
Quarterly Highs and Lows		
2017		
First Quarter	2.27	1.78
2016		
Fourth Quarter	2.26	1.98
Third Quarter	2.43	1.66
Second Quarter	2.34	1.56
First Quarter	2.50	1.71
2015		
Fourth Quarter	3.32	1.50
Third Quarter	4.15	2.79
Second Quarter	5.04	3.85
First Quarter	7.11	3.61
Monthly Highs and Lows		
March 2017 ⁽¹⁾	2.03	1.66
February 2017	2.24	1.96
January 2017	2.27	1.98
December 2016	2.26	1.85
November 2016	2.18	1.66

Note:

(1) Until March 30, 2017.

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 organized under the laws of the Province of British Columbia, Canada and have been assigned the number BC0778539.

Our Articles do not contain a description of our objects and purposes.

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. 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 authorized capital consists of an unlimited number of common shares without par value, an unlimited number of Class A common shares without par value and an unlimited number of Class A preferred shares without par value. Our Class A preferred shares may be issued in one or more series and our directors may fix the number of shares that is to comprise each series and designate the rights, privileges, restrictions and conditions attaching to each series.

Holders of our common shares may receive dividends when, as and if declared by the board, subject to the preferential dividend rights of any other classes or series of preferred shares issued and outstanding. In no event may a dividend be declared or paid on the common shares if payment of the dividend would cause the realizable value of the assets of our company to be less than the aggregate of its liabilities. Holders of our common shares are entitled to one vote per share at any meeting of shareholders of any class of common shares and, 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. The common shareholders are entitled, in the event of a distribution of assets of our company on the liquidation, dissolution or winding-up of our company, referred to as a "Liquidation Distribution", to receive, before any Liquidation Distribution is made to the holders of the Class A common shares or any other shares of our company ranking junior to the common shares, but after any prior rights of any of our preferred shares, the stated capital with respect to each common share held by them, together with all declared and unpaid dividends (if any and if preferential) thereon, up to the date of such Liquidation Distribution, and thereafter the common shares shall rank *pari passu* with all other classes of our common shares in connection with the Liquidation Distribution.

The rights and restrictions attaching to our Class A common shares are the same as those attaching to our common shares, except that, in the event of a Liquidation Distribution, the holders of the Class A common shares are entitled to receive such Liquidation Distribution only after any prior rights of the preferred shares and common shares or any other share ranking prior in right to the Class A common shares.

Our Class A preferred shares of each series rank on a parity with our Class A preferred shares of any other series and are entitled to a preference over our common shares with respect to the payment of dividends and the distribution of assets or return of capital in the event of liquidation, dissolution or winding-up of our company.

The provisions in our Articles attaching to our common shares and Class A preferred shares may be altered, amended, repealed, suspended or changed by the affirmative vote of the holders of not less than two-thirds of the common shares and two-thirds of the Class A preferred shares, respectively, present in person or by proxy at any such meeting of holders.

Our Articles provide for the election of directors at each annual general meeting. Each director holds office until the next annual general meeting of our shareholders or until his successor is elected or appointed, unless his office is earlier vacated in accordance with our Articles or with the provisions of the *Business Corporations Act* (British Columbia).

An annual meeting of shareholders must be held at such time in each year that is not later than fifteen months after the last preceding annual meeting and at such place as our board of directors, or failing it, our Chairman, Managing Director or President, may from time to time determine. The holders of not less than five percent of our issued shares that carry the right to vote at a meeting may requisition our directors to



call a meeting of shareholders for the purposes stated in the requisition. The quorum for the transaction of business at any meeting of shareholders is two persons who are entitled to vote at the meeting in person or by proxy. Only persons entitled to vote, our directors and auditors and others who, although not entitled to vote, are otherwise entitled or required to be present, are entitled to be present at a meeting of shareholders.

Except as provided in the *Investment Canada Act*, there are no limitations specific to the rights of non-Canadians to hold or vote our common shares under the laws of Canada or British Columbia, or in our charter documents. See “D. Exchange Controls” below for a discussion of the principal features of the *Investment Canada Act* for non-Canadian residents proposing to acquire our common shares.

As set forth above, our Articles contain certain provisions that would have an effect of delaying, deferring or preventing a change in control of our company, including authorizing the issuance by our board of directors of preferred stock in series, and limiting the persons who may call special meetings of shareholders. Our Articles do not contain any provisions that would operate only with respect to a merger, acquisition or corporate restructuring of our company. In addition, on November 18, 2013, we adopted an advance notice policy, which, among other things, fixes 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. 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.

Our Articles do not contain any provisions governing the ownership threshold above which shareholder ownership must be disclosed.

Our Articles are not significantly different from the requirements of the *Business Corporations Act* (British Columbia) and the conditions imposed by our Articles governing changes in capital are not more stringent than what is required by the *Business Corporations Act* (British Columbia).

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 presently no governmental laws, decrees or regulations in Canada that restrict the export or import of capital or that impose foreign exchange controls or affect the remittance of interest, dividends or other payments to non-resident holders of our common shares. However, any remittances of dividends to shareholders not resident in Canada are subject to withholding tax in Canada. See “E. Taxation”.

Except as provided in the *Investment Canada Act*, there are no limitations specific to the rights of non-Canadians to hold or vote our common shares under the laws of Canada or British Columbia or in our charter documents. The following summarizes the principal features of the *Investment Canada Act* for non-Canadian residents proposing to acquire our common shares.

This summary is of a general nature only and is not intended to be, and should not be construed to be, legal advice to any holder or prospective holder of our common shares and no opinion or representation to any holder or prospective holder of our common shares is hereby made. Accordingly, holders and prospective holders of our common shares should consult with their own legal advisors with respect to the consequences of purchasing and owning our common shares.

The *Investment Canada Act* governs the direct or indirect acquisition of control of an existing Canadian business by non-Canadians. Under the *Investment Canada Act*, non-Canadian persons or entities acquiring “control” (as defined in the *Investment Canada Act*) of a corporation carrying on business in Canada are required to either notify, or file an application for review with, Industry Canada, unless a specific exemption, as set out in the *Investment Canada Act*, applies. Industry Canada may review any transaction that results in the direct or indirect acquisition of control of a Canadian business, where the enterprise value of corporate assets exceeds certain threshold levels (which are higher for investors from members of the World Trade Organization, including United States residents, or World Trade Organization

member-controlled companies) or where the activity of the business is related to Canada's cultural heritage or national identity. For such purpose, enterprise value is calculated as follows: (i) in the case of a publicly traded Canadian business, as the company's market capitalization, plus its non-operating liabilities, minus its cash and cash equivalents; (ii) in the case of a non-publicly traded Canadian business, as the acquisition value, plus the company's non-operating liabilities, minus its cash and cash equivalents; and (iii) in the case of an asset acquisition, as the purchase price, plus the assumed non-operating liabilities, minus the transferred cash and cash equivalents.

No acquisition of control will be deemed to have occurred, for purposes of the *Investment Canada Act* but subject to certain exceptions, if less than one-third of the voting shares of a Canadian corporation is acquired by an investor. In addition, the *Investment Canada Act* permits the Canadian government to review any investment where the responsible Minister has reasonable grounds to believe that an investment by a non-Canadian could be injurious to national security or where the responsible Minister determines there has been an acquisition of control in fact by a state-owned enterprise. No financial threshold applies to a national security review and a lower financial threshold based on book value of assets applies to direct acquisitions by state-owned enterprises. The Minister may deny the investment, ask for undertakings, provide terms or conditions for the investment or, where the investment has already been made, require divestment. Review can occur before or after closing and may apply to corporate re-organizations where there is no change in ultimate control.

If an investment is reviewable under the *Investment Canada Act*, an application for review in the form prescribed is normally required to be filed with Industry Canada prior to the investment taking place and the investment may not be implemented until the review has been completed and the Minister responsible for the *Investment Canada Act* is satisfied that the investment is likely to be of net benefit to Canada. If the Minister is not satisfied that the investment is likely to be of net benefit to Canada, the non-Canadian applicant must not implement the investment or, if the investment has been implemented, the applicant may be required to divest itself of control of the Canadian business that is the subject of the investment. The Minister is required to provide reasons for a decision that an investment is not of net benefit to Canada.

Certain transactions relating to our common shares will generally be exempt from the *Investment Canada Act*, subject to the Minister's prerogative to conduct a national security review, including:

- (a) the acquisition of our common shares by a person in the ordinary course of that person's business as a trader or dealer in securities;
- (b) the acquisition of control of our company in connection with the realization of security granted for a loan or other financial assistance and not for a purpose related to the provisions of the *Investment Canada Act*, provided such acquisitions are subject to approval under the *Bank Act*, the *Cooperative Credit Associations Act*, the *Insurance Companies Act* or the *Trust and Loan Companies Act*; and
- (c) the acquisition of control of our company by reason of an amalgamation, merger, consolidation or corporate reorganization, following which the ultimate direct or indirect control in fact of our company, through ownership of our common shares, remains unchanged.

An acquisition of control of our company in connection with the realization of security granted for a loan or other financial assistance and not for a purpose related to the provisions of the *Investment Canada Act* will not be reviewable under the *Investment Canada Act* if the acquisition is not subject to approval under the *Bank Act*, the *Cooperative Credit Associations Act*, the *Insurance Companies Act* or the *Trust and Loan Companies Act*.

E. Taxation

Material Canadian Federal Income Tax Consequences

The discussion under this heading is a general summary of the principal Canadian federal income tax consequences pursuant to the *Income Tax Act* (Canada), referred to as the "Tax Act", of holding and disposing of our common shares for a shareholder of our Company who, at all relevant times and for purposes of the Tax Act holds such common shares as capital property, deals at arm's length with the Company, is not affiliated with the Company and, for purposes of the Tax Act, is not, and is not deemed to be, a resident of Canada and has not and will not use or hold or be deemed to use or hold the common



shares in or in the course of carrying on business in Canada, referred to as a “Non-Resident Holder”. Special rules, which are not discussed below, may apply to an authorized foreign bank, or a non-resident of Canada that is an insurer which carries on business in Canada and elsewhere. Such Non-Resident Holders should consult their own tax advisors.

Our common shares will generally be considered capital property to a Non-Resident Holder unless either (i) the Non-Resident Holder holds the common shares in the course of carrying on a business of buying and selling securities or (ii) the Non-Resident Holder has acquired the common shares in a transaction or transactions considered to be an adventure in the nature of trade.

The term “U.S. Shareholder,” for the purposes of this section, means a Non-Resident Holder who, for purposes of the *Canada-United States Tax Convention* (1980) as amended, referred to as the “Convention”, is at all relevant times a resident of the United States and is a “qualifying person”, within the meaning of the Convention, entitled to all benefits of the Convention. In some circumstances, income or gains earned by fiscally transparent entities (including limited liability companies) will be eligible for benefits under the Convention. U.S. Shareholders are urged to consult with their own tax advisors to determine their entitlement to benefits under the Convention based on their particular circumstances.

This summary is based upon the current provisions of the Tax Act and the regulations thereunder, referred to as the “Regulations”, in force as of the date hereof, the current publicly announced administrative and assessing policies of the Canada Revenue Agency, referred to as the “CRA”, and the Convention. This summary also takes into account the amendments to the Tax Act and the Regulations publicly announced by the Minister of Finance (Canada) prior to the date hereof, referred to as the “Tax Proposals”, and assumes that all such Tax Proposals will be enacted in their present form. However, no assurances can be given that the Tax Proposals will be enacted in the form proposed, or at all. This summary is not exhaustive of all possible Canadian Federal income tax consequences applicable to a holder of our common shares and, except for the foregoing, this summary does not take into account or anticipate any changes in law, whether by legislative, administrative or judicial decision or action, nor does it take into account provincial, territorial or foreign income tax legislation or considerations, which may differ from the Canadian Federal income tax consequences described herein.

This summary is of a general nature only, is not exhaustive of all possible Canadian federal income tax considerations and is not intended to be, and should not be construed to be, legal, business or tax advice to any particular holder or prospective holder of our common shares and no opinion or representation with respect to the tax consequences to any holder or prospective holder of our common shares is hereby made. Accordingly, holders and prospective holders of our common shares should consult their own tax advisors with respect to the income tax consequences of purchasing, owning and disposing of our common shares in their particular circumstances.

Currency Conversion

Subject to certain exceptions that are not discussed in this summary, all amounts relevant to computing a Non-Resident Holder’s liability for tax (including dividends, adjusted cost base, and proceeds of disposition) under the Tax Act must, for the purposes of the Tax Act, be determined in Canadian dollars based on the rate quoted by the Bank of Canada for the applicable day or such other rate that is acceptable to the CRA. The amount of any dividend required to be included in a Non-Resident Holder’s income, or any capital gain or capital loss realized by a Non-Resident Holder, may be affected by fluctuations in the Canadian dollar against other currencies.

Dividends

Under the Tax Act, dividends on common shares paid or credited to a Non-Resident Holder will be subject to Canadian withholding tax at the rate of 25% of the gross amount of the dividends. This withholding tax may be reduced pursuant to the terms of an applicable income tax treaty or convention between Canada and the country of residence of a Non-Resident Holder. Under the Convention, a U.S. Shareholder will generally be subject to Canadian withholding tax at a rate of 15% of the amount of such dividends. The rate may be further reduced to 5% where the U.S. Shareholder is a corporation that owns (or is considered to own) at least 10% of our voting shares. In addition, under the Convention, dividends may be exempt from Canadian non-resident withholding tax if paid to certain U.S. Shareholders that are qualifying religious, scientific, literary, educational or charitable tax-exempt organizations and qualifying trusts, companies, organizations or arrangements operated exclusively to administer or provide pension, retirement or employee benefits that are exempt from tax in the United States and that have complied with specific administrative procedures.



Capital Gains

A Non-Resident Holder will not be subject to tax under the Tax Act on any capital gain realized on a disposition of our common shares unless the common shares constitute “taxable Canadian property”, as defined in the Tax Act, of the holder at the time of the disposition and such gain is not otherwise exempt from tax under the Tax Act pursuant to the provisions of an applicable income tax convention.

Generally, a common share of our company will not be taxable Canadian property to a Non-Resident Holder at a particular time provided that such share is listed on a “designated stock exchange” (which currently includes the NYSE), as defined in the Tax Act, unless at any time during the 60-month period immediately preceding the disposition (i) the Non-Resident Holder, persons with whom the Non-Resident Holder did not deal at arm’s length, partnerships in which the Non-Resident Holder or such persons hold a membership interest (directly or indirectly through one or more partnerships) or the Non-Resident Holder together with all such persons or partnerships owned 25% or more of the issued shares of any class or series of shares of our capital stock and (ii) more than 50% of the fair market value of the particular share was derived directly or indirectly from one or any combination of real or immovable property situated in Canada, “Canadian resource property”, as defined in the Tax Act, “timber resource property”, as defined in the Tax Act, and options in respect of, or interests in, or for civil law rights in, any such properties (whether or not such property exists). Notwithstanding the foregoing, in certain circumstances set out in the Tax Act, our common shares could be deemed to be taxable Canadian property to a non-resident holder. Non-Resident Holders, whose shares may constitute taxable Canadian property, should consult their own tax advisors for advice having regard to their particular circumstances.

Even if a common share is taxable Canadian property to a Non-Resident Holder, a taxable capital gain or an allowable capital loss resulting from the disposition of the share will not be included in computing the Non-Resident Holder’s taxable income for purposes of the Tax Act, provided that the share constitutes “treaty-protected property” of such shareholder. Common shares owned by a U.S. Shareholder generally will be treaty-protected property if the gain from the disposition of such share would, because of the Convention, be exempt from tax under the Tax Act. Non-Resident Holders whose shares may constitute taxable Canadian property or treaty-protected property should consult their own tax advisors for advice having regard to their particular circumstances.

If a Non-Resident Holder realizes a capital gain or capital loss from a disposition of a common share of our capital stock which constitutes taxable Canadian property and not treaty-protected property for purposes of the Tax Act, then the capital gain or capital loss is the amount, if any, by which the Non-Resident Holder’s proceeds of disposition exceed (or are exceeded by, respectively) the aggregate of the Non-Resident Holder’s adjusted cost base of the share and reasonable expenses of disposition as determined under the Tax Act. The capital gain or loss must be computed in Canadian currency using a weighted average adjusted cost base for identical properties. Generally, one-half of a capital gain (“taxable capital gain”) is included in income for Canadian tax purposes in the year of the disposition, and one-half of a capital loss (“an allowable capital loss”) must be deducted from taxable capital gains realized by the Non-Resident Holder in that year. Allowable capital losses in excess of taxable capital gains for that year may generally be carried back three years or forward indefinitely and deducted against net taxable capital gains in those years, in the manner permitted under the Tax Act. Reporting and filing requirements will also arise. Such a Non-Resident Holder should consult its own tax advisors.

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. See “*Material Canadian Federal Income Tax Consequences*” above.

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, local and foreign 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 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, Canadian 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 28%) 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 the offices of Sangra Moller LLP, 1000 Cathedral Place, 925 West Georgia Street, Vancouver, British Columbia, Canada.

I. Subsidiary Information

For a list of our significant wholly-owned direct and indirect subsidiaries and significant non-wholly-owned subsidiaries, 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, 2016, 2015 and 2014 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, 2016.

ITEM 12: DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13: DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

A. Modifications to Rights of Security Holders

Advance Notice Policy

At our Annual General and Special Meeting held on December 27, 2013, our shareholders approved a resolution affirming, ratifying and approving our company's advance notice policy, referred to as the "Advance Notice Policy". The Advance Notice Policy, among other things, fixes a deadline by which director nominations must be submitted to us prior to any meeting of our shareholders and sets forth the information that must be included in the notice in order for a nominee to be eligible for election. No person will be eligible for election as a director of our company unless nominated in accordance with the Advance Notice Policy.

In the case of an annual meeting, notice to us must be given no less than 30 and no 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 to us must be made 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.

The foregoing summary of the Advance Notice Policy is not complete and is qualified in its entirety by reference to the full text of the Advance Notice Policy, a copy of which was filed as Exhibit 1.4 of our annual report on Form 20-F filed with the Securities and Exchange Commission, referred to as the "SEC", on March 31, 2014.

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, 2016. 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, 2016. 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, 2016, our internal control over financial reporting was effective.

The effectiveness of our company's internal control over financial reporting as of December 31, 2016 has been audited by our independent registered chartered accountants, PricewaterhouseCoopers LLP, who also audited our consolidated financial statements for the year ended December 31, 2016. PricewaterhouseCoopers LLP has expressed an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2016. Their report is included in this annual report on Form 20-F.

Acquired Business

As described in this annual report on Form 20-F, in the first quarter of 2016, we acquired the Bank, which has been excluded from management's report on internal control over financial reporting as there was not sufficient time to complete an assessment of the internal controls of such business between the date of the acquisition and the date of management's assessment of internal controls. We consolidated the Bank from February 1, 2016 and it represents 5.0% of our total assets as of December 31, 2016 and approximately 0.2% of our gross revenues for 2016.

Changes in Internal Control over Financial Reporting

We maintain internal controls over financial reporting that have been designed to provide reasonable assurance of the reliability of external financial reporting in accordance with IFRS, as required by Canadian National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*.

As reported in our prior annual report on Form 20-F for the year ended December 31, 2015, our management previously concluded that, as of December 31, 2015, our internal controls over financial reporting were not effective due to material weaknesses identified, respecting design deficiencies relating to: (i) interpretations for complex accounting on contingent liabilities, collateral and risk mitigation assets stemming from structured trade finance transactions. Specifically, the insolvency of a customer subsequent to 2015 resulted in management having to evaluate and measure certain receivables and contingent liabilities as at December 31, 2015; and (ii) the determination of the presentation of revenue and costs of sales on a gross or net basis, which resulted in revenues and costs of sales being recast for prior periods. The internal controls over the assessment of these items and the related entity level controls were not sufficiently designed to address the risks of potential misstatement. These material weaknesses could have resulted in the overstatement of assets and understatement of credit losses in the consolidated financial statements as

at and for the year ended December 31, 2015 and resulted in the restatement of revenues and costs of sales for comparative periods. As these were identified prior to filing, they did not result in misstatements in the consolidated financial statements for the year ended December 31, 2015 or the current period.

Since identifying the material weaknesses described above, our management engaged in the implementation of remediation efforts to address same. Management responded to specific control deficiencies as they were identified and implemented remediation plans to address any issues, including: (i) enhancing the design and documentation of management review controls in order to enhance the precision at which management review controls operate; (ii) improving the documentation of internal control procedures; and (iii) enhancing the evaluation of revenue determinations. As a result of these remediation efforts, our management has determined that the above material weaknesses have been remediated.

Other than the remediation of control weaknesses previously identified, there were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2016 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 March 2014. 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 October 26, 2013, referred to as the “Code of Ethics”. Prior to the adoption of the Code of Ethics, our board of directors had previously adopted a written code of ethics on November 9, 2006 and a code of conduct. 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.

The Code of Ethics applies to all of our directors, officers and employees. The purpose of the Code of Ethics is to, among other things, promote honest and ethical behavior and conduct, including: (i) ethical handling of actual or apparent conflicts of interest between personal and professional relationships; (ii) full, fair, accurate, timely and understandable disclosure in all reports and documents that we file with, or submit to, the SEC, the Canadian securities regulatory authorities and in all other public communications made by us; (iii) compliance with applicable governmental laws, rules and regulations; (iv) prompt internal reporting of violations of the Code of Ethics to an appropriate person or the persons identified therein; and (v) accountability for adherence to the Code of Ethics.

There has been no conduct of any director or officer that would constitute a departure from the Code of Ethics, and therefore, no material change reports have been filed in this regard.



The foregoing summary of the Code of Ethics is not complete and is qualified in its entirety by reference to the full text of the Code of Ethics, a copy of which is available online at our website at www.mfcbancorppltd.com. A copy of the Code of Ethics was filed as Exhibit 11.1 of our annual report on Form 20-F for the year ended December 31, 2013.

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., Suite 1860 - 400 Burrard Street, Vancouver, British Columbia, Canada V6C 3A6.

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, 2016 by PricewaterhouseCoopers LLP were \$1,706,000 (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, 2015 by PricewaterhouseCoopers LLP were \$3,702,500 (before goods and services tax).

Audit-Related Fees

\$21,300 and \$27,500 were billed by PricewaterhouseCoopers LLP during the years ended December 31, 2016 and 2015 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, 2016, the aggregate fees billed for tax compliance, tax advice and tax planning by PricewaterhouseCoopers LLP were \$47,000 (before goods and services tax). For the fiscal year ended December 31, 2015, the aggregate fees for tax compliance, tax advice and tax planning by PricewaterhouseCoopers LLP were \$100,800 (before goods and services tax).

All Other Fees

During 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). For the fiscal year ended December 31, 2015, the aggregate fees billed by PricewaterhouseCoopers LLP for all services not related to audit or tax were \$148,700 (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, 2016 and 2015 by PricewaterhouseCoopers LLP and believes that the provision of the services for activities unrelated to the audit is compatible with maintaining the independence of PricewaterhouseCoopers LLP.

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 2016, 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

Not applicable.

ITEM 16G: CORPORATE GOVERNANCE

Shares of our common stock 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. See “*Item 18: Financial Statements*”.

ITEM 18: FINANCIAL STATEMENTS

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

1. Report of Independent Auditors, PricewaterhouseCoopers LLP, dated March 31, 2017 on the consolidated financial statements of our company for the years ended December 31, 2016 and 2015 and on the effectiveness of internal controls over financial reporting as at December 31, 2016	58
2. Consolidated statements of financial position as of December 31, 2016 and 2015	60
3. Consolidated statements of operations for the years ended December 31, 2016, 2015 and 2014	61
4. Consolidated statements of comprehensive income for the years ended December 31, 2016, 2015 and 2014	62
5. Consolidated statements of changes in equity for the years ended December 31, 2016, 2015 and 2014	63
6. Consolidated statements of cash flows for the years ended December 31, 2016, 2015 and 2014	65
7. Notes to consolidated financial statements as of December 31, 2016	66

Independent Auditor's Report

To the Shareholders of MFC Bancorp Ltd.

We have completed integrated audits of MFC Bancorp Ltd. and its subsidiaries' current year and prior years consolidated financial statements and their internal control over financial reporting as at December 31, 2016. Our opinions, based on our audits are 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 December 31, 2015 and the consolidated statements of operations, comprehensive (loss)/income, changes in equity and cash flows for each of the three 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 December 31, 2015 and their financial performance and their cash flows for each of the three years in the period ended December 31, 2016 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on internal control over financial reporting

We have also audited MFC Bancorp Ltd. and its subsidiaries' internal control over financial reporting as at December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's responsibility for internal control over financial reporting

Management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in Item 15 of the Annual Report on Form 20-F.

Auditor's responsibility

Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control, based on the assessed risk, and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our audit opinion on the company's internal control over financial reporting.

Definition of internal control over financial reporting

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

Inherent limitations

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

As described in Form 20-F, management has excluded MFC Merchant Bank Limited from its assessment of internal control over financial reporting as at December 31, 2016 because it was acquired by the Company in a purchase business combination during 2016. We have also excluded MFC Merchant Bank Limited from our audit of internal control over financial reporting. MFC Merchant Bank Limited is a wholly owned subsidiary whose total assets and total revenues represent 5.0% and 0.2%, respectively, of the related consolidated financial statement amounts as at and for the year ended December 31, 2016.

Opinion

In our opinion, MFC Bancorp Ltd. and its subsidiaries' maintained, in all material respects, effective internal control over financial reporting as at December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

/s/ "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Vancouver, BC
March 31, 2017

MFC BANCORP LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Canadian Dollars in Thousands)

	Notes	December 31, 2016	December 31, 2015
ASSETS			
Current Assets			
Cash and cash equivalents		\$ 120,676	\$ 197,519
Short-term cash deposits		182	233
Securities		5,018	170
Securities – derivatives		1,240	5,555
Restricted cash		—	639
Trade receivables	7	135,962	151,229
Tax receivables		11,743	11,705
Other receivables	8	35,251	14,727
Inventories	9	31,954	245,345
Real estate held for sale		1,066	1,130
Deposits, prepaid and other	10	12,195	21,442
Assets held for sale	5	45,667	136,156
Total current assets		400,954	785,850
Non-current Assets			
Securities		561	680
Securities – derivatives		—	171
Real estate held for sale		13,035	13,812
Investment property	11	35,663	37,873
Property, plant and equipment	12	99,443	95,745
Interests in resource properties	13	79,147	—
Deferred income tax assets	14	16,647	20,641
Other		4,072	21,912
Other, restricted		816	667
Total non-current assets		249,384	191,501
		<u>\$ 650,338</u>	<u>\$ 977,351</u>
LIABILITIES AND EQUITY			
Current Liabilities			
Short-term bank borrowings	15	\$ 95,416	\$ 52,864
Debt, current portion	16	36,249	84,705
Account payables and accrued expenses	17	45,114	182,051
Financial liabilities – derivatives		5,514	3,554
Income tax liabilities		2,486	3,809
Liabilities relating to assets held for sale	5	29,897	87,579
Total current liabilities		214,676	414,562
Long-term Liabilities			
Debt, less current portion	16	80,564	174,333
Financial liabilities – derivatives		940	682
Accrued pension obligations, net	18	3,259	4,061
Decommissioning obligations	19	13,219	—
Deferred income tax liabilities	14	7,353	13,711
Other		897	802
Total long-term liabilities		106,232	193,589
Total liabilities		320,908	608,151
Equity			
Capital stock, fully paid	20	419,916	419,916
Treasury stock	20	(61,085)	(61,085)
Contributed surplus		15,417	15,417
Deficit		(88,920)	(63,559)
Accumulated other comprehensive income		42,192	56,503
Shareholders' equity		327,520	367,192
Non-controlling interests		1,910	2,008
Total equity		329,430	369,200
		<u>\$ 650,338</u>	<u>\$ 977,351</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, 2016, 2015 and 2014
(Canadian Dollars in Thousands, Except per Share Amounts)

	Notes	2016	2015	2014
			(Re-presented)	(Re-presented)
Gross revenues	21	\$ 1,131,657	\$ 1,629,100	\$ 1,405,330
Costs and expenses:				
Costs of sales and services	21	1,061,052	1,573,868	1,266,430
Selling, general and administrative		79,164	86,648	83,862
Share-based compensation – selling, general and administrative	22	—	—	423
Finance costs		24,102	22,329	15,967
Impairment of available-for-sale securities		91	245	341
(Reversal) recognition of impairment losses on resource properties		(8,566)	235,875	2,813
Exchange differences on foreign currency transactions, net (gain) loss		(7,480)	930	6,017
Other		—	—	163
		<u>1,148,363</u>	<u>1,919,895</u>	<u>1,376,016</u>
(Loss) income from operations		(16,706)	(290,795)	29,314
Income tax (expense) recovery:				
Income taxes		(\$,994)	46,518	(7,455)
Resource property revenue taxes		(1,020)	(325)	(2,661)
	23	<u>(7,014)</u>	<u>46,193</u>	<u>(10,116)</u>
(Loss) income from continuing operations		(23,720)	(244,602)	19,198
Loss on discontinued operations	5	—	(241,402)	(18,522)
Net (loss) income for the year		(23,720)	(486,004)	676
Less: Net income attributable to non-controlling interests		(1,641)	(1,626)	(1,358)
Net loss attributable to owners of the parent company		<u>\$ (25,361)</u>	<u>\$ (487,630)</u>	<u>\$ (1,682)</u>
Basic (loss) earnings per share:				
Continuing operations	24	\$) (0.40)	\$) (3.90)	\$ 0.28
Discontinued operations	24	—	(3.82)	(0.29)
		<u>\$) (0.40)</u>	<u>\$) (7.72)</u>	<u>\$) (0.01)</u>
Diluted (loss) earnings per share:				
Continuing operations	24	\$) (0.40)	\$) (3.90)	\$ 0.28
Discontinued operations	24	—	(3.82)	(0.29)
		<u>\$) (0.40)</u>	<u>\$) (7.72)</u>	<u>\$) (0.01)</u>
Weighted average number of common shares outstanding				
– basic	24	63,142,272	63,142,272	62,922,837
– diluted	24	63,142,272	63,142,272	62,957,105

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

MFC BANCORP LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
For the Years Ended December 31, 2016, 2015 and 2014
(Canadian Dollars in Thousands)

	2016	2015	2014
		(Re-presented)	(Re-presented)
Net (loss) income for the year	\$ (23,720)	\$ (486,004)	\$ 676
Other comprehensive (loss) income, net of income taxes			
Exchange differences arising from translating financial statements of foreign operations	(14,067)	79,355	45,767
Reclassification adjustment for exchange differences to statements of operations for subsidiaries deconsolidated	(560)	143	(127)
Net exchange differences	(14,627)	79,498	45,640
Fair value loss on available-for-sale securities	(73)	(293)	(282)
Reclassification of fair value loss on available-for-sale securities to statements of operations for securities disposed of or impaired	141	245	147
Net fair value gain (loss) on available-for-sale securities	68	(48)	(135)
Remeasurement of net defined benefit liabilities	192	(298)	(1,034)
	(14,307)	79,152	44,471
Total comprehensive (loss) income for the year	(38,087)	(406,852)	45,147
Comprehensive income attributable to non-controlling interests	(1,985)	(2,028)	(1,213)
Comprehensive (loss) income attributable to owners of the parent company	\$ (39,672)	\$ (408,880)	\$ 43,934
Consisting of: Continuing operations	\$ (39,672)	\$ (167,478)	\$ 62,456
Discontinued operations	—	(241,402)	(18,522)
	\$ (39,672)	\$ (408,880)	\$ 43,934
Other comprehensive (loss) income, net of income taxes, comprised amounts:			
will not be reclassified subsequently to profit or loss	\$ 192	\$ (298)	\$ (1,034)
will be reclassified subsequently to profit or loss when specific conditions are met	(14,539)	79,450	45,505
	\$ (14,307)	\$ 79,152	\$ 44,471

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, 2016, 2015 and 2014
(Canadian Dollars in Thousands)

	Capital Stock		Treasury Stock		Contributed Surplus		Accumulated Other Comprehensive Income (Loss)				Shareholders' 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, 2013	67,501,936	\$ 418,407	(4,949,810)	\$ (61,085)	\$ 13,451	\$ —	\$ 438,508	\$ 86	\$ 2,478	\$ (67,782)	\$ 744,063	\$ 182	\$ 744,245
Net (loss) income	—	—	—	—	—	—	) (682)	—	—	—	) (682)	1,358	676
Dividends paid and payable	—	—	—	—	—	—	(16,874)	—	—	—	(16,874)	(1,034)	(17,908)
Share-based compensation	—	—	—	—	423	—	—	—	—	—	423	—	423
Exercise of employee stock options	30,326	343	—	—	) (84)	—	—	—	—	—	259	—	259
Acquisition and elimination of non-controlling interest	509,820	905	—	—	—	1,830	3,177	—	—	—	5,912	) (1,403)	4,509
Purchase of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	140	140
Disposition of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	2,118	2,118
Net fair value loss	—	—	—	—	—	—	—	(135)	—	—	) (135)	—	) (135)
Net loss on remeasurements	—	—	—	—	—	—	—	—	(1,034)	—	(1,034)	—	(1,034)
Net exchange differences	—	—	—	—	—	—	—	—	—	45,785	45,785	(145)	45,640
Balance at December 31, 2014	68,042,082	\$ 419,655	(4,949,810)	\$ (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)
Deconsolidation of a subsidiary	—	—	—	—	—	—	—	—	(1,645)	—	(1,645)	—	(1,645)
Issuance of contingently issuable shares	50,000	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	68,092,082	\$ 419,916	(4,949,810)	\$ (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	68,092,082	\$ 419,916	(4,949,810)	\$ (61,085)	\$ 13,790	\$ 1,627	\$ (88,920)	\$ (29)	\$ (307)	\$ 42,528	\$ 327,520	\$ 1,910	\$ 329,430

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, 2016, 2015 and 2014
(Canadian Dollars in Thousands)

<u>Total Comprehensive Income (Loss) for the Years ended December 31,</u>	<u>Owners of the Parent Company</u>	<u>Non- controlling Interests</u>	<u>Total</u>
2014	\$ 43,934	\$ 1,213	\$ 45,147
2015	\$ (408,880)	\$ 2,028	\$ (406,852)
2016	\$ (39,672)	\$ 1,585	\$ (38,087)

<u>Components of Capital Stock</u>	<u>Common Shares</u>		<u>Preferred Shares*</u>		<u>Total Capital Stock</u>	
	<u>Number of Shares</u>	<u>Amount</u>	<u>Number of Shares</u>	<u>Amount</u>	<u>Number of Shares</u>	<u>Amount</u>
Balance at December 31, 2013	62,880,365	\$ 401,388	4,621,571	\$ 17,019	67,501,936	\$ 418,407
Exercise of employee stock options	30,326	343	—	—	30,326	343
Acquisition and elimination of non-controlling interest	509,820	905	—	—	509,820	905
Balance at December 31, 2014	63,420,511	402,636	4,621,571	17,019	68,042,082	419,655
Issuance of contingently issuable shares	50,000	261	—	—	50,000	261
Balance at December 31, 2015 and 2016	<u>63,470,511</u>	<u>\$ 402,897</u>	<u>4,621,571</u>	<u>\$ 17,019</u>	<u>68,092,082</u>	<u>\$ 419,916</u>

* All the Class A Common Shares and Preferred Shares were and are 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, 2016, 2015 and 2014
(Canadian Dollars in Thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
		(Re-presented)	(Re-presented)
Cash flows from continuing operating activities:			
Net (loss) income for the year	\$ (33,720)	\$ (244,602)	\$ 19,198
Adjustments for:			
Amortization, depreciation and depletion	11,951	6,450	8,557
Exchange differences on foreign currency transactions	(7,480)	930	6,017
Loss (gain) on short-term securities	66	84	(299)
Gain on available-for-sale and other securities, net	(2,534)	—	(5,066)
Impairment of available-for-sale securities	91	245	341
(Reversal) recognition of impairment losses on resource properties	(8,566)	235,875	2,813
Share-based compensation	—	—	423
Deferred income taxes	1,454	(50,800)	3,503
Market value decrease (increase) on commodity inventories	4,273	1,910	(4,172)
Interest accretion	471	148	338
Credit losses	18,277	54,528	4,358
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:			
Short-term cash deposits	39	(33)	4,643
Short-term securities	3,997	80	2,305
Restricted cash	624	60	6,593
Receivables	(16,869)	57,608	9,486
Inventories	184,944	15,650	(32,026)
Deposits, prepaid and other	24,661	(8,596)	41,685
Short-term bank borrowings	34,707	(137,621)	(103,035)
Account payables and accrued expenses	(124,528)	(18,555)	16,083
Income tax liabilities	(1,576)	(975)	1,287
Accrued pension assets, net of obligations	43	(760)	(119)
Other	(458)	(6,674)	1,002
Cash flows provided by (used in) continuing operating activities	99,867	(95,048)	(16,085)
Cash flows from continuing investing activities:			
Purchases of property, plant and equipment, net	(198)	(8,045)	(29,649)
Proceeds from sales of investments, net	10,138	—	1,632
Increase in loan receivables	(366)	(2)	(3,132)
Decrease in loan receivables	693	429	—
Dispositions (acquisitions) of subsidiaries, net of cash (disposed) acquired	24,870	—	(74,135)
Other	345	(943)	(1,831)
Cash flows provided by (used in) continuing investing activities	35,482	(8,561)	(107,115)
Cash flows from continuing financing activities:			
Debt repayment	(186,286)	(68,707)	(32,578)
Debt borrowing	20,694	5,662	140,481
Issuance of shares	—	—	259
Repayment to a customer	—	—	(23,576)
Dividends paid to shareholders	—	(4,388)	(12,486)
Dividends paid to non-controlling interests	(1,683)	(1,236)	(1,034)
Cash flows (used in) provided by continuing financing activities	(167,275)	(68,669)	71,066
Cash flows (used in) provided by discontinued operating activities	—	(7,004)	19,045
Cash flows used in discontinued investing activities	—	(1,395)	(11,706)
Exchange rate effect on cash and cash equivalents	(37,540)	35,619	36,387
(Decrease) increase in cash and cash equivalents	(69,466)	(143,058)	(8,408)
Cash and cash equivalents, beginning of year	197,519	344,891	353,299
Cash and cash equivalents included in assets held for sale, net	(7,377)	(2,314)	—
Cash and cash equivalents, end of year	<u>\$ 120,676</u>	<u>\$ 197,519</u>	<u>\$ 344,891</u>
Cash and cash equivalents at end of year consisted of:			
Cash	\$ 113,591	\$ 120,805	\$ 279,867
Money market and highly liquid funds	7,085	76,714	65,024
	<u>\$ 120,676</u>	<u>\$ 197,519</u>	<u>\$ 344,891</u>
Supplemental cash flows disclosure (see Note 27)			
Interest received	\$ 3,632	\$ 4,233	\$ 5,404
Dividends received	6	7	6
Interest paid	(14,533)	(15,273)	(12,962)
Income taxes paid	(3,317)	(5,345)	(8,374)

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

MFC BANCORP LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016****Note 1. Nature of Business**

MFC Bancorp Ltd. (“MFC Bancorp” or the “Company”) is incorporated under the laws of British Columbia, Canada. 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.

Effective February 1, 2016, the Group completed the acquisition of a western European bank. Subsequent to the acquisition, this bank changed its name to MFC Merchant Bank Ltd (see Note 4).

In June and September 2016, the Company ceased to classify its remaining disposal groups as held for sale as the criteria for being classified as assets held for sale were no longer met (see Note 5).

On December 31, 2016, the Company reclassified a non-core commodities trading subsidiary as held for sale (see Note 5).

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 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.

MFC BANCORP LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016****Note 2. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

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.

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



MFC BANCORP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 2. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

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, 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
Closing rate at December 31, 2014	1.4038	1.1601
Average rate for the year 2014	1.4671	1.1045

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.

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

MFC BANCORP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 2. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

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.

Re-presentation of Consolidated Financial Statements

In the third quarter of 2015, the Board of Directors of the Company approved a plan to sell all of the Group's resource properties. As such, the assets of the disposal groups were classified as assets held for sale and discontinued operations effective September 30, 2015. As of June 30, 2016, management no longer expected that the interest in a mine would be rationalized within one year. As of September 30, 2016, the remaining hydrocarbon properties, though being actively marketed for sale at prices that were reasonable in relation to their then current fair values, remained unsold. As a result, the Group ceased to classify the interest in the mine and unsold hydrocarbon properties as assets held for sale as of June 30 and September 30, 2016, respectively. The Group's consolidated statements of operations and cash flows for the prior years in these consolidated financial statements have been re-presented accordingly by reclassifying the results and cash flows of these two former disposal groups from discontinued operations to continuing operations.

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.

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

MFC BANCORP LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016****Note 2. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

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.

(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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 2. Basis of Presentation and Summary of Significant Accounting Policies (continued)****(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.

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.



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 2. Basis of Presentation and Summary of Significant Accounting Policies (continued)****(v) Restricted Cash**

Restricted cash is cash and cash equivalents that are set aside for restricted use pursuant to the terms of a contract or an agreement.

(vi) 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.

(vii) 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.

(viii) 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.

(ix) 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.

(x) 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.

(xi) 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:

	Lives	Method
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.

(xii) 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

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.

(xiii) 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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DECEMBER 31, 2016**Note 2. Basis of Presentation and Summary of Significant Accounting Policies (continued)****(xiv) Defined Benefit Pension Plan**

The Group has 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.

(xv) 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.

(xvi) 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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DECEMBER 31, 2016**Note 2. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

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.

(xvii) 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.

(xviii) 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.

(xix) 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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DECEMBER 31, 2016**Note 2. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

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.

(xx) 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.

(xxi) 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.

(xxii) 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.

(xxiii) 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. No expense is recognized for awards that do not ultimately vest. 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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DECEMBER 31, 2016**Note 2. Basis of Presentation and Summary of Significant Accounting Policies (continued)****(xxiv) 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.

(xxv) 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.

MFC BANCORP LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016****Note 2. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

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.

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.

(xxvi) 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.

(xxvii) 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.

MFC BANCORP LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016****Note 2. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

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.

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 (xxiv) 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*.

MFC BANCORP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 2. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

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.

(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 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 \$79,147 as at December 31, 2016.



MFC BANCORP LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016****Note 2. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

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, the calculation of depletion and depreciation, the provision for 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, 2016, were exploration and evaluation assets with an aggregate carrying amount of \$19,455. 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 \$99,443 as at December 31, 2016, consisting mainly of two power plants and a natural gas processing facility (refinery). 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

MFC BANCORP LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016****Note 2. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

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.

The Group recognized deferred income tax assets of \$16,647 as at December 31, 2016. 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(vii)). In February 2016, a customer of the Group filed for insolvency, which was an adjusting subsequent event in the prior year 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 \$100,008 due from the customer and its affiliates as at December 31, 2016 (see Note 7).

E. Accounting Changes**Future Accounting Changes**

IFRS 9, *Financial Instruments*, (“IFRS 9”), issued in July 2014, is the IASB’s replacement of 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

MFC BANCORP LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016****Note 2. Basis of Presentation and Summary of Significant Accounting Policies (continued)**

effective for annual reporting periods beginning on or after January 1, 2018. Management expects to complete the assessment of the impacts of IFRS 9 on the Group's consolidated financial statements before the end of the third quarter in 2017.

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 was issued in May 2014. In September 2015, the IASB deferred the effective date of IFRS 15 to annual reporting periods beginning on or after January 1, 2018. Management expects to complete the assessment of the impacts of IFRS 15 on the Group's consolidated financial statements before the end of the third quarter in 2017.

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 is currently assessing the impacts of IFRS 16 on the Group's consolidated financial statements.

Disclosure Initiative (Amendments to IAS 7, *Statement of Cash Flows*) was issued in January 2016 and requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (a) changes from financing cash flows; (b) changes arising from obtaining or losing control of subsidiaries or other businesses; (c) the effect of changes in foreign exchange rates; (d) changes in fair values; and (e) other changes. The IASB defines liabilities arising from financing activities as liabilities "for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities". The new disclosure requirements also relate to changes in financial assets if they meet the same definition. Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities. The amendments are effective for annual periods beginning on or after January 1, 2017 on a prospective basis. Management expects that additional disclosures will be required for the Group.

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.

MFC BANCORP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 3. Capital Disclosure on the Group's Objectives, Policies and Processes for Managing Its Capital Structure (continued)**

<u>As at December 31:</u>	<u>2016</u>	<u>2015</u>
Total debt	\$ 116,813	\$ 259,038
Less: cash and cash equivalents	<u>(120,676)</u>	<u>(197,519)</u>
Net debt	Not applicable	61,519
Shareholders' equity	327,520	367,192
Debt-to-adjusted capital ratio	Not applicable	0.17
Long-term debt	\$ 80,564	\$ 174,333
Shareholders' equity	327,520	367,192
Long-term debt-to-equity ratio	0.25	0.47

During 2016, the Group's strategy, which was unchanged from 2015, 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 2016 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.

Note 4. Acquisitions of Consolidated Entities**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.

Year 2014**F.J. Elsner & Co. GmbH ("Elsner")**

In March 2014, MFC Bancorp, through its Austrian subsidiary, acquired all of the outstanding shares in Elsner. Elsner is an Austrian-based finance and supply chain company focused on steel and related products. Elsner offers a full range of steel products, including slabs, booms, billets, hot rolled steel plates, hot and cold rolled coils and sheets, reinforcing bars, galvanized material, pipes, tubers and merchant bars.

The purchase price consisted of a nominal consideration (including certain contingent payments between the parties over a 10-year period based on current inventories and account receivables, existing legal actions and utilization of certain tax loss carry-forwards). There were no goodwill or intangible assets acquired. This acquisition was not considered a material business combination. The amount of acquisition-related costs was nominal, which was included in selling, general and administrative expenses in profit or loss.

FESIL AS ("FESIL")

In April 2014, the Company acquired a 100% interest in FESIL. Headquartered in Trondheim, Norway, FESIL is one of the leading producers of ferrosilicon, an essential alloy in the production of steel, stainless steel and

cast iron. FESIL's melting plant is located in Mo i Rana, Norway and produces a range of ferrosilicon products including granulated and refined qualities (high and semi-high purity), which makes up the bulk of its production.

MFC BANCORP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 4. Acquisitions of Consolidated Entities (continued)**

The base purchase price of \$93,480 was based on the net tangible asset value as of September 30, 2013 and was subsequently adjusted to reflect the fair value of certain assets and the profit and loss over the period to final closing. There was also a two-year royalty based on tiered ferrosilicon production at the Mo i Rana facility, which management recognized as a contingent consideration liability measured at fair value on the acquisition date. There were nominal intangible assets and there was no goodwill acquired. This acquisition was not considered a material business combination. The amount of acquisition-related costs was \$615, which was included in selling, general and administrative expenses in profit or loss.

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. Pursuant to the resolution, an active program to locate buyers and complete the plan was initiated. Management was of the opinion that the disposal groups were actively marketed for sale at a price that was reasonable in relation to their current fair value and the sales were expected to be completed within one year. As such, 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*, the operations and cash flows of the disposal groups were accounted for as 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 and 2014 have been reclassified to continuing operations in these consolidated financial statements.

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 (see Note 32).

The assets held for sale comprised the following items as at December 31, 2016 and 2015, respectively:

	2016	2015
Assets held for sale:		
Hydrocarbon properties	\$ —	\$ 94,556
Amount due from former subsidiaries, net	—	11,600
Royalty interest in an iron ore mine*	—	30,000
Interest in an iron ore development project**	—	—
Commodities trading	45,667	—
	<u>45,667</u>	<u>136,156</u>
Liabilities (including decommissioning obligations) relating to assets held for sale:		
Hydrocarbon properties	—	(79,779)
Royalty interest in an iron ore mine, deferred income tax liability*	—	(7,800)
Commodity trading	(29,897)	—
Total liabilities	<u>(29,897)</u>	<u>(87,579)</u>
Net assets held for sale	<u>\$ 15,770</u>	<u>\$ 48,577</u>
Represented by:		
Hydrocarbon properties	\$ —	\$ 14,777*
Royalty interest in an iron ore mine	—	22,200
Amount due from former subsidiaries, net	—	11,600
Commodities trading	15,770	—
	<u>\$ 15,770</u>	<u>\$ 48,577</u>

* The royalty interest in an iron ore mine was reclassified to continuing operations effective June 30, 2016 (see Note 13).

** The interest was written down to a nominal amount in 2015 and sold in 2016.

MFC BANCORP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 5. Assets Classified as Held for Sale and Discontinued Operations (continued)**

*** 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 held for sale	3,374
Total assets	45,667
Debt	(20,140)
Other liabilities	(9,757)
Net assets held for sale	<u>\$ 15,770</u>

**** The major assets and liabilities of the hydrocarbon properties disposal group as at December 31, 2015 comprised the following:

Current assets	\$ 8,583
Non-current assets held for sale	85,973
Total assets	94,556
Debt	(59,252)
Short-term borrowings	(1,859)
Decommissioning obligations	(17,923)
Other liabilities	(745)
Net assets held for sale, owing to the Group entities	<u>\$ 14,777</u>

The Group's discontinued operations, as re-presented in these consolidated financial statements, comprised certain hydrocarbon properties and an iron ore interest, both of which were included in the Company's merchant banking reportable business segment.

The following summarizes the results of the discontinued operations for the year ended December 31, 2015 and 2014, respectively. The Group did not have discontinued operations in 2016.

	2015	2015	2014	2014
	Hydrocarbon properties	Iron ore interest	Hydrocarbon properties	Iron ore interest
Revenues	\$ 62,384	\$ —	\$ 99,714	\$ —
Costs and expenses	(215,779)	(27,397)	(126,458)	—
Loss before income taxes	(153,395)	(27,397)	(26,744)	—
Income tax (expense) recovery	(48,623)	—	8,222	—
Net loss from discontinued operations	<u>(202,018)</u>	<u>(27,397)</u>	<u>(18,522)</u>	<u>—</u>
Loss on disposal of assets	—	—	—	—
Income tax expense	(11,987)	—	—	—
Net loss on disposal of assets	<u>(11,987)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total loss from discontinued operations	<u>\$ (214,005)</u>	<u>\$ (27,397)</u>	<u>\$ (18,522)</u>	<u>\$ —</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 and 2014 included the following non-cash impairment losses (before income taxes) on tangible assets and resource properties:

	2015	2014
Hydrocarbon properties	\$ 148,877	\$ 30,387
Interest in an iron ore development project	27,397	—
Gross impairment	<u>\$ 176,274</u>	<u>\$ 30,387</u>

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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

MFC BANCORP LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016****Note 5. Assets Classified as Held for Sale and Discontinued Operations (continued)**

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. In re-presenting the prior year 2015 results in these consolidated financial statements, of the gross impairment losses of \$143,609, impairment losses of \$47,672 were reclassified and 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 (see Note 26). 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.

In December 2014, the Group's realized pricing for natural gas, natural gas liquids and oil had declined by 20%, 32% and 35%, respectively, on an annual basis. As such, as at December 31, 2014, the Group performed an annual impairment assessment on its hydrocarbon properties utilizing post-tax discount rates between 8.5% and 9.0% and recognized impairment losses of \$33,200 before a deferred income tax recovery of \$8,372. The impairment losses comprised \$18,780 allocated to development and production assets, \$7,191 to probable reserves, \$3,707 to unproved lands and \$3,522 to assets previously held for sale. In re-presenting the prior year 2014 results in these consolidated financial statements, of the gross impairment losses of \$33,200, an impairment loss of \$2,813 was reclassified and included in continuing operations with the remaining impairment loss of \$30,387 (before an associated deferred income tax recovery of \$8,372) attributable to discontinued operations.

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 for a nominal amount. There were no impairment losses on the iron ore interest for the year ended December 31, 2014.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 6. Business Segment Information (continued)****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.

Segment Operating Results

	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)



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 6. Business Segment Information (continued)

	Year ended December 31, 2014		
	Merchant banking	All other	Total
Revenues from external customers	\$ 1,375,526	\$ 29,804	\$ 1,405,330
Intersegment sale	242	507	749
Interest expense	14,400	45	14,445
Income (loss) before income taxes	39,968	(10,654)	29,314

	As at December 31, 2016		
	Merchant banking	All other	Total
Segment assets	\$ 552,129	\$ 98,209	\$ 650,338

	As at December 31, 2015		
	Merchant banking	All other	Total
Segment assets	\$ 907,337	\$ 70,014	\$ 977,351

	As at December 31, 2016		
	Merchant banking	All other	Total
Segment liabilities	\$ 306,050	\$ 14,858	\$ 320,908

	As at December 31, 2015		
	Merchant banking	All other	Total
Segment liabilities	\$ 594,842	\$ 13,309	\$ 608,151

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.

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 (i.e. Canada) and all foreign geographic regions from which the Group derives revenues:

<u>Years ended December 31:</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Canada	\$ 28,328	\$ 77,199	\$ 131,776
Africa	32,519	26,376	24,633
Americas	256,598	309,217	300,758

Asia	113,821	176,766	81,877
Europe	700,391	1,038,504	866,286
Other	—	1,038	—
	<u>\$ 1,131,657</u>	<u>\$ 1,629,100</u>	<u>\$ 1,405,330</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 6. Business Segment Information (continued)**

Except for the geographic concentrations as indicated in the above table and one trading customer in the merchant banking segment representing approximately 8% and 11% of the Group's total revenues in 2015 and 2014, respectively, there were no other revenue concentrations in 2016, 2015 and 2014.

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.

<u>As at December 31:</u>	<u>2016</u>	<u>2015</u>
Canada	\$ 138,281	\$ 27,742
Africa	31,710	33,695
Americas	876	4,651
Asia	6,957	7,770
Europe	49,464	73,572
	<u>\$ 227,288</u>	<u>\$ 147,430</u>

Note 7. Trade Receivables

<u>As at December 31:</u>	<u>2016</u>	<u>2015</u>
Trade receivables, gross amount	\$ 194,450	\$ 172,439
Less: Allowance for credit losses	(58,488)	(21,210)
Trade receivables, net amount	<u>\$ 135,962</u>	<u>\$ 151,229</u>

Trade receivables primarily arise from merchant banking activities.

The Group has a specially structured non-recourse factoring arrangement with a bank for the Group's trade receivables (see Note 15).

As at December 31, 2016, trade receivables of \$25,949 (2015: \$13,918) were past due but not impaired. The aging analyses of these trade receivables as at December 31, 2016 and 2015 are as follows:

<u>Past-due</u>	<u>2016</u>	<u>2015</u>
Below 30 days	\$ 6,767	\$ 6,847
Between 31 and 60 days	1,847	3,191
Between 61 and 90 days	799	1,936
Between 91 and 365 days	16,491	1,923
Over 365 days	45	21
	<u>\$ 25,949</u>	<u>\$ 13,918</u>

As at December 31, 2016, trade receivables of \$156,243 (2015: \$37,454) were impaired and an allowance for credit losses of \$58,488 (2015: \$21,210) 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).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 7. Trade Receivables (continued)**

The aging analyses of impaired trade receivables as at December 31, 2016 and 2015 are as follows:

<u>Past-due</u>	<u>2016</u>	<u>2015</u>
Below 30 days	\$ 7,690	\$ 13,765
Between 31 and 60 days	489	8,656
Between 61 and 90 days	745	625
Between 91 and 365 days	131,946	2,792
Over 365 days	15,373	11,616
	<u>156,243</u>	<u>37,454</u>
Allowance for credit losses	(58,488)	(21,210)
Expected recoverable amount of impaired trade receivables ⁽¹⁾	<u>\$ 97,755</u>	<u>\$ 16,244</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 movements in the allowance for credit losses during the years ended December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Balance, beginning of the year	\$ 21,210	\$ 9,255
Additions	46,601	13,381
Reversals	(1,185)	(124)
Write-offs	(1,529)	(95)
Other	(5,123)	(2,946)
Reclassification to assets held for sale	—	(114)
Currency translation adjustment	(1,486)	1,853
Balance, end of the year	<u>\$ 58,488</u>	<u>\$ 21,210</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 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 7. Trade Receivables (continued)**

probability-weighted valuation below the gross carrying amount. Therefore, management of the Group has 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 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, the Group had net trade receivables of \$100,008 due from this former customer group as at December 31, 2016.

Note 8. Other Receivables

<u>As at December 31:</u>	<u>2016</u>	<u>2015</u>
Government environmental emission refund	\$ —	\$ 4,913
Royalty income	4,000	100
Receivables from insurance company/supplier	2,110	4,333
Suppliers with debit balance	9,670	972
Loans	7,763	745
Other	11,708	3,664
	<u>\$ 35,251</u>	<u>\$ 14,727</u>

Other receivables primarily arise in the normal course of business and are expected to be collected within one year from the reporting date.

Note 9. Inventories

<u>As at December 31:</u>	<u>2016</u>	<u>2015</u>
Raw materials	\$ 5,404	\$ 21,852
Work-in-progress	289	5,275
Finished goods	10,488	88,556
Commodity inventories	15,184	120,323
Goods-in-transit	—	7,899
Other	589	1,440
	<u>\$ 31,954</u>	<u>\$ 245,345</u>
Comprising:		
Inventories contracted at fixed prices or hedged	\$ 21,071	\$ 141,344
Inventories – other	10,883	104,001
	<u>\$ 31,954</u>	<u>\$ 245,345</u>

Note 10. Deposits, Prepaid and Other

<u>As at December 31:</u>	<u>2016</u>	<u>2015</u>
Prepayments and deposits for inventories	\$ 11,117	\$ 19,368
Other	1,078	2,074
	<u>\$ 12,195</u>	<u>\$ 21,442</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 11. Investment Property**

All of the Group's investment property is located in Europe.

Investment property was classified as held for sale and included in current assets as at December 31, 2014. In September 2015, management ceased to classify its investment property as held for sale and, thus, included it in non-current assets as of December 31, 2015.

Changes in investment property included in non-current assets:	2016	2015
Balance, beginning of year	\$ 37,873	\$ —
Change in fair value during the year	) (39	—
Reclassification from assets held for sale	—	37,677
Currency translation adjustments	(2,171	196
Balance, end of year	\$ 35,663	\$ 37,873

The amounts recognized in profit or loss in relation to investment property during the years ended December 31, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
Rental income	\$ 1,511	\$ 1,474	\$ 1,468
Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the year	226	279	243

Note 12. Property, Plant and Equipment

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	\$ —	\$ (824	\$ —	\$ (4,743	\$ —	\$ 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
	\$ 116,289	\$ 4,083	\$ (284	\$ (28,582	\$ 28,383	\$ (5,623	\$ 5,000	\$ (2,856	\$ 116,405

* 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
	20,544	\$ 9,291	\$ —	\$ (10,149	\$ (2,254	\$ (470	16,962

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 12. Property, Plant and Equipment (continued)**

The following changes in property, plant and equipment were recorded during the year ended December 31, 2015:

<u>Costs</u>	<u>Opening balance</u>	<u>Additions</u>	<u>Reclassification</u>	<u>Reclassified to assets held for sale</u>	<u>Currency translation adjustments</u>	<u>Ending balance</u>
Land and buildings	\$ 3,890	\$ 18	\$ —	\$ —	\$ 1,982	\$ 5,890
Refinery and power plants	104,779	3,961	—	(48,134)	6,730	67,336
Processing plant and equipment	21,204	3,836	6,769	—	2,739	34,548
Office equipment	8,584	983	(274)	(1)592	814	8,515
	<u>\$ 138,457</u>	<u>\$ 8,798</u>	<u>\$ 6,495</u>	<u>\$ (49,726)</u>	<u>\$ 12,265</u>	<u>\$ 116,289</u>

<u>Accumulated depreciation</u>	<u>Opening balance</u>	<u>Additions</u>	<u>Reclassification</u>	<u>Reclassified to assets held for sale</u>	<u>Currency translation adjustments</u>	<u>Ending balance</u>
Land and buildings	\$ 436	\$ 425	\$ —	\$ —	\$ 739	\$ 1,600
Refinery and power plants	9,065	1,218	—	(4,636)	1,213	6,860
Processing plant and equipment	2,979	3,936	225	—	1,252	8,392
Office equipment	3,148	871	(225)	(736)	634	3,692
	<u>15,628</u>	<u>\$ 6,450</u>	<u>\$ —</u>	<u>\$ (5,372)</u>	<u>\$ 3,838</u>	<u>20,544</u>
Carrying amount	<u>\$ 122,829</u>					<u>\$ 95,745</u>

During the year ended December 31, 2016, 2015 and 2014 respectively, \$nil, \$3,948 and \$23,415 of expenditures were recognized in the carrying amounts of items of property, plant and equipment in the course of their construction.

Note 13. Interests in Resource Properties

All of the Group's interests in resource properties were classified as held for sale and included in current assets as at December 31, 2015 (see Note 5). The interests in an iron ore mine and hydrocarbon properties that ceased to be classified as held for sale effective June 30 and September 30, 2016, respectively, were reclassified to non-current assets. There were no resource properties classified as held for sale as at December 31, 2016.

The Group's interests in resource properties as at December 31, 2016 comprised the following:

Interest in an iron ore mine	\$ 30,000
Hydrocarbon development and production assets	29,692
Exploration and evaluation assets – hydrocarbon probable reserves	9,416
Exploration and evaluation assets – hydrocarbon unproved lands	10,039
	<u>\$ 79,147</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 13. Interests in Resource Properties (continued)**

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)	(3,000)	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>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>

The movements in exploration and evaluation assets included in non-current assets, which comprise hydrocarbon probable reserves and unproved lands, during the year ended December 31, 2016 were as follows:

	<u>Probable reserves</u>	<u>Unproved lands</u>
Balance, beginning of year	\$ —	\$ —
Additions	—	790
Reclassifications from assets held for sale	7,732	10,039
Reversal (recognition) of impairment (losses)	1,684	(790)
Balance, end of year	<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 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 Company 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 its 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

MFC BANCORP LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016****Note 13. Interests in Resource Properties (continued)**

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.

There were no impairment losses on the Group's interest in the iron ore mine for the years ended December 31, 2016 and 2014.

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 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 and 2014, respectively, were \$47,672 and \$2,813, with related deferred income taxes of \$nil for both years (see Note 5).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**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>2016</u>	<u>2015</u>
Non-capital tax loss carry-forwards	\$ 24,308	\$ 11,848
Interests in resource properties	(10,370)	—
Other assets	5,304	11,469
Other liabilities	(9,948)	(16,387)
	<u>\$ 9,294</u>	<u>\$ 6,930</u>
Presented on the consolidated statements of financial position as follows:		
Deferred income tax assets	\$ 16,647	\$ 20,641
Deferred income tax liabilities	(7,353)	(13,711)
Net	<u>\$ 9,294</u>	<u>\$ 6,930</u>

As at December 31, 2016, 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.

Country	Gross amount	Amount for which no deferred income tax asset is recognized	Expiration dates
Canada	\$ 27,434	\$ —	2033-2036
Germany	13,080	9,487	Indefinite
Austria	188,714	160,864	Indefinite
Uganda	58,027	58,027	Indefinite
United States of America	13,663	13,663	Indefinite
Malta	93,876	67,570	Indefinite

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 at December 31, 2016, MFC Bancorp had an aggregate amount of \$60,737 of temporary differences associated with its investments in subsidiaries and branches, for which deferred income tax liabilities have not been recognized because the Group is in a position to control the timing of the reversal of such temporary differences and it is probable that such differences will not reverse in the foreseeable future.

In November 2012 and February 2016, the Company received from the Canada Revenue Agency ("CRA") tax notices of reassessment relating to taxation years ended December 31, 2006 to April 19, 2013. A predecessor also received a provincial reassessment in November 2016, as a consequence of the February 2016 federal reassessments. The reassessments deny a deduction in computing income, attribute income earned by predecessors to the Company and deny the application of losses and deductions by predecessors in computing their taxable income, and deny the application of credits in the computation of income taxes payable. The Company has filed notices of objection to the November 2012, February 2016 and (provincial) November 2016 notices of reassessment. The Company, among other things, reviewed the reassessments, the material facts related thereto and the subject transactions and consulted its advisors. Based on such review, management determined that the probability of the CRA's reassessments being successful in court was remote. Accordingly, the Company has not recorded a liability in these consolidated financial statements in connection with the reassessments. There can be

no assurance that the Company will be successful in defending its positions. If the CRA is successful in respect of either reassessment, then

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 14. Deferred Income Tax Assets and Liabilities (continued)**

the Company will be required to pay a material amount of income tax plus applicable interest. There continues to be tax litigation in progress involving the CRA and other companies which may have a bearing on the Company's own income tax position with the CRA. The Company will continue to assess its position as such litigation progresses.

The Group companies' income 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 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.

<u>As at December 31:</u>	<u>2016</u>	<u>2015</u>
Credit facilities from banks	\$ 95,416	\$ 52,864

As at December 31, 2016, the Group had credit facilities aggregating \$430,028 as follows: (a) the Group had unsecured revolving credit facilities aggregating \$141,192 from banks. The banks generally charge an interest rate at inter-bank rate plus an interest margin; (b) the Group also had revolving credit facilities aggregating \$64,610 from banks for structured solutions, a special trade financing. The margin is negotiable when the facility is used; (c) the Group had a specially structured non-recourse factoring arrangement with a bank up to a credit limit of \$198,366 for the Group's merchant banking activities. The Group factors certain of its trade receivables upon invoicing, at inter-bank rate plus a margin; and (d) the Group had foreign exchange credit facilities of \$25,860 with banks. All these facilities are renewable on a yearly basis or usable until further notice.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 16. Debt**

The Company and certain of its 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:

As at December 31:	2016	2015
Due to a bank, US\$nil and US\$886 at December 31, 2016 and 2015, respectively. Repaid in 2016	\$ —	\$ 1,225
Due to a bank, US\$9,100 and US\$1,700 at December 31, 2016 and 2015, respectively, interest at LIBOR plus an interest margin (3.75% at December 2016) and payable monthly, secured by real estate and trade receivables and due in negotiated periodic repayments with final payment in October 2018. The debt was reclassified to liabilities relating to assets held for sale as at December 31, 2016	—	2,353
Due to a bank, US\$19,428 and US\$24,000 at December 31, 2016 and 2015, respectively, fixed interest plus an interest margin and backup guarantee fee on US\$19,428 (5.05% at December 31, 2016) and payable quarterly, secured by intercompany loan receivables and due in equal annual repayments with final repayment in September 2022	26,085	33,216
Due to a bank, €16,414 and €22,200 at December 31, 2016 and 2015, respectively, fixed interest and backup guarantee fee on €16,260 (4.01% at December 31, 2016) and the remainder at OEKB variable plus an interest margin and backup guarantee fee (3.24% at December 2016) and payable quarterly, due in semi-annual repayments with final payment in December 2022	23,257	33,364
Due to a bank, US\$nil and US\$10,000 at December 31, 2016 and 2015, respectively. Repaid in 2016	—	13,840
Due to banks, €8,000 and €31,000 at December 31, 2016 and 2015, respectively, interest at EURIBOR plus an interest margin (2.17% at December 2016) and payable from November 2018 to November 2020	11,335	46,590
Due to a bank, €55,035 and €65,708 at December 31, 2016 and 2015, respectively, fixed interest and backup guarantee fee on €55,035 (2.57% at December 31, 2016) payable quarterly, secured by intercompany loan receivables and due in semi-annual repayments with final payment in August 2022. The debt was offset against cash as of December 31, 2016. (See Note 29)	—	98,752
Due to a bank, €nil and €4,043 at December 31, 2016 and 2015, respectively. The debt was derecognized as a result of the disposition of a subsidiary	—	6,076
Due to a bank €25,900 at December 31, 2016, fixed interest and backup guarantee fee on €25,900 (3.99% at December 31, 2016) payable quarterly, due in semi-annual repayments with final payment in November 2020. The debt was included in liabilities relating to assets held for sale as at December 31, 2015	36,699	—
Due to a bank, €14,642 and €16,713 at December 31, 2016 and 2015, respectively, €13,404 at a fixed interest rate (2.7% at December 31, 2016) and the remainder at EURIBOR plus an interest margin (1.55% at December 31, 2016) and payable quarterly, due in semi-annual repayments with final payment in May 2025.	19,437	23,622
	<u>\$ 116,813</u>	<u>\$ 259,038</u>
Current portion	\$ 36,249	\$ 84,705
Long-term portion	80,564	174,333
	<u>\$ 116,813</u>	<u>\$ 259,038</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 16. Debt (continued)**

As at December 31, 2016, the contractual maturities of the Group's debt are as follows:

<u>Years ending December 31:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 36,249	\$ 4,134	\$ 40,383
2018	29,731	2,860	32,591
2019	17,761	1,852	19,613
2020	19,536	1,044	20,580
2021	4,778	408	5,186
Thereafter	8,758	455	9,213
	<u>\$ 116,813</u>	<u>\$ 10,753</u>	<u>\$ 127,566</u>

Interest expense of \$nil, \$608 and \$1,683 was capitalized and included in property, plant and equipment during the year ended December 31, 2016, 2015 and 2014, respectively.

Note 17. Account Payables and Accrued Expenses

<u>As at December 31:</u>	<u>2016</u>	<u>2015</u>
Trade and account payables	\$ 27,053	\$ 110,881
Value-added, goods and services and other taxes (other than income taxes)	3,610	8,821
Compensation	1,837	3,358
Provisions for payments under guarantees (see Note 26)	—	40,877
Contract liabilities	535	1,239
Deposits from customers	1,471	2,920
Acquisition price payables	1,716	1,769
Sale of shares on behalf of other	3,067	3,070
Contingent consideration on a business combination	—	2,077
Other	5,825	7,239
	<u>\$ 45,114</u>	<u>\$ 182,051</u>

* The Group coordinated prepayment loans made by third-party banks to one of its customers, which financed off-take contracts to the Group. The Group has guaranteed the bank loans which were previously classified and disclosed as contingent liabilities prior to December 31, 2015. In February 2016, the customer filed for insolvency. Management of the Group expected that the banks would exercise their contractual rights under the guarantees to demand the payments from the Group and, as a result, the Group recorded a provision of \$40,677 for the expected payments under the guarantees and a credit loss of \$40,677 thereon as at December 31, 2015 and the aforesaid amount was paid during the year ended December 31, 2016.

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.

Note 18. Accrued Pension Obligations

The Group currently has post-retirement defined benefit plans for its employees in Austria and Germany. In addition, there is a small jubilee pay plan for an Austrian entity, which is based on collective agreements.

The Group had a defined benefit pension plan for its employees in Norway which was derecognized when the Norwegian subsidiary was disposed of in December 2016.

The Group had a defined benefit pension plan and a termination indemnity plan for its employees in Mexico which were classified as assets held for sale as at December 31, 2016.

The Group had a defined benefit pension plan for its employees in Canada which was classified as assets held for sale and subsequently disposed of during 2015.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 18. Accrued Pension Obligations (continued)**

<u>As at December 31:</u>	<u>2016</u>	<u>2015</u>
Fair value of plan assets	\$ 1,453	\$ 11,838
Defined benefit obligations	(4,712)	(15,899)
Accrued pension obligations, net	<u>\$ (3,259)</u>	<u>\$ (4,061)</u>

Changes in the fair value of plan assets for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 11,838	\$ 24,121
Reclassified to assets held for sale	—	(11,425)
Dispositions of subsidiaries	(10,394)	—
Return (loss) on plan assets	957	(241)
Employer contributions	215	448
Benefits paid	(1,386)	(1,272)
Currency translation adjustments	223	207
Balance, end of year	<u>\$ 1,453</u>	<u>\$ 11,838</u>

Plan assets are generally held and administered by independent financial services companies. The assets do not include the Group's own financial instruments or any property occupied by, or other assets used by, the Group.

Changes in the defined benefit obligations for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 15,899	\$ 27,088
Dispositions of subsidiaries	(10,581)	—
Reclassified to assets held for sale	(445)	(10,063)
Net current service cost	190	213
Obligation interest cost	392	389
Actuarial losses (gains) from changes in demographic assumptions and experience	196	(618)
Actuarial losses (gains) from changes in financial assumptions	828	(455)
Benefits paid	(1,386)	(1,272)
Currency translation adjustments	(381)	617
Balance, end of year	<u>\$ 4,712</u>	<u>\$ 15,899</u>
Consisting of:		
Defined benefit obligations for plans that are wholly unfunded	\$ 3,029	\$ 3,702
Defined benefit obligations for plans that are wholly or partly funded	1,683	12,197
	<u>\$ 4,712</u>	<u>\$ 15,899</u>

<u>Significant actuarial assumptions used in calculating the defined benefit obligations as at December 31:</u>	<u>2016</u>	<u>2015</u>
Discount rate	1.2%–7.8%	2.1%–6.3%
Rate of salary increases	1.0%–5.5%	1.0%–5.5%
Consumer price index	0.0%–4.0%	0%–1.5%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 18. Accrued Pension Obligations (continued)****Expected contributions and benefit payments**

The expected contributions in 2017 from the employers and employees are \$207 and \$nil, respectively. The employer contributions represent the Group's minimum required contribution under pension legislation.

As at December 31, 2016, the Group's expected benefit payments are as follows:

Years ending December 31:

2017	\$ 303
2018	249
2019	257
2020	230
2021	343
Thereafter	3,330
Total	<u>\$ 4,712</u>

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, 2016 are as follows:

	2016
Decommissioning obligations, beginning of year	\$ —
Reclassifications from liabilities relating to assets held for sale	17,923
Changes in estimates	(4,988)
Accretion	284
Decommissioning obligations, end of year	<u>\$ 13,219</u>

As at December 31, 2016, decommissioning obligations represented the present value of estimated remediation and reclamation costs associated with hydrocarbon properties and property, plant and equipment. The Group discounted the decommissioning obligations using an average discount rate of 1.73%, which is the risk free rate in Canada for blended government securities.

During 2016 and concurrent with updated assumptions from Alberta regulators, management revised its estimates of the expected decommissioning obligations related to its hydrocarbon production and processing assets. The Group will fund the decommissioning obligations from future cash flows from operations.

Note 20. Shareholders' Equity**Capital Stock**

The authorized share capital of MFC Bancorp consists of an unlimited number of common shares and class A common shares, both without par value and without special rights or restrictions, and an unlimited number of Class A Preference shares without par value and with special rights and restrictions.

Holders of common shares may receive dividends when, as and if declared by the Board of Directors, subject to the preferential dividend rights of any other classes or series of preferred shares issued and outstanding. In no event

may a dividend be declared or paid on the common shares if payment of the dividend would cause the realizable value of the assets of the Company to be less than the aggregate of its

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 20. Shareholders' Equity (continued)**

liabilities. Holders of common shares are entitled to one vote per share at any meeting of shareholders of common shares, and 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 the Company. The holders of common shares are entitled, in the event of a distribution of assets of the Company on the liquidation, dissolution or winding-up of the Company (a "Liquidation Distribution"), to receive, before any Liquidation Distribution is made to the holders of the class A common shares or any other shares of the Company ranking junior to the common shares, but after any prior rights of any preferred shares, the stated capital with respect to each common share held by them, together with all declared and unpaid dividends (if any and if preferential) thereon, up to the date of such Liquidation Distribution, and thereafter the common shares shall rank pari passu with all other classes of common shares in connection with the Liquidation Distribution.

The rights and restrictions attaching to the class A common shares are the same as those attaching to the common shares, except that in the event of a Liquidation Distribution, the holders of the class A common shares are entitled to receive such Liquidation Distribution only after any prior rights of the preferred shares and common shares or any other share ranking prior in right to the class A common shares.

The Class A Preference shares may include one or more series and the Board of Directors may alter the special rights of and restrictions to such series. Except as may be set out in the rights and restrictions, the holders of the Class A Preference shares are not entitled to vote at or attend shareholder meetings. Holders of Class A Preference shares are entitled to receive repayment of capital on the liquidation or dissolution of MFC Bancorp before distribution is made to holders of common shares.

All of the Company's issued capital stock is fully paid.

Treasury Stock

<u>As at December 31:</u>	<u>2016</u>	<u>2015</u>
Common shares	328,239	328,239
Preferred Shares	4,621,571	4,621,571
Total number of treasury stock	4,949,810	4,949,810
Total carrying amount of treasury stock	<u>\$ 61,085</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:

<u>Years ended December 31:</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Merchant banking products and services	\$ 1,078,745	\$ 1,580,935	\$ 1,360,979
Gain on securities, net	—	—	333
Interest	3,056	4,237	4,542
Dividends	6	7	8
Other	49,850	43,921	39,468
Gross revenues	<u>\$ 1,131,657</u>	<u>\$ 1,629,100</u>	<u>\$ 1,405,330</u>

The Group's revenues include the revenues of the Elsner group and FESIL group from April 1, 2014 in the merchant banking segment.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 21. Consolidated Statements of Operations (continued)****Expenses**

The Group's costs of sales and services comprised:

Years Ended December 31:	2016	2015	2014
Merchant banking products and services	\$ 1,027,627	\$ 1,512,970	\$ 1,269,324
Credit losses on loans and receivables and guarantees, net of recoveries	* 17,023	54,540	4,346
Fair value loss on investment property	44	—	134
Market value decrease (increase) on commodity inventories	4,273	1,910	(4,172)
Loss (gain) on derivative contracts, net	521	(2,913)	(10,189)
Write-off of inventories, net	—	—	165
Loss on securities, net	116	84	—
Other	11,448	7,277	**8,822
Total costs of sales and services	\$ 1,061,052	\$ 1,573,868	\$ 1,266,430

* Includes credit losses of \$11,296 on receivables due from a former consolidated entity.

** Includes a net gain on dispositions of subsidiaries of \$2,585 (see Note 31)

*** Includes a net gain on dispositions of subsidiaries of \$4,888 (see Note 31)

The Group included the following items in costs of sales and services:

Years ended December 31:	2016	2015	2014
Inventories as costs of goods sold (including depreciation, amortization and depletion expenses allocated to costs of goods sold)	\$ 974,497	\$ 1,464,925	\$ 1,217,079

Additional information on the nature of expenses incurred in continuing operations

Years Ended December 31:	2016	2015	2014
Depreciation, amortization and depletion	\$ 11,951	\$ 6,450	\$ 8,557
Employee benefits expenses	31,890	37,951	36,041

Note 22. Share-Based Compensation

MFC Bancorp has a 2014 Equity Incentive Plan (the "2014 Plan"), which replaced its 1997 Stock Option Plan (amended) (the "1997 Plan") and 2008 Equity Incentive Plan (the "2008 Plan").

1997 Plan

Subject to the terms of the 1997 Plan, the Company granted options to certain employees and directors to acquire common shares of the Company.

2008 Plan

Subject to the terms of the 2008 Plan, a committee, as appointed by the Company's Board of Directors, granted nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock awards, stock unit awards, stock awards, performance stock awards and tax bonus awards under the plan.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 22. Share-Based Compensation (continued)****2014 Plan**

Pursuant to the terms of the 2014 Plan, the Company's Board of Directors, the compensation committee or such other committee as appointed by the Board of Directors to administer the 2014 Plan, may grant stock options, restricted stock rights, restricted stock, performance share awards, performance share units and stock appreciation rights under the 2014 Plan, establish the terms and conditions for those awards, construe and interpret the 2014 Plan and establish the rules for the 2014 Plan's administration. Such awards may be granted to employees, non-employee directors, officers or consultants of the Group or any affiliate or any person to whom an offer of employment with the Group 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. The 2014 Plan replaced the 1997 Plan and the 2008 Plan; provided, however, that the 1997 Plan and 2008 Plan will continue to govern prior awards granted under such plans until all awards granted under such plans prior to November 14, 2014 have been exercised, forfeited, cancelled, expired or otherwise terminated in accordance with the terms thereof.

The maximum number of the Company's common shares that may be issuable pursuant to all awards granted under the 2014 Plan is 2,877,018 common shares, being 2,000,000 plus 267,344 and 609,674 common shares available for awards under the 1997 Plan and 2008 Plan, respectively, as of the effective date of the 2014 Plan. Notwithstanding the foregoing, the maximum number of common shares that may be issued as incentive stock options under the 2014 Plan is 2,000,000. Forfeited, cancelled, returned and lapsed awards are not counted against the 2,000,000 common shares. Any awards granted under the 2014 Plan, or portions thereof, that are settled in cash and not by issuance of the Company's common shares are not counted against the foregoing limits.

The following table is a summary of the changes in stock options granted under the plans:

	<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\$)
Outstanding as at December 31, 2013	915,000	7.81	1,720,000	7.81
Granted	200,000	8.01	—	—
Expired	(2 4 ,674)	7.81	(2 35 ,000)	7.81
Exercised	(3 0 ,326)	7.81	—	—
Surrendered and cancelled	(200,000)	7.81	—	—
Outstanding as at December 31, 2014	860,000	7.83	1,465,000	7.81
Expired	—	—	(92,500)	7.81
Outstanding as at December 31, 2015	860,000	7.83	1,372,500	7.81
Expired	(660,000)	7.81	(1,372,500)	7.81
Outstanding as at December 31, 2016	<u>200,000</u>	8.01	<u>—</u>	<u>—</u>
As at December 31, 2016:				
Options exercisable	<u>200,000</u>		<u>—</u>	
Options available for granting in future periods	<u>—</u>		<u>—</u>	

No awards were issued pursuant to the 2014 Plan during the years ended December 31, 2016, 2015 and 2014. There were 2,877,018 awards available for grant under the 2014 Plan as at December 31, 2016.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 22. Share-Based Compensation (continued)**

The following table summarizes information about stock options outstanding and exercisable as at December 31, 2016:

Exercise Price per Share (US\$)	Options Outstanding and Exercisable	
	Number outstanding	Weighted average remaining contractual life (in years)
\$8.01	200,000	2.25

The following table summarizes the share-based compensation expenses recognized by the Group:

Years ended December 31:	2016	2015	2014
Share-based compensation expenses arising from stock options granted by the Company	\$ —	\$ —	\$ 423

On April 2, 2014, the Company granted two employees options to purchase 200,000 MFC Bancorp common shares in aggregate at an exercise price of US\$8.01 per share. The options vested immediately and expire on April 2, 2019.

The aggregate fair value of options granted was \$423 which was recognized as share-based compensation expense in the Group's consolidated statement of operations for the year ended December 31, 2014. The share-based compensation expense is not tax deductible under the Canadian income tax act and, therefore, the Group did not recognize any income tax benefit from granting stock options.

Note 23. Income Taxes

MFC Bancorp's statutory tax rate was 26.0% for the years ended December 31, 2016, 2015 and 2014.

A reconciliation of the provision for income taxes calculated at applicable statutory income tax rates in Canada to the provision in the consolidated statements of operations is as follows:

Years ended December 31:	2016	2015	2014
(Loss) income before income taxes	\$ (16,706)	\$ (290,795)	\$ 29,314
Computed recovery of (provision for) income taxes at MFC Bancorp's statutory tax rates	\$ 4,344	\$ 75,607	\$ (7,622)
Decrease (increase) in income taxes resulting from:			
Subsidiaries' tax rate differences	714	(1,107)	522
Other non-taxable income	6,057	2,774	481
Revisions to prior years	(112)	227	(548)
Taxable capital gains on dispositions, net	(3,543)	13	516
Resource property revenue taxes	(755)	(241)	(1,962)
Unrecognized losses in current year	(15,623)	(30,469)	(607)
Previously unrecognized deferred income tax assets, net	5,747	1,449	—
Deferred income tax asset on a purchased asset	—	1,339	—
Permanent differences	(1,448)	(3,865)	(1,109)
Change in future tax rate	—	11	—
Other, net	(2,395)	455	213
(Provision for) recovery of income taxes	\$ (7,014)	\$ 46,193	\$ (10,116)
Consisting of:			
Resource property revenues taxes	\$ (1,020)	\$ (325)	\$ (2,661)
Current and deferred income tax (expense) recovery	(5,994)	46,518	(7,455)
	\$ (7,014)	\$ 46,193	\$ (10,116)



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 23. Income Taxes (continued)**

In addition, the aggregate current and deferred income tax relating to items that are charged directly to equity was an expense of \$nil, \$109 and a recovery of \$445 for the year ended December 31, 2016, 2015 and 2014, 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, 2016, 2015 and 2014 are summarized as follows:

	2016	2015	2014
Basic (loss) earnings available to holders of common shares	\$ (25,361)	\$ (246,228)	\$ 17,840
Effect of dilutive securities:	—	—	—
Diluted (loss) earnings	<u>\$ (25,361)</u>	<u>\$ (246,228)</u>	<u>\$ 17,840</u>
	Number of Shares		
	2016	2015	2014
Weighted average number of common shares outstanding – basic	63,142,272	63,142,272	62,922,837
Effect of dilutive securities:			
Options	—	—	21
Contingently issuable shares	—	—	34,247
Weighted average number of common shares outstanding – diluted	<u>63,142,272</u>	<u>63,142,272</u>	<u>62,957,105</u>

The Group's potential ordinary shares include stock options outstanding and contingently issuable shares pursuant to a share purchase agreement.

As at December 31, 2016, 2015 and 2014, there were 200,000, 2,232,500 and 2,325,000 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, 2016, 2015 and 2014.

Pursuant to a share purchase agreement (as amended), 50,000 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 has been achieved, subject to an audit. However, the 50,000 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. For the subsequent event, see Note 32.

Note 25. Dividends Paid

The Company did not declare dividends in 2016 and 2015. The last and final 2014 quarterly dividends of \$4,388 (or US\$0.06 per common share) were paid on January 5, 2015 to shareholders of record on December 29, 2014.

MFC BANCORP LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

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>
2017	\$ 2,284
2018	861
2019	581
2020	483
2021	384
Thereafter	346
	<u>\$ 4,939</u>

The Group recognized rental and lease income of \$15,470, \$5,345 and \$2,821 (including sublease of \$7) for the years ended December 31, 2016, 2015 and 2014, respectively.

Leases as lessees

Future minimum commitments under long-term non-cancellable operating leases are as follows:

<u>Years ending December 31:</u>	<u>Amount</u>
2017	\$ 1,079
2018	692
2019	256
2020	61
2021	18
Thereafter	—
	<u>\$ 2,106</u>

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 \$2,565 (including sublease of \$734 and contingent rents of \$20), \$3,569 (including sublease of \$875) and \$3,953 (including sublease of \$218 and contingent rents of \$87) for the years ended December 31, 2016, 2015 and 2014, respectively.

Litigation

The Group is subject to litigation and tax audits in the normal course of business, the ultimate results of which cannot be ascertained at this time. The Group records costs as they are incurred or become determinable.

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

MFC BANCORP LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016****Note 26. Commitments and Contingencies (continued)**

to such financing facilities that are used or drawn are not considered contingent liabilities or off-balance sheet transactions. As at December 31, 2016, the Group had unrecorded contingent liabilities of \$28,793 relating to outstanding guarantees issued to its trade and financing partners in the normal course of its merchant banking activities.

Purchase Obligations

As at December 31, 2016, the Group had open purchase contracts aggregating \$13,747 due in 2017 relating to its merchant banking activities. None of these contracts have been recognized on the consolidated statement of financial position as at December 31, 2016.

Note 27. Consolidated Statements of CashFlows — 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.

On December 31, 2013, a customer paid \$23,576 to one of the Group's subsidiaries. However, the underlying invoice was subject to a factoring arrangement with a bank pursuant to which such bank had previously purchased the related receivable and the customer was to submit such payment to the bank directly. The amount, which had been incorrectly paid to the Group's subsidiary by the customer instead of as directed to the bank, was subsequently repaid in January 2014. As a result, \$23,576 was recognized as repayment to a customer. No income or loss was recognized in connection with such transactions.

The Group had the following non-cash transactions:

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 50,000 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).

Non-cash transactions during the year ended December 31 2014: (1) conversion of puttable instrument financial liabilities into the share capital of the Company (see Note 28); and (2) the Group sold its interest in a group of German entities and recognized a non-cash accounting gain of \$4,535 on disposition (see Note 31).

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 28. Related Party Transactions (continued)**

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>2016</u>	<u>2015</u>	<u>2014</u>
<i>Continuing operations:</i>			
Sales of goods	\$ —	\$ 3,349	\$ 2,994
Fee income	—	—	61
Purchases of goods for sale	—	—	(19)346
Reimbursement of office and expenses at cost to a director	—	—	)**(117
Royalty expense paid and payable	—	—	) (284

* Related to transactions with two processing facilities which were owned by a former subsidiary of the Company. One of the Company's employees and one of its directors held unpaid positions on the board of directors of the parent company of the owner of these facilities until July 2014.

** The director (who is also Managing Director, President and Chief Executive Officer of the Company) provided office space and services to the Company at cost.

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. The purchase price consisted of 509,820 common shares of MFC Bancorp (which would be delivered upon occurrence of an event (as defined in the agreement, the latest being in 2025)) and a contingent purchase price whereby 50,000 common shares of MFC Bancorp would be issued to the Put Holder for each year from 2014 to 2025 if Possehl achieves an annual net income milestone as computed under IFRS for the year. The fair values of the 509,820 common shares of MFC Bancorp and the contingent purchase price were measured at \$2,736 in aggregate on the execution date of the share purchase agreement, using a generally accepted financial valuation model, which took into consideration the illiquidity and restrictions of the shares, the expected timing of the triggering events, the probability of the issuance of the contingently issuable shares and appropriate discount rates. As a result, the carrying amount of the puttable instrument financial liability of \$4,510 was derecognized and a credit of \$3,177 was recognized in retained earnings directly. In May 2014, the Put Holder was appointed by the Board of Directors as the President and Chief Executive Officer of MFC Bancorp.

In June 2014, the share purchase agreement was amended whereby the 509,820 common shares of MFC Bancorp were released to the Put Holder following the approval of the New York Stock Exchange (which was received in June 2014) and the contingent purchase price was reduced to be payable for each year from 2014 to 2024. All other terms remain unchanged. No credit or charge was recognized in profit or loss in connection with these amendments.

In June 2015, the Company issued 50,000 common shares of MFC Bancorp to its President/Chief Executive Officer as the 2014 annual net income milestone of Possehl was achieved. For the subsequent event, see Note 32.

In addition to the transactions above, the Group had the following transactions with related parties:



MFC BANCORP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 28. Related Party Transactions (continued)**

In April 2014, the then-President of the Company surrendered his options to purchase 200,000 MFC Bancorp common shares at an exercise price of US\$7.81 per share. The cancellation of these options had no impact on the consolidated financial statements.

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:

Years ended December 31:	2016	2015	2014
Short-term employee benefits	\$ 2,296	\$ 2,719	\$ 1,932
Termination benefits*	—	—	1,909
Share-based payments**	—	—	211
Directors' fees	634	479	402
Total	\$ 2,930	\$ 3,198	\$ 4,454

* Pursuant to a consulting agreement, the Managing Director, President and Chief Executive Officer of the Company was entitled to a termination payment of US\$1,770 upon the termination of the consulting agreement.

** The share-based payments were computed by the reference to the fair value of options calculated using the Black-Scholes-Merton formula on the grant date (see Note 22).

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, 2016 and 2015, other than those with carrying amounts that approximate their fair values due to their short-term nature, are summarized as follows:

As at December 31:	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
<i>Fair value through profit or loss:</i>				
Short-term securities	\$ 7	\$ 7	\$ 170	\$ 170
Derivative assets	1,240	1,240	5,726	5,726
<i>Loans and receivables:</i>				
Long-term loan receivables (including current portion)	9,392	9,392	2,828	2,691
Long-term receivables, other	—	—	4,523	4,523
<i>Available-for-sale instruments:</i>				
Securities, at fair value	5,572	5,572	630	630
Securities (including restricted non-current assets – securities), at cost	232	232	298	298
Financial Liabilities:				
<i>Financial liabilities measured at amortized cost:</i>				
Debt	\$ 116,813	\$ 118,015	\$ 259,038	\$ 242,808
<i>Fair value through profit or loss:</i>				

Derivative liabilities	6,454	6,454	4,236	4,236
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 29. Financial Instruments (continued)**

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, restricted cash, 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).

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, 2016 and 2015, respectively:

<u>As at December 31, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial Assets:</u>				
Fair value through profit or loss:				
Short-term securities	\$ 7	\$ —	\$ —	\$ 7
Derivative assets	—	1,240	—	1,240
<u>Available-for-sale:</u>				
Securities	5,572	—	—	5,572
Total	<u>\$ 5,579</u>	<u>\$ 1,240</u>	<u>\$ —</u>	<u>\$ 6,819</u>
<u>Financial Liabilities:</u>				
Fair value through profit or loss:				
Derivative liabilities	<u>\$ —</u>	<u>\$ 6,454</u>	<u>\$ —</u>	<u>\$ 6,454</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 29. Financial Instruments (continued)

<u>As at December 31, 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial Assets:</u>				
Fair value through profit or loss:				
Short-term securities	\$ 170	\$ —	\$ —	\$ 170
Derivative assets	—	5,726	—	5,726
<u>Available-for-sale:</u>				
Securities	630	—	—	630
Total	<u>\$ 800</u>	<u>\$ 5,726</u>	<u>\$ —</u>	<u>\$ 6,526</u>
<u>Financial Liabilities:</u>				
Fair value through profit or loss:				
Derivative liabilities	<u>\$ —</u>	<u>\$ 4,236</u>	<u>\$ —</u>	<u>\$ 4,236</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.

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, 2016 is set out in the following table:

<u>Financial instrument</u>	<u>Risks</u>				
	<u>Credit</u>	<u>Liquidity</u>	<u>Market risks</u>		
			<u>Currency</u>	<u>Interest rate</u>	<u>Other price</u>
Cash and cash equivalents, short-term cash deposits and restricted cash	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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 29. Financial Instruments (continued)**

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, restricted cash, derivative financial instruments and credit exposure (including outstanding receivables and committed transactions). The Group has deposited cash and cash equivalents, short-term cash deposits, restricted cash 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.

The maximum credit risk exposure as at December 31, 2016 is as follows:

Cash and cash equivalents, short-term cash deposits and restricted cash	\$ 120,858
Derivative assets	1,240
Receivables	172,842
Amounts recognized in the consolidated statement of financial position	294,940
Guarantees (see Note 26)	28,793
Maximum credit risk exposure	<u>\$ 323,733</u>

In the past five years, there was only one claim made against the guarantees issued by the Group. 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. See Notes 7 and 17.

Please see sub-heading of "Concentration risk" in this note on credit risk concentration.

MFC BANCORP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 29. Financial Instruments (continued)****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. Approximately 85% of derivative financial liabilities are to be settled within one year. All short-term bank borrowings are renewable on a yearly basis. Please also refer to Note 16 for the Group's debt maturity schedule. 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 positions. As at December 31, 2016, in its continuing operations, the Group had foreign currency derivative financial instruments (foreign currency forward contracts and options) with aggregate notional amounts of \$196,089 (2015: \$162,051) and a net unrealized fair value loss of \$2,416 (2015: a net gain of \$2,492).

The Group does not have any material exposure to highly inflationary foreign currencies.

Sensitivity analysis:

At December 31, 2016, 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, 2016 would have been \$582 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, 2016 would have been \$582 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, 2016, 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, 2016 would have been \$3,543 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, 2016 would have been \$4,307 higher. The reason for such change is mainly due to certain currency derivative contracts held by entities. There would have been no impact arising from financial instruments on other comprehensive income in either case.

MFC BANCORP LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016****Note 29. Financial Instruments (continued)**

At December 31, 2016, 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, 2016 would have been \$2,373 higher. 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, 2016 would have been \$2,333 lower. The reason for such change is mainly due to certain Canadian dollar-denominated financial assets (net of liabilities) held by entities 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. The Group's long-term debt is not exposed to significant interest rate cash flow risk as the interest rates have been fixed for approximately 90% of the Group's long-term debt.

Sensitivity analysis:

At December 31, 2016, 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, 2016 would have been \$759 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, 2016 would have been \$759 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.

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, 2016, 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, 2016 would have been \$18 higher and \$55 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, 2016 would have been \$18 lower and \$55 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, 2016, in its continuing operations, the Group had outstanding derivative financial instruments with an aggregate notional amount of \$37,324 (2015: \$43,820), 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 \$2,798 (2015: \$1,002).

Sensitivity analysis:

At December 31, 2016, 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



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 29. Financial Instruments (continued)**

December 31, 2016 would have been \$1,092 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, 2016 would have been \$1,092 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, 2016, the Group had cash and cash equivalents aggregating \$13,599 and an investment of \$123 in a banking group in Austria. The Group also owed \$140,552 in aggregate short-term banking borrowings and debt to the Austria banking group and had derivative contracts with an aggregate notional amount of \$229,379 with the Austria banking group. A customer filed for insolvency in 2016. As of December 31, 2016, the Group recognized trade receivables of \$100,008 (2015: \$92,595) 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 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.

MFC BANCORP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 29. Financial Instruments (continued)****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, 2016, 2015 and 2014 as follows:

	2016	2015	2014
Interest income on financial assets not at fair value through profit or loss	\$ 605	\$ 743	\$ 1,269
Interest income on financial assets classified at fair value through profit or loss	2,451	3,494	3,273
Total interest income	<u>\$ 3,056</u>	<u>\$ 4,237</u>	<u>\$ 4,542</u>
Interest expense on financial liabilities not at fair value through profit or loss	\$ 7,747	\$ 3,701	\$ 4,565
Interest expense on financial liabilities classified at fair value through profit or loss	7,720	13,793	9,542
Total interest expense	<u>\$ 15,467</u>	<u>\$ 17,494</u>	<u>\$ 14,107</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	8
Net gain on financial assets at fair value through profit or loss	1,240	2,829	10,488

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, 2016:

	Level 1	Level 2	Level 3
Inventories	\$ 1,655	\$ 13,529	\$ —
Investment property	—	35,663	—
Total	<u>\$ 1,655</u>	<u>\$ 49,192</u>	<u>\$ —</u>

Assets measured at fair value on a recurring basis as at December 31, 2015:

	Level 1	Level 2	Level 3
Inventories	\$ 3,418	\$ 116,905	\$ —
Investment property	—	37,873	—
Total	<u>\$ 3,418</u>	<u>\$ 154,778</u>	<u>\$ —</u>

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

MFC BANCORP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016**Note 30. Fair Value Disclosure for Non-financial Assets (continued)**

(level 2 fair value hierarchy). The valuation approach was consistent for both 2016 and 2015, except that the 2016 valuation was performed by an independent external valuator and the 2015 update was performed by internal management as management concluded there were no major changes in the input factors since 2014.

Note 31. MFC Bancorp and its Significant Subsidiaries

MFC Bancorp has its principal executive office at Suite 1860 - 400 Burrard Street, Vancouver, British Columbia, Canada.

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, 2016. 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
MFC Commodities GmbH	Austria	100%
MFC Metal Trading GmbH	Austria	100%
Kasese Cobalt Company Limited	Uganda	75%
MFC (A) Ltd	Marshall Islands	100%
MFC (D) Ltd	Marshall Islands	100%
M Financial Corp.	Barbados	100%
MFC Corporate Services AG	Switzerland	100%
MFC Power Limited Partnership	Canada	100%
MFC Energy Finance Inc.	Canada	100%
F.J. Elsner GmbH	Austria	100%
FESIL Sales GmbH	Germany	100%
MFC Merchant Bank Limited	Malta	100%
Sino Medical Technology Co. Ltd	Marshall Islands	100%

As at December 31, 2016, 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 a non-wholly-owned subsidiary in Africa from which the Group derives a 100% beneficial interest resulting from holding a shareholder loan. As at December 31, 2016, none of the non-controlling interests are material to the Group. Also, 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.

During the year ended December 2016, the Group disposed of its FESIL group of companies, except FESIL Sales GmbH, resulting in a gain of \$3,590. The Group also recognized a total loss of \$1,005 on the dispositions of Elsner group of companies (except F.J. Elsner Trading Gesellschaft mbH) and two minor 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 upon the deconsolidation (see Note 5).

MFC BANCORP LTD.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016****Note 31. MFC Bancorp and its Significant Subsidiaries (continued)**

During the year ended December 31, 2014, the Group disposed of a group of German entities and recognized an accounting gain of \$4,535 on the derecognition of these former subsidiaries in the consolidated statement of operations. The Group also disposed of three inactive wholly-owned subsidiaries for cash consideration, resulting in a net gain of \$353.

During the year ended December 31, 2014, the Group purchased the remaining 40% equity interest in Possehl. As a result, Possehl became a wholly-owned subsidiary of the Group since April 2014, the date the remaining 40% equity interests were acquired.

Note 32. Subsequent Event**Sale of Subsidiary**

In 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 commodities trading subsidiary which focused on Latin America to a company controlled by the former President and Chief Executive Officer of MFC Bancorp. Under the transaction, the Group received consideration approximately equaling to the book value of the subsidiary, including 450,000 common shares of MFC Bancorp at US\$1.84 a share and the release of any further obligations to issue shares in connection with a prior share purchase agreement between the parties.

Proposed Plan of Arrangement

On March 31, 2017, the Group announced a proposed plan of arrangement (the “Plan”) under British Columbia corporate law, pursuant to which, among other things, the Company would reduce its shareholders’ capital by an amount equal to its retained deficit, complete a consolidation followed by a split of its common shares and the Company’s existing common shares would be exchanged for the shares of a new parent company incorporated under the laws of the Cayman Islands, which would become the new publicly traded parent company of the Group. The Plan is expected to be completed in 2017 and is subject to, among other things, finalization and requisite court, shareholder and board approvals.

Note 33. Approval of Consolidated Financial Statements

These consolidated financial statements were approved by the Board of Directors and authorized for issue on March 31, 2017.

ITEM 19: EXHIBITS**Exhibits Required by Form 20-F**

<u>Exhibit Number</u>	<u>Description</u>
1.1	Amended and Restated Articles of MFC Bancorp Ltd. dated November 14, 2014. Incorporated by reference from our Form 6-K dated November 14, 2014.
1.2	Certificate of Change of Name dated February 16, 2016 of MFC Bancorp Ltd. Incorporated by reference from our Form 6-K dated February 16, 2016.
1.3	Advance Notice Policy adopted by board of directors of MFC Bancorp Ltd. on November 18, 2013. Incorporated by reference from our Form 6-K dated November 19, 2013.
4.1	Amendment to Mining Lease Agreement dated January 1, 1987 between MFC Bancorp Ltd. and Wabush Iron Co. Limited, Stelco Inc. and Dofasco Inc. Incorporated by reference from our Form 10-K for the year ended December 31, 1989.
4.2	Memorandum of Agreement dated November 24, 1987 between MFC Bancorp Ltd. and Wabush Iron Co. Limited, Stelco Inc. and Dofasco Inc. Incorporated by reference from our Form 10-K for the year ended December 31, 1989.
4.3	First Amendment to the Memorandum of Agreement between MFC Bancorp Ltd. and Wabush Iron Co. Limited, Stelco Inc. and Dofasco Inc. Incorporated by reference from our Form 10-K for the year ended December 31, 1989.
4.4	Amended 1997 Stock Option Plan. Incorporated by reference from our Form S-8 dated May 23, 2007.
4.5	2008 Equity Incentive Plan. Incorporated by reference from our Form F-4 dated October 7, 2010.
4.6	2014 Equity Incentive Plan. Incorporated by reference from our Form 6-K dated October 10, 2014.
8.1	List of significant subsidiaries of MFC Bancorp Ltd. as at December 31, 2016.
11.1*	Code of Business Conduct and Ethics and Insider Trading Policy.
12.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1	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.
13.2	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.
15.1	Consent dated March 31, 2017 of PricewaterhouseCoopers LLP.

* Incorporated by reference from our Form 20-Fs filed in prior years.

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: March 31, 2017

MFC BANCORP LTD.

/s/ Michael J. Smith

Michael J. Smith
President and Chief Executive Officer

MFC BANCORP LTD.

LIST OF SIGNIFICANT SUBSIDIARIES AS AT DECEMBER 31, 2016

Subsidiaries	Country of Incorporation	Proportion of Voting Interest ⁽¹⁾
MFC Commodities GmbH	Austria	%100
MFC Metal Trading GmbH	Austria	%100
Kasese Cobalt Company Limited	Uganda	% 75
MFC (A) Ltd	Marshall Islands	%100
MFC (D) Ltd	Marshall Islands	%100
M Financial Corp	Barbados	%100
MFC Corporate Services AG	Switzerland	%100
MFC Power Limited Partnership	Canada	%100
MFC Energy Finance Inc.	Canada	%100
F.J. Elsner GmbH	Austria	%100
FESIL Sales GmbH	Germany	%100
MFC Merchant Bank Limited	Malta	%100
Sino Medical Technology Co. Ltd.	Marshall Islands	%100

Note:

- (1) Percentages rounded to nearest whole number. Our proportional voting interests are identical to our proportional beneficial interests, except for a non-wholly owned subsidiary in Africa from which we derive a 100% beneficial interest resulting from our shareholder loan.

SARBANES-OXLEY CEO CERTIFICATION

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: March 31, 2017

By: /s/ Michael J. Smith
Michael J. Smith
Title: Chief Executive Officer

SARBANES-OXLEY CFO CERTIFICATION

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: March 31, 2017

By: /s/ Samuel Morrow
Samuel Morrow
Title: Chief Financial Officer

**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**

In connection with the annual report of MFC Bancorp Ltd. (the "Company") on Form 20-F for the year ended December 31, 2016, 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: March 31, 2017

/s/ Michael J. Smith
By: Michael J. Smith
Title: Chief Executive Officer

This certification accompanies this Annual Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

**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**

In connection with the annual report of MFC Bancorp Ltd. (the "Company") on Form 20-F for the year ended December 31, 2016, 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: March 31, 2017

/s/ Samuel Morrow _____
By: Samuel Morrow
Title: Chief Financial Officer

This certification accompanies this Annual Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

EXHIBIT 15.1

Consent of Independent Auditor

We hereby consent to the incorporation by reference in the registration statements on Form S-8 (Nos. 333-143183 and 333-171009) of MFC Bancorp Ltd. of our report dated March 31, 2017 relating to the financial statements and the effectiveness of internal control over financial reporting of MFC Bancorp Ltd., which appears in this Form 20-F.

(signed) PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia

March 31, 2017
